

# Mid-Term Management Plan for Fiscal 2011-2014 — **Vision 2014 : Vector to the TOP** —

OUTSOURCING Inc.  
(JASDAQ 2427)  
July 28, 2011



# Mid-Term Management Plan for Fiscal 2011-2014

## **Vision 2014: Vector to the Top**



- Summary of Mid-Term Management Plan
- Summary of Individual Priority Mid-Term Strategies
- Numerical Targets



# Mid-Term Management Plan Premise No. 1

- To achieve OUTSOURCING's founding aspiration

## Founding Aspiration

**"Constant, Sustained Growth"**

## Production Outsourcing Industry

Used to employ 1 million workers  
Provided vital service for both makers  
and workers

## Challenge to Industry

Poor public image and lingering sense of  
uncertainty over industry future leads to  
marginalization

## Key Concern of Our Group

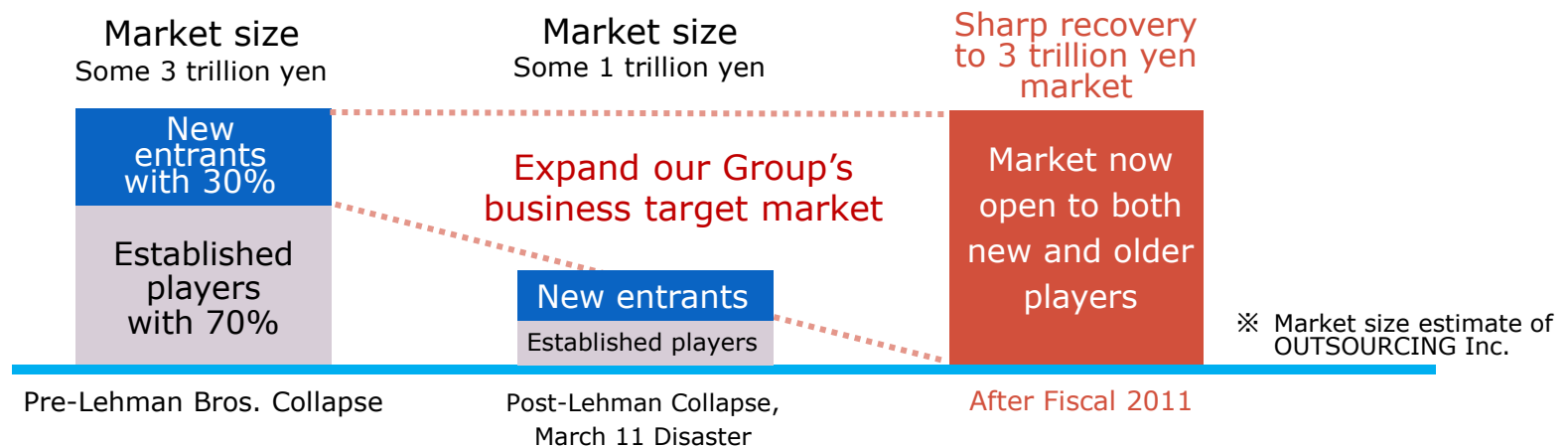
Can our Group sustain growth over time  
in an unrecognized, marginal industry?

## Solution to Achieve Founding Aspiration

**We aim to upgrade the industry and gain the influence to de-marginalize the business. To do so, we must become No. 1.**

## Mid-Term Management Plan Premise No. 2

- Traditional service provider strategies for production outsourcing market
  - Established players entrenched in transport equipment and other major industries, commanding 70% share of 3 trillion yen market
  - We entered the market later, differentiating ourselves by focusing on our compliance strength
- Our compliance-oriented strategy proves superior, yields dividends
  - While our compliance-oriented business strategy catered to makers' needs to cope with social issues arising from mass layoff of temp workers, we could not crack the old-line market by displacing established players because that would also entail large-scale layoffs, thus undermining worker protection moves
  - All that changed with the global recession and March 11 disaster, allowing makers free rein in choosing service providers that best meets their needs



The current recovery phase market represents is an ideal opportunity for our Company to emerge as the No. 1 service provider.

- Four-Year Plan Outlook

## **Vision 2014: Vector to the Top** **OSI's Vector to Ascendancy**

**Earn the highest customer satisfaction ratings  
in the industry**

**Then become the first choice among job applicants**

**And emerge as the undisputed leader  
in production outsourcing services**

\*PO: Production Outsourcing



# Mid-Term Businesses Theme No. 1

## ● What client-makers expect from service providers

### □ Maker needs in Japan\*

- Major management issue in fiscal 2011  
**61%** say step up development of new products and services
- Major mid-term issue  
**75%** say accelerate adoption of solar power and other new energy sources



- Ability to win contracts in R&D field
- Ability to offer new solutions to meet growth industry needs
- Ability to secure clients in tertiary industries

### □ Maker needs overseas\*

- Major management issue in fiscal 2011  
**73%** say step up operations abroad, particularly in emerging countries
- If high yen rate remains uncorrected  
**39%** say transfer production overseas within three years

\* Survey of 100 CEOs, Nikkei Shimbun, July 14, 2011



- Establish HR network in ASEAN, then expand business to cover all of East Asia
- Provide global one-stop HR service to Japanese makers who transfer operations overseas

## Mid-Term Business Theme No. 2

- Preferred job conditions of applicants when job-hunting
  - In-house survey of our contract workers

Q: Preferred conditions when choosing job

- (Top 3 preferences out of 8 choices)

A.

<b>1<sup>st</sup> Choice</b>	<b>Salary:</b> 30%	Location: 24.3%	Job Description: 20.4%
<b>2<sup>nd</sup> Choice</b>	Job Description: 29.5%	<b>Salary:</b> 21.7%	Location: 19.4%
<b>3<sup>rd</sup> Choice</b>	<b>Salary:</b> 22.5%	Location: 22.5%	Job Description: 8.5%

## ● Mid-Term Operating Environment

- ❑ Difficult to sell products in a domestic economy hamstrung by low growth over the past 20 years
- ❑ While salaries remain one of the highest in the world, the added value of the “Made in Japan” label has diminished
- ❑ The focus of the global economy will shift dramatically from the U.S., Europe and other developed countries and a combined population of 700 million, to the newly emerging economies in Asia with a combined population of 3.5 billion
- ❑ The economies of ASEAN in particular, with a population of more than 600 million, are expected to post sustained growth
- ❑ Domestic makers can expect strong demand from post-disaster reconstruction effort, but outstanding issues—from supply chain recovery to electric power shortages—are forcing them to consider moving operations abroad
- ❑ As the production exodus of Japanese makers proceeds, industries that will stay in Japan are growth industries in such fields as naturally renewable energy in which the “Made in Japan” added value will become increasingly significant
- ❑ Tertiary industry will expand as the information society continues to evolve

