

Trias Company Memo
2010-Sep-17
(Securities Code: 2429 / JASDAQ) WORLD INTEC CO., LTD.
Summary of Q2 FY12/10 Business Results Meeting and Follow-Up Interview

The following is a summary of the Q2 FY12/10 Business Results Meeting of WORLD INTEC CO., LTD. (hereinafter WORLD INTEC or the Company) held on August 17 and Trias Corporation's follow-up interview with company officials. Those attending the Business Results Meeting were Eikichi Iida, Chairman and CEO, and Toshihiko Kanno, President and COO. Corporate Spokesperson Hiroshi Kudo represented WORLD INTEC for the follow-up interview.

【Summary of Q2 FY12/10 Consolidated Results】

Consolidated net sales for H1 FY12/10 (Jan-Jun 2010) reached ¥15.6 billion, up 5.8% year-on-year, driven by the Information Technology & Telecommunications Services division and Other Services unit. Operating income was ¥287 million, up 412.5% y/y, due to improved profitability, particularly in WORLD INTEC's core Manufacturing Temporary Placement/Contracting division as a result of improved cost controls. Both sales and operating income for the division surpassed the Company's initial forecast announced in May 2010.

【Table 1】 H1 FY12/10 Consolidated Business Results Summary

(¥ million)	H1 FY12/09	FY12/10		FY12/10	YoY		FY12/10 Forecast (as of 08/17/10)	
	Actual	Q1 Actual	Q2 Actual	H1 Actual	Change	Ratio	H2 fcst	FY Fcst
Net sales	14,728	7,652	7,926	15,578	850	5.8%	15,722	31,300
Operating income	56	154	133	287	231	412.5%	403	690
Operating margin	0.4%	2.0%	1.7%	1.8%	-	-	2.6%	2.2%
Ordinary income	111	209	131	340	229	206.3%	360	700
Ordinary margin	0.8%	2.7%	1.7%	2.2%	-	-	2.3%	2.2%
Net income	△ 11	126	6	132	143	-	108	240
Net margin	-0.1%	1.6%	0.1%	0.8%	-	-	0.7%	0.8%

*Note: Tables are prepared by Trias Corp. with the data disclosed by WORLD INTEC CO., LTD.

【Summary by Business Segment】

While H1 (Jan-Jun) sales for domestic manufacturing sector businesses such as the Manufacturing Temporary Placement/Contracting division decreased on a y/y basis, Q2 (Apr-Jun) sales actually rose compared to the same quarter in fiscal 2009. In the Manufacturing Temporary Placement/Contracting division, order volume has been growing primarily from the automotive and semiconductor industries based in western Japan, while orders from electronic device industries originated in eastern Japan. Prior to the subprime meltdown, the Company tended to generate orders through the personal relationship established between its sales force and clients. Since then, clients have become more selective over their choice of outsourcing providers, their decision based largely on the level of

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regulatory compliance a provider can deliver, its financial health, and its ability to share similar perspectives on the manufacture of products. WORLD INTEC believes that its competitive superiority is consistent with such strict selection standards. In addition, the number of contracted workers by WORLD INTEC TAIWAN, a consolidated overseas subsidiary, reached 800—the highest point ever—due to growing demand from Japanese transplants set up in the country.

For the Technology Oriented Placement division, the retention and utilization ratios have both been recovering. WORLD INTEC has been competitively stronger in the semiconductor manufacturing technology area than in the design and development area, and orders have been increasing. Also, in the Systems Integration (SI) division, the Company is seeing order volume rising from local governments in the Kyushu region due to its collaborative initiatives with the Geographic Information of Kyushu, which will be elaborated on later.

In the R&D Placement division, orders here have also been increasing, mainly from the pharmaceutical and chemicals industries, as the Company has been able to expand its contracted research staff through continued recruitment of college graduates. WORLD INTEC is confident that its strength in specialized placement services targeting business fields that require advanced skill sets enables it to differentiate itself from competitors. While it is generally said that contracted research staff are poorly motivated, the system in which contract workers can be promoted to managers that the Company employs enhances the worker's willingness to remain with a client and thus improves his or her retention rate.

As for the Information Technology & Telecommunications Services division, its cellular phone outlet business in Kyushu has been brisk. Rebate income has been on the rise, buoyed by growing unit sales. WORLD INTEC is planning to upgrade and broaden its service lineup by offering additional products.

