OUTSOURCING Inc.
2427 Tokyo Stock Exchange First Section

22-Apr.-15

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FISCO Ltd. Analyst
Hideo Kakuta

Driving Faster Growth Centered on the Engineering Outsourcing Business and the Overseas Business

OUTSOURCING Inc. (2427) primarily provides staff placement and outsourcing services for factory production lines and design, development and other processes. The Company's core businesses are the Manufacturing Outsourcing Business and the Engineering Outsourcing Business in Japan, which represent 42.9% and 37.1% of net sales, respectively. Meanwhile, the Overseas Business, with 17.4% of net sales, is currently growing as the Company's third core business.

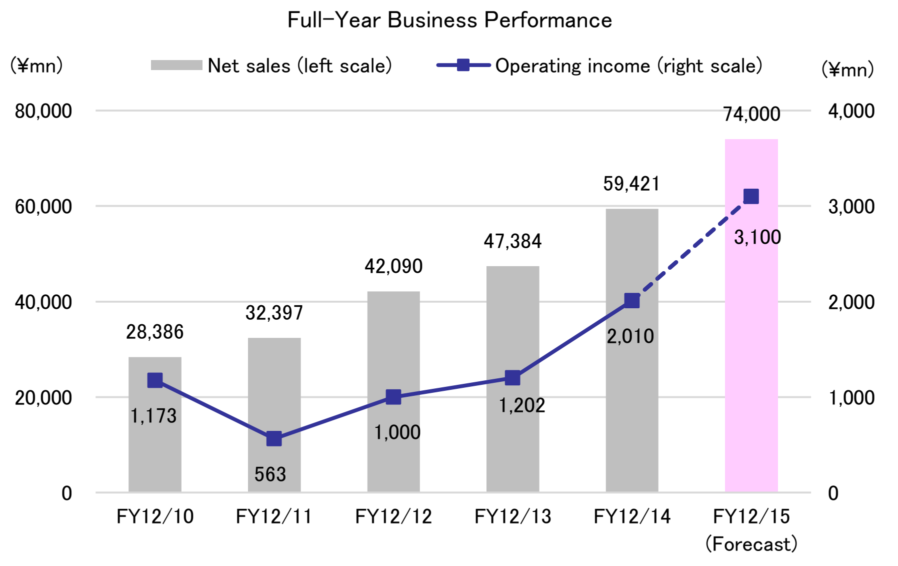
The Company has a strong customer base in the automobile industry, including customers such as the Toyota Group. With customers spread out among a wide range of business sectors, OUTSOURCING's expansive customer base serves a pivotal role in helping the Company to avoid risk. As staffing becomes an increasingly key task, OUTSOURCING is leading its competitors in the sense that it has enhanced staff capabilities and at the same time reduced advertising costs. To achieve this, the Company has been focusing on the Professional Employer Organization (PEO) scheme developed internally and employing every means at its disposal including mergers and acquisitions (M&As) targeting industry peers, taking full advantage of its own staff training centers, and running TV commercials.

In the past four years FY12/11 to FY12/14, OUTSOURCING has delivered a cumulative annual growth rate of 22.6% in net sales. In FY12/12, Manufacturing Outsourcing Business generated 57.4% of net sales. However, with the subsequent success of the Engineering Outsourcing Business and diversification into the Overseas Business, the Manufacturing Outsourcing Business's share of net sales has been reduced to 42.9% at present. In FY12/14, OUTSOURCING achieved record net sales and profits, with net sales growing significantly by 25.4% year on year.

Under the new medium-term business plan beginning in FY12/15, the Company will drive faster growth centered on the Overseas Business and the Engineering Outsourcing Business. In FY12/17, OUTSOURCING is targeting net sales of JPY 130,000 million (versus JPY 59,421 million in FY12/14), and operating income of JPY 8,500 million (versus JPY 2,010 million in FY12/14). The Company plans to proactively conduct M&As to reach its targets.

