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OUTSOURCING Inc.

Q1 FY12/17 Financial Results and Follow-up Interview

OUTSOURCING Inc., hereafter the "Company" or the "OS Group," announced Q1 FY12/17 (January-March) financial results, and Trias Corporation conducted an interview with Executive Vice President Kazuhiko Suzuki. The following is a summary of the results and the interview.

Summary of Q1 FY12/17 Consolidated Financial Results

The Company's Q1 FY12/17 consolidated financial results delivered sharp YoY gains in both revenue and profits, also exceeding its initial forecasts. Revenue recorded a historic high for the eight consecutive years for the Company's first quarter. Its domestic dispatching businesses sustained strong growth on the back of tight labor markets where Japan's overall jobs-to-applicants ratio reached seasonally adjusted 1.45 times in March, 2017 for the first time in 26 years. Overseas businesses also enjoyed additions of subsidiaries newly consolidated since April 2016 via active M&As.

As Table 1 on page 2 shows, Q1 consolidated performance showed strong growth. Revenue was at ¥50,238 million (up 102.6% YoY), gross profit ¥9,343 million (up 88.5% YoY), operating profit ¥1,520 million (up 139.4% YoY), profit before tax ¥1,341 million (up 338.0% YoY), and profit attributable to owners of the Company ¥621 million (11.1 times YoY). Note that the Company applied the International Financial Reporting Standards (IFRS) from FY12/17 and Q1 FY12/16 numbers are retroactively restated on the IFRS basis.

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[Table 1] Q1 FY12/17 Consolidated Financial Results Summary (IFRS)

(¥ million)	FY12/16	FY12/17		
	Q1	Q1	YoY Changes	
	Actual	Actual	Amount	Ratio
Revenue	24,796	50,238	25,442	102.6%
Cost of sales	19,839	40,895	21,056	106.1%
Gross profit	4,957	9,343	4,386	88.5%
Ratio of gross profit	*20.0%*	*18.6%*	-	*- 1.4pp*
SG&A expenses	4,291	7,911	3,620	84.4%
Ratio of SG&A expenses	*17.3%*	*15.7%*	-	*- 1.6pp*
Operating profit	635	1,520	885	139.4%
Ratio of operating profit	*2.6%*	*3.0%*	-	*+0.4pp*
Profit before tax	306	1,341	1,035	338.0%
Ratio of profit before tax	*1.2%*	*2.7%*	-	*+1.5pp*
Profit for the period	50	791	741	1468.7%
Profit attributable to owners of the Company	56	621	565	1013.3%
Ratio of profit attributable to owners of the Company	*0.2%*	*1.2%*	-	*+1.0pp*

Source: Compiled by Trias Corporation from the Company IR materials

Note: The amounts shown are rounded off to the nearest million yen.

The actual results surpassed the initial forecasts—revenue ¥47,100 million and operating profit ¥1,270 million—by approximately ¥3.1 billion and ¥250 million, respectively. Majority of the stronger results came from overseas operations, namely Overseas Manufacturing and Service Operations Outsourcing Business which outperformed the conservative initial forecasts by approximately ¥1.7 billion for revenue and approximately ¥260 million for operating profit. Also contributing is the consolidation adjustment which was ¥290 million less than the initial forecast. Meanwhile, operating profit from Domestic Manufacturing Outsourcing Business fell short by approximately ¥290 million. This is mainly attributed to the allocation of headquarters function expenses which proved to be much higher than expected. Details are discussed later.

The overall consolidated ratio of gross profit edged down from 20.0% in Q1 FY12/16 to 18.6%. This should be mainly due to changes in business mixtures caused by new consolidations of large scale overseas subsidiaries. In fact, domestic engineering and manufacturing outsourcing businesses together delivered better ratio of gross profit, the Company says.

SG&A expenses increased sharply by 84.4% YoY although the ratio to revenue improved from 17.3% in Q1 FY12/16 to 15.7%. The decline was led by economies of scale as well as newly consolidated overseas subsidiaries with lighter SG&A burden.

Due to the transition to the IFRS, goodwill is now amortized only for intangible assets at subsidiaries (Purchase Price Allocation: PPA), which is unlike under the Japanese accounting standards (J-GAAP) which mandate entire goodwill assets including PPA to be fully amortized every year. M&A related acquisition expenses posted in SG&A expenses increased only marginally from ¥100 million in Q1 FY12/16 to ¥121 million. Here, however, part of amortization of PPAs in Q1 was backloaded to Q2 as

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calculations of those at some overseas subsidiaries were not in time for the closing of Q1 accounting processes.

Recruiting expenses for dispatched employees increased by 33.3% YoY from ¥426 million in Q1 FY12/16 to ¥568 million due to active recruitment this quarter, which was in fact rather restrained compared to the number of the newly employed (up 64.8% YoY at the March end comparison) as the Company promoted its own efficient recruiting schemes which do not use costly outside media.

Operating profit jumped approximately 2.4 times from the same period a year earlier and the ratio of operating profit rose from 2.6% to 3.0%. This means the improved ratio of SG&A expenses more than absorbed the 1.4pp decline in ratio of gross profit. As a result, ratio of operating profit before adjustments rose from 2.9% in Q1 FY12/16 to 3.3%. By segment, domestic businesses deteriorated due to the heavier allocations of headquarters function expenses while Overseas Manufacturing and Service Operations Outsourcing Business contributed significantly to the overall better margin.

Net financial expenses improved from ¥329 million in Q1 FY12/16 to ¥179 million. In the IFRS, non-operating and extraordinary accounting items seen in “non-operating” criteria under the J-GAAP are posted in SG&A expenses except for net financial account balance.

Profit before tax jumped from ¥306 million in Q1 FY12/16 to ¥1,341 million, or up approximately 4.4 times YoY, and profit attributable to owners of the Company soared from ¥56 million to ¥621 million. In Q1 FY12/16, profit attributable to owners of the Company was exceptionally low due to heavier tax burden as one-time M&A expenses, which are not deductible as losses in tax calculations, were comparatively large and as a net loss in non-controlling interests was incurred.

As can be seen in Table 2 on page 4, total assets at the end of the Q1 stood at ¥98,035 million, up 9.1% from ¥8,202 million at the end of FY12/16. An increase from Orizon Holding GmbH (hereafter "Orizon"), a German subsidiary newly consolidated from January 4, 2017, appeared to be perhaps ¥11.0 billion mainly for its goodwill and current assets.