[Table 2] Consolidated Business Results by Business Segment

(¥ million)		Q2 FY12/09	Q2 FY12/10	YoY		FY12/10 Forecast
		Actual	Actual	Change	Ratio	(as of 08/17/10)
Manufacturing Temporary Placement/Contracting	Net sales	6,759	6,578	△ 181	-2.7%	15,200
	Operating income	237	377	139	59.1%	890
	OP Margin	3.5%	5.7%	-	-	5.9%
Technology Oriented Placement	Net sales	2,934	2,900	△ 34	-1.2%	6,000
	Operating income	138	135	△ 2	-2.2%	440
	OP Margin	4.7%	4.7%	-	-	7.3%
R&D Placement	Net sales	1,002	1,007	5	0.5%	2,200
	Operating income	76	50	△ 26	-34.2%	200
	OP Margin	7.6%	5.0%	-	-	9.1%
Information Technology & Telecommunication Services	Net sales	3,533	3,984	451	12.8%	6,600
	Operating income	112	121	8	8.0%	120
	OP Margin	3.2%	3.0%	-	-	1.8%
Marketing Sales Services	Net sales	497	1,108	610	122.9%	1,300
	Operating income	△ 27	22	49	-	0
	OP Margin	-5.4%	2.0%	-	-	0.2%
Total	Net sales	14,728	15,578	850	5.8%	31,300
	Eliminations/Co.-wide	△ 480	△ 420	60	-	△ 960
	Operating income	56	287	231	412.5%	690
	OP Margin	0.4%	1.8%	-	-	2.2%

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[Outlook and Strategy for FY12/10]

WORLD INTEC adheres to its full-year forecast for FY12/10 announced on February 12, which targets net sales of ¥31.3 million (up 7.6% y/y) and operating income of ¥690 million (up 77% y/y). The number of the temp staff pool force placed at manufacturing sites plummeted from 2.02 million in FY12/08 to 1.08 million in FY12/09 due to stricter regulations and deteriorating economic conditions. The Company, however, believes that demand for contracted workers will recover once the economy bottoms out, not only because an increasing number of companies seek to avoid the cost and complications of hiring workers themselves, but also as more and more firms relocate their production sites overseas. WORLD INTEC expects demand for temporary placement will recover first, followed by a recovery in the need for outsourced contracting services. Based on this expectation, the Company, as a Group, is increasing the size of its temporary placement and outsourced contracting workforce by establishing more recruitment sites and through aggressive advertisement activities.

[New Businesses]

Among the new businesses WORLD INTEC has been pursuing under its Other Services unit is its work with Geographic Information of Kyushu (GIKI); Advan Co., Ltd.; Electronics & Ecology Co., Ltd. (E&E); and its real estate business. In general, the framework for such businesses is initially established by Chairman Iida as CEO, and their management is subsequently transferred to the executive director and other senior officers.

GIKI was originally incorporated as a “third sector” business in which the public sector collaborates with the private sector with the aim of employing a large number of workers with severe disabilities, specializing in outsourced Geographic Information System services. WORLD INTEC purchased GIKI two years ago. Since then, orders from local governments have been pouring in due to its human resources and engineering alliance with the Company’s SI business. GIKI has turned profitable since it joined the WORLD INTEC Group. Advan operates schools on PC use, with curricula primarily dedicated to CAD and Web design instruction. There are currently nine schools, and that number will likely reach 20 by the end of this fiscal year. Advan also trains employees in advanced skills in highly specialized fields, enabling them to find positions in other divisions within the WORLD INTEC Group. E&E’s mission is to create an integrated contract framework to provide skilled repair work for consumer-use digital devices, including digital cameras and mobile phones. Such repair work is generally done either at a maker’s own customer service center, which is invariably unprofitable, or outsourced. The Company is targeting to expand this outsourcing business line.

WORLD INTEC entered the real estate business in April 2010 by launching WORLD RESIDENTIAL Co., Ltd. It then acquired Nichimo Real Estate Co., Ltd. in June and established an organizational framework for property and housing development. Although the Company expects the business to remain unprofitable for the next two years, it is confident that, given the real estate market over the next several years, profitability will be achieved over time. WORLD INTEC plans to elaborate on its strategy

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in this business field when it announces its next mid-term management plan.


[Q&A]

*Note: Includes queries and responses in the follow-up interview

Q1: How has the size of the Group's contracted workforce changed?

A1: The total number of the Company's workforce at the end of June 2010 increased to 7,431, up from 6,960 at the end of January this year. Its all-time peak was 12,000. We are planning to mount an aggressive recruitment campaign over the last four months of the fiscal year in order to increase the workforce to 8,000 by the end of December.

Q2: While the Company explained that it plans to elaborate on its real estate operations at a later date, please provide some details at this time. And was the Nichimo acquisition made with an eye on entering the condominium development business?

A2: [Answered by Chairman Iida]: The first business I founded was in real estate, and I subsequently built up a strong network of personal connections with the large real estate companies. As a result, several companies had approached WORLD INTEC to sponsor them in the past. However, it would be difficult for us to back such sponsorship, no matter how lucrative the assets they possessed, because it would mean we would have to post hundreds of million yen in debt on our balance sheet. Nichimo boasted a 60-year history with sales of several billion yen, an annual cash flow of some ¥200 million, and a results-oriented staff. We purchased Nichimo at a price that was appropriate to its net asset and without taking on any of its debt. We also took on only 40 of its best and most experienced workers. I believe I possess the professional expertise to build a successful real estate business and the vision needed to expand it. We intend to begin purchasing properties from the second half of this fiscal year and move into high gear by fiscal 2011 and 2012. We should be able to generate sales by fiscal 2013 or shortly thereafter. Our area of operations will be relegated to properties in the Tokyo metropolitan area, or its 23 wards. We will also set ceilings on investments and avoid trying to build up the business simply for the sake of scale. We thus believe the losses we incur during the period in which we frontload our investments will not be unmanageable. 