## ● Priority Mid-Term Strategy

- I . Expand market share by winning contracts to serve special reconstruction demand
- II . Expand business activities in tertiary industry, including winning contracts in the R&D field
- III . Establish East Asian HR network based in ASEAN region
- IV . Raise standard of living for contract workers



# Mid-Term Management Plan for Fiscal 2011-2014

## **Vision 2014: Vector to the Top**

- Summary of Mid-Term Management Plan
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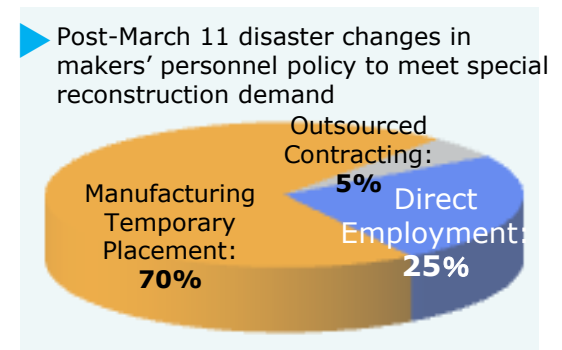
- Post-March 11 disaster changes in makers' personnel policy when increasing workers

- Before March 11

Due to social issues over temp workers and the amended Worker Dispatch Law, the trend was to shift from manufacturing temporary placement to **outsourced production contracting**

- After March 11

As pressure grows to scrap the amendment bill to the law, **the need for manufacturing temporary placement**, which enables the vertical takeoff of production, to meet special reconstruction demand, **is growing**



- Post-March 11 disaster changes in makers' selection criteria of service providers

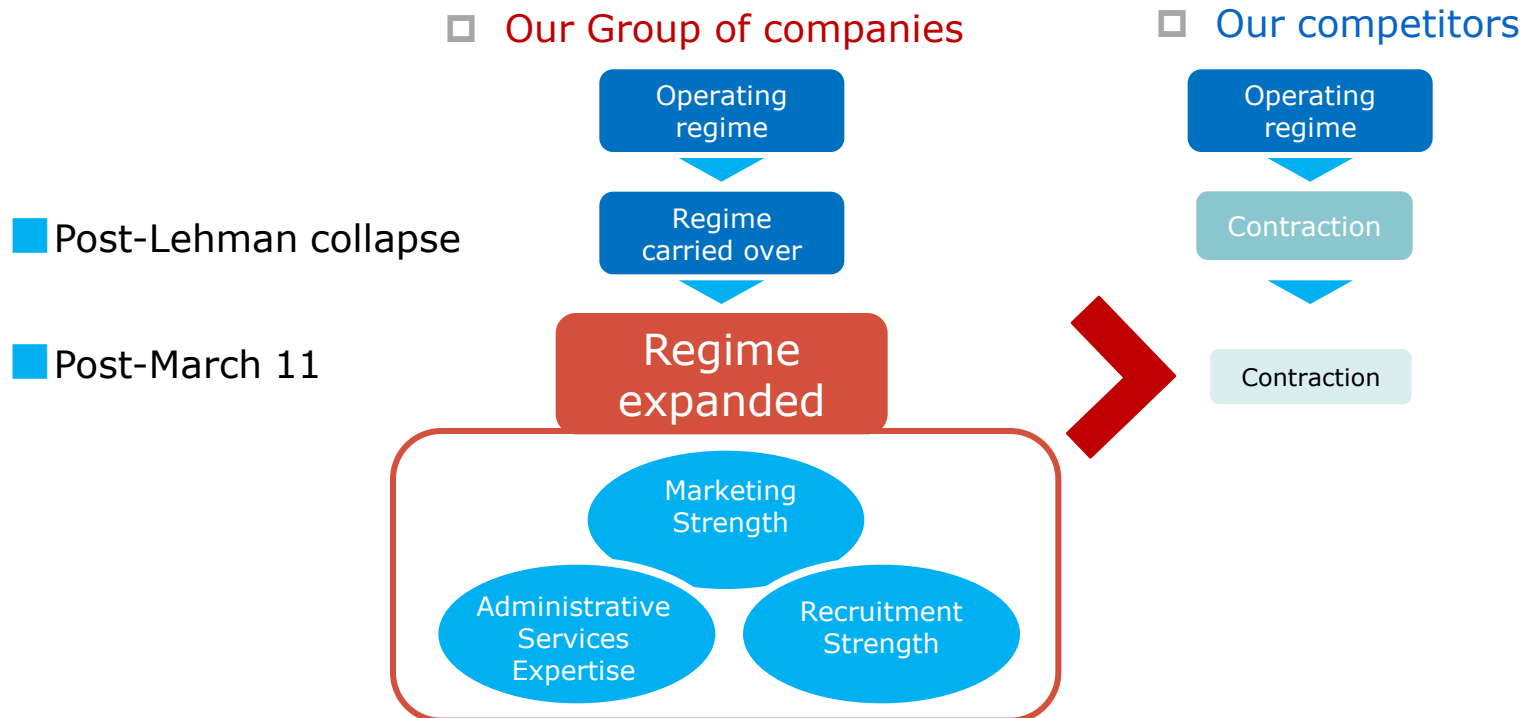
- Before March 11: Flexibility in hiring/reducing temp workers, as well as expertise in outsourced contracting regime

- After March 11: Ensuring compliance through ability to respond to social issues such as mass layoffs, as well as expertise in labor management and solution development and ability to resolve labor issues

In order to facilitate the vertical takeoff of production following the March 11 disaster, makers are seeking to hire service providers with the expertise in labor management to ensure compliance and rapid large-scale recruitment.

# Establishing a Regime Meeting Makers' Needs

- Our Group's information-gathering edge
  - **Our competitors:** Base business decisions on information acquired through the newspapers and other mass media sources
  - **Our Group:** Collects information directly from domestic blue-chip makers with which we share a capital alliance, as well as from 650 Group clients through our sales force



# Expand Market Share by Winning Special Reconstruction Contracts

- Leveraging our 3 strengths to win reconstruction contracts and expand market share

## Marketing Strength

- Given that makers' criteria in selecting service providers are changing, our marketing force separates us from competitors by satisfying existing clients and winning new clients through our administrative services expertise to develop solutions lowering incidences of labor lawsuits

## Administrative Services Expertise

- Another competitive edge is our compliance track record, enabling us to respond to labor disputes and reduce the likelihood of lawsuits, and provide a broad range of high-value added labor management and administrative services



We have already managed to win reconstruction contracts following the March 11 disaster due to preemptive moves to strengthen our operating regime before makers restart volume production.

## Recruitment Strength

- We already have an industry-leading recruitment regime in place because we continued to fortify a nationwide recruitment network and increase the number of specialized recruiters



And by further frontloading our investment in the recruitment regime, we aim to establish a system that can process 2,000 recruits per month by September 2011.

