



# Business Results

for the Fiscal Year Ended December 31, 2009

OUTSOURCING Inc.  
(JASDAQ 2427)  
February 2010



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# Financial Summary for FY12/09



# Consolidated Financial Summary for FY12/09

(¥Million)	FY12/08 Full Business Year		FY12/09 Full Business Year		Year-on-Year Change	
	Amount	Compositi on Ratio	Amount	Compositi on Ratio	Amount	Ratio
Net Sales	24,148	100.0%	17,964	100.0%	Δ6,183	-25.6%
Gross Profit	4,495	18.6%	3,386	18.9%	Δ1,109	-24.7%
SG&A	3,382	14.0%	3,536	19.7%	154	4.6%
Operating Income	1,113	4.6%	Δ150	- 0.8%	Δ1,263	n.a.
Ordinary Income	1,134	4.7%	22	0.1%	Δ1,112	-98.0%
Current Net Income	641	2.7%	Δ215	-1.2%	Δ856	n.a.

# Nonconsolidated Financial Summary for FY12/09

(¥Million)	FY12/08 Full Business Year		FY12/09 Full Business Year		Year-on-Year Change	
	Amount	Compositi on Ratio	Amount	Compositi on Ratio	Amount	Ratio
Net Sales	20,528	100.0%	13,823	100.0%	Δ6,704	-32.7%
Gross Profit	3,769	18.4%	2,609	18.9%	Δ1,159	-30.8%
SG&A	2,739	13.3%	2,550	18.4%	Δ188	-6.9%
Operating Income	1,029	5.0%	59	0.4%	Δ970	-94.2%
Ordinary Income	1,027	5.0%	165	1.2%	Δ862	-83.9%
Current Net Income	589	2.9%	102	0.7%	Δ487	-82.7%

# Summary of FY12/09 Consolidated Balance Sheets

(¥Million)	FY12/08 Full Business Year		FY12/09 Full Business Year		Year-on Year Change
【Assets】	Amount	Composition	Amount	Composition	Amount
<b>Current assets</b>	3,836	63.4%	5,697	60.8%	1,861
<b>Noncurrent assets</b>	2,210	36.5%	3,664	39.1%	1,453
<b>Total assets</b>	6,051	100.0%	9,365	100.0%	3,314

- Cash increase from M&A of subsidiaries

- No.2 engine test facility constructed
- Company dormitory constructed
- Post-merger acquisition of property, plant and equipment

(¥Million)	FY12/08 Full Business Year		FY12/09 Full Business Year		Year-on Year Change
【Liabilities / Net Assets】	Amount	Composition	Amount	Composition	Amount
<b>Current liabilities</b>	2,558	42.3%	4,445	47.5%	1,886
<b>Noncurrent liabilities</b>	834	13.8%	1,986	21.2%	1,151
<b>Total liabilities</b>	3,393	56.1%	6,432	68.7%	3,038
<b>Shareholders' equity</b>	2,542	42.0%	2,857	30.5%	314
Capital stock	479	7.9%	483	5.2%	3
Capital surplus	590	9.8%	879	9.4%	288
Retained earnings	2,001	33.1%	1,713	18.3%	Δ288
Treasury stock	Δ529	-8.8%	Δ218	-2.3%	310
<b>Valuation and transition adjustments</b>	Δ9	-0.2%	Δ1	0.0%	7
<b>Subscription rights to shares</b>	22	0.4%	49	0.5%	27
<b>Minority interests</b>	102	1.7%	27	0.3%	Δ74
<b>Total net assets</b>	2,657	43.9%	2,933	31.3%	275
<b>Total liabilities and net assets</b>	6,051	100.0%	9,365	100.0%	3,314

- Increase in current payables

- Increased negative goodwill due to M&A of subsidiaries
- Increase in long-term debt due to No.2 engine test facility construction