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[Reference] WORLD INTEC CO., LTD. (2429)
Key Financial Data and Business Results (Consolidated)

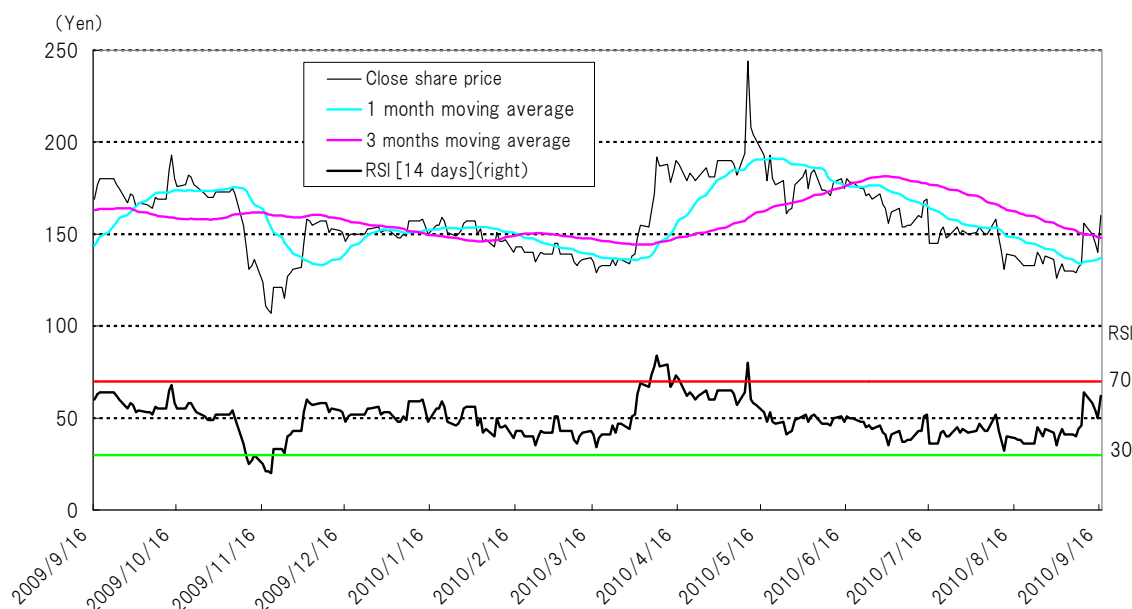
Key Stock Indicators (Consolidated)			Key Financial Data (Consolidated)		
No. of Shares Issued	Dec. 09	55,760	Total Assets (¥ million)	Dec. 09	9,497
No. of Treasury Stock	Dec. 09	1,654	Shareholders' Equity (¥ million)	Dec. 09	4,152
Market Value (¥ million)	Sept. 16, 2010	2,676	Interest-Bearing Debt (¥ million)	Dec. 09	1,169
BPS (¥)	Dec. 09	79,053.7	Equity Ratio (%)	Dec. 09	43.7
ROE (%) ※1	Dec. 09	3.6	Ratio of Interest-Bearing Debt (%) ※5	Dec. 09	28.2
ROA (%) ※2	Dec. 09	1.4	Free Cash Flows (¥ million) ※6	Dec. 09	18
PER (times)	FY12/10 est.	10.8	※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end		
PCFR(times) ※3	Dec. 09	9.6	※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end		
PBR (times)	Dec. 09	0.0	※3 PCFR=Market Value÷(Current Net Income+Depreciation)		
Share Price (¥)	Sept. 16, 2010	160	※4 Average Daily Volume=Average Daily Volume for previous 12months		
Unit Share (shares)	Dec. 09	100	※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity		
Average Daily Volume (shares) ※4	Sept. 16, 2010	29,697	※6 Free Cash Flows=Operating CF+Investment CF		

A 300-for-1 split down on the common stock done as of January 1, 2010.

Market Value calculated with 16,728,000 shares issued after January 1, 2010

Consolidated (¥ million)		Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
	FY12/06	34,850	978	1,172	418	7,555.98	1,300.00
	FY12/07	46,497	1,345	1,772	741	13,363.08	1,300.00
	FY12/08	48,767	1,089	1,278	192	3,485.05	1,300.00
	FY12/09	29,094	389	537	149	2,753.48	1,300.00
	Q2 FY12/10 (Cumulative)	15,578	287	340	132	8.15	-
	FY12/10 fcst.	31,300	690	700	240	14.79	4.50

Note: FY12/10 forecast announced on Feb. 12, 2010

Share Price Charts and RSI


Source: Prepared by Trias Corp. with Bloomberg L.P. data

Note: RSI, Rerative 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)×100

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