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**OUTSOURCING Inc.****FY12/13 Financial Results and Follow-up Interview**

OUTSOURCING Inc., hereinafter the Company or OS Group, announced its FY12/13 business results, and Trias Corporation conducted an interview with Chairman and CEO Haruhiko Doi. The following is a summary of the interview.

**Summary of FY12/13 Consolidated Financial Results**

Following the difficult start in the Q1, momentum continued to improve in the Q4, with Q4 net sales increasing by 25.6% YoY. By quarter, the previous trend of sales growth was: Q1 +2.3% YoY, Q2 +7.7% YoY, and Q3 +13.6% YoY. Profitability also continued to improve in the Q4 as the flurry of unexpected additional hiring cost incurred in the Q1 in response to rapid start-ups in the Transport Equipment sector resulted in higher sales from the 2H. Despite the string of consecutive production cuts and cancellations by major Electrical Equipment and Electronics makers, and resulting costs from switching to favorable growth sectors including Transport Equipment and Metals & Construction Materials, stronger than expected production in those two sectors, as well as brisk demand from IT-related orders, absorbed those increased costs as well as increased hiring costs, posting record operating income for FY12/13 of ¥1.22bn, +20.2% YoY. Net income got a special boost from extraordinary gains mainly from gain on bargain purchase (¥203.74mn) and gain on sales of investment securities (¥27.79mn). While operating income fell slightly short of company estimate ¥1.52bn, net income came in 12.2% ahead.

Table 1 shows in the dashed box that despite the higher cost of sales from the increase in average hiring cost and costs associated with contract cancellations, strict management of SG&A expenses through measures including increasing the ratio of workers staying beyond 2 months resulted in OIM rising YoY. In the end, it was difficult to make up the operating loss in the Q1, but the Company generally delivered on its initial profit targets.

Regarding the consolidated B/S, notable changes include an increase of ¥2.66bn in cash and deposits as a result of acquisition of subsidiary shares and increase in working capital, and an increase of ¥1.39bn in investments and other assets as a result of acquisition of subsidiary shares. Short-term and long-term loans payable increased a total of ¥2.81bn for working capital and acquisition of subsidiary shares. Retained earnings increased by ¥878.04mn as a result of the increase in net income. This term a special interim dividend to commemorate successful move to the TSE1 (March 12) was paid.

**● [Table 1] Summary of FY12/13 Consolidated Financial Results**

| (¥ mn, %)                   | FY12/12<br>Q4 | FY12/13<br>Q4 | YoY<br>Q4    | FY12/12<br>Full-Year | FY13/12<br>Full-Year | YoY<br>Full-Year |
|-----------------------------|---------------|---------------|--------------|----------------------|----------------------|------------------|
| <b>Net sales</b>            | <b>10,962</b> | <b>13,774</b> | <b>25.6%</b> | <b>42,090</b>        | <b>47,384</b>        | <b>12.6%</b>     |
| Cost of sales               | 8,658         | 10,865        | 25.5%        | 33,618               | 38,102               | 13.3%            |
| Gross profit                | 2,304         | 2,908         | 26.3%        | 8,472                | 9,281                | 9.6%             |
| SG&A expenses               | 1,840         | 2,107         | 14.5%        | 7,471                | 8,078                | 8.1%             |
| <b>Operating income</b>     | <b>463</b>    | <b>801</b>    | <b>72.8%</b> | <b>1,000</b>         | <b>1,202</b>         | <b>20.2%</b>     |
| Non-operating income        | 211           | 190           | -10.0%       | 708                  | 700                  | -1.1%            |
| Non-operating expenses      | 152           | 109           | -28.4%       | 554                  | 546                  | -1.6%            |
| <b>Ordinary income</b>      | <b>523</b>    | <b>882</b>    | <b>68.8%</b> | <b>1,153</b>         | <b>1,357</b>         | <b>17.6%</b>     |
| Extraordinary income        | —             | 139           | —            | 16                   | 232                  | —                |
| Extraordinary loss          | 59            | —             | —            | 175                  | —                    | —                |
| <b>Net income</b>           | <b>436</b>    | <b>788</b>    | <b>80.7%</b> | <b>641</b>           | <b>1,122</b>         | <b>74.9%</b>     |
| <b>[Ratio to net sales]</b> |               |               |              |                      |                      |                  |
| Cost of sales ratio         | 79.0%         | 78.9%         | —            | 79.9%                | 80.4%                | —                |
| Gross profit on sales ratio | 21.0%         | 21.1%         | —            | 20.1%                | 19.6%                | —                |
| SG&A expenses ratio         | 16.8%         | 15.3%         | —            | 17.8%                | 17.0%                | —                |
| Operating income margin     | 4.2%          | 5.8%          | —            | 2.4%                 | 2.5%                 | —                |
| Ordinary income margin      | 4.8%          | 6.4%          | —            | 2.7%                 | 2.9%                 | —                |
| Net income margin           | 4.0%          | 5.7%          | —            | 1.5%                 | 2.4%                 | —                |

Source: Company IR materials

**● [Table 2] FY12/13-end Consolidated B/S Summary**

| (¥ mn, %)                               | FY12/12-end   | % Total       | FY12/13-end   | % Total       | Changes      |
|---|---------------|---------------|---------------|---------------|--------------|
| <b>Current assets</b>                   | <b>9,431</b>  | <b>68.0%</b>  | <b>14,119</b> | <b>69.4%</b>  | <b>4,688</b> |
| Cash and deposits                       | 3,363         | 24.3%         | 6,032         | 29.7%         | 2,669        |
| Notes and accounts receivable-trade     | 5,232         | 37.7%         | 6,529         | 32.1%         | 1,296        |
| Inventories                             | 132           | 1.0%          | 578           | 2.8%          | 445          |
| <b>Noncurrent assets</b>                | <b>4,433</b>  | <b>32.0%</b>  | <b>6,223</b>  | <b>30.6%</b>  | <b>1,789</b> |
| Property, plant and equipment           | 2,008         | 14.5%         | 1,953         | 9.6%          | (55)         |
| Intangible assets                       | 1,372         | 9.9%          | 1,827         | 9.0%          | 454          |
| Investments and other assets            | 1,051         | 7.6%          | 2,442         | 12.0%         | 1,391        |
| <b>Total assets</b>                     | <b>13,866</b> | <b>100.0%</b> | <b>20,343</b> | <b>100.0%</b> | <b>6,476</b> |
| <b>Current liabilities</b>              | <b>6,875</b>  | <b>49.6%</b>  | <b>10,003</b> | <b>49.2%</b>  | <b>3,128</b> |
| Notes and accounts payable-trade        | 208           | 1.5%          | 609           | 3.0%          | 400          |
| Short-term loans payable                | 2,574         | 18.6%         | 4,380         | 21.5%         | 1,805        |
| Accounts payable-other                  | 2,341         | 16.9%         | 2,905         | 14.3%         | 564          |
| <b>Noncurrent liabilities</b>           | <b>2,478</b>  | <b>17.9%</b>  | <b>4,423</b>  | <b>21.7%</b>  | <b>1,944</b> |
| Bonds payable                           | 76            | 0.6%          | 50            | 0.2%          | (26)         |
| Long-term loans payable                 | 1,582         | 11.4%         | 2,578         | 12.7%         | 996          |
| <b>Total liabilities</b>                | <b>9,354</b>  | <b>67.5%</b>  | <b>14,427</b> | <b>70.9%</b>  | <b>5,072</b> |
| <b>Shareholders' equity</b>             | <b>4,008</b>  | <b>28.9%</b>  | <b>4,945</b>  | <b>24.3%</b>  | <b>936</b>   |
| Capital stock                           | 485           | 3.5%          | 514           | 2.5%          | 29           |
| Capital surplus                         | 881           | 6.4%          | 910           | 4.5%          | 29           |
| Retained earnings                       | 3,032         | 21.9%         | 3,910         | 19.2%         | 878          |
| Treasury stock                          | (391)         | -2.8%         | (391)         | -1.9%         | —            |
| Valuation and translation adjustments   | 78            | 0.6%          | 382           | 1.9%          | 304          |
| Subscription rights to shares           | 103           | 0.7%          | 100           | 0.5%          | (3)          |
| Minority interests                      | 321           | 2.3%          | 486           | 2.4%          | 165          |
| <b>Total net assets</b>                 | <b>4,511</b>  | <b>32.5%</b>  | <b>5,915</b>  | <b>29.1%</b>  | <b>1,403</b> |
| <b>Total liabilities and net assets</b> | <b>13,866</b> | <b>100.0%</b> | <b>20,343</b> | <b>100.0%</b> | <b>6,476</b> |