Check Point

- Provide customized staffing proposals by getting involved from the planning stage for factory lines
- Significant earnings growth projected in FY12/15, based on higher net sales and reduced SG&A expenses
- The PEO scheme: the basic strategy for the Manufacturing Outsourcing Business in Japan



Corporate Overview

Expanding business fields and the customer base in a challenging environment, with proactive use of M&As

(1) History

OUTSOURCING was established in Shizuoka City in 1997 for the purpose of undertaking outsourcing operations for production processes. Subsequently, the business environment was impacted by challenges such as the Lehman Brothers bankruptcy, the Great East Japan Earthquake and the shift of production offshore due to the stronger yen. Nevertheless, OUTSOURCING has achieved rapid growth while expanding its business domains and customer base. The Company has achieved this growth by making proactive use of M&As, in addition to driving organic growth. The OUTSOURCING Group currently comprises 18 companies in Japan, including OUTSOURCING Inc., and 25 companies overseas (as of December 31, 2014).

Proactively developing the Engineering Outsourcing Business around the Manufacturing Outsourcing Business, along with growing the Overseas Business as a third core business

(2) Business Overview

The Company has two main businesses: the Manufacturing Outsourcing Business and the Engineering Outsourcing Business. Together, these two businesses generate 80.0% of the Group's net sales (FY12/14), and generate most of its operating income.

In the Manufacturing Outsourcing Business, the Group provides outsourcing and staff placement services to fulfill outsourcing needs related to the production processes of manufacturers of transportation equipment, electronic devices and other products. It has been the Group's core business since its founding, and has continued to grow steadily in recent years, accounting for 42.9% of net sales in FY12/14. Market conditions are expected to become increasingly challenging in this business due to the long-term trend of production shifting offshore. The Manufacturing Outsourcing Business generated 29.1% of the Company's operating income in FY12/14, before adjusting for shared expenses.

In the Engineering Outsourcing Business, the Group provides outsourcing and staff placement services to fulfill the need for outsourcing of advanced tasks in the design, development, trial and evaluation processes of companies in a wide range of fields. These fields include IT, transportation equipment, electronics, chemicals and pharmaceuticals and construction. In recent years, the Group has proactively expanded this business through M&As and other initiatives. Consequently, the Engineering Outsourcing Business has achieved steady growth, representing 37.1% of net sales and 70.8% of operating income in FY12/14.

In the Overseas Business, the Group provides outsourcing and staff placement services, led by its subsidiary OS International Co., Ltd., to fulfill outsourcing needs primarily in the mass production and R&D divisions of Japanese companies' overseas sites. It is currently growing as the Group's third core business. Although net sales in the Overseas Business had grown to 17.4% of the Group's net sales in FY12/14, earnings have been heavily impacted by fixed costs. Consequently, the Overseas Business accounted for only a 4.3% share of operating income in FY12/14, making only a small contribution to earnings.

Business Description and Composition

Business segments	Main client industries	Share of sales (FY12/14)	Share of operating income (FY12/14)
Manufacturing Outsourcing Business	Transportation equipment, electronics, metals and construction materials, chemicals and pharmaceuticals, foods	42.9%	29.1%
Engineering Outsourcing Business	IT, transportation equipment, electronics, chemicals and pharmaceuticals, construction and plant, after-market services, metals and construction materials	37.1%	70.8%
Overseas Business	–	17.4%	4.3%
Recruitment and Placement Business	–	1.3%	17.6%
Administrative Outsourcing Business	–	1.0%	4.6%
Other Business	–	0.3%	0.3%
(Adjustments)	–	–	-26.7%