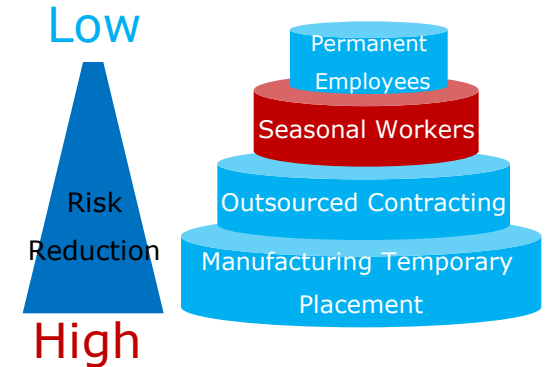
# Business Strategy for Makers' Direct Employment

- Post-March 11 direct employment services a stable revenue source

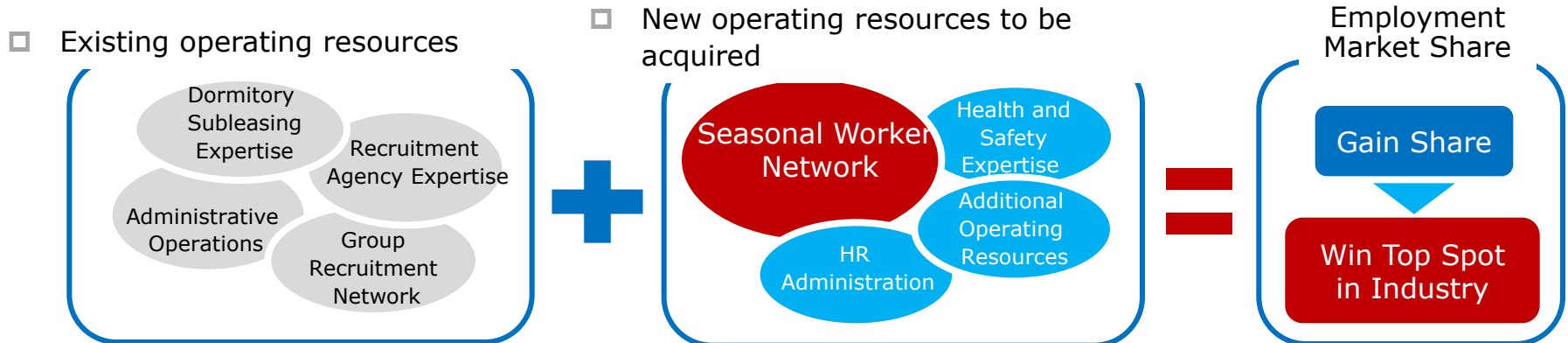
- Business field includes recruitment agency for seasonal workers; administrative operations services once they are hired; and placement assistance for those seeking to be rehired

- Manufacturing temporary placement / production outsourced contracting: from production shutdown to personnel reduction
  - Seasonal worker recruitment agency: impact lessened by suspended orders

■ Among all the business models of the HR business, direct employment services is the least affected by the unexpected



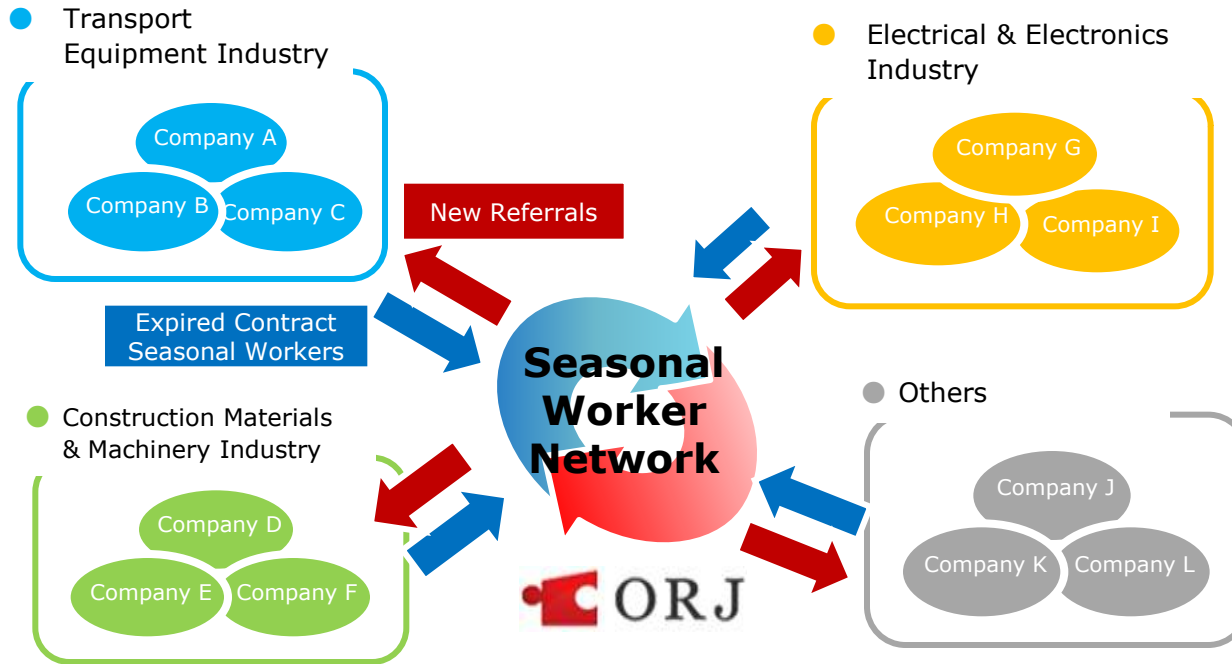
- Bolstering Group company ORJ's operating resources to gain share in direct employment market



# Priority Mid-Term Strategy No. 2

## ORJ's Seasonal Worker Recruitment Strategy


- ORJ to set up a network of seasonal workers
  - This network will not only link companies and factories in the same industry, it will also crosslink with other industries and businesses, providing makers in need of seasonal workers with recruitment and placement assistance services



- Makers participating in the network as of end of July 2011
    - Company T
    - Company N
    - Company J
    - Company M
- 23 Companies to date

Target: **100 participating companies** before seasonal worker contracts expire in 35 months

We aim to dominate the market by fiscal 2013, when the present round of 3-year seasonal worker contracts expire and makers will need a new round of contracted seasonal workers.

