Trias Company Memo 2010-June-3

(Securities Code: 2427/ JASDAQ) OUTSOURCING Inc.
Summary of Follow-Up Interview
on Business Results for the First Quarter of Fiscal Year ending December 31, 2010

To follow up on the business results for the first quarter of FY12/10 announced by OUTSOURCING Inc. (hereinafter OSI or the Company) announced on April 28, 2010, we interviewed President & COO Yohta Maruoka, Managing Director Kazuhiko Suzuki and Shigeo Namikawa of the Management Planning Office. The following is a summary of our interview.

[**Q1 FY12/10 Consolidated Business Results Summary and FY12/10 Earnings Forecast**]

As seen in Table 1, consolidated net sales for Q1 FY12/10 climbed by ¥2,275 million on a year-on-year basis, while operating income increased ¥432 million y/y. Compared to OSI's February 10, 2010 forecast, net sales rose ¥191 million and operating income fell ¥63 million. Also versus the forecast in terms of business segment, net sales of the Company's Production Outsourcing (PO) business increased by ¥198 million but operating income declined by just ¥22 million. As for its Administration Operations Outsourcing (AOO) business, net sales and operating income fell by ¥29 million and ¥46 million, respectively, versus the forecast. The reason for PO's operating income decline was due to the posting of frontloaded expenses required for the recruitment and housing of workers that exceeded projections (+132), as well as restructuring costs of some ¥100 million to rationalize OSI's Group of Companies, which grew as a result of mergers and acquisitions. The AOO business, meanwhile, is structured around three business models: operating as an agency to recruit seasonal workers hired by client-manufacturers; as a full-service contracting business for administrative operations after these workers are hired; and as a provider of C-Cube, a comprehensive administration system. Under the recruitment agency model, the Company managed to close contracts for 200 workers on behalf of client-makers as of the end of the previous fiscal year; in comparison, it has already done so for 100 workers in Q1. As for the number of administrative operations outsourcing contracts, it stood at 1,700 at the end of FY12/09 versus slightly less than 2,000 at the end of Q1, an increase of some 300.

As for the consolidated balance sheets, an expanding scale of business led to an increase in trade receivables and short-term borrowings, while noncurrent assets and long-term loans grew due to the construction of a dormitory facility in Fujinomiya City. OSI built the facility because it was strategically located and demand from client-makers in the area has been stable. The Company expects investment recovery to be prompt and without problem.

【Table 1】*

Q'ly Performances (¥ million)	FY12/08				FY12/09				FY12/10
By Segment	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net Sales	6,130	6,029	6,152	6,107	4,007	3,725	4,397	5,832	6,282
PO	0	0	0	0	3,908	3,548	4,174	5,569	6,020
AOO	0	0	0	0	0	36	54	92	80
Others (incl. Nursing)	0	0	0	0	0	140	168	170	168
Gross Profit	1,084	1,149	1,139	1,123	487	687	877	1,332	1,282
SG&A	868	837	868	809	791	758	826	1,159	1,154
Operating Income	216	312	270	315	△ 303	△ 70	51	172	128
PO	0	0	0	0	△ 300	△ 89	11	160	112
AOO	0	0	0	0	0	15	16	3	9
Others (incl. Nursing)	0	0	0	0	14	19	27	27	33
Eliminations	0	0	0	0	△ 17	△ 17	△ 4	△ 20	△ 26
Margin	*3.5%*	*5.2%*	*4.4%*	*5.2%*	*-7.6%*	*-1.9%*	*1.2%*	*2.9%*	*2.0%*
Ordinary Income	0	0	0	312	△ 274	△ 32	90	238	207
Net Income	0	0	0	0	0	0	0	0	111
	0	0	0	0	0	0	0	0	0
#Worksite Employees	7,124	7,130	6,884	6,102	4,824	4,559	5,030	6,109	6,282

*NOTE: Prepared by Trias Corp. with data disclosed by OUTSOURCING Inc.