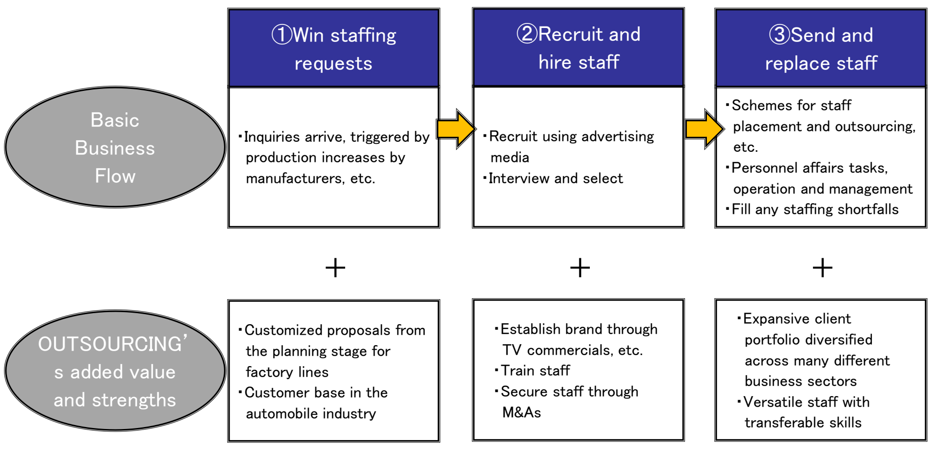
Provide customized staffing proposals by getting involved from the planning stage for factory lines

(3) Business Environment and OUTSOURCING's Business Model

The outsourcing business, which targets customers in the manufacturing sector, is impacted significantly by the external environment. When corporate customers face downturns in economic conditions or corporate earnings, their first option is to terminate staff placement and outsourcing agreements. The size of the market also varies depending on government policies and regulations, such as amendments to the Worker Dispatching Act. From the standpoint of competition, the outsourcing business has low barriers to entry because it requires only a small initial investment. Therefore, the market is crowded with numerous competitors, ranging from major staffing companies such as Recruit Holdings Co., Ltd. (6098) and Temp Holdings Co., Ltd. (2181), to local firms. When rival companies are vying for the same account, price competition takes over and profits are squeezed. In this unstable and fiercely competitive market, OUTSOURCING has established unique strengths.

The following is an outline of the Group's flow of business. The first stage of business is to win staffing requests from client companies. In a market teeming with rivals, the Group excels at providing customized staffing proposals made possible by getting involved in the planning stages of clients' factory lines. This approach has helped the Group to avoid price competition. It also has a strong customer base in the automobile industry, particularly the Toyota Group (7203), and has been able to win steady orders. The second stage of business is to recruit and hire staff. In the stage, success hinges on how effectively the Group is able to attract people. The Company's strength is its brand power, which is supported mainly by TV commercials and its listing on the First Section of the Tokyo Stock Exchange. The third stage is to send and replace staff. As contract periods become shorter, the key is to be able to flexibly match human resources and work. Over the years, the Company has steadily diversified its portfolio of client companies across many different business sectors. Because the Company also has staff that have work experience spanning multiple business sectors, OUTSOURCING is able to shift personnel across different positions in a timely manner.

Flow of Business, OUTSOURCING's Added Value



Source: Prepared by FISCO Ltd.

Business Performance Trends

Net sales and earnings reached all-time highs in FY12/14

(1) Full-year business performance trends for FY12/14

Looking at the Group's full-year consolidated business performance in FY12/14, net sales and earnings reached all-time highs for the fiscal year. Net sales were JPY 59,421 million (up 25.4% yoy), operating income was JPY 2,010 million (up 67.1 % yoy), ordinary income was JPY 2,197 million (up 61.9% yoy) and net income was JPY 1,316 million (up 17.3% yoy). Looking more closely at net sales, the Engineering Outsourcing Business posted higher sales primarily to the IT sector and the transportation equipment sector, while sales in the Manufacturing Outsourcing Business were largely in line with forecast. In the Overseas Business, sales rose by roughly JPY 3,000 million yoy, which was lower than initially forecast, partly due to the impact of a coup in Thailand and demonstrations in Hong Kong and Vietnam. Turning to operating income, the operating income margin improved owing to reduced SG&A expenses in step with sales growth, while the Group secured a gross margin of 20.1%. By business segment, the Group delivered higher earnings in all segments other than the Administrative Outsourcing Business. Notably, in the Engineering Outsourcing Business, the Group significantly increased net sales by 29.0% yoy, marking a major contribution to Group-wide earnings growth.