Among large changes on the assets side, trade and other receivables increased by ¥6,019 million due to organic growth and new consolidations. The goodwill asset balance rose from ¥28,266 million at the end of FY12/16 to ¥35,790 million, due mainly to the addition of Orizon. The other non-current financial assets in non-current assets decreased by ¥7,179 million as a bank deposit prepared for the Orizon acquisition was eliminated after the completion of the deal.

On the liabilities and capital side, trade and other payables increased by ¥5,062 million for the same reason as its receivables counterpart's. The bonds and borrowings shrank by ¥5,790 million, as subscription rights to shares issued in January 2017 were partly converted to the Company shares, leading to a ¥6,819 million increase in the total capital.

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Thanks to the increase in capital, the ratio of equity attributable to owners of the Company to total assets (equity ratio) improved from 14.2% at the end of FY12/16 to 19.9% at this Q1 end.

For a reference, the transition to IFRS caused the total assets in FY12/16 end to inflate from ¥82,034 million in the J-GAAP to ¥89,833 million in the IFRS, a approximately ¥7.8 billion increase. The main factor behind the increase was retroactive add-backs of goodwill amortization cumulatively incurred in the past accounting periods.

●[Table 2] Consolidated Statement of Financial Position Summary as of the end of Q1 FY12/17

(¥ million)	FY12/16-End		Q1-End FY12/17		YoY	
	Amount	Composition Ratio	Amount	Composition Ratio	Changes Amount	Major Factors
Current assets	**36,251**	**40.4%**	**43,783**	**44.7%**	**7,532**	
Cash and cash equivalents	11,746	13.1%	12,852	13.1%	1,106	
Trade and other receivables	21,006	23.4%	27,025	27.6%	6,019	Increased due to acquisition of subsidiaries' shares and expansion of business scale
Non-current assets	**53,582**	**59.6%**	**54,252**	**55.3%**	**670**	
Property, plant and equipment	4,994	5.6%	5,024	5.1%	30	
Intangible assets	6,167	6.9%	6,156	6.3%	(11)	
Other non-current financial assets	9,671	10.8%	2,492	2.5%	(7,179)	
Total assets	**89,833**	**100.0%**	**98,035**	**100.0%**	**8,202**	
Current liabilities	**45,319**	**50.4%**	**46,522**	**47.5%**	**1,203**	
Trade and other payables	13,763	15.3%	18,825	19.2%	5,062	
Bonds and borrowings	24,375	27.1%	18,585	19.0%	(5,790)	Increased due to acquisition of subsidiaries' shares and expansion of business scale
Income tax payables	948	1.1%	3,119	3.2%	2,172	
Non-current liabilities	**29,495**	**32.8%**	**29,675**	**30.3%**	**180**	
Bonds and borrowings	21,114	23.5%	21,450	21.9%	336	
Total liabilities	**74,814**	**83.3%**	**76,197**	**77.7%**	**1,383**	
Equity attributable to owners of the Company	**12,717**	**14.2%**	**19,522**	**19.9%**	**6,805**	Increased due to exercise of the subscription rights to shares
Equity	**15,019**	**16.7%**	**21,838**	**22.3%**	**6,819**	
Total liabilities and equity	**89,833**	**100.0%**	**98,035**	**100.0%**	**8,202**	

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.

FY12/17 Consolidated Financial Forecasts Summary

The Company left its consolidated full-year forecasts unchanged for FY12/17 from its initial projections. Sharp increases in revenue and profits are forecast to continue thanks to growth in domestic operations and contributions from newly consolidated subsidiaries both domestically and overseas.

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The Company plans to basically refrain from large M&As in FY12/17, as is also the case with FY12/18, as it positions these two years for it to build a strong foothold in order to achieve its Medium-Term Management Plan set up to the year 2020.

Quarter by quarter, overall year-on-year growth should be slowing sequentially in FY12/17 as contributions from newly consolidated subsidiaries acquired in FY12/16 are diminishing toward the FY12/17 end. By the way, IFRS-based financial results for FY12/15 and FY12/16 have already been disclosed as of March 30, 2017.

Table 3 shows the Company's forecasts for FY12/17 financial performance. Revenue is estimated at ¥213,000 million, up strongly by 58.6% YoY from FY12/16. Profits are forecast to grow sharply at all the levels, with operating profit at ¥9,500 million (up 67.5% YoY), profit before tax at ¥8,900 million (up 78.4% YoY) and profit attributable to owners of the Company at ¥5,100 million (up 66.6% YoY).

●[Table 3] FY12/16 Actual Results and FY12/17 Forecasts (IFRS)

(¥ million)	FY12/16	FY12/17	
	Full-Year Actual	Forecasts	Full-Year YoY Changes
Revenue	**134,283**	**213,000**	**58.6%**
Cost of sales	106,519	-	-
Gross profit	27,764	-	-
Ratio of gross profit	*20.7%*	-	-
SG&A expenses	21,540	-	-
Ratio of SG&A expenses	*16.0%*	-	-
Operating Profit	**5,672**	**9,500**	**67.5%**
Ratio of operating profit	*4.2%*	*4.5%*	*+0.3pp*
Profit before tax	**4,988**	**8,900**	**78.4%**
Ratio of profit before tax	*3.7%*	*4.2%*	*+0.5pp*
Profit for the year	**3,472**	**5,800**	**67.0%**
Ratio of profit for the period	*2.6%*	*2.7%*	*+0.1pp*
Profit attributable to owners of the Company	**3,061**	**5,100**	**66.6%**
Ratio of profit attributable to owners of the Company	*2.3%*	*2.4%*	*+0.1pp*

Source: Compiled by Trias Corporation from the Company IR materials

Note: The amounts shown are rounded off to the nearest million yen.

The increase of ¥78.6 billion in revenue are broken down by existing and newly consolidated businesses as are seen in Table 4 on page 6. In addition to organic growth of existing businesses, newly consolidated subsidiaries in Domestic Manufacturing Outsourcing Business and two overseas businesses in FY12/16 should be fully contributing for 12 months. In addition, newly joining from FY12/17 are German subsidiary Orizon from January 2017 (classified to Overseas Manufacturing and Service Operations Outsourcing Business) and American Engineering Corporation (hereafter "AEC") from April 2017 (AEC to be consolidated within Domestic Service Operations Outsourcing Business).