- Further upgrades to our integrated outsourced contracting regime by improving technical skills
    - ▣ Given the intensifying global competition and transfer of production operations overseas, Japanese makers are concentrating their permanent employees on the research of new technologies and development of new products
- 
- ▣ As a result, makers need to farm out an entire section of their product cycle—from peripheral R&D to volume production—to service providers under a one-stop contract

- Our Group of Companies has already established an integrated outsourced contracting regime for each major industry ahead of the competition
- We expect increased orders by upgrading our engineering expertise and experience

▶ Our Electrical & Electronics Group is upgrading its contract acquisition capability

April 2011	RTL Contract Acquisition Center established in Fukuoka City
July 2011	Software Development Center established in Yokohama City
August 2011	Data Analysis Center slated for launch in Yokohama City

## Priority Mid-Term Strategy No. 2 Expand business activities in tertiary industry, including winning contracts in the R&D field

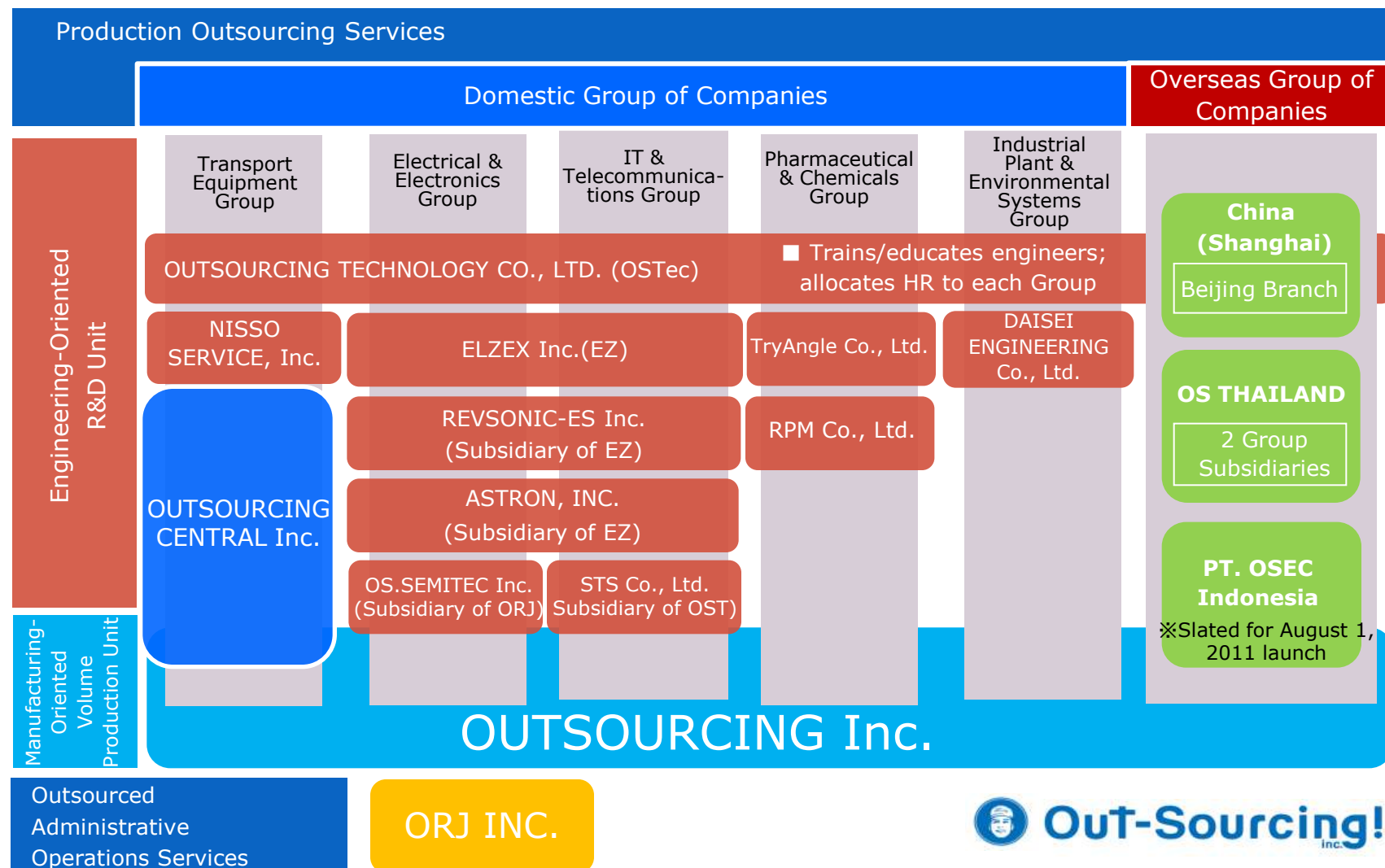
- Reinforce our position in growth markets that can exploit the strengths of the added value of the “Made in Japan” label
  - The added “Made in Japan” value remains even if a Japanese maker shifts its production abroad; moreover, we will concentrate on areas of manufacturing that promise high growth
    - Growth industries promising enhanced “Made in Japan” added value
      - Hybrid vehicles, batteries and related systems
      - Renewable energy related fields
      - Energy conservation and environment related fields
      - Medical equipment, precision processing and related precision instrument fields
- Reinforce business activity in the tertiary industry, which operates on a business cycle that differs from the bull/bear market that the manufacturing sector operates
  - By doing so, we are able to ride out manufacturing sector production cutbacks due to economic downturns and natural disasters
    - Service industries as amusement/entertainment fields
    - IT, telecommunications and broadcasting industries
    - Other industries, including medical-related and social services businesses

Our Group will separate demand generated from the reconstruction effort from the general economic recovery, and focus on manufacturing fields that remain in Japan, as well as move into new fields.

# Priority Mid-Term Strategy No. 2

Expand business activities in tertiary industry, including winning contracts in the R&D field

- Provides industry-specific services, established integrated outsourced contracting regime for each major industry, and moving into overseas markets



- Merits of the ASEAN region for production outsourcing services
  - With a combined population of 600 million, the region is expected to post sustained economic growth with the dissemination of automobiles and home appliances
  - By edging out competitors and being the first service provider in a market primed for the introduction of production outsourcing services, the expansion of the market translates directly into Group growth
  - Because the region has yet to be fully incorporated into the global supply chain established on the European, U.S. and Chinese markets, the region acts as a shelter from volatility risks and represents a strategic business area
  - Given moves toward the ASEAN Community concept, it is likely that labor mobility will not be restricted by national borders in the future

Our Group aims to establish a HR network based in the ASEAN region, which is projected to post economic growth surpassing any decline in our macro-operating environment caused by changes in the global economy.