Full-year business performance for FY12/14 (Consolidated)

(¥mn)

	FY12/13		FY12/14				
	Result	Sales ratio	Company forecast	Result	Sales ratio	y-o-y ratio	Versus plan
Net sales	47,384	100.0%	61,300	59,421	100.0%	25.4%	-3.1%
Cost of sales	38,102	80.4%	-	47,457	79.9%	24.6%	-
Gross profit	9,281	19.6%	-	11,963	20.1%	28.9%	-
SG&A expenses	8,078	17.0%	-	9,953	16.8%	23.2%	-
Operating income	1,202	2.5%	2,000	2,010	3.4%	67.1%	0.5%
Ordinary income	1,357	2.9%	2,050	2,197	3.7%	61.9%	7.2%
Net income	1,122	2.4%	1,060	1,316	2.2%	17.3%	24.2%

Net sales by business segment for FY12/14

(¥mn)

	FY12/13	FY12/14		
	Results	Results	Change	y-o-y ratio
Manufacturing Outsourcing Business	21,812	25,478	3,665	16.8%
Engineering Outsourcing Business	17,079	22,036	4,956	29.0%
Overseas Business	7,220	10,346	3,125	43.3%
Recruitment and Placement Business	477	779	302	63.4%
Administrative Outsourcing Business	603	601	-2	-0.4%
Other Business	190	178	-11	-6.1%
Total	47,384	59,421	12,037	25.4%

Operating income by segment for FY12/14

(¥mn)

	FY12/13	FY12/14		
	Results	Results	Change	y-o-y ratio
Manufacturing Outsourcing Business	538	584	46	8.7%
Engineering Outsourcing Business	742	1,423	680	91.7%
Overseas Business	22	87	65	296.6%
Recruitment and Placement Business	129	354	224	173.3%
Administrative Outsourcing Business	139	92	-47	-34.0%
Other Business	5	6	0	13.9%
(Adjustments)	-374	-537	-163	-
Total	1,202	2,010	807	67.1%

Improving financial stability and profitability while rapidly expanding business

(2) Financial condition

The following table shows the Group's financial condition as of December 31, 2014. Total assets amounted to JPY 24,132 million, an increase of JPY 3,789 million from previous fiscal year-end. This was mainly due to an increase of JPY 1,728 million in notes and accounts receivable - trade, which reflected acquisitions of subsidiaries' shares and business expansion. In addition, non-current assets rose JPY 844 million, mainly due to an increase in goodwill upon acquiring subsidiaries' shares.

Meanwhile, total liabilities were JPY 16,563 million, up JPY 2,135 million from the previous fiscal year-end. This was mainly due to an increase of JPY 2,963 million in current liabilities, which reflected an increase in accounts payable - other due to acquisitions of subsidiaries' shares and business expansion. Non-current liabilities decreased JPY 827 million due to the repayment of long-term loans payable.

Looking at key financial indicators, the equity ratio increased from the previous fiscal year-end, and the interest-bearing debt ratio fell below 100%. We applaud the Group for improving financial stability and profitability, while rapidly expanding business.