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● [Table 4] Breakdown of FY12/17 Revenue Increase by Conventional Operation and New Consolidation (IFRS basis)

(¥ billion)	FY12/16 Actual	FY12/17 Forecasts	YoY Changes
Domestic Engineering Outsourcing Business	40.2	48.7	8.5
Domestic Manufacturing/Administrative Outsourcing Business (total)	35.5	45.6	10.1
Overseas Business (total)	53.2	70.2	17.0
Dispatching business such as for welfare facilities in the US military base	5.4	6.6	1.2
Existing Business Total	134.4	171.1	36.7
Orizon Holding GmbH (Orizon)	-	34.3	34.3
AMERICAN ENGINEERING CORPORATION (AEC)	-	7.6	7.6
New Cosolidation Total	-	41.9	41.9
Existing Business + New Consolidation	134.4	213.0	78.6

Source: Compiled by Trias Corporation from the Company IR materials

The most contributing segment to the overall increase in revenue is Overseas Manufacturing and Service Operations Outsourcing Business with a ¥47.5 billion YoY growth in revenue which accounts for 60% of the overall growth. Following next are 3 domestic operations—engineering, manufacturing and service operations outsourcing businesses—each expected to drive revenue by around ¥9.0 billion YoY. (for details on trends by operating segment, please refer to page 7)

Consolidated operating profit is forecast to jump by 67.5% YoY to ¥9,500 million in FY12/17 from ¥5,672 million in FY12/16, leading to improvement in ratio of operating profit from 4.2% to 4.5%. Looking at contributions from each segment to the growth in overall operating profit before adjustments (up 62.0% YoY), Overseas Manufacturing and Service Operations Outsourcing Business consists of 35.2%, the most among segments largely boosted by new consolidations, while two domestic mainstay segments account for 20% or more each thanks to favorable demand.

Domestic Manufacturing Outsourcing Business could fall short of the segment profit forecast, affected by the heavier allocation burden of headquarters function expenses. But overall forecasts are likely to be achieved as overseas businesses are probably stronger and as the amount of consolidation adjustments seems to be forecast on the outside in our view.

The ratio of operating profit before adjustments should rise marginally from 5.3% in FY12/16 to 5.4% in FY12/17. Among major segments, only segment foreseen for a decline in ratio of operating profit before adjustments is Overseas Manufacturing and Service Operations Outsourcing Business, due mainly to the change in business mixtures caused by consolidations of newly acquired subsidiaries in 2016 and 2017. In other words, previously, highly profitable subsidiaries with small revenue has pushed up the segment profitability, but additions of another subsidiaries with much larger revenue and relatively lower ratio of operating profit could be subduing the average ratio of operating profit for

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the segment. Nonetheless, each subsidiary is expected to grow further on local currency basis, the Company says.

Finally, the consolidation adjustments, a negative factor for the overall consolidated operating profit, is estimated to increase from ¥1,471 million in FY12/16 to ¥2,071 million in FY12/17. However, the Company may have conservatively inflated the loss account in our view as any M&A related one-time large expenses are unlikely incurred during FY12/17 due to the Company's aforementioned stance to refrain from large acquisitions.

Profit before tax and subsequent profits are all forecast to jump by more than 60% YoY. In the J-GAAP adopted up to FY12/16, nominal profit attributable to owners of the Company was excessively small as tax calculations did not allow amortization of goodwill to be deducted as a loss, but the transition to the IFRS will resolve this distortion.

For a reference, operating profit before adjustments in FY12/16 was restated as ¥7,143 million in the IFRS, or approximately ¥1.0 billion less than ¥8,147 million posted under the J-GAAP. This is mainly because provision for paid holidays were newly incurred and also because net expenses in non-operating and extraordinary accounts other than financial items were reclassified as SG&A expenses, both mandated by the IFRS.

Trends by Key Operating Segments

Q1 Saw Domestic Businesses Sustain Good Growth and Overseas Businesses Expand Sharply Thanks to M&As

The Group's Q1 performances of each operating segment are summarized in Table 5 on page 9. Revenue from domestic outsourcing businesses continued to grow nicely thanks to tight labor markets and higher dispatching contract unit prices. Overseas businesses also expanded rapidly as newly consolidated subsidiaries contributed through M&As.

A big topic for this Q1 is that Overseas Manufacturing and Service Operations Outsourcing Business has become the largest segment for the Company due to its active M&As carried out all the year through FY12/16. Overall profits jumped sharply as overseas businesses far more than offset the decline in domestic operating profit before adjustments caused by heavier allocation burden of headquarters function expenses. Business trends in major operating segments are as follows:

Domestic Engineering Outsourcing Business continued to perform strongly, with revenue growing by 25.7% YoY and operating profit before adjustments by 9.6% YoY. Ratio of operating profit before adjustments of the segment, however, declined from 3.4% in FY12/16 to 2.9%. This is owing to an

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increase in headquarters function expenses borne in the segment as it has grown sharply. Without the incurred amount, the ratio of operating profit before adjustments would have been seen to be rising.

The increase has been expected to some extent from the beginning of FY12/17, but operating profit before adjustments fell short of the initial forecast of ¥376 million as recruitment of worksite engineers progressed at a higher pace than the Company had expected. Management takes the higher recruitment positively, however, as this should bring additional revenue and profits in Q2 and onward. The segment as percentage of overall consolidation declined to 20% or more for Q1 revenue from approximately 30% previously and also for operating profit to 20% due to the higher composition of overseas segments.

By client industry, IT-related revenue (31.2% of the segment revenue) grew by 14.0% YoY, Transport Equipment (24.2%) by 23.1% YoY, and Electrical & Electronics (19.5%) increased sharply by 43.8% YoY driven mainly by clients manufacturing vehicle-use electrical and electronics components. As for Construction & Plant-related (13.2%), another focus sector for the Company alongside IT-related, revenue grew handsomely by 25.7% YoY bolstered by strong demand.

The number of worksite employees for Domestic Engineering Outsourcing Business reached 6,286 as of the end of Q1 FY12/17, increasing by 25.0% YoY from 5,029 at the end of Q1 FY12/16. The utilization rate during Q1 was running at 98.2%, declining slightly from 98.7% in Q1 FY12/16 but nearly at full capacity, despite the large increase in the number of workers. Solid progress has been made in internal job conversion from the manufacturing to the engineering sector since the Company started the scheme in earnest from FY12/16 which utilizes KEN School.