- Service menu for our Group's ASEAN-centered overseas operations

- Fully localized placement & referral services

- As the core business of our overseas operations development, we plan to move aggressively to M&A local companies and provide services using local staff
- Provide our Group's HR expertise to prepare and expand local HR-related infrastructure and job training initiatives, which has currently fallen behind overall economic development

- Mechanical design, software development and other contracting services

- Provide contracting services in the mechanical design field, which will grow in increasing demand as the region industrializes
- Offer a broad range of contracting services not only to the industrial sector, but also to the IT industry

- Placement & referral services for Japanese senior citizens

- Because the region has great need for Japanese engineers and technicians, our Group is currently developing a HR network for retired citizens in Japan, drawing on our recruitment alliance network, as well as our ties to retirement associations of individual makers

- Referral services for foreign nationals for employment in Japan

- Provide referral services for workers who have completed Japanese language and customs training at local companies, organizations and schools, and are seeking employment in Japan
- Provide referral services of local technicians or engineers who have completed training programs to client-makers in Japan

In order to continue developing our respective service groups, our Group will not only rely on its proprietary business resources, but position M&A as a key tool in acquiring global benchmark-level expertise and technologies.

# Priority Mid-Term Strategy No. 3

## Establish East Asian HR network based in ASEAN region

### Overseas Operations Strategy No. 1: Thailand

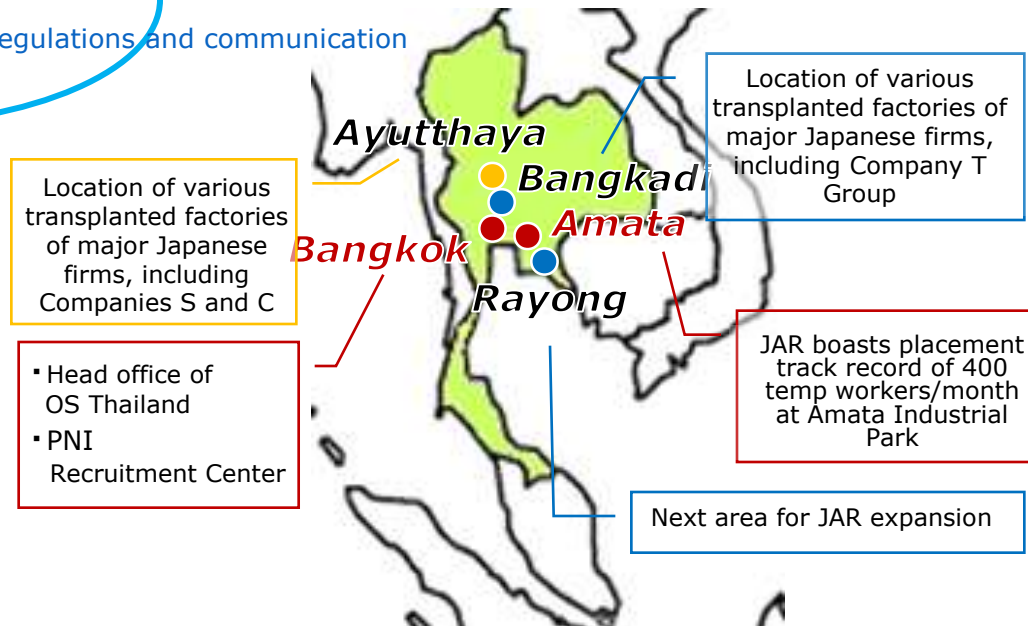
- April 2011 Established OS Thailand (OS Thai)
  - Recruited CEO of Singapore subsidiary of Renesas Electronics (formerly NEC) to head company created through the merger of Power Net Inter Thailand (PNI) and JAR Service

#### Power Net Inter Thailand (PNI) and JAR Service

- OS Thai acquires shares of two local companies

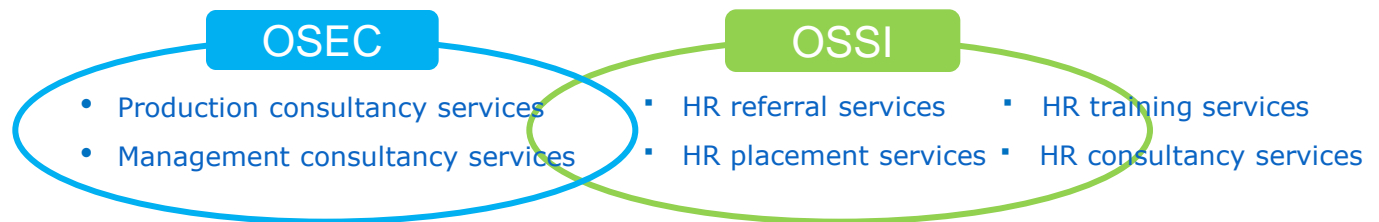


- August 2011  
To launch a satellite office in Rayong
- December 2011  
To launch a branch in Bangkadi
- 1H 2012  
To launch a branch in Ayutthaya



# Priority Mid-Term Strategy No. 3 Establish East Asian HR network based in ASEAN region Overseas Operations Strategy No. 2: Indonesia

- **August 2011** To launch PT.OS Engineering & Consultant Indonesia (OSEC)
  - Assigned director of our Group subsidiary NISSO SERVICE, Inc.'s Jakarta sales office as CEO due to extensive experience and expertise in local operations
- **December 2011** To launch PT.OS Service Indonesia (OSSI)
  - 49% of shares owned by OSEC, 51% by local enterprise



## ● January 2012

To launch a HR training agency, which should undergo major expansion by the M&A of a local HR firm (possibility of joint venture)

## ● 1H 2012 -

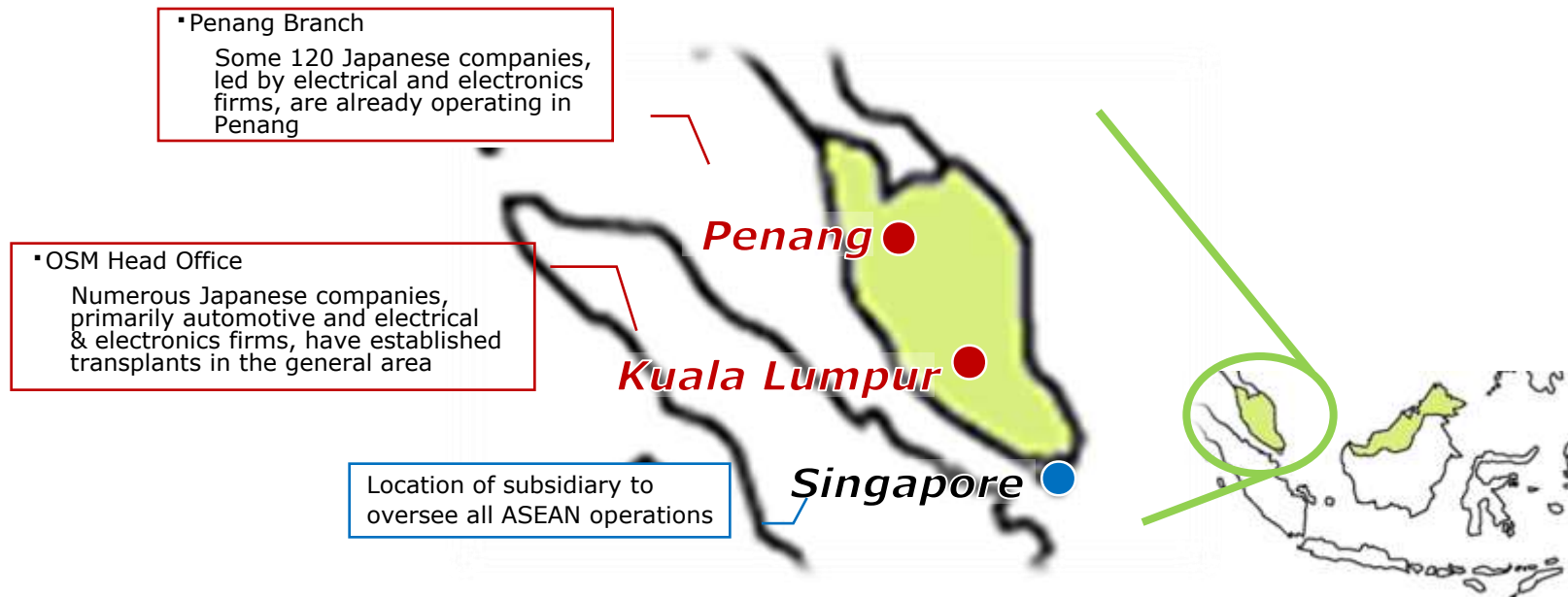
To launch branch offices in Cikarang and Bandung

