Trias Company Memo 2009-09-30

(Securities Code: 2427 / JASDAQ) OUTSOURCING Inc.
Follow-Up Interview Memo for FY12/09 2Q Business Results

As a follow-up to the FY12/09 Business Results Meeting of OUTSOURCING Inc. (hereinafter OUTSOURCING or the Company), we interviewed Chairman Haruhiko Doi and presented as a summary below. As for the Business Results Meeting, please refer to the summary presented in the **Trias Company Memo dated September 15, 2009**.

[Outlook for FY12/09 2HF]

As seen in [Table 1], OUTSOURCING's FY12/09 2HF business outlook was presented at the Business Results Meeting on August 27, with a major earnings increase expected from the 4Q (Oct.-Dec. 2009).

【Table 1】Business Forecast for OUTSOURCING Group's FY12/09 2HF

Business Categories	Items	Unit	3Q	Oct.	Nov.	Dec.	4Q	2HF Total
Production Outsourcing Business	Net Sales	¥Million	4,500				9,600	14,100
	Operating Income		0				898	898
	Orders	# of Co.s		29	28	20	77	
		Workers	4,559	+2,500	+2,500	+2,000	+7,000	11,559
Outsourced Administrative Business	Net Sales	¥Million	238				1,930	2,168
	Operating Income		46				565	611
	Orders	# of Co.s	16	13	11	11	35	51
		Workers	2,500	+7,500	+2,000	+3,000	+12,500	15,000
Others	Net Sales	¥Million	102				203	305
	Operating Income		4				14	18
Total	Net Sales	¥Million	4,840				11,733	16,573
	Operating Income		50				1,477	1,527

As shown in [Table 2-1], consolidated net sales peaked in FY12/07, buoyed by the largest increase in contract workers in history, a year-on-year gain of 1,259, rising to 7,468 at the end of FY12/06. However, the number of recruited workers from October 2009 is projected to increase by 2,000 to 2,500 workers per month, far in excess of the FY12/06 record. At the same time, recruitment of employees to administer these contract workers—including the Company's head office administration division—has slowed in a bid to enhance profitability. On a consolidated basis, there were 471 employees at the end of June 2009, an increase of 126 from the end of December 2008, the gain reflecting the Group's growth in size as a result of its M&A activities. But as seen in [Table 2-2], only a modest increase, from 324 to just 334, was recorded on a non-consolidated basis, which represents the core of OUTSOURCING's production outsourcing business, at the end of last year.

It should be noted that an additional 80 employees will need to be hired due to the major increase in contract workers on a consolidated basis, as 550 employees will be needed to administer an estimated 11,559 contract workers by the end of this fiscal year—a formula based on the contract worker/employee ratio of 21:1 in the peak year of fiscal 2007.

【Table 2-1】Earnings and No. of Contract Workers and Employees (Consolidated)

(Consolidated)	Unit	FY12/05	FY12/06	FY12/07	FY12/08	FY12/09		
						1HF	2HF	2HF−1HF
Net Sales	¥Million	17,881	21,197	24,321	24,148	7,733	16,567	8,834
Operating Income		95	119	1,013	1,113	△ 374	1,524	1,898
OP Margin	*%*	*0.5%*	*0.6%*	*4.2%*	*4.6%*	*-4.8%*	*9.2%*	n.a.
Contract Workers	Persons at term-end	6,209	7,468	7,324	6,102	5,030	11,559	6,529
Employees		351	370	350	345	471		
Contract Workers / 1 Employee	Workers	18	20	21	18	11		

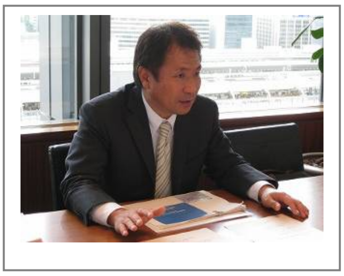
【Table 2-2】Earnings and No. of Employees and Contract Workers (Non-Consolidated)