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[Table 5] Q1 FY12/17 Financial Summary by Operating Segment (IFRS)

(¥ million)	FY12/16 Q1	FY12/17 Q1	YoY Changes		Earnings Contribution
	Actual	Actual	Amount	Ratio/pp	Ratio
Reveue	**24,796**	**50,238**	**25,442**	**102.6%**	**100.0%**
Domestic Engineering Outsourcing (OS)	8,971	11,279	2,308	25.7%	9.1%
Domestic Manufacturing OS	7,899	10,344	2,445	31.0%	9.6%
Domestic Service Operations OS	617	823	206	33.4%	0.8%
Domestic Administrative OS	149	198	49	32.9%	0.2%
Domestic Recruiting and Placing	279	367	88	31.5%	0.3%
Overseas Engineering OS	2,399	6,491	4,092	170.6%	16.1%
Overseas Manufacturing and Service Operations OS	4,252	20,612	16,360	384.8%	64.3%
Other	230	124	(106)	-46.1%	-0.4%
Domestic businesses total	**18,145**	**23,135**	**4,990**	**27.5%**	**19.6%**
Overseas businesses total	**6,651**	**27,103**	**20,452**	**307.5%**	**80.4%**
Operating profit before adjustments	**731**	**1,663**	**932**	**127.5%**	**100.0%**
Domestic Engineering Outsourcing (OS)	303	332	29	9.6%	3.1%
Domestic Manufacturing OS	296	75	(221)	-74.7%	-23.7%
Domestic Service Operations OS	(64)	(22)	42	-	4.5%
Domestic Administrative OS	35	9	(26)	-74.2%	-2.8%
Domestic Recruiting and Placing	117	98	(19)	-16.2%	-2.0%
Overseas Engineering OS	81	164	83	102.5%	8.9%
Overseas Manufacturing and Service Operations OS	(48)	999	1,047	-	112.5%
Other	11	8	(3)	-27.2%	-0.3%
Domestic businesses total	**698**	**499**	**(198)**	**-28.4%**	**-21.4%**
Overseas businesses total	**33**	**1,163**	**1,130**	**3424.2%**	**121.4%**
Ratio of operating profit before adjustments	**2.9%**	**3.3%**	**-**	**+0.4pp**	**-**
Domestic Engineering Outsourcing (OS)	3.4%	2.9%	-	- 0.5pp	-
Domestic Manufacturing OS	3.7%	0.7%	-	- 3.0pp	-
Domestic Service Operations OS	-10.4%	-2.7%	-	+7.7pp	-
Domestic Administrative OS	23.5%	4.5%	-	- 19.0pp	-
Domestic Recruiting and Placing	41.9%	26.7%	-	- 15.2pp	-
Overseas Engineering OS	3.4%	2.5%	-	- 0.9pp	-
Overseas Manufacturing and Service Operations OS	-1.1%	4.8%	-	+5.9pp	-
Other	4.8%	6.5%	-	+1.7pp	-
Domestic businesses total	**3.8%**	**2.2%**	**-**	**- 1.6pp**	**-**
Overseas businesses total	**0.5%**	**4.3%**	**-**	**+3.8pp**	**-**
Adjustments	(96)	(143)	(47)	-	-
Consolidated operating profit	**635**	**1,520**	**885**	**139.4%**	-
Ratio of consolidated operating profit	**2.6%**	**3.0%**	**-**	**+0.4pp**	**-**
No. of worksite employees at term-end	**No. of Employees**	**No. of Employees**	**Changed No.**	**Ratio/pp**	
Domestic Engineering OS	5,029	6,286	1,257	25.0%	-
[Utilization rate for Domestic Engineering OS]	98.7%	98.2%	-	- 0.5pp	-
Domestic Manufacturing OS	7,195	9,478	2,283	31.7%	-
Domestic Service Operations OS	1,710	1,762	52	3.0%	-
Overseas Engineering OS	882	1,893	1,011	114.6%	-
Overseas Manufacturing and Service Operations OS	16,352	31,953	15,601	95.4%	-

Source: Compiled by Trias Corporation from the Company IR materials

Note: Overseas businesses total suggests the total of 2 overseas businesses and domestic businesses total suggests the total of the rest of the businesses. The amounts shown are rounded off to the nearest million yen.

For **Domestic Manufacturing Outsourcing Business,** revenue increased sharply by 31.0% YoY, but operating profit before adjustments dropped from ¥296 million in FY12/16 to only ¥75 million, leading its ratio of operating profit before adjustments to plunge from 3.7% to 0.7%. Although the profit margin improved at the gross profit level as was mentioned, the sharp increase in expenses for headquarters functions affected much.

The costs include expenses for consolidation processes for overseas subsidiaries even in other segments as well as related expenses for stricter governance and transition to IFRS. Particularly in

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this Q1, related costs including personnel expenses were much more than expected as transition processes from the J-GAAP to the IFRS for past 2 fiscal years, i.e. FY12/15 and FY12/16, in addition to Q1 FY12/16 were concentrated. The increase itself was indeed anticipated in the segment's initial forecast but the actual amount proved to be nearly ¥300 million more than it had expected. The difference of approximately ¥290 million between its initial forecast of and actual operating profit before adjustments is mostly attributable to the more-than-expected expenses for headquarters functions. Other than the headquarters function expenses, recruiting expenses for more personnel were frontloaded and provisions incurred for paid holiday also increased in Q1. Despite the higher expenses, profitability of the business itself is rising thanks to well-doing of PEO Business (*1), a new human resources utilization scheme to which the Group has been devoting efforts.

(*1) The Company has been refraining from marketing activities for traditional manufacturing dispatching business. Reasons for this include: demand fluctuation is very volatile such as for rapid response to client production ramp-ups for new models, unit contract prices are 20% less or even lower than those for engineering, and using external media results in high recruiting expenses. As an alternative, the Company is devoting its efforts to the PEO Scheme, which attempts to hire fixed-term contract employees of client makers, whose contracts will soon be expired, as regular employees of PEO Co., Ltd., and then lease them back to makers participating in the Scheme. The Labor Contract Act requires employers to switch to labor contracts without a definite period set forth with fixed-term contract employees who were employed based on labor contracts in or after April 2013, have worked for more than 5 years since on repeated contracts, and also wish to continue their works. Many of the OS Group's maker clients are looking to the Scheme with positive stances in order to avoid heavier burden of fixed costs.

The number of worksite employees for the segment at the end of Q1 increased by 31.7% YoY to 9,478 from 7,195 in Q1 FY12/16. This increase is mainly attributed to the new consolidation of OS Partners CO., LTD. (hereafter "OS Partners") from September 2016 as well as the growing number of PEO employees. The number of PEO employees was 6,189 at the end of Q1, rising from 3,528 in Q1 FY12/16 and 5,519 at the end of FY12/16, keeping an increasing pace of 600 or more per quarter.