## ● 1H 2013 -

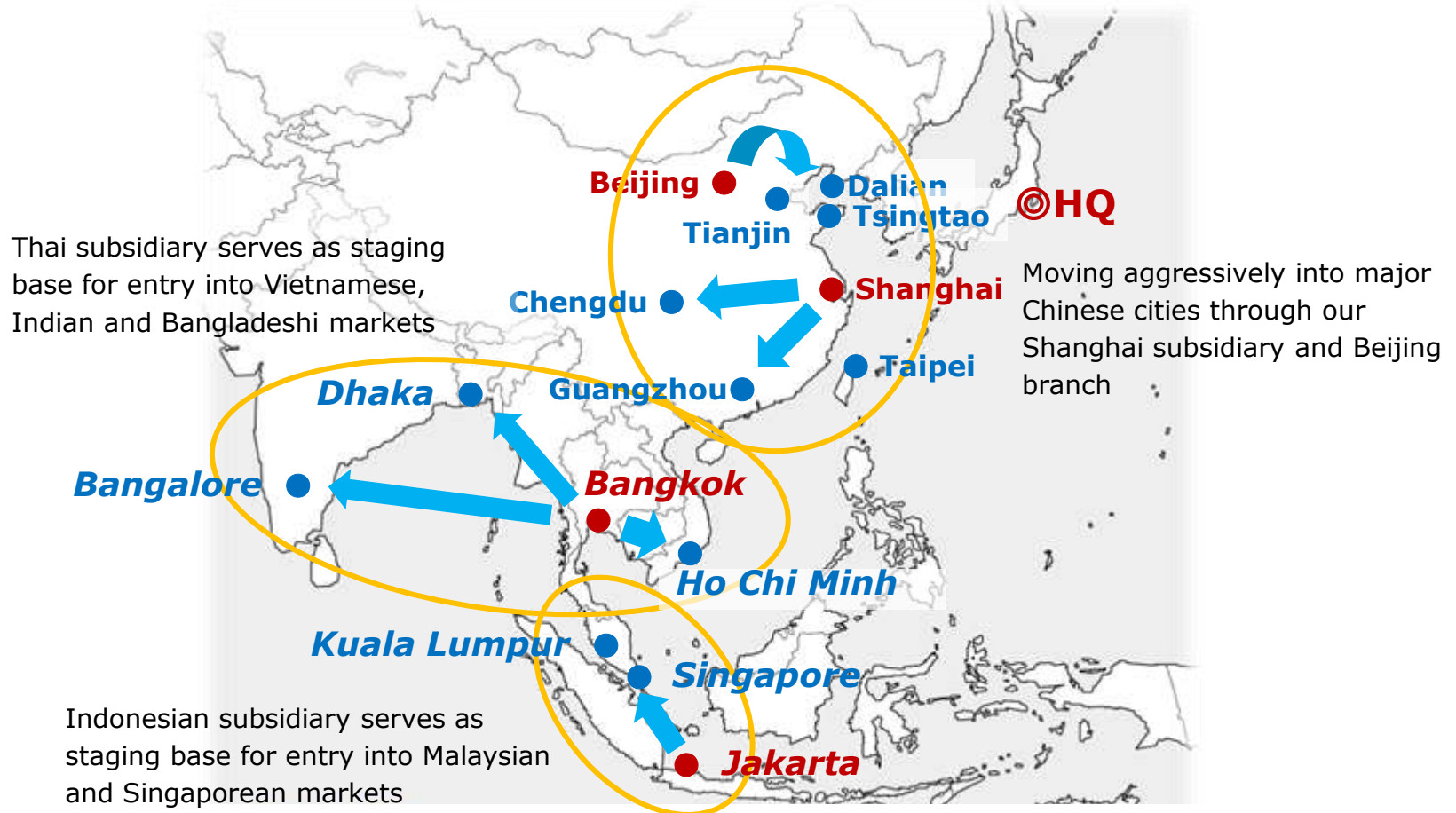
To launch branch offices in Surabaya, Batam and Medan



- **November 2011** To launch OS Malaysia (OSM)
  - Business coverage area to be expanded with OSEC as hubBranch in Penang to be launched concurrently
- **January 2012 -** To begin offering temporary placement services to dispatch Indonesians to Malaysia through a local Indonesia enterprise in collaboration with OSM and our Penang Branch
  - We have already approached several domestic client-makers who have entered into unofficial agreement
- **2H 2012 -** To establish a subsidiary in Singapore to oversee operations in the ASEAN region



- Regional strategy to establish an East Asian HR network



Our goal is to become a global one-stop provider of comprehensive HR services for Japanese makers who are operating production sites overseas.