Source: Company IR Materials

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● **[Table 3] Trend of Annual Dividends**

| ¥ per share      | Q2-end | Q4-end | Total | Dividend Payout Ratio |
|------------------|--------|--------|-------|-----------------------|
| FY12/12 Actual   | 0.00   | 8.00   | 8.00  | 18.0%                 |
| FY12/13 Actual   | 5.00   | 8.00   | 13.00 | 16.8%                 |
| FY12/14 Estimate | 0.00   | 22.00  | 22.00 | 30.2%                 |

Source: Company IR materials

The Company announced changes to reporting segments on Q1 results, reflecting the expanding scope of business, and aiming to provide more accurate disclosure close to the business reality. In a nutshell, the Company is splitting the old segment Domestic Production Outsourcing into Manufacturing Outsourcing and Engineering Outsourcing. In addition, the Company changed industry sector classifications for the sales breakdown. In addition to dividing key segments by Manufacturing Outsourcing and Engineering Outsourcing, two new sectors for Construction & Plant-related and After-sales Maintenance have been added. Table 4, Table 5, Graph 1 and Graph 2 use the new industry classifications restated for comparison with FY12/12.

The key takeaway from Table 4 and Graph 1 on the following pages is the high growth in Engineering Outsourcing and Overseas Business. While mainstay Manufacturing Outsourcing is still the largest category, its weight in total Outsourcing Business was consistently below 50% in FY12/13. Transport Equipment remains the largest industry classification, accounting for 24-26% from the total of Manufacturing Outsourcing and Engineering Outsourcing, however, the decline in Electrical & Electronics held growth in Manufacturing Outsourcing to single digits.

On the other hand, Engineering Outsourcing increased 36.3% YoY in the Q4, in part due to brisk demand from mainstay Transport Equipment related to the high level of new model launches for the next two to three years, but also in large part due to high growth in new service sectors not correlated with the domestic busy/slack manufacturing cycle. Specifically, **IT-related rose 58.6% YoY, surpassing Transport Equipment as the largest industry sector in Engineering Outsourcing, citing brisk demand related to big data in particular, and with over 600 IT engineers, the Company has grown into one of the largest providers of IT engineers in a relatively short span.** Overseas Business also posted high growth in net sales, and the Company will be recouping leading investments going forward, so the contribution to profits is set to rise steadily. Dependence on domestic Manufacturing Outsourcing is gradually declining, and the business mix is becoming more diversified away from the busy/slack production cycle. **The combined weight of new industry classifications including IT-related and Overseas Business has risen sharply from 14.5% in Q1 FY12/12 to 29.9% in Q4 FY12/13.**