- Increase due to mergers

- Decrease due to post merger partial allotment

# Summary of FY12/09 Consolidated Cash Flow Statements

(¥Million)	FY12/08 Full Business Year Amount	FY12/09 Full Business Year Amount	Year-on-Year Change Amount
Income before income taxes	1,157	△177	△1,334
Depreciation	164	211	47
Amortization on goodwill	57	67	9
Amortization on negative goodwill	-	△104	△104
Decrease (Increase) in notes and accounts receivable-trade	272	595	322
Increase (Decrease) in notes and accounts payable-trade	△295	△757	△461
Other	△810	△301	509
<b>Cash flows provided by (used in) operating activities</b>	547	△465	△1,012
<b>Cash flows provided by (used in) investing activities</b>	△927	△8	918
Increase (Decrease) in loans payable	167	794	626
Proceeds from issuance of common stock	△160	-	160
Cash dividends paid	△58	△72	△14
Other	363	65	△298
<b>Cash flows provided by (used in) financing activities</b>	179	668	488
<b>Cash and cash equivalents from mergers</b>	-	848	848
<b>Cash and cash equivalents, end of term</b>	591	1,634	1,042

- Decrease in trade receivables due to net sales decline

- Impairment loss posted

- Decrease due to purchase of property, plant and equipment, and acquisition of affiliates

- Increase in debt due to M&A

- Earnings recovery steady since the 2H, primarily in our main business line of Production Outsourcing
  - Net sales in Q4 rose 32.6% quarter-on-quarter
- Accurate read of new makers' needs arising from changes in market environment led to increased orders for our Administrative Outsourcing Business, including recruitment agency and outsourced administrative services
- With the expansion of our Administrative Outsourcing Business, our Group's revenue structure improving
  - Q4 operating income rose by 236.7% q/q, while ordinary income rose by 162.4% q/q



# Quarterly Consolidated Business Results for FY12/09

(¥Million)	FY12/08	FY12/09			
	Q4	Q1	Q2	Q3	Q4
Net Sales	5,836	4,007	3,725	4,397	<b>5,832</b>
Gross Profit	1,123	487	687	877	<b>1,332</b>
GP Margin	19.3%	12.2%	18.5%	20.0%	<b>22.9%</b>
SG&A	808	791	758	826	<b>1,159</b>
SG&A Ratio	13.9%	19.7%	20.4%	18.8%	<b>19.9%</b>
Operating Income	315	<b>△303</b>	<b>△70</b>	51	<b>172</b>
Operating Margin	5.4%	-7.6%	-1.9%	1.2%	<b>3.0%</b>
Ordinary Income	312	<b>△274</b>	<b>△32</b>	90	<b>238</b>
Ordinary Margin	5.4%	-6.9%	-0.9%	2.1%	<b>4.1%</b>

Quarter-on-Quarter Change	FY12/08	FY12/09			
	Q4	Q1	Q2	Q3	Q4
Net Sales	-	-31.3%	-7.0%	18.0%	<b>32.6%</b>
Gross Profit	-	-56.6%	41.1%	27.6%	<b>51.8%</b>
SG&A	-	-2.1%	-4.1%	8.9%	<b>40.4%</b>
Operating Income	-	-	-	-	<b>236.7%</b>
Ordinary Income	-	-	-	-	<b>162.4%</b>

# Amendments to FY12/09 Financial Forecasts



# Amendments to FY12/09 Financial Forecasts

- **Changes in Operating Environment:**

Makers accelerate direct employment of seasonal workers

- In Q4, we began offering our new Full-Range Integrated Administrative Service Contract\*, which creates new opportunities for us during the transition period that makers shift from direct employment to outsourced production contracting.

\* Orders received for packaged services ranging from recruitment agency services related to direct employment, to post-hiring labor affairs and dorm operations, and 3-Cube comprehensive management software system

- **Change in Sales Mix:**

Strategic shift from manufacturing temporary placement to full-range integrated administrative services

- While receiving orders for more than ¥1.1 billion in full-range integrated administrative services contract, sales from manufacturing temporary placement slipped to less than the ¥5.0 billion that was originally forecasted.