- Issues requiring resolution during the duration of the Mid-Term Management Plan

- In the past, the production outsourcing industry has thrived during recessions because client-makers relied more on outside contract workers in economic downturns



- Today, because the major client-makers use of outside contract workers has become saturated, service providers are also subject to the same volatility risks as clients

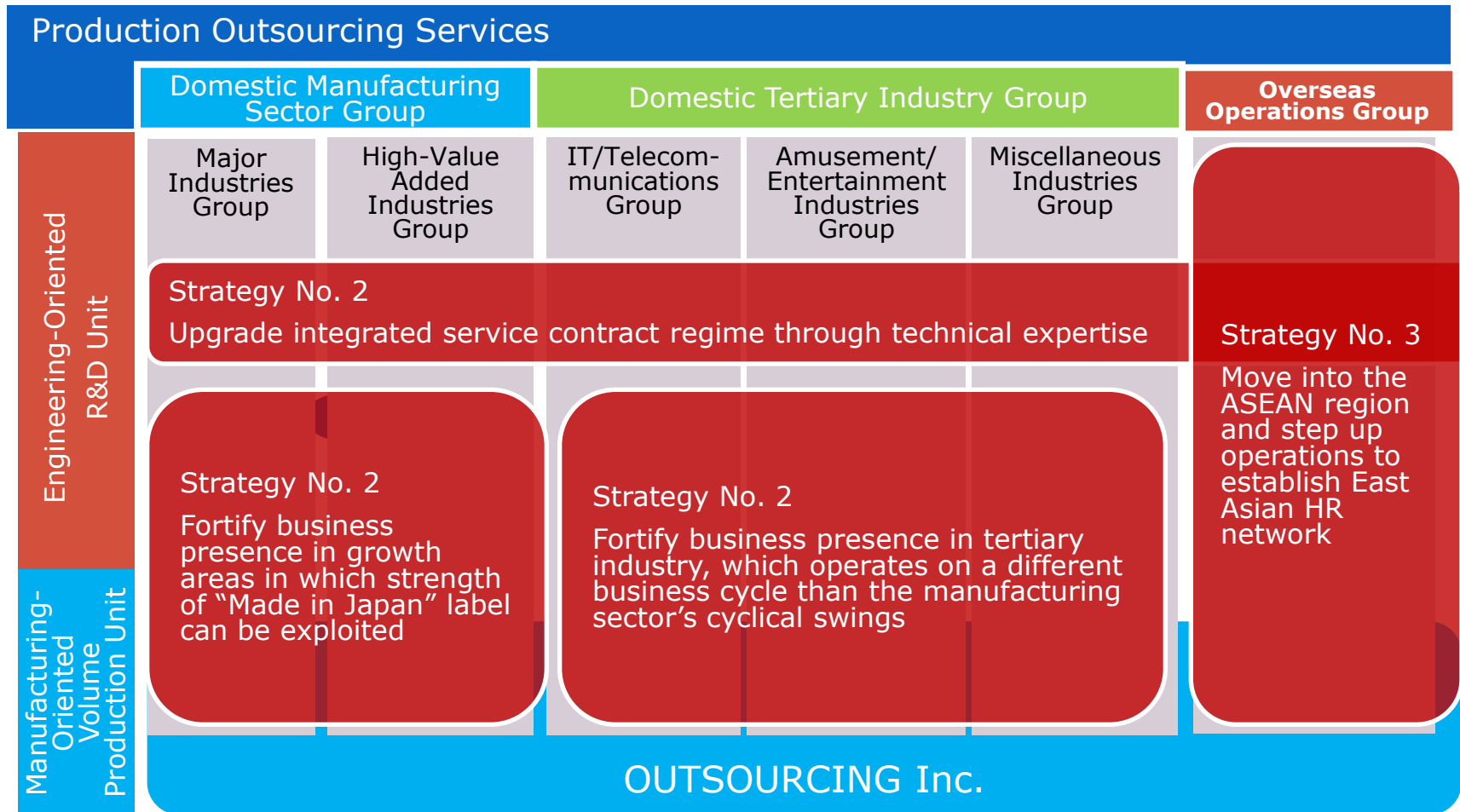


- After the Lehman Bros. collapse and March 11 disaster, makers suspended use of contract workers, thus exposing the HR service industry to business continuity risks

In order for our Group to continue operating, we need to establish a regime to lower volatility risks and sustain growth on a long-term basis.

# Reducing Volatility Risks through Priority Mid-Term Strategies No. 2 & 3

- Strategy No. 2: Expand business activities in tertiary industry, including winning contracts in the R&D field
- Strategy No. 3: Establish East Asian HR network based in ASEAN region



Outsourced Administrative Operations Services



- Recruitment strategy based on industry-leading remuneration
  - Payment policy
    - Raising hourly wages: pay the highest hourly wage to workers with same contractual conditions as that offered by competitors
    - Raising overtime wages: pay more than the legal minimum of 25% over base hourly wage
    - Other incentives: raise monthly net income of contract workers / improved benefits for veteran workers
  - Dividends from higher pay
    - Increase in job applicants; increase newly contracted workers; increase in retention rate

### Projected Increase in Retention Rate

- Rate within 3 months of hiring: increase from 62% to 80%
- Overall rate: increase from 93% to 97%

**Overall Result:**  
**We become the top choice among job applicants.**

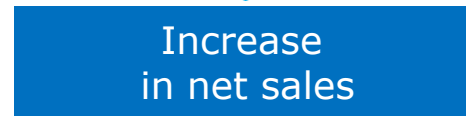
# Improved Business through Higher Retention Rate

- Industry-leading payment reserve

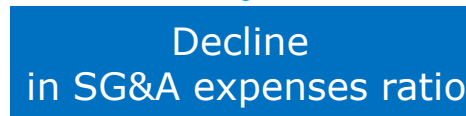
- Industry-leading wages



- Increase in job applicants



- Making recruitment costs more productive



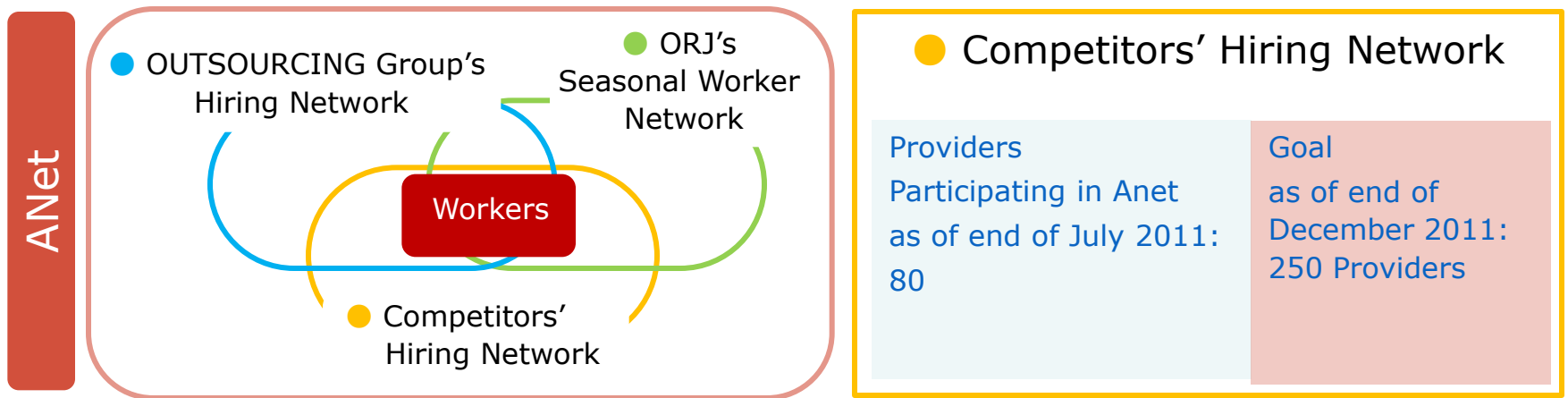
- Dividends from industry-leading wages



Positive spiral establishes further Group ascendancy.