**[Table 4] Quarterly Trend of Sales Breakdown by Industry**

| (¥ mn, %)                                    | FY12/12       |               |               |               | FY12/13       |               |               | YoY Chg       |              |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
|  | Q1            | Q2            | Q3            | Q4            | Q1            | Q2            | Q3            | Q4            | Q4           |
| <b>A. Manufacturing Outsourcing Business</b> | <b>6,147</b>  | <b>6,155</b>  | <b>6,031</b>  | <b>5,843</b>  | <b>4,834</b>  | <b>5,033</b>  | <b>5,598</b>  | <b>6,346</b>  | <b>8.6%</b>  |
| Transport Equipment                          | 2,119         | 2,135         | 1,849         | 1,518         | 1,355         | 1,532         | 1,730         | 1,940         | 27.7%        |
| Electrical & Electronics                     | 1,230         | 1,285         | 1,405         | 1,398         | 1,049         | 965           | 1,056         | 1,087         | -22.2%       |
| Pharm. & Chemicals                           | 869           | 863           | 909           | 1,019         | 897           | 888           | 934           | 980           | -3.9%        |
| Metals & Construction Materials              | 995           | 907           | 942           | 860           | 675           | 642           | 629           | 618           | -28.1%       |
| Foods  | 439           | 427           | 425           | 447           | 378           | 375           | 405           | 457           | 2.2%         |
| Others                                       | 493           | 535           | 500           | 598           | 478           | 628           | 843           | 1,261         | 110.9%       |
| <b>B. Engineering Outsourcing Business</b>   | <b>2,686</b>  | <b>2,784</b>  | <b>3,224</b>  | <b>3,566</b>  | <b>3,850</b>  | <b>3,917</b>  | <b>4,451</b>  | <b>4,861</b>  | <b>36.3%</b> |
| Transport Equipment                          | 1,073         | 900           | 981           | 1,152         | 1,126         | 1,174         | 1,332         | 1,492         | 29.4%        |
| Electrical & Electronics                     | 515           | 643           | 559           | 582           | 532           | 552           | 576           | 638           | 9.7%         |
| Pharm. & Chemicals                           | 170           | 187           | 182           | 188           | 213           | 195           | 215           | 206           | 10.0%        |
| Metals & Construction Materials              | 7             | 6             | 4             | 4             | 1             | 3             | 3             | 4             | 10.7%        |
| IT-related                                   | 426           | 479           | 852           | 1,010         | 1,344         | 1,295         | 1,432         | 1,602         | 58.6%        |
| Construction & Plant-related                 | —             | —             | —             | —             | 72            | 93            | 129           | 146           | —            |
| After-sales Maintenance                      | —             | —             | —             | —             | 34            | 51            | 96            | 65            | —            |
| Others                                       | 491           | 567           | 642           | 627           | 525           | 550           | 665           | 703           | 12.1%        |
| <b>C. Overseas Business</b>                  | <b>998</b>    | <b>996</b>    | <b>1,199</b>  | <b>1,262</b>  | <b>1,482</b>  | <b>1,766</b>  | <b>1,767</b>  | <b>2,204</b>  | <b>74.7%</b> |
| <b>TOTAL (A+B+C)</b>                         | <b>9,832</b>  | <b>9,936</b>  | <b>10,455</b> | <b>10,671</b> | <b>10,166</b> | <b>10,716</b> | <b>11,818</b> | <b>13,412</b> | <b>25.7%</b> |
| <b>[% Total]</b>                             |               |               |               |               |               |               |               |               |              |
| <b>A. Manufacturing Outsourcing Business</b> | <b>62.5%</b>  | <b>62.0%</b>  | <b>57.7%</b>  | <b>54.8%</b>  | <b>47.6%</b>  | <b>47.0%</b>  | <b>47.4%</b>  | <b>47.3%</b>  |              |
| Transport Equipment                          | 21.6%         | 21.5%         | 17.7%         | 14.2%         | 13.3%         | 14.3%         | 14.6%         | 14.5%         |              |
| Electrical & Electronics                     | 12.5%         | 12.9%         | 13.4%         | 13.1%         | 10.3%         | 9.0%          | 8.9%          | 8.1%          |              |
| Pharm. & Chemicals                           | 8.8%          | 8.7%          | 8.7%          | 9.6%          | 8.8%          | 8.3%          | 7.9%          | 7.3%          |              |
| Metals & Construction Materials              | 10.1%         | 9.1%          | 9.0%          | 8.1%          | 6.6%          | 6.0%          | 5.3%          | 4.6%          |              |
| Foods  | 4.5%          | 4.3%          | 4.1%          | 4.2%          | 3.7%          | 3.5%          | 3.4%          | 3.4%          |              |
| Others                                       | 5.0%          | 5.4%          | 4.8%          | 5.6%          | 4.7%          | 5.9%          | 7.1%          | 9.4%          |              |
| <b>B. Engineering Outsourcing Business</b>   | <b>27.3%</b>  | <b>28.0%</b>  | <b>30.8%</b>  | <b>33.4%</b>  | <b>37.9%</b>  | <b>36.6%</b>  | <b>37.7%</b>  | <b>36.2%</b>  |              |
| Transport Equipment                          | 10.9%         | 9.1%          | 9.4%          | 10.8%         | 11.1%         | 11.0%         | 11.3%         | 11.1%         |              |
| Electrical & Electronics                     | 5.2%          | 6.5%          | 5.4%          | 5.5%          | 5.2%          | 5.2%          | 4.9%          | 4.8%          |              |
| Pharm. & Chemicals                           | 1.7%          | 1.9%          | 1.7%          | 1.8%          | 2.1%          | 1.8%          | 1.8%          | 1.5%          |              |
| Metals & Construction Materials              | 0.1%          | 0.1%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          | 0.0%          |              |
| IT-related                                   | 4.3%          | 4.8%          | 8.2%          | 9.5%          | 13.2%         | 12.1%         | 12.1%         | 11.9%         |              |
| Construction & Plant-related                 | —             | —             | —             | —             | 0.7%          | 0.9%          | 1.1%          | 1.1%          |              |
| After-sales Maintenance                      | —             | —             | —             | —             | 0.3%          | 0.5%          | 0.8%          | 0.5%          |              |
| Others                                       | 5.0%          | 5.7%          | 6.1%          | 5.9%          | 5.2%          | 5.1%          | 5.6%          | 5.2%          |              |
| <b>C. Overseas Business</b>                  | <b>10.2%</b>  | <b>10.0%</b>  | <b>11.5%</b>  | <b>11.8%</b>  | <b>14.6%</b>  | <b>16.5%</b>  | <b>15.0%</b>  | <b>16.4%</b>  |              |
| <b>TOTAL (A+B+C)</b>                         | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> | <b>100.0%</b> |              |

Source: Compiled by Trias Corporation from Company IR materials

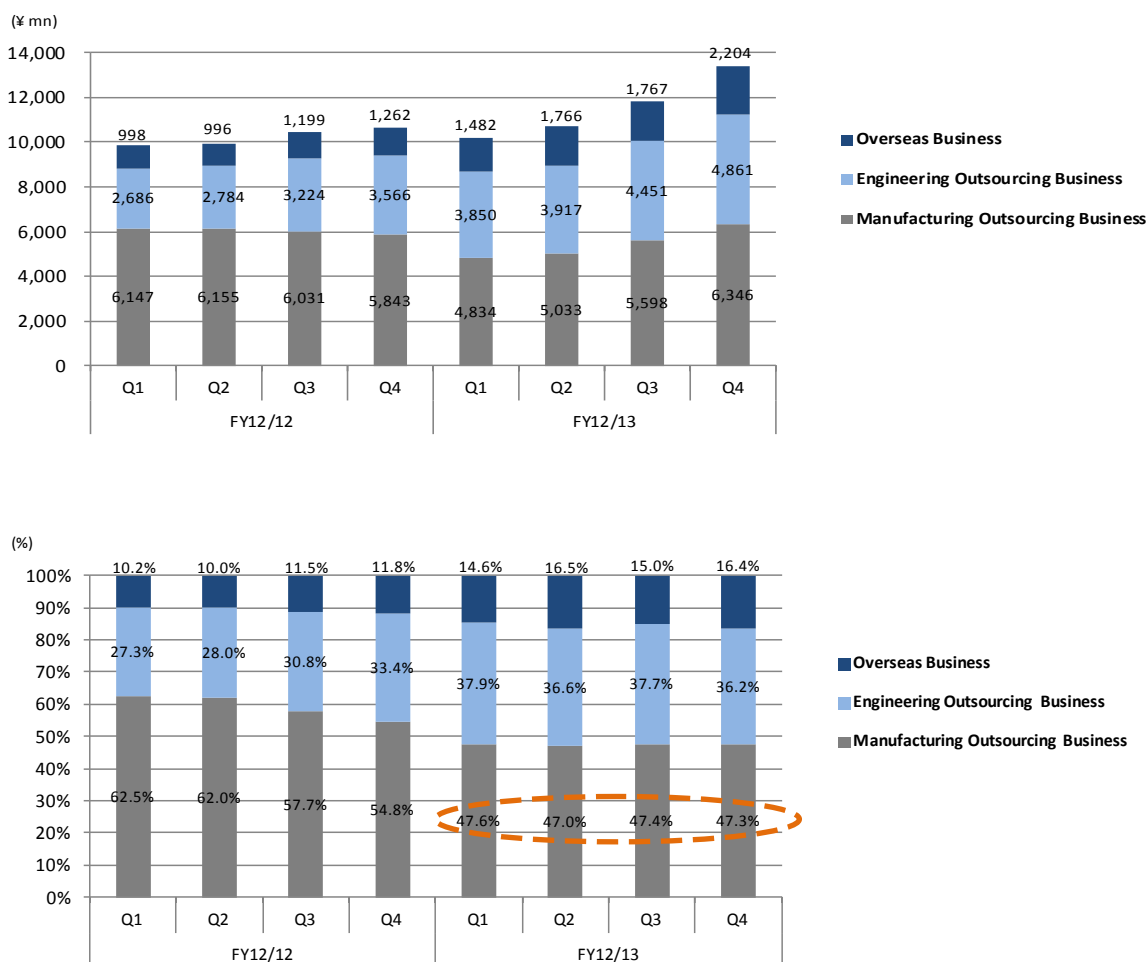
Note: Intra-segment transactions are offset through eliminations

By reporting segment, in FY12/13 Engineering Outsourcing operating income was ¥742.52mn, versus Manufacturing Outsourcing ¥538.14mn (please refer to Table 7 in the next section), again making the largest contribution. However, as can be seen in Table 5 which shows the Quarterly Trend by Reporting Segment, Manufacturing Outsourcing made a strong finish to the year, with operating income surging to ¥555.75mn in the Q4, confirming the Company's strategy to focus on domestic growth industries is working.