With the PEO Scheme, recruitment media expenses are not incurred and dispatching contract unit prices are higher. The potential for further increase in PEO employees is enormous as not all the 200 or more sites already joining the Scheme have not yet transferred their workers entirely. Given the overall labor shortages afoot, the Scheme should be seen as a very effective way in securing workforce.

By client industry, Electrical & Electronics (39.7% of the segment revenue) became the largest dispatching criteria after soaring 82.8% YoY in revenue, partly contributed by new consolidation of OS Partners. The subsidiary, serving many car battery makers, is running at its full capacity as hybrid and electric cars are increasingly becoming popular. Meanwhile, Transport Equipment (31.5%) grew by a modest 3.9% YoY in revenue. Its revenue converged to a pace of domestic car production after growing sharply for approximately two years until FY12/16 when clients rushed to launch brand new models, the Company explains.

Overseas Manufacturing and Service Operations Outsourcing Business grew to the largest

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segment in both name and reality, accounting for 41.0% of consolidated revenue and 60.0% of consolidated operating profit before adjustments. Revenue soared by 384.8% YoY (approximately 4.8 times) from ¥4,252 million in Q1 FY12/16 to ¥20,612 million and operating profit before adjustments improved by more than ¥1.0 billion from a deficit of ¥48 million to a profit of ¥999 million. The results were much better compared to the initial segment forecasts as is mentioned, with revenue approximately ¥1.7 billion more and operating profit exceeding by approximately ¥260 million, thanks to stronger financial performance in local currencies as well as the weaker yen than forecast.

Newly contributing in this Q1 are four service related outsourcing groups: BEDDISON Group (hereafter "BEDDISON") (*2) and OS HRS Group ("OS HRS") (*2), both joining the Group at the end April 2016, ALLEN LANE CONSULTANCY LIMITED ("ALC") (*2) and LIBERATA UK LIMITED ("LIBERATA") (*2), both newly consolidated from August in the same year. In addition, Orizon (*2), a manufacturing oriented outsourcing company, joined from January 4, 2017, the acquisition of which was announced in December 2016. The ratio of operating profit before adjustments for the segment stood at 4.8%, far above those for other segments and contributed to the rise in the overall consolidated ratio of operating profit before adjustments (Q1 FY12/16: 2.9% to Q1 FY12/17: 3.3%). In particular, ALC and Orizon are seen to have contributed much to the segment profit.

(*2) Outlines of each company are as follows:

Abbreviation	Registered Name	Headquarters	Major Businesses	Consolidation Date
BEDDISON	BEDDISON Group	Australia	Public service oriented dispatching	Apr. 2016
OS HRS	OS HRS Group	Malaysia	Payroll accounting service	May 2016
ALC	ALLEN LANE CONSULTANCY LIMITED	the U.K.	Outsourcing services to various public bodies	Aug. 2016
LIBERATA	LIBERATA UK LIMITED	the U.K.	BPO service to governments	Jul. 2016
Orizon	Orizon Holding GmbH	Germany	Manufacturing related dispatching	Jan. 2017

Overseas Engineering Outsourcing Business also expanded rapidly, contributed by new consolidations through M&As. Revenue leaped by 170.5% YoY (approximately 2.7 times) to ¥6,491 million from ¥2,399 million in Q1 FY12/16. Consolidated subsidiaries newly contributed in Q1 FY12/17 are engineering dispatching operations of above-mentioned BEDDISON (*3), and J.B.W./CDL Group (hereafter "J.B.W./CDL") (*3). Segment operating profit before adjustments doubled year-over-year from ¥81 million to ¥164 million.

(*3) Outlines of each company are as follows:

Abbreviation	Registered Name	Headquarters	Major Businesses	Consolidation Date
BEDDISON	BEDDISON Group	Australia	Public IT service oriented dispatching	Apr. 2016
J.B.W./CDL	J.B.W./CDL Group	the U.K.	IT intensive collection and legal enforcement services for unpaid debts for governments	Apr. 2016

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Ratio of operating profit before adjustments of the segment declined from 3.4% in Q1 FY12/16 to 2.5%. This decline is also due to the change in business mixtures while every subsidiary is performing well, the Company notes.

Domestic Service Operations Outsourcing Business is yet small in terms of scale but expected to grow fast going forward. Revenue rose from ¥617 million in Q1 FY12/16 to ¥823 million and operating loss before adjustments narrowed from ¥64 million to ¥22 million. The dispatching administration service business to leading convenience store chains is now pending in order to assess impacts from Government's guidance for "Work Style Innovation" and thus suffering from costs from operation structures built to date. As for the outsourcing business for US military bases, costs are frontloaded in preparation for the new consolidation of AEC from April 3, 2017 for which the Company has been reviewing the subsidiary's accounting and administration systems to integrate with OS Group policies as well as enhancing AEC's corporate governance.

As a result of above performance of each segment, aggregate domestic revenue increased by 27.5% YoY, but operating profit before adjustments dropped by 28.5% YoY as sums of domestic and overseas businesses in Table 5 on page 9 show. On the other hand, each of overseas two segments grew sharply thanks chiefly to newly consolidated subsidiaries, buoying aggregate revenue by 307.5% YoY (approximately 4.0 times) and operating profit before adjustments reached ¥1,164 million by approximately 35 times. The ratio of operating profit for the domestic aggregate declined from 3.8% in Q1FY12/16 to 2.2% while for overseas widened markedly from 0.5% in Q1FY12/16 to 4.3%.

Large earnings contribution came namely from Overseas Manufacturing and Service Operations Outsourcing Business (accounting for 112.5% of the increase in overall operating profit before adjustments) and Overseas Engineering Outsourcing Business (8.9%). Domestic Service Operations Outsourcing Business, though yet small in scale, also earnings contribution increase by 4.4% as its loss narrowed.

The Consolidation adjustments, a negative factor to the profit, rose from ¥96 million to ¥143 million. Compared to the J-GAAP, the adjustment amount is much less as, for example, the IFRS does not require regular amortization but instead does mandate timely assessment (goodwill impairment test) of economic values of acquired subsidiaries. For a reference, the J-GAAP adjustment in Q1 FY12/16 was as much as ¥479 million.

FY12/17 Full-Year: Further Robust Growth to be Driven by Organic Growth and New Consolidation

FY12/17 performances of each operating segment are summarized in Table 6 on page 13. Profits from domestic businesses are expected to grow sharply after the weakness in Q1. Overseas businesses

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should continue to grow rapidly thanks to newly consolidated subsidiaries. For the full-year, domestic businesses should contribute more to overall profits than overseas segments as growth of the latter will be narrowing towards the year end in accordance with new consolidations gradually running their course.