Summary of consolidated balance sheets and key financial indicators

(¥ mn)

	FY12/13	FY12/14	Change
Current assets	14,119	17,065	2,945
(Cash and deposits)	6,032	6,671	638
(Notes and accounts receivable - trade)	6,529	8,257	1,728
Non-current assets	6,223	7,067	844
Total assets	20,343	24,132	3,789
Current liabilities	10,003	12,967	2,963
Non-current liabilities	4,423	3,596	-827
(Interest-bearing debt)	7,233	6,641	-591
Total liabilities	14,427	16,563	2,135
Net assets	5,915	7,569	1,654
Total liabilities and net assets	20,343	24,132	3,789
(Stability)			
Current ratio	141.1%	131.6%	-
Equity ratio	26.2%	28.5%	-
Interest-bearing debt ratio	135.8%	96.5%	-
(Profitability)			
ROA	6.6%	5.9%	-
ROE	23.8%	21.6%	-
Operating income margin	2.5%	3.4%	-

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Significant earnings growth projected in FY12/15, based on higher net sales and reduced SG&A expenses

(3) Outlook for FY12/15

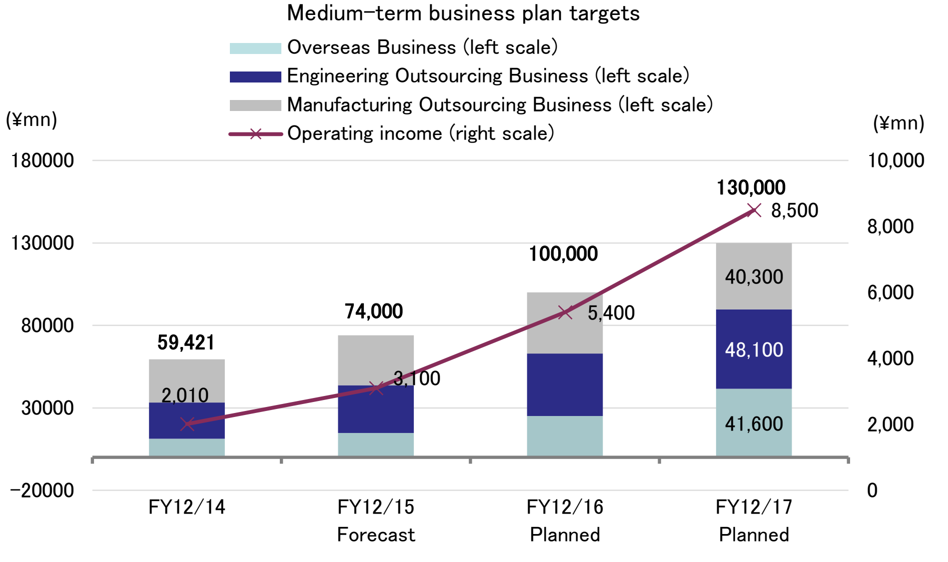
In terms of the full-year outlook for FY12/15, the Group is forecasting net sales of JPY 74,000 million (up 24.5% yoy), operating income of JPY 3,100 million (up 54.2% yoy), ordinary income of JPY 3,000 million (up 36.5% yoy), and net income of JPY 1,620 million (up 23.1% yoy). The Group plans to drive growth in each of its core businesses. In the Engineering Outsourcing Business, the Group plans to expand business volume centered on the IT and construction fields. In the Overseas Business, the Group plans to achieve substantial growth by strengthening its hand in current business regions and by expanding into new regions. The Group is also projecting a large increase in operating income based on steady sales growth and a reduced SG&A expenses ratio.

Growth strategies

Formulate and execute a medium-term business plan ending FY12/17

(1) Medium-term business plan

The Group has formulated and is currently executing a three-year medium-term business plan running from FY12/15 to FY12/17. For FY12/17, the Group is targeting net sales of JPY 130,000 million and operating income of JPY 8,500 million, plus an operating income margin of 6.5%. Therefore, the Group is planning to increase net sales by 2.2 times, operating income by 4.2 times and the operating income margin by 3.1 percentage points versus FY12/14. If it successfully achieves these targets, the Group will have significantly enhanced its financial position.