**[Table 5] Quarterly Trend of Reporting Segment Results**

| (¥ mn)                              | FY12/12       |               |               |               | FY12/13       |               |               |               | YoY          |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
|                                     | Q1            | Q2            | Q3            | Q4            | Q1            | Q2            | Q3            | Q4            |              |
| <b>Net Sales</b>                    | <b>10,179</b> | <b>10,228</b> | <b>10,719</b> | <b>10,962</b> | <b>10,415</b> | <b>11,017</b> | <b>12,176</b> | <b>13,774</b> | <b>25.6%</b> |
| Manufacturing Outsourcing Business  | 6,294         | 6,285         | 6,099         | 5,920         | 4,891         | 5,133         | 5,704         | 6,538         | 10.4%        |
| Engineering Outsourcing Business    | 2,688         | 2,788         | 3,244         | 3,587         | 3,882         | 3,934         | 4,474         | 4,876         | 35.9%        |
| Administrative Outsourcing Business | 190           | 113           | 189           | 151           | 164           | 154           | 146           | 137           | -9.2%        |
| Recruitment and Placement Business  | 113           | 144           | 66            | 103           | 38            | 103           | 159           | 184           | 79.1%        |
| Overseas Business                   | 999           | 997           | 1,231         | 1,309         | 1,513         | 1,799         | 1,802         | 2,422         | 85.0%        |
| Other Business                      | 43            | 35            | 36            | 37            | 48            | 45            | 54            | 41            | 11.3%        |
| Intra-company transfers             | (150)         | (136)         | (148)         | (147)         | (123)         | (153)         | (165)         | (426)         | —            |
| <b>Operating Income</b>             | <b>52</b>     | <b>197</b>    | <b>286</b>    | <b>463</b>    | <b>(188)</b>  | <b>189</b>    | <b>400</b>    | <b>801</b>    | <b>72.8%</b> |
| Manufacturing Outsourcing Business  | (32)          | 52            | 4             | 89            | (255)         | 100           | 137           | 555           | 520.8%       |
| Engineering Outsourcing Business    | 90            | 136           | 191           | 249           | 112           | 55            | 280           | 294           | 17.9%        |
| Administrative Outsourcing Business | 50            | 39            | 94            | 64            | 45            | 36            | 41            | 15            | -76.1%       |
| Recruitment and Placement Business  | 30            | 47            | 14            | 56            | 15            | 11            | 37            | 65            | 16.5%        |
| Overseas Business                   | (38)          | (38)          | 24            | 13            | (18)          | 57            | 40            | (58)          | —            |
| Other Business                      | 2             | 2             | 3             | 0             | 5             | (0)           | (1)           | 2             | 418.8%       |
| Eliminations                        | (50)          | (43)          | (46)          | (9)           | (93)          | (71)          | (135)         | (73)          | —            |

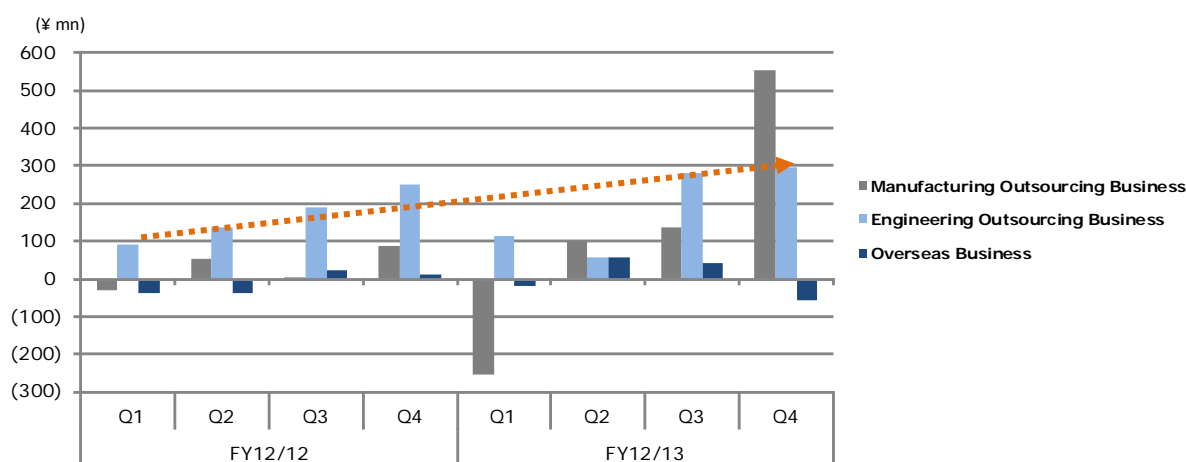
Source: Compiled by Trias Corporation from Company IR materials

**[Graph 1] Quarterly Trend of Sales Breakdown of Selected Reporting Segments**


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Graph 2 shows the Quarterly Trend of Operating Income by the three largest reporting segments on a net sales basis. The obvious takeaway from this graph is the high volatility of profitability of Manufacturing Outsourcing, versus steady and consistent profit growth from Engineering Outsourcing. According to the Company, while the trend of manufacturers shifting production overseas is expected to continue, the majority of major corporations are keeping their R&D function for advanced technologies in Japan. In addition, high growth in IT-related is steadily diminishing the risk of production cycle volatility.

● **[Graph 2] Quarterly Trend of Operating Income of Selected Reporting Segment**



Source: Compiled by Trias Corporation from Company IR materials

## FY12/14 Consolidated Financial Forecasts

Consolidated financial forecasts for FY12/14 are shown in Table 6. According to Chairman Doi, this term's annual net sales forecast is based on extending Q4 net sales to the next 4 quarters (Q1 to Q4 FY12/14), plus an additional contribution of roughly ¥5bn from newly acquired SANSHIN ELECTRIC CO., LTD. and its manufacturing subsidiary SANSHIN (MALAYSIA) SDN. BHD. (¥3.5bn), and the ALP Group in India (¥1.5bn). While domestic monthly unit production of autos is estimated to decline roughly 14% from June, mini vehicle production is actually increasing ahead of the rise in mini vehicle ownership tax from April 2015. More importantly, the Company sees significant potential from The Revised Worker Dispatch Law expected to be enacted from April 2015, which will eliminate reputational risk as well as enhance the convenience of using temporary placement in manufacturing, leading to an increase in temporary placement. We look at the Company's plan to capture business from converting seasonal workers directly employed by makers to temporary placement in the TOPICS section.