●[Table 6] FY12/17 Forecasts by Operating Segment

(¥ million)	FY12/16 Full-Year	FY12/17 Full-Year	YoY Changes		Earnings Contribution
	Actual	Forecasts	Amount	Ratio/pp	Ratio
Reveue	**134,283**	**213,000**	**78,717**	**58.6%**	**100.0%**
Domestic Engineering Outsourcing (OS)	40,182	48,666	8,484	21.1%	10.8%
Domestic Manufacturing OS	34,608	44,509	9,901	28.6%	12.6%
Domestic Service Operations OS	3,470	12,101	8,631	248.7%	11.0%
Domestic Administrative OS	873	1,098	225	25.8%	0.3%
Domestic Recruiting and Placing	1,378	1,501	123	8.9%	0.2%
Overseas Engineering OS	21,022	24,845	3,823	18.2%	4.9%
Overseas Manufacturing and Service Operations OS	32,150	79,645	47,495	147.7%	60.3%
Other	600	635	35	5.8%	0.0%
Domestic business revenue total	**81,111**	**108,510**	**27,399**	**33.8%**	**34.8%**
Overseas business revenue total	**53,172**	**104,490**	**51,318**	**96.5%**	**65.2%**
Operating profit before adjustments	**7,143**	**11,571**	**4,428**	**62.0%**	**100.0%**
Domestic Engineering Outsourcing (OS)	2,936	3,879	943	32.1%	21.3%
Domestic Manufacturing OS	1,366	2,330	964	70.6%	21.8%
Domestic Service Operations OS	(258)	492	750	-	16.9%
Domestic Administrative OS	278	702	424	152.5%	9.6%
Domestic Recruiting and Placing	647	302	(345)	-53.3%	-7.8%
Overseas Engineering OS	688	1,157	469	68.2%	10.6%
Overseas Manufacturing and Service Operations OS	1,448	3,007	1,559	107.7%	35.2%
Other	38	(298)	(336)	-	-7.6%
Domestic business operating profit total	**5,007**	**7,407**	**2,400**	**47.9%**	**54.2%**
Overseas business operating profit total	**2,136**	**4,164**	**2,028**	**94.9%**	**45.8%**
Ratio of operating profit before adjustments	**5.3%**	**5.4%**	**-**	**+0.1pp**	**-**
Domestic Engineering Outsourcing (OS)	7.3%	8.0%	-	+0.7pp	-
Domestic Manufacturing OS	3.9%	5.2%	-	+1.3pp	-
Domestic Service Operations OS	-7.4%	4.1%	-	+11.5pp	-
Domestic Administrative OS	31.8%	63.9%	-	+32.1pp	-
Domestic Recruiting and Placing	47.0%	20.1%	-	- 26.9pp	-
Overseas Engineering OS	3.3%	4.7%	-	+1.4pp	-
Overseas Manufacturing and Service Operations OS	4.5%	3.8%	-	- 0.7pp	-
Other	6.3%	-46.9%	-	- 53.2pp	-
Ratio of domestic business operating profit	**6.2%**	**6.8%**	**-**	**+0.6pp**	**-**
Ratio of overseas business operating profit	**4.0%**	**4.0%**	**-**	**+0.0pp**	**-**
Adjustments	(1,471)	(2,071)	(600)	-	-
Consolidated operating profit	**5,672**	**9,500**	**3,828**	**67.5%**	-
Ratio of consolidated operating profit	**4.2%**	**4.5%**	**-**	**+0.3pp**	**-**
No. of worksite employees at term-end	**No. of Employees**	**No. of Employees**	**Changed No.**	**Ratio/pp**	
Domestic Engineering OS	6,066	8,566	2,500	41.2%	-
[Utilization rate for Domestic Engineering OS]	98.2%	-	-	-	-
Domestic Manufacturing OS	9,033	13,097	4,064	45.0%	-
Domestic Service Operations OS	1,609	3,836	2,227	138.4%	-
Overseas Engineering OS	1,836	1,982	146	8.0%	-
Overseas Manufacturing and Service Operations OS	24,290	39,456	15,166	62.4%	-

Source: Compiled by Trias Corporation from the Company IR materials

Note: Overseas businesses total suggests the total of 2 overseas businesses and domestic businesses total suggests the total of the rest of the businesses. The amounts shown are rounded off to the nearest million yen.

Domestic Engineering Outsourcing Business is forecast to grow by 21.1% YoY in revenue and by 32.1% YoY in consolidated operating profit before adjustments. Strong demand should be continuing in particular from Electrical & Electronics, IT-related and Transport Equipment sectors. The ratio of

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operating profit is forecast to rise from 7.3% in FY12/16 to 8.0%.

The planned number of worksite employees for the segment increases sharply to 8,566 at the end of FY12/17 from 6,066 at the end of FY12/16. On top of recruitment approximately 600 new graduates, the Company continues to proactively take advantage of KEN School. In addition, it is highly likely that personnel inflows from small- to medium-sized dispatching business operators will accelerate going forward as not a few of them will be suffering to survive as the suspended term of the 2015 Revised Worker Dispatching Act is to expire at the end of September 2018. Aiming to attract these companies, the Company has been setting up joint venture OS Capital Partners Inc., an M&A advisor, and should these potential transactions be successfully carried out, more worksite staffs would be recruited.

Domestic Manufacturing Outsourcing Business expects revenue to grow by 28.6% YoY and operating profit before adjustments by 70.6% YoY. The profit, however, could fall short because of the heavier burden from allocations of expenses as was mentioned. OS Partners, fully consolidated in FY12/17, should be one of the factors for the large increases in revenue and profits. Electrical & Electronics and Transport Equipment outsourcing is expected to grow rapidly backed by strong demand for vehicle related products including batteries. The Company foresees the ratio of operating profit before adjustments for the segment to rise sharply from 3.9% in FY12/16 to 5.2% for now.

The segment plans to enhance worksite employee counts from 9,033 at the end of FY12/16 to 13,097 at the end of FY12/17. There may be increasing worker inflows from client makers as the suspended term of the Labor Contract Act, which forces employers to hire qualified fixed-term contract employees as indefinite-term contract employees, is due at the end of March 2018 as is described in note (*1) on page 10. The number of employees enrolled via the PEO Scheme is planned to increase markedly from 5,519 to 10,000, leading the percentage to the segment headcount total to rise significantly from 59.2% at the end of FY12/16 to 76.4% at the end of FY12/17, respectively.