- **Accounting Policy Revised:**

Revision in timing of sales posting for full-range integrated administrative service contracts

- Reviewing the sales recognition policy at the end of Q4
  - Recognizes recruitment agency services, outsourced contracting for labor affairs and dorm operations, and software system sales as individual business models
  - Sales for Outsourced Contracting and post-hiring software system sales from FY12/10 to be posted on a per-contract basis with differing contract term lengths

# Summary of Amendments to FY12/09 Financial Forecasts

Consolidated (¥Million)	FY12/09 Original Forecast (as of Feb.16, 09)	FY12/09 Amended Forecast (as of Feb.5, 10)	Change		FY12/09 Full Business Year Actual
	Amount	Amount	Amount	Ratio	
Net Sales	24,300	17,964	△6,335	-26.1%	17,964
Operating Income	1,150	△151	△1,301	-	△150
Ordinary Income	1,200	20	△1,179	-98.3%	22
Current Net Income	670	△229	△899	-	△215

Nonconsolidated (¥Million)	FY12/09 Original Forecast (as of Feb.16, 09)	FY12/09 Amended Forecast (as of Feb.5, 10)	Change		FY12/09 Full Business Year Actual
	Amount	Amount	Amount	Ratio	
Net Sales	17,800	13,823	△3,976	-22.3%	13,823
Operating income	630	58	△571	-90.7%	59
Ordinary Income	700	164	△535	-76.5%	165
Current Net Income	400	102	△297	-74.5	102

# Management Vision for FY12/10

- Rising above Competitors in Response to Makers' Direct Employment
- Differentiating Ourselves in Shift to Contracted Production Outsourcing
- Streamlining and Upgrading Group Infrastructure



## Concerns over manufacturing temporary placement as a viable alternative

- Makers exercising restraint in usage of manufacturing temporary placement to avoid repeating previous PR hit of mass terminations of temporary placement contracts
- Coalition government led by Democratic Party of Japan poised to amend Worker Dispatch Law prohibiting temporary workers from being placed at manufacturing sites
- Wholesale expiration of manufacturing temporary placement contracts (forcing makers to hire workers on permanent basis)



These factors accelerate makers' shift from temporary placement to direct hiring of seasonal workers

## Issues and New Needs for Makers

- Challenges of recruiting workers
  - Recruitment network must be nationwide, not local, in scale as large number of seasonal workers to be hired in the short term

Pre-Direct Employment: Needs for Recruitment Agency Services

- Issues on administrative operations after hiring
  - To hire directly a growing number of seasonal workers, client-makers need to bolster organization capable of various administrative operations—from labor affairs and dorm management, to transportation—despite being hamstrung by shortage of personnel and general affairs staff

Post-Direct Employment: Needs for Outsourced Administrative Services for Seasonal Workers Hired Directly by Maker

# Rising above Competitors in Response to Makers' Direct Employment: Worker Dispatch Law Amendment Imminent

## ● Key points of Worker Dispatch Law Amendment

- ❑ Manufacturing temporary placement prohibited
  - ※1 Excluding full-time employment of more than 1 year
- ❑ Registered-type (outsourced) temporary placement prohibited
  - ※2 Excludes 26 operations requiring high degree of expertise
- ❑ 3-year contract expiration issue remains
- ❑ Relaxation of manufacturing temporary placement ban: measure to go into effect within 3 years of amendment's official implementation as an extension period

(Workers in thousands)

Industry	Type of Employment	Conventionally Employed	Registered (Outsourced)
		1,150	870
Manufacturing	560	△ 350 ※1	× 200
26 operations requiring high degree of expertise	1,000	○ 57	○ 43 ※2
Other clerical positions	47	○ 23	× 24

Source: Prepared by OUTSOURCING Inc. based on data from Jan. 18, 2010 article in the Nikkei Shimbun

## ● Issues related to direct employment

- ❑ With part-time employment likely to undergo strict regulation, part-timers must be given advance notice of their eligibility to become permanent, full-time workers if hired for more than 3 years
- ❑ Direct employment by makers is vulnerable to change, making it unsustainable over the long term

While makers move away from temporary placement to direct employment of seasonal workers, the shift is only temporary, with conversion to outsourced contracting expected to accelerate in the next 3 years



Services provided by subsidiary ORJ INC.