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**● [Table 6] FY12/14 Initial Consolidated Financial Forecasts**

| (¥ mn, %)               | FY12/13      |              |                     | FY12/14  |          |                 |
|-------------------------|--------------|--------------|---------------------|----------|----------|-----------------|
|                         | 1H<br>Actual | 2H<br>Actual | Full-Year<br>Actual | 1H<br>CE | 2H<br>CE | Full-Year<br>CE |
| Net sales               | 21,433       | 25,951       | 47,384              | 28,400   | 32,900   | 61,300          |
| Operating income        | 1            | 1,201        | 1,202               | 600      | 1,400    | 2,000           |
| Ordinary income         | 38           | 1,318        | 1,357               | 650      | 1,400    | 2,050           |
| Net income              | 29           | 1,092        | 1,122               | 350      | 710      | 1,060           |
| <b>[Ratio to sales]</b> |              |              |                     |          |          |                 |
| Operating income margin | 0.0%         | 4.6%         | 2.5%                | 2.1%     | 4.3%     | 3.3%            |
| Ordinary income margin  | 0.2%         | 5.1%         | 2.9%                | 2.3%     | 4.3%     | 3.3%            |
| Net income margin       | 0.1%         | 4.2%         | 2.4%                | 1.2%     | 2.2%     | 1.7%            |
| <b>[YoY]</b>            |              |              |                     |          |          |                 |
| Net sales               | 5.0%         | 19.7%        | 12.6%               | 32.5%    | 26.8%    | 29.4%           |
| Operating income        | -99.6%       | 60.1%        | 20.2%               | —        | 16.6%    | 66.4%           |
| Ordinary income         | -87.5%       | 56.1%        | 17.6%               | —        | 6.2%     | 51.1%           |
| Net income              | —            | 64.2%        | 74.9%               | —        | -35.0%   | -5.5%           |

Source: Compiled by Trias Corporation from Company IR Materials

In addition to demand from the Transport Equipment sector, the Company sees growth from construction materials, medical equipment, car electronics, and of course, the new diversified sectors including IT-related and Construction & Plant-related.

**In terms of profits, the key feature of this term's forecasts is normalized 1H operating income.**

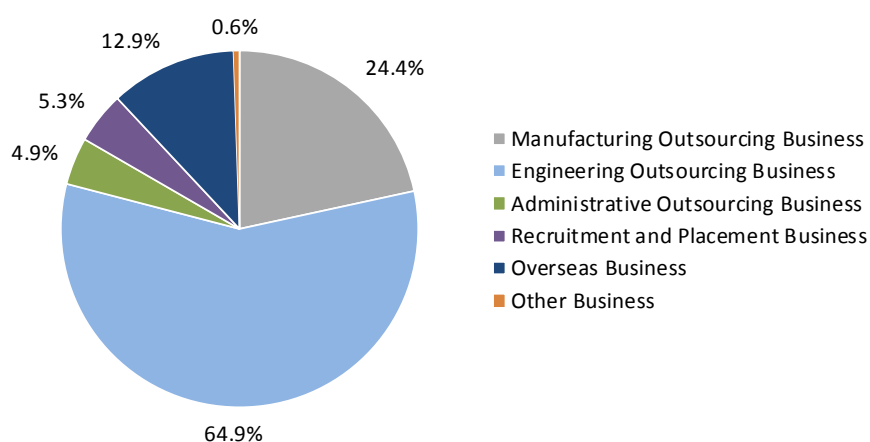
During Q1 FY12/13, the Company suffered lingering effects of year-end cancellations related to inventory adjustment associated with the Senkaku Islands dispute with China, combined with unexpected cost increases from the rapid production ramp-ups of automakers. Although there appears to have been some impact from the heavy snows during Q1 FY12/14 related to production delays from parts shipments, last August many automakers agreed with their labor unions to take extra holidays in return for higher production this quarter ahead of the consumption tax hike, and the snow impact is likely not enough to change the big picture.

Although the Company is budgeting for rising hiring costs reflecting the tight labor market, it also plans to begin passing on these costs in higher contract prices. Table 7 and Graph 3 show that Engineering Outsourcing is again expected to be the major driver of profit growth, and Overseas Business is expected to begin making a full-scale contribution. Net income declines YoY due to the disappearance of extraordinary gains in FY12/13. The OS Group has concluded that a quantifiable foundation has been established toward robust growth in the future, and in order to further increase profit distribution to shareholders and to expand the shareholder base, from this term **it is raising its target dividend payout ratio from 10% in principle in the past to 30%** (please refer to Table 3 in the previous section).

**● [Table 7] FY12/14 Financial Forecasts by Reporting Segment**

| (¥ mn, %)                           | FY12/13      |              |                     | FY12/14    |              |                 |
|-------------------------------------|--------------|--------------|---------------------|------------|--------------|-----------------|
|                                     | 1H<br>Actual | 2H<br>Actual | Full-Year<br>Actual | 1H<br>CE   | 2H<br>CE     | Full-Year<br>CE |
| <b>Net Sales</b>                    | 21,433       | 25,951       | 47,384              | 28,400     | 32,900       | 61,300          |
| Manufacturing Outsourcing Business  | 10,024       | 12,242       | 22,267              | 12,321     | 14,453       | 26,775          |
| Engineering Outsourcing Business    | 7,817        | 9,351        | 17,169              | 10,437     | 12,275       | 22,713          |
| Administrative Outsourcing Business | 319          | 284          | 603                 | 270        | 277          | 547             |
| Recruitment and Placement Business  | 142          | 343          | 485                 | 253        | 253          | 506             |
| Overseas Business                   | 3,313        | 4,224        | 7,537               | 5,333      | 5,855        | 11,188          |
| Other Business                      | 93           | 96           | 190                 | 115        | 122          | 238             |
| Intra-company transfers             | (277)        | (592)        | (869)               | (331)      | (337)        | (669)           |
| <b>Operating Income</b>             | <b>1</b>     | <b>1,201</b> | <b>1,202</b>        | <b>600</b> | <b>1,400</b> | <b>2,000</b>    |
| Manufacturing Outsourcing Business  | (155)        | 693          | 538                 | 90         | 398          | 488             |
| Engineering Outsourcing Business    | 167          | 574          | 742                 | 439        | 859          | 1,298           |
| Administrative Outsourcing Business | 82           | 56           | 139                 | 31         | 66           | 97              |
| Recruitment and Placement Business  | 27           | 102          | 129                 | 60         | 46           | 106             |
| Overseas Business                   | 39           | (17)         | 22                  | 106        | 151          | 258             |
| Other Business                      | 4            | 0            | 5                   | 4          | 7            | 12              |
| Eliminations                        | (165)        | (209)        | (374)               | (132)      | (129)        | (262)           |