OSI has not revised its initial earnings forecast issued on February 10 (for further information, please see Business Results (Consolidated) on page 6). A quarterly forecast by segment was also issued on February 10 and may be viewed in Table 2. The Company's PO business posted an increase of 182 workers placed onsite, as well as increases of ¥198 million in net sales and ¥22 million in operating income when compared to the quarterly forecast. In its Other Businesses, which includes nursing care services, net sales and operating income exceeded the forecast by ¥8 million and ¥13 million, respectively. Meanwhile, the AOO business fell short of the forecast in both indices by ¥29 million and ¥46 million, respectively. With regards to the Company's recruitment agency business, the auto industry continues to prioritize the direct hiring of workers, while the electrical and electronics industry remains reliant on manufacturing temporary placement workers rather than direct employment, making it a more likely candidate to transition to outsourced contracting services. This discrepancy has been a factor in the divergence between the forecast for the AOO business and actual performance. While the same holds true for the forecast for outsourced administration contracting services and actual results, one positive trend is that a number of worksites that the Company is operating under outsourced administration service contracts have begun to shift to production outsourced contracting. From a management perspective, however, given the short-term divergence between real and projected results in an operating environment undergoing convulsive changes, OSI will judge its overall business performance based on the total number of contracted workers that belong to its AOO business plus its production outsourced service contracts. As for C-Cube sales, eight systems have been delivered, while the contracts are scheduled to begin in April and September as planned.

【Table 2】*

Q'ly Performances (¥ million)	Forecasts as of Feb. 10, 2010 FY12/10				
By Segment	Q1	Q2	Q3	Q4	Fullyear
Net Sales	6,091	6,227	6,685	7,029	26,033
PO	5,822	5,860	6,177	6,499	24,360
AOO	109	206	347	370	1,033
Others (incl. Nursing)	160	160	160	160	640
Operating Income	191	334	495	586	1,607
PO	134	192	234	312	874
AOO	55	142	261	273	733
Others (incl. Nursing)	20	20	20	20	80
Eliminations	△ 20	△ 20	△ 20	△ 20	△ 80
Margin	*3.1%*	*5.4%*	*7.4%*	*8.3%*	*6.2%*
#Worksite Employees	6,100	6,150	6,400	6,700	--

*NOTE: Prepared by Trias Corp. with data disclosed by OUTSOURCING Inc.

As for the utilization status of PO workers placed onsite, contracts for limited-duration operations in the food industry have ended in Q1. Currently, fulltime contracts are increasing in the electrical/electronics industry, a trend that is likely to continue for some time. Although the Company expects the number of onsite workers to decrease in the summer months, or the seasonal downturn cycle, demand is expected to rebound from Q3 to Q4. OSI now projects that number to reach between 6,200-6,300 workers and post net sales of approx. ¥6.5 billion in Q2, followed by 6,500 workers in Q3 and 7,000 in Q4. The PO business is thus on track to exceed the onsite worker figure as originally projected in the initial forecast. Of this number of workers, those contracted for the Company's engineer placement business—which has been the target of accelerated investment since last year—is expected to rise from the current 1,000 to 1,500 by the end of the fiscal year. SEISHO CO., LTD., a core OSI subsidiary for the placement of engineers, boasts a pool of 620-630 workers and a utilization rate of 95%. The goal is to further reduce those engineers on stand-by status and achieve even higher utilization rates through improved efficiency.

[Upgrading Group Strategy and Future Initiatives]

Since the autumn of 2009, the outsourcing services providers that have survived the industry shakeout have discovered greater opportunity in the administrative operations outsourcing market. In the worker recruitment field, one company, which remains unlisted, has a commanding share of the recruitment agency market due to its superior capability in terms of investment capital and hiring volume. In comparison, OSI has been concentrating on recruitment agency initiatives developed to facilitate the transition of workers on temp contracts to permanent contracts. At the same time, in the field of outsourced administration services, the Company is confident that its integrated, full-service contracts make it unique and will generate further business over time.

Under these circumstances, ORJ, OSI's new subsidiary launched in the previous fiscal year, aims to cover through its full range of recruitment agency and outsourced administrative services the some 2,000 seasonal workers that its client-manufacturers, led primarily by five firms, plan to hire. In addition, other clients, mainly in the electrical/electronics industry, are planning to convert another 3,000 workers from manufacturing temporary placement contracts to production outsourced contracts. Thus, a total of some 5,000 workers represent a major potential market for the OSI Group. Add the 1,700 workers under its outsourced administration service contracts as of the previous fiscal year and the total grows to 6,700. The Company plans to convert 80% of this total, or some 5,000 workers, to production outsourced contracts over the next few years. In addition to the conversion of administrative services and manufacturing temporary placement contracts to production outsourced contracting, the OSI Group is focusing on marketing high value added proposals based on its expertise in production outsourcing and industry-specific engineering capabilities. As for an example of the Company's advances into new business fields, an advanced production line of a major LCD panel maker is now operating under OSI's outsourced contracting service. Some 100 workers are currently being utilized onsite and that number is scheduled to increase to some 300 by the end of October. The productivity of supervisory staff increases at large-scale worksites with 100 or more workers. As for production outsourced contracting services, worksites tend to be converted from batches of 20-30 employees—and the goal is to improve profitability through greater conversion volume.