- Growing need to hire seasonal works directly
  - Demand for direct employment grows since last autumn with recovery in production: **Estimated 90,000 workers**
  - Emerging needs related to direct employment when temporary manufacturing placement contracts mature: **Est. 400,000 workers**
- Recruitment agency business
  - Set up framework to provide a comprehensive array of services, ranging from recruiting candidate-workers and the entire hiring process via "C-Cube (3-Cube)" system, to such services as dorm management and outplacement of workers at the expiration of their contracts
  - Scheduled to hire **some 2,000 workers** for Company T, a transportation equipment maker ; Company M, a precision instruments maker, and Companies N and J, makers of automotive components
- Post-employment outsourced administrative service contracting
  - Scheduled to receive administrative service orders for **some 3,000 workers** who will be changing from temporary manufacturing placement to direct employment contracts
  - Provides an integrated, full-range contracting service that covers pre- and post-employment administration of seasonal workers hired directly through proprietary C-Cube (3-Cube) system
  - Provides high-value added property management services through ORJ, established jointly with Relo Holdings, Inc., which holds a business model patent, Relo Compensation, that reduces property management costs with regards to dorm
    - Relo Compensation simplifies recurring transaction operations by managing deposits, security deposits and unit restoration activities.



## Rising above Competitors in Response to Makers' Direct Employment: Environmental Changes and Market Needs

- Market transitions from direct employment by makers to outsourced contracting
  - Direct employment cannot respond to diversifying consumer needs and makers' need to adjust payroll to meet fluctuations in the economy, both of which are crucial to operating productive manufacturing sites
  - Due to the amended Part-Time Employment Act, makers face the risk of having to hire part-timers who are now doing the same work as full-time counterparts, as permanent employees



- OUTSOURCING will be converting the contracts covering the production processes operated by seasonal workers hired directly by makers and managed by ORJ, a leader in outsourced administrative service contracting.
  - Industry shakeout to occur as providers, lacking in the business resources to enable makers to convert to outsourced contracting, perform poorly and can no longer compete
  - Additional providers are weeded out as makers choose outsourcing companies that can convert a manufacturing site to outsourced contracting
  - At OUTSOURCING, approximately 80% of production processes operated by some 6,700 workers, including those assigned under conventional outsourced administrative service contracts, are scheduled for conversion to outsourced production contracting

**Production processes operated by some 5,000 workers under ORJ administration will be converted to outsourced production contracting contracts.**

- Paradigm shift in manufactured goods, which will be primarily concentrated on environmental and eco-friendly products
  - Transportation equipment: Electric/hybrid automobiles, vehicular lithium batteries
  - Home appliances: Focus on “white goods” (refrigerators, washers, microwave cookers and other appliances) that are environmentally safe, energy efficient and recyclable
  - Semiconductors: Power chips to save energy, lower costs and downsize electrical/electronic devices
  - Others: LED, photovoltaic batteries, products for water treatment, including processing films and their manufacturing equipment