(Non-Consolidated)	Unit	FY12/05	FY12/06	FY12/07	FY12/08	FY12/09		
						1HF	2HF	2HF−1HF
Net Sales	¥Million	17,847	19,161	21,270	20,825	6,611		
Operating Income		110	195	920	1,029	△ 226		
OP Margin	*%*	*0.6%*	*1.0%*	*4.3%*	*4.9%*	*-3.4%*		
Contract Workers	Persons at term-end	6,177	6,830	6,603	5,556	3,699		
Employees		345	321	315	324	334		
Contract Workers / 1 Employee	Workers	18	21	21	17	11		

Source: OUTSOURCING Inc. Fact Sheet and related data previously disclosed.

As mentioned earlier, because the 2HF earnings forecast includes a dramatic gain in business that deviates from significantly from the existing trend line, we asked OUTSOURCING about its assumptions regarding order inflows from client-manufacturers and the increase in contract workers.

Responding to the sharp downward adjustment in inventory since last fall, production—which plunged dramatically, particularly for the automotive industry—has recovered significantly since the spring of 2009. Production levels fell at one point by as much as 70%, but has since recovered by 20%, yet remains at just half of peak levels. In the initial phase of the recovery, manufacturers covered their production ramp-up internally and did not resort to contract workers.



OUTSOURCING Chairman Doi

But from October onward, companies will step up production by relying on up to 100,000 contract workers. In way of comparison, some 400,000 workers were laid off during the previous production cutback.

In the case of the auto industry—which is a primary target of the Company—the spring months represent the greatest earnings season of the year. Auto-related companies are thus planning to ramp up production from October to meet projected demand in the spring of 2010. OUTSOURCING's 2HF earnings forecast accounts for a recovery in terms of a cyclical upswing for the auto and technology industries, as well as gains resulting from the government's economic stimulus packages, which include an eco-car tax cut and an "eco-point" benefit program on consumer electronics sales.

In addition, an industry shakeout among outsourcing providers that are unable to meet the changing needs of clients facing rapidly deteriorating business prospects, have begun in earnest. Clients have 3 options today: shift to direct employment, primarily through seasonal workers; adopt contracted production outsourcing; or, as a last resort, use temporarily placed staff to meet cyclical upswings in production. The Company is confident that its affiliate, ORJ, is the only firm in the industry that can provide the comprehensive administrative services required for direct employment. As for contracted production outsourcing, where there once several dozen providers capable of handling manufacturing temporary placement, there are only a handful firms that can provide optimal outsourcing contracting services today. In addition to the industry shakeout, the new coalition government led by the Democratic Party of Japan is expected to roll out new regulatory constraints on manufacturing temporary placement, which, in turn, should generate demand from clients opting out of contracts with competitors for OUTSOURCING's services. These developments have all been factored into 2HF forecast for a major earnings recovery.

[Upgrading Recruitment Effort]

In the 1HF, OUTSOURCING implemented initiatives to improve efficiency by consolidating operations as a Group. It reinforced a corporate unit that develops recruitment strategies through an array of data analyses, upgraded recruitment centers established under a region-based strategy, and expanded the role and responsibilities of recruitment coordinators. The Company also integrated the management functions of media-based recruitment with the unit that acts as a window for work applications, and upgraded the capabilities of its call center as well.

As of the 2HF, 64 staff members, including team leaders and coordinators, are engaged in recruitment activities at 14 centers on a strategic and consolidated basis. Under its new recruitment framework, OUTSOURCING is currently in the process of converting to a variable expense system

Chairman Doi (right)
with IR Spokesperson Namikawa

using temporary employees and part-timers, enabling it to better respond to sharp production swings. It is also increasing the number of female workers with proven communications skills in order to upgrade the recruitment process on a more stable and consistent manner. Through these initiatives, the Company aims to become the No.1 recruiter in Japan. In doing so, it will secure quantitative improvements in recruitment capability for the Group as a whole, significantly reduce recruitment costs (primarily the cost of recruitment campaigns and SG&A expenses), as well as improve its initial retention ratio.