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Under the new medium-term business plan, the Group has embraced "Vector to the New Paradigm" as its vision statement. Guided by this vision, the Group plans to shift to new business domains. In Japan, new business domains refer to operations in the Engineering Outsourcing Business primarily targeting the IT industry and the civil engineering and construction industry. In the Overseas Business, new business domains refer to the Americas and Europe, joining Asia where the Group is already active. In terms of business expansion methods, the Group will make use of methods that challenge conventional notions, including more aggressive M&As, PEO schemes (noted later), intern programs and operation of IT schools.

The PEO scheme: the basic strategy for the Manufacturing Outsourcing Business in Japan

(2) Strategy for the Manufacturing Outsourcing Business

From a medium- to long-term perspective, the manufacturing outsourcing market is expected to contract as Japanese manufacturers are shift production offshore, and the country's population continues to decline. In this environment, the Group has adopted the basic strategy of fencing in manufacturers through the Professional Employer Organization (PEO) scheme. Under the PEO scheme, a PEO will hire workers recruited by manufacturers as its own employees, and will "lease back" those employees to its client companies. The scheme provides significant benefits to client companies by reducing their personnel administration workload and ensuring the stable assignment of temporary workers who are well versed in manufacturing operations. The PEO scheme already has 87 member manufacturers and 1,127 recruited workers (as of December 31, 2014). In three years, the Group plans to increase the number of member manufacturers to 335 and the number of workers at sites to 10,000.

Fence in manufacturers through the PEO scheme

Focus on Growth in Japan's Shrinking Manufacturing Outsourcing Markets (ii)

[Steps and Flow of the PEO Scheme]

Makers become member of PEO Association established by PEO Co., Ltd.

PEO takes on seasonal workers recruited by the maker as full-time Employees of PEO Co., Ltd.

Employees are "leased backed" through cross-sectional rotating assignments according to maker production volume swings.

As a result of the amended Worker Dispatching Act, manufacturers are willing to accept the Scheme to exploit cost advantages rather than directly recruit seasonal workers

[Fiscal Year-End Worker Forecasts at PEO Co., Ltd. for the Medium-Term Management Plan]

PEO Co., Ltd. at end-FY2014	PEO Co., Ltd. at end-FY2015*	PEO Co., Ltd. at end-FY2016*	PEO Co., Ltd. at end-FY2017*
No. of Member-Makers: 87 Recruited Workers: 1,127	Member-Makers: 150 Workers at Sites: 2,700	Member-Makers: 215 Workers at Sites: 5,500	Member-Makers : 335 Workers at Sites: 10,000

Still, number of seasonal workers capped by makers' directly-employed workers = Needs are limited

Source: Disclosure materials issued by OUTSOURCING Inc.

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High growth potential in the IT and civil engineering and construction industries in the Engineering Outsourcing Business

(3) Strategy for the Engineering Outsourcing Business

The market for engineering outsourcing services in Japan continues to offer stable growth prospects. Notably, the IT and the civil engineering and construction industries have high growth potential. Considering that filling staffing shortfalls is a crucial priority for these industries, there is a compelling need for outsourcing services. Provided that the Group's initiatives to secure staff continue to function effectively, the Group should be able to significantly expand the Engineering Outsourcing Business.