For its mid-term outlook, the Company aims to expand its business scale from the current 1,000 workers in the engineering field to 2,000, and the 5,000 workers in the field of volume production to 8,000, an increase of 1,000 and 3,000, respectively. With regards to the engineering field, the Company began investing in business development initiatives specific to industry, concentrating resources not only to reinforce its existing Transport Equipment Group, but also the groups responsible for the electrical/electronics and medical/chemical industries as well. Another objective is to expand coverage of OSI's full-service contracting business beyond the corporate unit in charge of volume production, to the units in charge of peripheral R&D, to increase the number of engineers to 1,000. In the field of volume production, the first goal is to convert to outsourced contracting contracts the potential market of some 5,000 workers now under outsourced administrative services and manufacturing temporary placement contracts. That will be followed by an increase in the total number of workers by 3,000.

In order to secure the implementation of its growth strategy, the Company will restructure its Group organization, which has grown to 17 companies through mergers that primarily took place in the previous fiscal year, from July 1. The Transport Equipment Group will be consolidated from four firms into just two, while OUTSOURCING Inc. will absolute MOLT, Ltd. and babysitting service WARABEUTA CO., LTD. divested. In addition, the Company will relocate its head office at the end of July, while the closure and consolidation of offices will be carried out from May to August. As a result of the latest reorganization, OSI will post a one-time gain of ¥30 million from the divesture of WARABEUTA and a one-time loss of ¥60 million incurred from its head office relocation, as well as from the closure and consolidation of offices. At the same time, however, the cost reduction effect from the reorganization should yield some ¥10 million per month in rent from September. In terms of the Group's financials, the Company will allocate the proceeds from the WARABEUTA sale to repay the high-interest loans carried by some of its subsidiaries. As for cash reserves, the Company will remain flexible to the use of short-term borrowings to avoid unnecessary loans and enhance overall productivity of the Group. The latest reorganization is merely the first step in what will be additional restructuring initiatives in the future.

The Company also launched its Overseas Business unit in December 2009 and through it, OSI will commence operations in Shanghai, China, as of August 1. The goal, of course, is to leverage its outsourcing expertise gained in the Japanese market—especially in such engineering fields as R&D, as well as component testing and evaluation—for China, which will clearly serve as a growth market for years to come. In launching its Shanghai operation, the Company has recruited an expert in Chinese business operations from a competitor and hired local professionals as well—all part of a concerted overseas push that will commence from fiscal 2011 onward.

[Post-Interview Comments from Trias]

The aforementioned is a summary of the Trias interview with OSI. In conducting this interview, Trias was able to confirm OSI's operating structure, in which the current divergence between actual results and its business segment forecasts issued in February should be corrected by the Production Outsourcing business' conversion to outsourced contracting over the next few years. If a portion of the Administrative Operations Outsourcing business contracts shift directly to production outsourced contracting rather than first being converted to outsourced administrative service contracts, that shift may cause an upward revision in sales. But Trias sees it also causing downward pressure on income in the short term due to the frontloading of costs to hire workers. In any event, the key factors in forecasting the degree of business expansion and improvement to margins for the Company will be the speed in which production outsourced contracting—the core business of Production Outsourcing business—develops, and the speed in which its integrated, full-service, R&D-to-volume production outsourced contracting service can take root. Because the latest window of opportunity to convert manufacturing temporary placement worksites to production outsourced contracting was in April, Trias believes that the developments that take place after Q2 warrants close attention.

(This concludes the Trias Interview.)

【Reference】OUTSOURCING Inc. (Securities Code: 2427)

Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)		
No. of Shares Issued	Dec. 09	155,443
No. of Treasury Stock	Dec. 09	11,395
Market Value (￥million)	Jun. 2, 2010	5,907
BPS (￥)	Dec. 09	19,180.1
ROE (%) ※1	Dec. 09	△ 8.0
ROA (%) ※2	Dec. 09	-278.9%
PER (times)	FY12/10 fcst	5.7
PCFR(times) ※3	Dec. 09	△ 1,476.7
PBR (times)	Dec. 09	2.0
Share Price (￥)	Jun. 2, 2010	35,300
Unit Share (shares)	Jun. 2, 2010	1
Average Daily Volume (shares) ※4	Jun. 2, 2010	755