Source: Compiled by Trias Corporation from Company IR materials

**● [Graph 3] Breakdown of FY12/14 Operating Income Forecast by Reporting Segment (before eliminations)**


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● **[Table 8] FY12/14 Outlook for Quarterly Temporary Placement and Outsourced Contract Workers**

| Term  |         |        | Q1    | Q2    | Q3     | Q4     | Full-Year |
|---|---------|--------|-------|-------|--------|--------|-----------|
| <b>[No. of Worksite Employees]</b>                      |         |        |       |       |        |        |           |
| Manufacturing Outsourcing Business                      | FY12/13 | Actual | 5,313 | 5,969 | 6,442  | 6,351  | 6,351     |
|   | FY12/14 | CE     | 6,527 | 6,924 | 7,584  | 7,955  | 7,955     |
| Engineering Outsourcing Business                        | FY12/13 | Actual | 2,097 | 2,282 | 2,441  | 2,600  | 2,600     |
|   | FY12/14 | CE     | 2,673 | 2,916 | 3,146  | 3,311  | 3,311     |
| <b>[No. of Outsourcing Administrative Workers]</b>      |         |        |       |       |        |        |           |
| Administrative Outsourcing Business                     | FY12/13 | Actual | 2,317 | 2,179 | 2,325  | 2,344  | 2,344     |
|   | FY12/14 | CE     | 2,808 | 2,810 | 2,968  | 2,932  | 2,932     |
| <b>[No. of Workers under Recruitment Agent Service]</b> |         |        |       |       |        |        |           |
| Staff Agency Business                                   | FY12/13 | Actual | 261   | 545   | 755    | 655    | 2,216     |
|   | FY12/14 | CE     | 569   | 612   | 610    | 589    | 2,380     |
| <b>[Overseas Business]</b>                              |         |        |       |       |        |        |           |
| Worksite Employees for Production Outsourcing Business  | FY12/13 | Actual | 4,177 | 5,122 | 4,758  | 4,829  | 4,829     |
|   | FY12/14 | CE     | 8,275 | 9,295 | 10,873 | 12,816 | 12,816    |
| Other Worksite Employees                                | FY12/13 | Actual | 1,719 | 1,834 | 1,763  | 1,733  | 1,733     |
|   | FY12/14 | CE     | 2,001 | 2,021 | 2,021  | 2,024  | 2,024     |

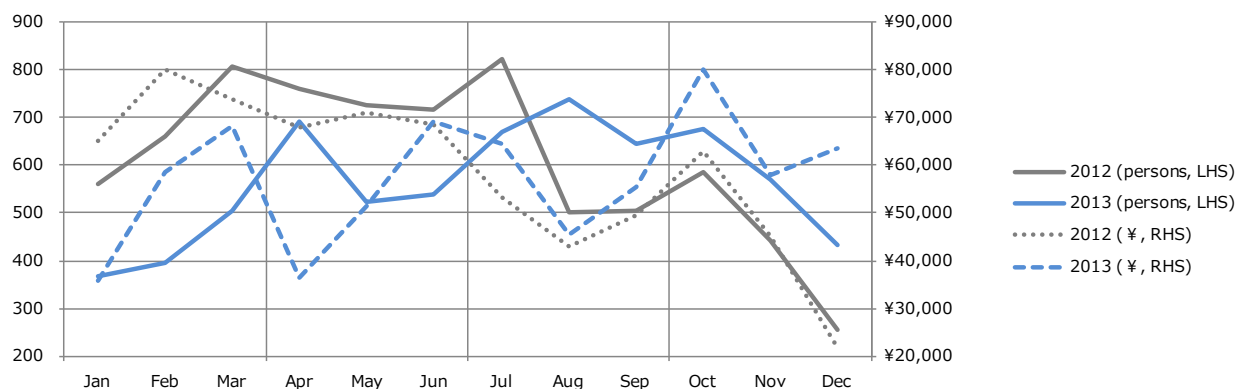
Source: Compiled by Trias Corporation from Company IR materials

● **[Table 9] FY12/14 Quarterly Domestic Recruitment Plan**

|   | FY12/13<br>Full-Year<br>Actual | FY12/14  |          |          |          | Full-Year<br>CE |
|---|--------------------------------|----------|----------|----------|----------|-----------------|
|   |                                | Q1<br>CE | Q2<br>CE | Q3<br>CE | Q4<br>CE |                 |
| <b>[Outsourced Contracting and Temporary Placement]</b> |                                |          |          |          |          |                 |
| No. of Workers Recruited                                | 6,754                          | 1,249    | 1,535    | 2,065    | 1,853    | 6,702           |
| Recruitment unit price (¥/worker)                       | 47,130                         | 77,127   | 65,819   | 59,215   | 50,087   | 62,121          |
| <b>[Paid Job Placement]</b>                             |                                |          |          |          |          |                 |
| No. of Workers Recruited                                | 2,156                          | 569      | 612      | 610      | 589      | 2,380           |
| Recruitment unit price (¥/worker)                       | 98,432                         | 154,255  | 131,638  | 118,429  | 100,173  | 124,242         |
| <b>[Engineers and others]</b>                           |                                |          |          |          |          |                 |
| No. of Workers Recruited                                | 954                            | 171      | 408      | 272      | 206      | 1,057           |
| Recruitment unit price (¥/worker)                       | 296,003                        | 434,494  | 205,012  | 280,708  | 274,614  | 275,181         |

Source: Compiled by Trias Corporation from Company IR materials

● **[Graph 4] Monthly Trend of Temporary Placement and Outsourced Contract Workers**



Source: Compiled by Trias Corporation from Company IR materials

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**TOPIC 1: Securing a Foothold Outside of the ASEAN Region in India through M&A**

In recent Trias IR memos, we have covered in some detail management's focus initiatives and rapid moves to expand overseas operations to meet the needs of ongoing globalization programs of major clients, mainly in ASEAN countries. On the other hand, despite the current sluggish economic conditions, South Asia is rapidly shaping up as a center for growth. India in particular has the second largest population after China, and many Japanese manufacturers are accelerating plans to establish bases, not only as production bases, but also targeting the swelling prominence of the middle class as a major consumer market.

This January the Company announced that it is acquiring ALP Group in India, consisting of ALP CONSULTING LIMITED and DATACORE TECHNOLOGIES PRIVATE LIMITED, hereinafter ALP CONSULTING and DATACORE TECHNOLOGIES respectively. The Company vertically integrated the Group as a subsidiary.