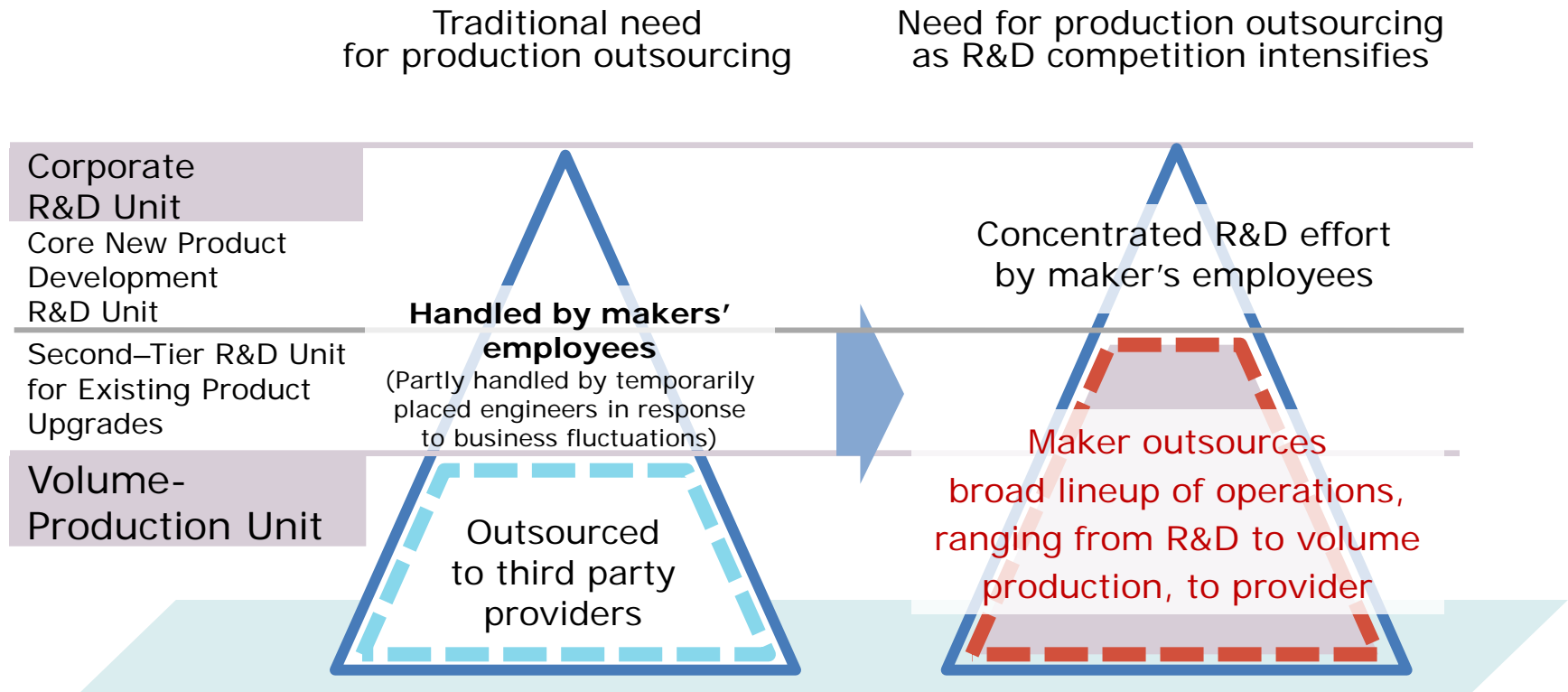


- Environmental and eco-friendly products: Requires concentrated research and development based on advanced new technologies
- To meet increasing diversification of consumer needs and shorter product life cycles, need to shorten development times for new products