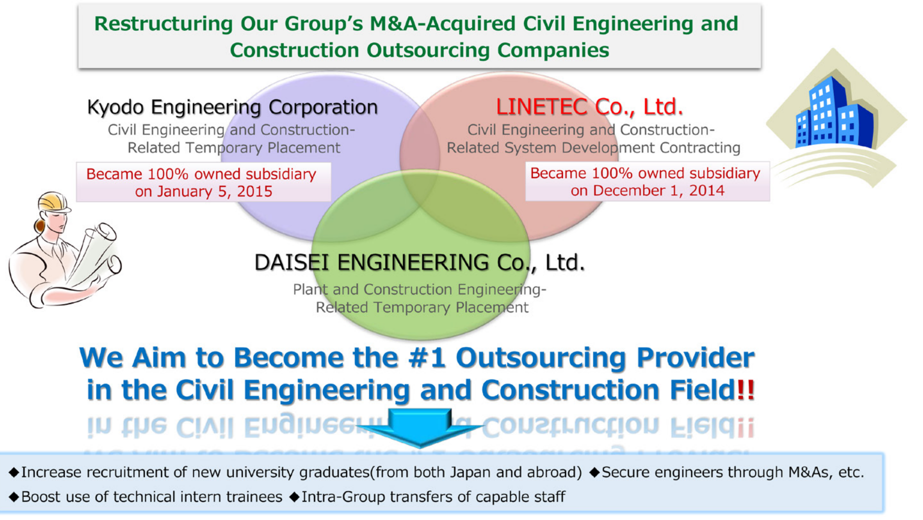
In the IT industry, the future market landscape will be shaped by the following trends: (a) backbone systems upgrades at megabanks, (b) systems upgrades and cloud platform transition at leading firms, (c) the rapid emergence of the Internet of Things (IoT), and (d) entry into the business analytics market using big data. The Group seeks to use every means at its disposal to secure staff. Notably, the Group operates IT schools that have already produced over 50,000 graduates.

Securing Engineers Amid Growing Needs for IT-Related Outsourcing Business

Source: Disclosure materials issued by OUTSOURCING Inc.

In the civil engineering and construction industry, the Group expects medium- to long-term demand to be generated from the following sources: (a) the rebuilding and restoration of houses for urban renewal, (b) the 2020 Tokyo Olympics and Paralympics, (c) the Linear Shinkansen Project, and (d) the National Resilience Initiative. In this industry, the Group plans to expand its business performance by proactively undertaking M&As. The Group expects to see continued realignment of middle-tier companies and SMEs in the industry for various reasons, such as business successions or the spin-off of subsidiaries.

Securing Engineers Amid Growing Needs for
Civil Engineering and Construction Outsourcing Businesses



Source: Disclosure materials issued by OUTSOURCING Inc.

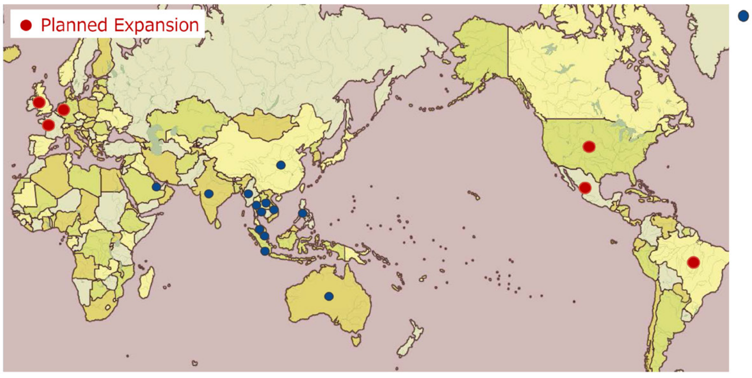
Net sales for the entire Engineering Outsourcing Business was JPY 22,036 million (actual result in FY12/14). The Group plans to make the Engineering Outsourcing Business its largest business segment by increasing net sales to JPY 48,100 million (plan for FY12/17) in the next three years.

Planned expansion to the Americas and Europe in the Overseas Business

(4) Strategy for the Overseas Business

In the Overseas Business, the Group plans to significantly increase net sales from JPY 10,346 million in FY12/14 to JPY 41,600 million in FY12/17. Until now, the Group has expanded business overseas primarily in Asia. Looking ahead, the Group plans to expand business in new areas, namely the Americas and Europe. The market for temporary staffing services in the Americas and Europe is much larger than in Japan. It is about 3.9 times bigger based on net sales and about 7.9 times larger based on the number of temporarily placed staff. Going forward, the Americas and Europe offer prospects for sustained growth based on projected population growth, with a population growth rate of 20.8% forecast in the Americas and Europe from 2013 to 2050. The Group will expand its business by combining M&As and organic growth. Although it is difficult to tell whether the Group will achieve its M&A ambitions, the probability of success should increase if the strong ties between OUTSOURCING and Japanese companies appear attractive to the acquisition target. The Group currently has a relatively low, 0.8% operating income margin in the Overseas Business (FY12/14). If the Group makes steady progress on expanding its business, its fixed cost burden should be reduced, and profit margins should increase to largely the same level as in domestic businesses.