Key Financial Data (Consolidated)		
Total Assets (￥million)	Dec. 09	9,365
Shareholders' Equity (￥million)	Dec. 09	2,855
Interest-Bearing Debt (￥million)	Dec. 09	3,309
Equity Ratio (%)	Dec. 09	30.5
Ratio of Interest-Bearing Debt (%) ※5	Dec. 09	116
Free Cash Flows (￥million) ※6	Dec. 09	△ 473

※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end

※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end

※3 PCFR=Maket Value÷(Current Net Income+Depreciation)

※4 Average Daily Volume=Average Daily Volume for the last 12 months

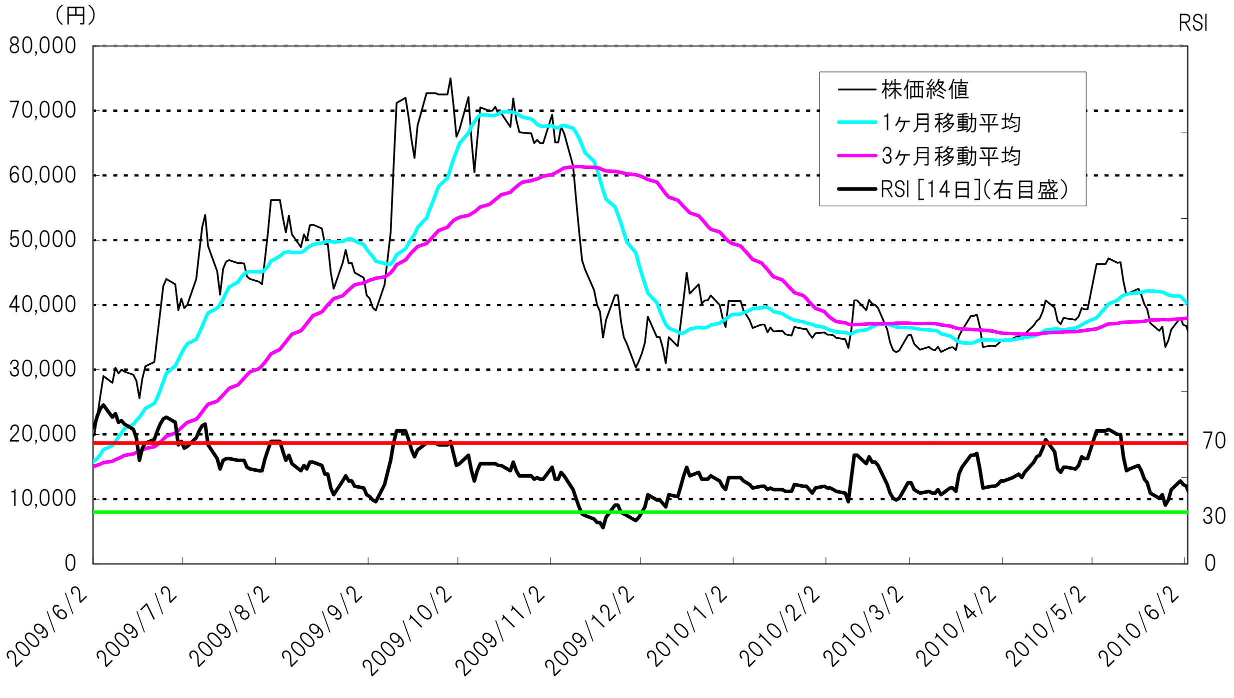
※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity

※6 Free Cash Flows=Operating CF+Investment CF

Consolidated (￥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (￥)	Dividend per Share (￥)
FY12/07	24,321	1,013	1,004	583	4,917.3	492.00
FY12/08	24,148	1,113	1,134	641	5,412.3	644.00
FY12/09	17,964	△ 150	22	△ 215	△ 1,511.0	644.00
FY12/10 Interim fcst.	12,300	520	570	340	2,238.4	--
FY12/10 fcst.	26,000	1,600	1,700	1,000	6,716.0	672.00

Note: FY12/10 forecasts announced on Feb. 10, 2010

Stock price charts and RSI



出所：Bloombergのデータを基にトリアス作成

注：RSI(Relative Strength Index)とは株価の「買われ過ぎ度」や「売られ過ぎ度」を指数で表したもの

一般的にRSIが70を超えると高値圏、30以下では安値圏に位置していると言われている

RSI= N日間の値上がり幅平均÷(N日間の値上がり幅平均+N日間の値下がり幅平均)x100