**● [Table 10] Acquisition of ALP CONSULTING and DATACORE TECHNOLOGIES**

| (INR thousand, INR per share) | FY3/11  | FY3/12  | FY3/13  |
|-------------------------------|---------|---------|---------|
| <b>[ALP CONSULTING]</b>       |         |         |         |
| Total Assets                  | 178,982 | 286,040 | 289,376 |
| Net Assets                    | 60,587  | 69,107  | 70,271  |
| BPS (INR)                     | 47.43   | 54.10   | 55.01   |
| Net Sales                     | 679,227 | 768,020 | 762,710 |
| Operating Income              | 11,136  | 12,480  | 11,323  |
| Ordinary Income               | 11,136  | 12,480  | 11,323  |
| Net Income                    | 7,552   | 8,520   | 7,666   |
| EPS (INR)                     | 5.91    | 6.67    | 6.00    |
| DPS (INR)                     | -       | -       | -       |

| (INR thousand, INR per share)  | FY3/11  | FY3/12  | FY3/13  |
|--------------------------------|---------|---------|---------|
| <b>[DATACORE TECHNOLOGIES]</b> |         |         |         |
| Total Assets                   | 47,167  | 75,279  | 80,710  |
| Net Assets                     | 21,649  | 27,135  | 30,868  |
| BPS (INR)                      | 43.30   | 54.27   | 61.74   |
| Net Sales                      | 180,170 | 160,102 | 170,752 |
| Operating Income               | 7,392   | 7,890   | 8,294   |
| Ordinary Income                | 7,392   | 7,890   | 8,294   |
| Net Income                     | 4,800   | 5,486   | 5,704   |
| EPS (INR)                      | 9.60    | 10.97   | 11.41   |
| DPS (INR)                      | -       | -       | -       |

Source: Compiled by Trias Corporation from TSE press release, January 21, 2014

With over 10 years-experience, ALP CONSULTING has grown into a mid-tier firm providing manufacturing outsourcing service and IT engineering outsourcing service. DATACORE TECHNOLOGIES is mainly involved with IT engineering temporary placement. With over 3,000 temporary staff enrolled, ALP Group mainly serves foreign capital firms other than Japanese

companies, as well as large domestic Indian companies. Through acquisition of the ALP Group, the OS Group gains a foothold in the promising Indian growth market, and ALP Group plans to leverage the Company's expertise in manufacturing and IT engineering temporary placement, extending its services to Japanese clients.

Phase 1 of building an Asian staffing network is now completed, establishing bases in markets with high demand: Thailand, Vietnam, Indonesia and Malaysia. However, securing labor is already becoming tight with global manufacturers setting up production bases. Phase 2 beginning this year will target establishing operations bases in countries which can supply staffing to markets with high demand. Figure 1 below shows target supply markets include Myanmar, Laos and Cambodia. According to the Company, it targets opening bases in Myanmar and Laos in 1H FY12/14.

- **[Figure 1] Phase 1 is complete (demand bases); Moving to Phase 2 (supply bases) → Ultimate target is capturing cross-border workforce fluidity across Asia**



Source: Company Hong Kong IR presentation, October 2013

## TOPIC 2: Proposed Revision of the Worker Dispatch Law

The new LDP administration under the catch phrase “Abenomics” is keen to reverse policies promoted by the DPJ, specifically policies limiting the use of temporary placement. A Labor Ministry panel published its recommendations in August 2013, including allowing companies to continue filling positions with temporary placement workers beyond the current three-year limit, as well as eliminating the 26 specialized occupations that are exempt, with a view toward strengthening competitiveness of Japanese industries. The administration is aiming to enact the revisions of the Worker Dispatch Law at this year’s Ordinary Session of the Diet.

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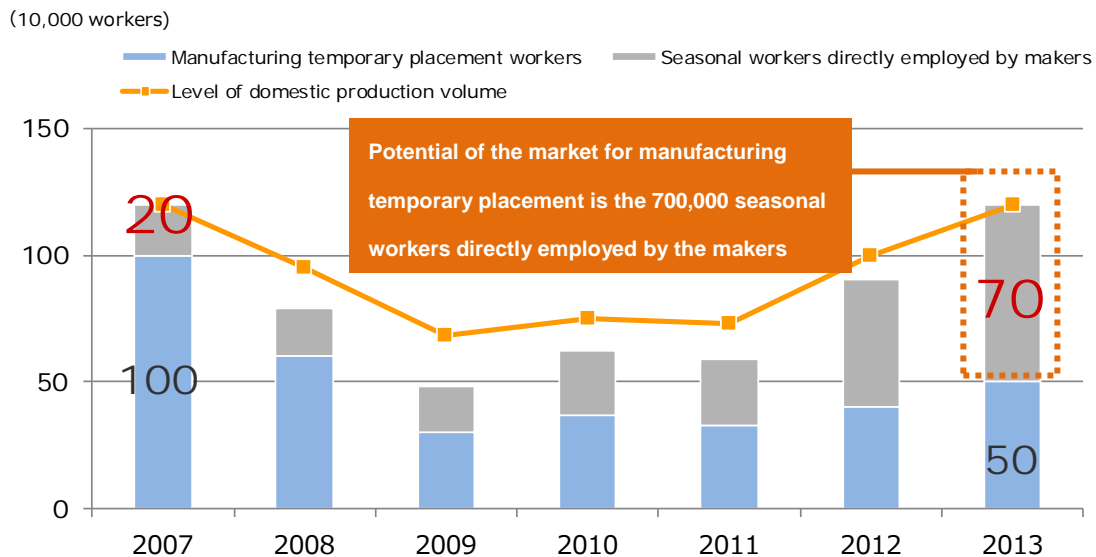
Table 11 shows the recent trend regarding use of manufacturing temporary placement in the wake of the financial crisis. Widespread cancellations of manufacturing temporary placement contracts became a social issue, and the former DPJ administration became determined to pass a ban on its extended use. According to the Company, reputational risk and potential regulatory risk of a ban going into effect prompted manufacturers to handle recovered production levels through seasonal workers directly employed by makers.

● **[Table 11] Recent Trend Regarding Use of Temporary Placement Workers**

|      |  |
|------|--|
| 2007 | Utilization of manufacturing temporary placement by makers peaked, reaching 1 million workers and a market of ¥3 trillion  |
| 2008 | Global recession due to the Lehman crisis, and cancellation of manufacturing temporary placement contracts became a social issue of "cutting temporary placement workers"  |
| 2009 | Use of temporary placement itself was deemed as 'bad', and the Democratic Party of Japan moved ahead with full-scale efforts to ban temporary placement, forming a bottom in the market for temporary placement around this time, shrinking to roughly one-third of the peak level               |
| 2010 | While production headed for recovery, makers handled demand through directly employed seasonal workers in light of reputational risk from utilization of temporary placement and moves toward a ban  |
| 2011 | The economy deteriorated due to the March 11 disaster and Thailand flooding, resulting once again in widespread cancellations of temporary placement   |
| 2012 | The Revised Worker Dispatch Law went into effect, but period limits were reset due to the Senkaku Islands dispute with China   |
| 2013 | Despite the economic recovery becoming pronounced and production returning to pre-Lehman collapse levels, makers overwhelmingly handled demand through directly employed seasonal workers, and the market for manufacturing temporary placement only recovered to roughly half of the peak level |

Graph 5 highlights the fact that although domestic production has recovered to the pre-Lehman collapse level, the majority of makers are still using seasonal workers. **With the Revised Worker Dispatch Law expected to go into effect from April 2015, the Company is targeting the huge potential market for converting seasonal workers directly employed by makers into temporary placement workers.**

● **[Graph 5] Trend of the Number of Manufacturing Temporary Placement Workers and Seasonal Employees Directly Employed by Makers**



\* Company estimates based on the Ministry of Internal Affairs and Communications Labor Force Survey results. The level of domestic production volume is indexed to 2007=100


According to the Company, **disadvantages of using seasonal workers include the following: 1) surplus resources for production cutbacks during the term of employment contracts, 2) indirect costs from recruitment/hiring, housing preparation and management, 3) maker welfare benefits are applicable, 4) rising hiring costs in a tight labor market, and 5) employment risk.** The conclusion is that despite the lower cost of using temporary placement, a majority of makers have been directly employing seasonal employees due to reputational risk and regulatory risk of a ban being passed. However, the Revised Worker Dispatch Law that is expected to be enacted from April 2015 basically will eliminate these two risks.