Revenue for **Domestic Service Operations Outsourcing Business** should soar from ¥3,470 million for FY12/16 to ¥12,101 million. AEC will add revenue of ¥7.6 billion in FY12/17 after being consolidated from April 3, 2017. The new subsidiary offers air-conditioner and other electrical works, repair and maintenance works for military facilities, and associated services to US military bases in Japan. Therefore, the military related business should substantially widen its service fields as AEC will be complementing the already existing the Company's operations for US military bases. As a result, the number of worksite employee is to increase sharply from 1,609 at the end of FY12/16 to 3,836 at the end of FY12/17.

Segment performance should improve from a loss of ¥258 million in FY12/16 to a profit of ¥492 million, and the ratio of operating profit before adjustments is forecast to improve by 11.5pp to 4.1%. As was mentioned, expenses associated with AEC to prepare for its structures to align with the Group policies

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are frontloaded, but its financial performance should be bettering over the remainder of FY12/17.

Overseas Engineering Outsourcing Business is looking for revenue to grow by 18.2% YoY and operating profit by 68.2% YoY. This strength should be mainly coming from organic growths despite full contributions from BEDDISON's engineering business and J.B.W./CDL, both consolidated since April 2016, as business scales of these two subsidiaries are not very significant. The ratio of operating profit is expected to widen from 3.3% for FY12/16 to 4.7%.

Overseas Manufacturing and Service Operations Outsourcing Business is expected to drive its revenue by approximately 2.5 times YoY and operating profit by approximately 2.1 times YoY. Aforementioned four groups should fully contribute to FY12/17. Moreover, revenue of ¥34.3 billion will be added by Orizon which has been newly consolidated since January 2017. We discuss about the subsidiary later in the Topics section.

Meanwhile, ratio of operating profit for the whole segment is estimated to narrow from 4.5% in FY12/16 to 3.8% in FY12/17. This is also due chiefly to the change in business mixtures caused by the new consolidation of Orizon. In general, overseas leading dispatching firms largely bear ratio of operating profit of 2 to 3%. Therefore, the segment profit margin in FY12/17 is supposed to be diluted by the addition of large revenue from Orizon, after widening impressively in FY12/16 thanks to the contributions from highly profitable subsidiaries such as OS HRS and ALC.

Other businesses segment is forecast to turn to an operating loss of ¥298 million, perhaps reflecting a planned set up of a joint-venture which aims to attract small- and medium-sized dispatching business operators destined for squeeze out of the industry as is mentioned previously.

Finally, by domestic and overseas operations, aggregate revenue from the two overseas businesses should jump by 96.5% YoY to approximately ¥104.5 billion in FY12/17 and their operating profit before adjustments by 94.9% to approximately ¥4.2 billion, both almost doubling. The overseas component to overall consolidation would be 49.1% for revenue and 36.0% for operating profit, up sharply from 39.6% and 29.9% respectively in FY12/16. Contributions to the overall growth in consolidated performance should be also significant: 65.2% for revenue and 45.8% for operating profit before adjustments.

On the other hand, aggregate revenue from domestic operations is expected to sustain strong organic growth, rising by 24.4% YoY even without the new consolidation of AEC (FY12/17 revenue estimated at ¥7.6 billion). The aggregate ratio of operating profit is expanding from 6.2% in FY12/16 to 6.8%, sustaining profitability far above 4.0% estimated for the aggregate overseas profit margin. Contributions of domestic businesses to overall growth in consolidated performance are foreseen to be 34.8% for revenue and 54.2% for operating profit before adjustments, with the latter accounting for

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64.0% of the overall consolidated profit.

Topics: Entering continental Europe through acquiring shares of Germany's Orizon Holding GmbH

The OS Group has rolled out penetration into overseas markets in 3 stages. Stage 1 from 2010 involved expansion of manufacturing outsourcing business through targeting clients among Japanese makers mainly in the Asia region in China, Thailand, India, etc. Stage 2 was aimed at business expansion in regions with low penetration by Japanese makers, and in 2015–2016 Australia's BLUEFIN Group and BEDDISON, as well as NTRINSIC Group and J.B.W. in the UK, were added to the Group, expanding the business domain to include service operations outsourcing business, establishing a foothold in the former British Commonwealth. Stage 3 of overseas business expansion is entering the continental European market, with OSI Holding Germany GmbH announcing on December 14, 2016 that it acquired all shares of Orizon.

As an industrial nation, Germany already has a large market for worker dispatch in manufacturing, which is a promising market. Top ranking companies in Germany's worker dispatch in manufacturing market include global majors and maker affiliates, however, Orizon ranks 8th largest as an independent dispatch business operator, with a long list of medium-scale corporate as clients, and a particular strength in worker dispatch in manufacturing. Growth in revenue has been moderate, however, the company has a high ratio of operating profit, and even in the wake of the Lehman financial crisis, the company generated profits in the black. Profitability has been rising since December 2014 through successful streamlining measures including office consolidation, etc.

Approximately half of revenue is comprised of transportation equipment-related clients (aircraft and automobiles), and the remaining half is divided among the 3 sectors of IT-related including software development, medical services-related involving dispatching staff to hospitals, and electrical & electronics dispatching. The 6,000–7,000 enrolled dispatched employees are on-site technicians called field engineers with technical skills. The largest client is Airbus. Aircraft-related has tough standards for winning orders, and has high barriers to entry since on-site field engineers cannot be easily substituted. Even since joining the OS Group, Orizon has not experienced field engineers resigning. Orizon gets high marks for its training of skilled technicians, and is maintaining the top-ranked position in Germany in a survey of employee satisfaction.

Going forward, business strategy for the time being is targeting expansion of domestic business in Germany, and generating group synergies globally. Orizon currently has 40 offices in Germany. Current plans target expanding the number of offices to capture brisk demand, as well as aggressive deployment of business investment including recruitment expenses. Regarding synergies with the OS Group, information exchange is already being conducted toward expanding clients, and in

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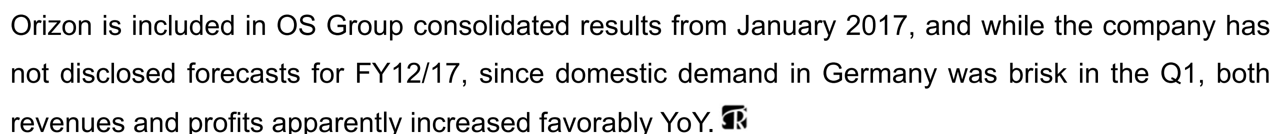
manufacturing the company plans to approach Japanese-affiliate makers with plants in Germany, and to approach European makers with bases in Asia. Although the percentage of revenue is still small, the company is also engaged in human resources services business, planning to approach European parent companies of Malaysia OS HRS consignment payroll business clients, another conceivable impact on global group synergies.