Overseas Operations Covering the Americas and Europe



● Existing Locations

China
Philippines
Vietnam
Laos
Thailand
Malaysia
Myanmar
Singapore
Indonesia
Cambodia
India
UAE
Australia

● New Entries Planned

USA Mexico Brazil UK Germany France

Source: Disclosure materials issued by OUTSOURCING Inc.

The quantitative targets of the medium-term business plan are extremely ambitious, and naturally, the Group faces risks in the course of achieving them. Examples include the risks of an economic recession and intensified competition due to amended laws, the risk of not finding suitable M&A candidates, and management risks associated with overseas companies obtained via M&As. On the other hand, the Group's track record of business diversification and experience derived from numerous M&As are positive factors that will be brought to bear on the Group's success going forward. Indeed, this will be a crucial factor in determining whether the Group will be able to shift to a "new paradigm" by transforming itself into a truly global corporation.

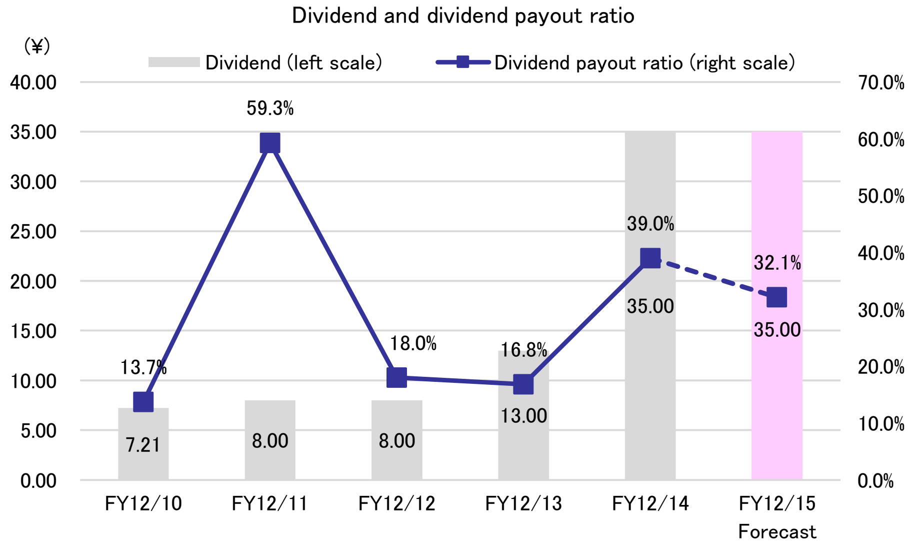
Shareholder return policy

Raise the dividend payout ratio to 30% from FY12/14

Until FY12/13, the Group had set the dividend payout ratio at 10%, in principle, in order to allocate profits to fund investments in growing the Group's market share. From FY12/14, the Group has determined that it has successfully established a solid foundation for growing its market share to a certain extent. Accordingly, the Group has now increased the dividend payout ratio to 30%, in principle. Consequently, the Group has set an annual dividend for FY12/14 of JPY 35 per share, comprising an interim dividend of JPY 8 per share (commemorative dividend marking the 10th anniversary of stock listing) and a year-end dividend of JPY 27 per share. In FY12/15, the Group expects to maintain this level of dividend. It is forecasting an annual dividend of JPY 35 per share for FY12/15.

As for shareholder benefits, the Group distributes QUO cards to its shareholders. The Group distributes QUO cards with a value between JPY 2,000 and JPY 4,000 according to the number of shares held by shareholders who hold 100 or more shares and are listed or recorded on the shareholder register as of December 31.

■Shareholder return policy



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