In addition, the Company plans to invest in a productivity enhancement program developed by ORJ known as the TOTAL Administration System, C3 (or C-Cube), for the entire Group. The three Cs stand for Cost (which includes expenses for recruitment and retention, operating corporate dormitories, and managing employee benefits packages); Control (to unify management of all data related to seasonal workers); and Communication (to disseminate information on a real-time basis). The system will help further visualize management of such areas as recruitment, administration of workers and dorms, and cost control, to control them on an integrated basis. OUTSOURCING plans to utilize the system on a Group-wide basis as a tool to support the projected increase in contract workers.

By strategically reinforcing its organization and system, the OUTSOURCING Group will upgrade its recruitment capabilities to support the increased order inflows expected from the 2HF onward, as well as upgrade the administrative framework in support of post-recruitment workers.

[Strategy Upgrade to Survive Shakeout]

We asked OUTSOURCING on its August 14 acquisition and business prospects of two subsidiaries of AIXEX alpha Co., Ltd., which recently filed for bankruptcy protection—the engineering temporary placement unit, RPM Co., Ltd. and Try Angle Co., Ltd., a unit that services the pharmaceutical industry.

The aim of the latest acquisition was to enter the medical business field through Try Angle, which specializes in researcher placement services for the medical health and chemical industries. It enables the Company to enter into an area in which no business model in Japan currently exists—clinical trials conducted by medical researchers at medical institutions, as well as by pharmaceutical firms. An example of a new drug developed by doctors of a medical institution is a vaccine for the H1N1 influenza virus developed at Kitazato University Hospital, which is already available commercially. Traditionally, clinical trial services have been provided by large firms, led mainly by the major pharmaceutical companies. But Try Angle will offer the service to entities that cannot afford major clinical trial costs, such as university hospitals, Technology License Organizations* (TLOs), national medical research centers, venture companies and nonprofit organizations supporting clinical trials led by doctors. When these entities seek to employ the services of existing Contract Research Organizations (CROs), they have had to limit access to a full range of services due to budgetary constraints. Try Angle plans to fill this service “gap” as entities involved in new drug development are expected to increase in number in the future.

*TLO: A legal entity which acts as intermediary between academic institutions and businesses by patenting research results by university researchers and transferring the technology to private companies.

This concludes the follow-up interview.

[Reference]

OUTSOURCING Inc. (Securities Code: 2427)

Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)		
No. of Shares Issued	Dec. 08	128,220
No. of Treasury Stock	Dec. 08	15,740
Market Value (¥million)	Sep.29 2009	8,629
BPS (¥)	Dec. 08	22,524.6
ROE (%) ※1	Dec. 08	27.6
ROA (%) ※2	Dec. 08	11.0%
PER (times)	FY12/09 f.	15.6
PCFR(times) ※3	Dec. 08	10.7
PBR (times)	Dec. 08	3.0
Share Price (¥)	Sep.29 2009	67,300

Key Financial Data (Consolidated)		
Total Assets (¥million)	Dec. 08	6,051
Shareholders' Equity (¥million)	Dec. 08	2,533
Interest-Bearing Debt (¥million)	Dec. 08	1,141
Equity Ratio (%)	Dec. 08	41.9
Ratio of Interest-Bearing Debt (%) ※4	Dec. 08	45.1%
Free Cash Flows (¥million) ※5	Dec. 08	△ 380

※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end
※2 ROA=Cureent Net Income÷Averaged Total Assets of beginning of term and term end
※3 PCFR=Maket Value÷(Current Net Income+Depreciation)
※4 Ratio=Interest-Bearing Debts÷Shareholders' Equity
※5 Free Cash Flows=Operating CF+Investment CF

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
FY12/05	17,881	95	103	34	273.5	300.00
FY12/06	21,197	119	118	97	783.3	300.00
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 1HF	7,733	△ 374	△ 306	△ 401	△ 2,940.5	-
FY12/09 f.	24,300	1,150	1,200	670	4,326.2	644.00

Note: FY12/09 f. is the Company's forecast announced on August 13 2009.