Specifically, government policy aims to put in place legislation that satisfies both mobilization of the workforce as well as stable employment of temporary placement workers. Key points of the Revised Law include: 1) including manufacturing operations, long-term and flexible use of temporary placement (enables use of temporary placement for unlimited periods by employers), and 2) strengthens responsibility of temporary staffing agencies (ensuring employment stabilization of temporary placement, putting in place rigorous screening of temporary placement approval requirements etc.).

Basically, the Company and the worker will hold an indefinite term employment contract, while the Company and the maker will hold an employment contract which allows the number of temporary placement workers to be adjusted flexibly according to production volatility. This satisfies the

government's policy objectives of mobilization of the workforce and stable employment of temporary placement workers.

Under the Revised Law, the current notification system will be abolished and a licensing system will be applied to all specified worker dispatching undertaking businesses, with strict examination of approval requirements in terms of assets, organization and structure, as well as mandatory annual reporting, The Company estimates that **of the 53,600 temporary placement agencies under the current notification system, roughly half will disappear.** The Company sees its competitive advantage in its large list of major clients and ability to secure large-lot hiring, and believes that only a handful of temporary placement agencies can actually realize true maker structural reforms based on the premise of business scale and transparent management.

**According to the Company, its forecasts for this term include ¥400mn upfront investment budgeted for starting up its new scheme. The key for FY12/14 is that the Company is targeting demand that is less susceptible to fluctuations in the volatile production cycle.** 

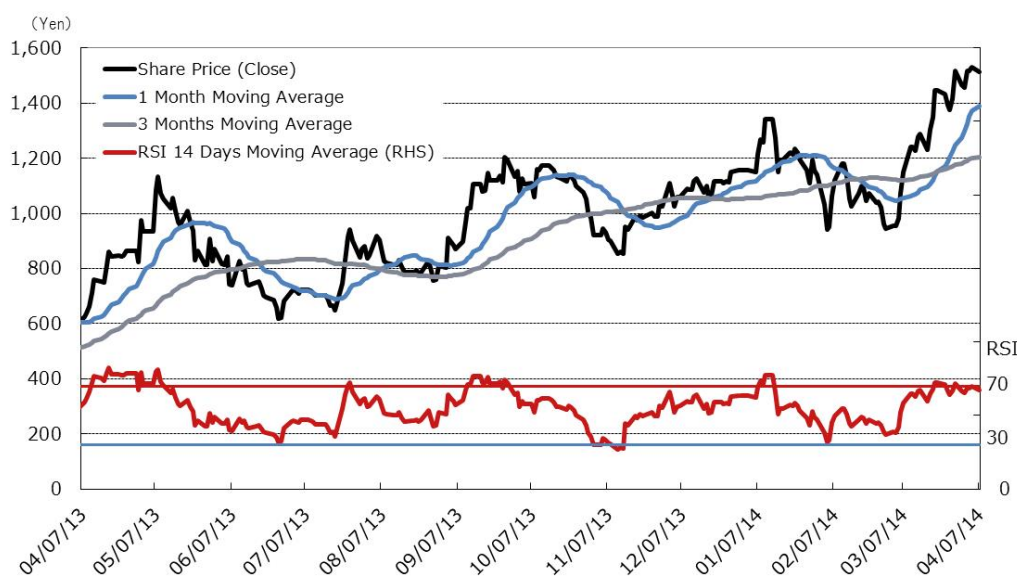
**Reference**
**● Key Financial Data and Business Results (Consolidated)**

|                            |               |            |  |        |           |
|----------------------------|---------------|------------|--|--------|-----------|
| No. of Shares Issued       | Dec-13        | 15,668,700 | Total Assets (¥ mn)  | Dec-13 | 20,343    |
| No. of Treasury Stock      | Dec-13        | 1,139,500  | Shareholders' Equity (¥ mn)                                      | Dec-13 | 5,328     |
| Market Value (¥mn)         | 7-Apr-14      | 23,691     | Interest-Bearing Debt (¥mn)                                      | Dec-13 | (*) 7,233 |
| BPS (¥)                    | Dec-13        | 366.71     | Equity Ratio (%)   | Dec-13 | 26.2      |
| ROE (%)                    | Dec-13        | 21.1       | Ratio of Interest-Bearing Debt (%)                               | Dec-13 | 135.8     |
| ROA (%)                    | Dec-13        | 5.5        | Free Cash Flows (¥mn)  | Dec-13 | (684)     |
| PER (times)                | FY12/14 fcst. | 20.7       | ROE = Net Income ÷ Shareholders' Equity                          |        |           |
| PCFR (times)               | Dec-13        | 16.1       | ROA = Net Income ÷ Total Assets                                  |        |           |
| PBR (times)                | Dec-13        | 4.1        | PCFR = Market Value ÷ (Net Income+Depreciation)                  |        |           |
| Share Price (¥)            | 7-Apr-14      | 1,512      | Ave. Daily Vol. = Ave. Daily Vol. for the last 12 months         |        |           |
| Unit Share (shares)        | 7-Apr-14      | 100        | Interest-Bearing Debts* Ratio = I.B.D. ÷ Shareholders' Equity    |        |           |
| Average Daily Volume (shs) | 7-Apr-14      | 192,967    | * Incl. current portion of accounts payable-installment purchase |        |           |
|                            |               |            | Free Cash Flows = Operating CF + Investment CF                   |        |           |

| Consolidated<br>(¥million) | Net Sales | Operating<br>Income | Ordinary<br>Income | Net Income | EPS (¥)    | DPS (¥) |
|----------------------------|-----------|---------------------|--------------------|------------|------------|---------|
| FY12/08                    | 24,148    | 1,113               | 1,134              | 641        | 5,412.28   | 644.00  |
| FY12/09                    | 17,964    | (150)               | 22                 | (215)      | (1,511.00) | 644.00  |
| FY12/10                    | 28,386    | 1,173               | 1,401              | 760        | 52.46      | 7.21    |
| 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 fcst.           | 28,400    | 600                 | 650                | 350        | 24.08      | 0.00    |
| FY12/14 Full Year fcst.    | 61,300    | 2,000               | 2,050              | 1,060      | 72.95      | 22.00   |

Notes: FY12/14 forecasts announced on February 13, 2014

Stock splits from 1 to 100 shares implemented in November 2010

**● Stock Price Charts and RSI**


Source: Prepared by Trias Corp. with Bloomberg data.

Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices. In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.

RSI =  $\frac{\text{averaged share price appreciation for N days} - \text{averaged share price decline for N days}}{\text{averaged share price appreciation for N days} + \text{averaged share price decline for N days}} \times 100$

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