# Hiring Strategy to Launch Employment Alliance Network (ANet)

- The launch of ANet will help provide on an incrementally improving basis a stable workforce pool
  - The three relevant parties—client-makers, our Group and our competitors—will be able to secure a pool of contract pools through a vast employment alliance
  - By matching applicants who we previously rejected or found incompatible to other work through ANet, we become even more popular among new job applicants



Target workers hired per month in Fiscal 2014: 4,000

# Mid-Term Management Plan for FY2011-2014

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# Mid-Term Management Plan: Domestic Recruitment Plan for Fiscal 2011-2014

FY12/11		Recruitment by Interview		Recruitment by ANet	Recruitment by Seasonal Worker Network	Total No. of Recruit
No. of Applicants		72,304		450	160	13,047
No. of Interviewees	Applicant Interview Ratio	38,111	52.7%			
<b>No. of Workers Recruited</b>	Ratio of Hiring	<b>12,437</b>	32.6%			
FY12/12		Recruitment by Interview		Recruitment by ANet	Recruitment by Seasonal Worker Network	Total No. of Recruit
Applicants		91,500		1,460	1,310	22,758
Interviewees	(AIR)	58,540	64.0%			
<b>Workers Recruited</b>	(RoH)	<b>19,988</b>	34.1%			
FY12/13		Recruitment by Interview		Recruitment by ANet	Recruitment by Seasonal Worker Network	Total No. of Recruit
Applicants		101,500		1,720	1,500	24,856
Interviewees	(AIR)	64,960	64.0%			
<b>Workers Recruited</b>	(RoH)	<b>21,636</b>	33.3%			
FY12/14		Recruitment by Interview		Recruitment by ANet	Recruitment by Seasonal Worker Network	Total No. of Recruit
Applicants		131,000		3,420	4,290	36,044
Interviewees	(AIR)	85,150	65.0%			
<b>Workers Recruited</b>	(RoH)	<b>28,334</b>	33.3%			

# Mid-Term Management Plan: Domestic Recruitment Plan for Fiscal 2011-2014

(Workers)	Production Outsourcing (Temporary Placement/ Outsourced Contracting)	Recruitment Agency Services	Total No. of Recruits
<b>2011年 *</b>	8,667	4,380	<b>13,047</b>
<b>2012年</b>	14,670	8,088	<b>22,758</b>
<b>2013年</b>	15,775	9,081	<b>24,856</b>
<b>2014年</b>	22,515	13,529	<b>36,044</b>

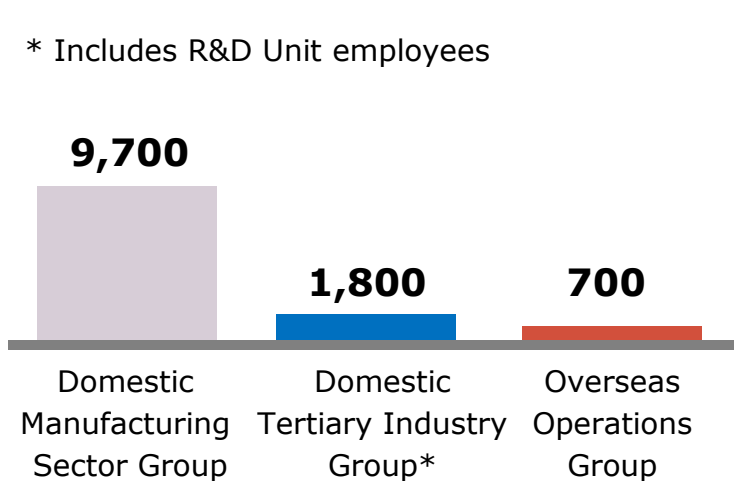
\* Jan-Jun Actual; Jul-Dec Projected

# Projected Breakdown of Contract Workers

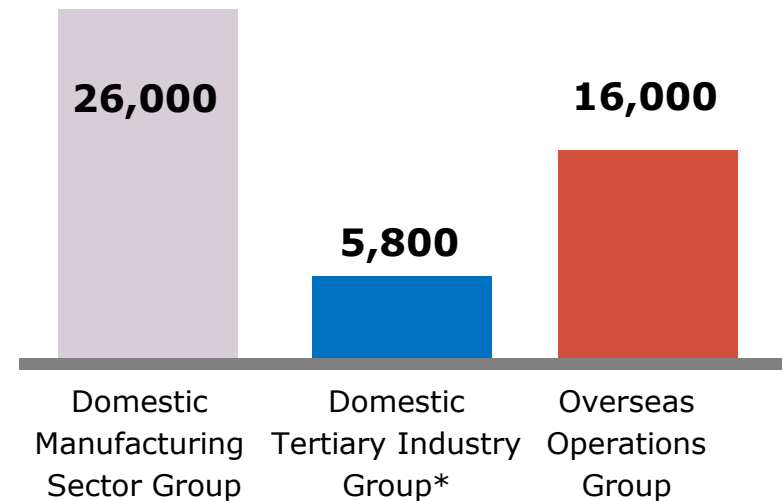
- Projected breakdown of contract workers by business segment

□ End of December 2011

\* Includes R&D Unit employees



□ End of December 2014



- Increase workers in the Domestic Manufacturing Sector Group by prioritizing resources for such growth fields as hybrid vehicles and renewable energy
- By prioritizing resources for the Domestic Tertiary Industry Group, the increase in workers is expected to surpass the Domestic Manufacturing Sector Group's increase in workers
- By moving into foreign markets, particularly in the ASEAN region, we expect to increase the number of workers contracted overseas to a level roughly 50% of that contracted domestically

Commit 150% of annual sales growth to achieve these goals when the previous 3 trillion yen market recovers from the Lehman Bros. collapse and March 11 disaster

# Numerical Targets

- Numerical Targets for Fiscal 2011-2014

(¥ million)

<b>Consolidated</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Net sales	34,580	52,000	78,000	117,000
Operating Income	1,130	2,500	5,100	8,300
Ordinary Income	1,250	2,450	5,000	8,100
Net Income	655	1,450	2,670	4,300

※ This material contains forward-looking statements regarding the Company's future plans and forecasts, which are based on the Company's expectations and projections that are determined from the information currently available and are subject to a range of risks and uncertainties.

## A cautionary note on forward-looking statements

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