●[Table 7] Orizon Performance Trends

IFRS (€ thousand)	FY12/13 Full-Year Actual	FY12/14 Full-Year Actual	FY12/15 Full-Year Actual (Unaudited)
Revenue	245,818	247,698	265,815
YoY	-	*0.8%*	*7.3%*
Operating profit	6,293	7,585	12,457
YoY	-	*20.5%*	*64.2%*
Ratio of operating profit	*2.6%*	*3.1%*	*4.7%*
Profit before tax	2,079	3,023	4,392
YoY	-	*45.4%*	*45.3%*
Profit for the year	75	625	1,828
YoY	-	*733.3%*	*192.5%*

Source: Compiled by Trias Corporation from the Company IR materials



Orizon is included in OS Group consolidated results from January 2017, and while the company has not disclosed forecasts for FY12/17, since domestic demand in Germany was brisk in the Q1, both revenues and profits apparently increased favorably YoY.

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References

Consolidated Key Financial Data

No. of shares issued	Dec-16	17,458,000
No. of treasury shares	Dec-16	98
Market value (¥mn)	10-Jul-17	90,607
BPS (¥)	Dec-16	728.41
ROE (%)	Dec-16	25.7
ROA (%)	Dec-16	4.6
PER (times) FY12/16 fcst.	10-Jul-17	18.3
PCFR (times) Q2 FY12/16 actual	10-Jul-17	19.9
PBR (times) Q2 FY12/16 actual	10-Jul-17	7.1
Share price (¥)	10-Jul-17	5,190
Unit share (shares)	10-Jul-17	100
Average daily volume (shs)	10-Jul-17	323,958

Note: The amounts shown are rounded off to the nearest million yen.

Total assets (¥mn)	Dec-16	89,833
Equity attributable to owners of the Company (¥mn)	Dec-16	12,717
Interest-bearing debt (¥mn)	Dec-16	(*) 48,138
Ratio of equity attributable to owners of the Company to total assets (%)	Dec-16	14.2
Ratio of interest-bearing debt (%)	Dec-16	378.5
Free cash flows (¥mn)	Dec-16	(27,471)

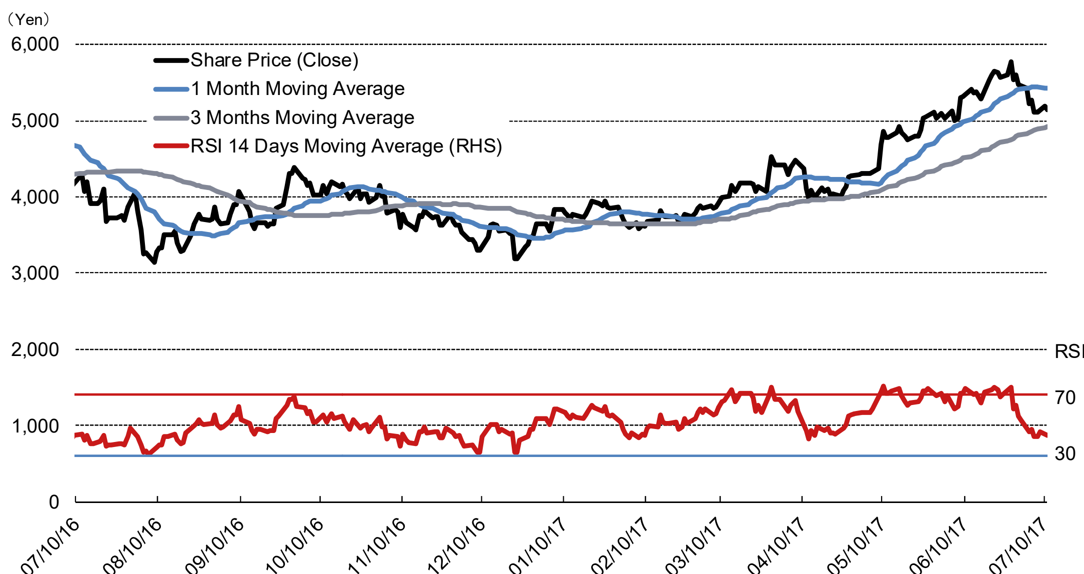
ROE = Profit attributable to owners of the Company / Averaged equity attributable to owners of the Company
ROA = Profit attributable to owners of the Company / Averaged total assets
PCFR = Market value / (Profit attributable to owners of the Company + Depreciation)
Ave. daily vol. = Ave. daily vol. (from 10-Jul-16 to 10-Jul-17)
Interest-bearing debts* ratio = I.B.D. / Equity attributable to owners of the Company
Free cash flows = Operating CF + Investment CF
*Incl. current portion of accounts payable-installment purchase

Consolidated Financial Results

Consolidated (¥million) J-GAAP	Net Sales	Operating Income	Ordinary Income	-	Profit Attributable to Owners of Parent	EPS (¥)	DPS (¥)
FY12/13	47,384	1,203	1,357	-	1,122	77.54	13.00
FY12/14	59,421	2,010	2,197	-	1,317	89.81	35.00
FY12/15	80,860	3,125	3,225	-	1,810	110.15	35.00
FY12/16	134,482	3,737	3,380	-	664	38.11	42.00
IFRS	**Revenue**	**Operating Profit**	**Profit Before Tax**	**Profit for the Year**	**Profit for the Year Attributable to Owners of the Parent**	**EPS (¥)**	**DPS (¥)**
FY12/17 1H	97,000	2,900	2,600	1,600	1,400	77.82	-
FY12/17 full year fcst.	213,000	9,500	8,900	5,800	5,100	283.52	85.00

Note 1: FY12/17 forecasts announced on February 14, 2017.
Note 2: The amounts shown are rounded off to the nearest million yen.

Stock Price Charts and RSI (July 10, 2016 – July 10, 2017)



Source: Prepared by Trias Corp. with Bloomberg data.
Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices. In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.
RSI=averaged share price appreciation for N days÷(averaged share price appreciation for N days +averaged share price decline for N days) x100

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