**Growing need to strengthen  
research and development capacity**

## Differentiating Ourselves in Shift to Contracted Production Outsourcing: Approach to Maker's Second-Tier R&D Unit

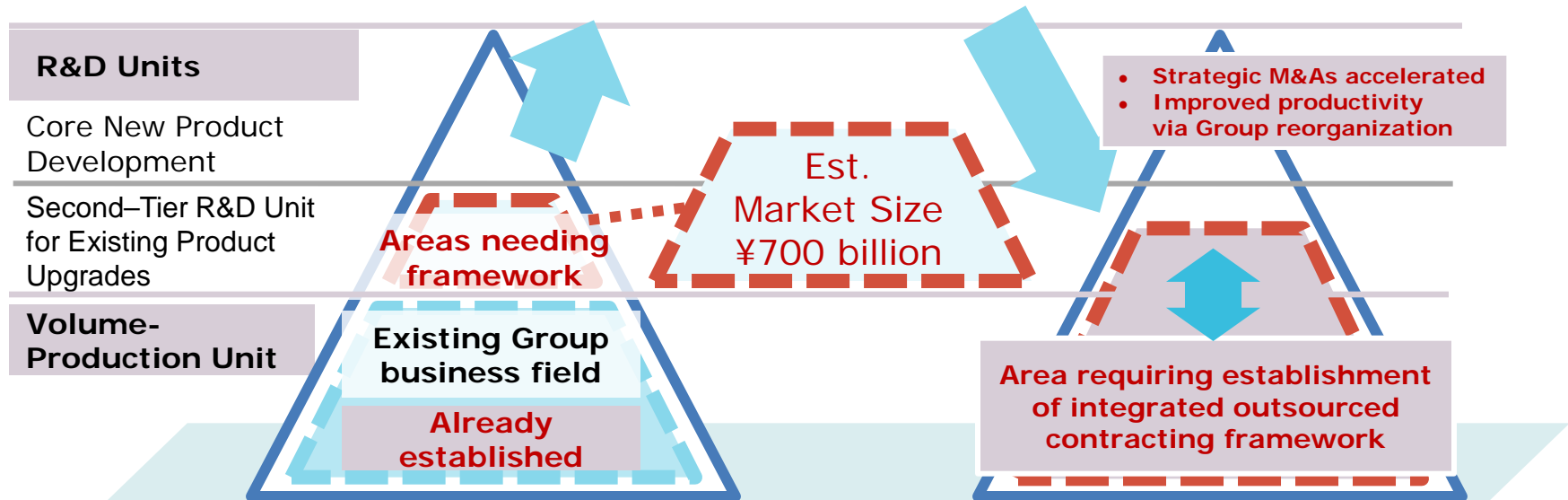
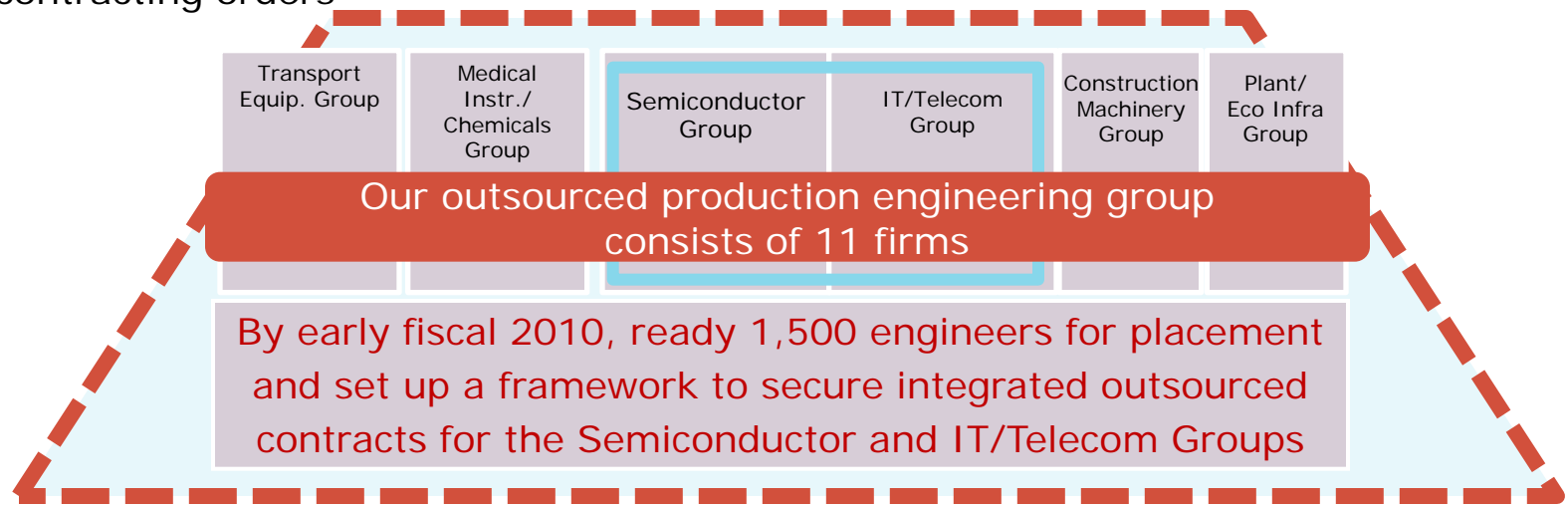
- Needs of makers as to ways using production outsourcing services are evolving



As a maker concentrates its internal human resources on its core R&D unit, everything from second-tier R&D for existing product upgrades is being outsourced on an integrated basis to providers

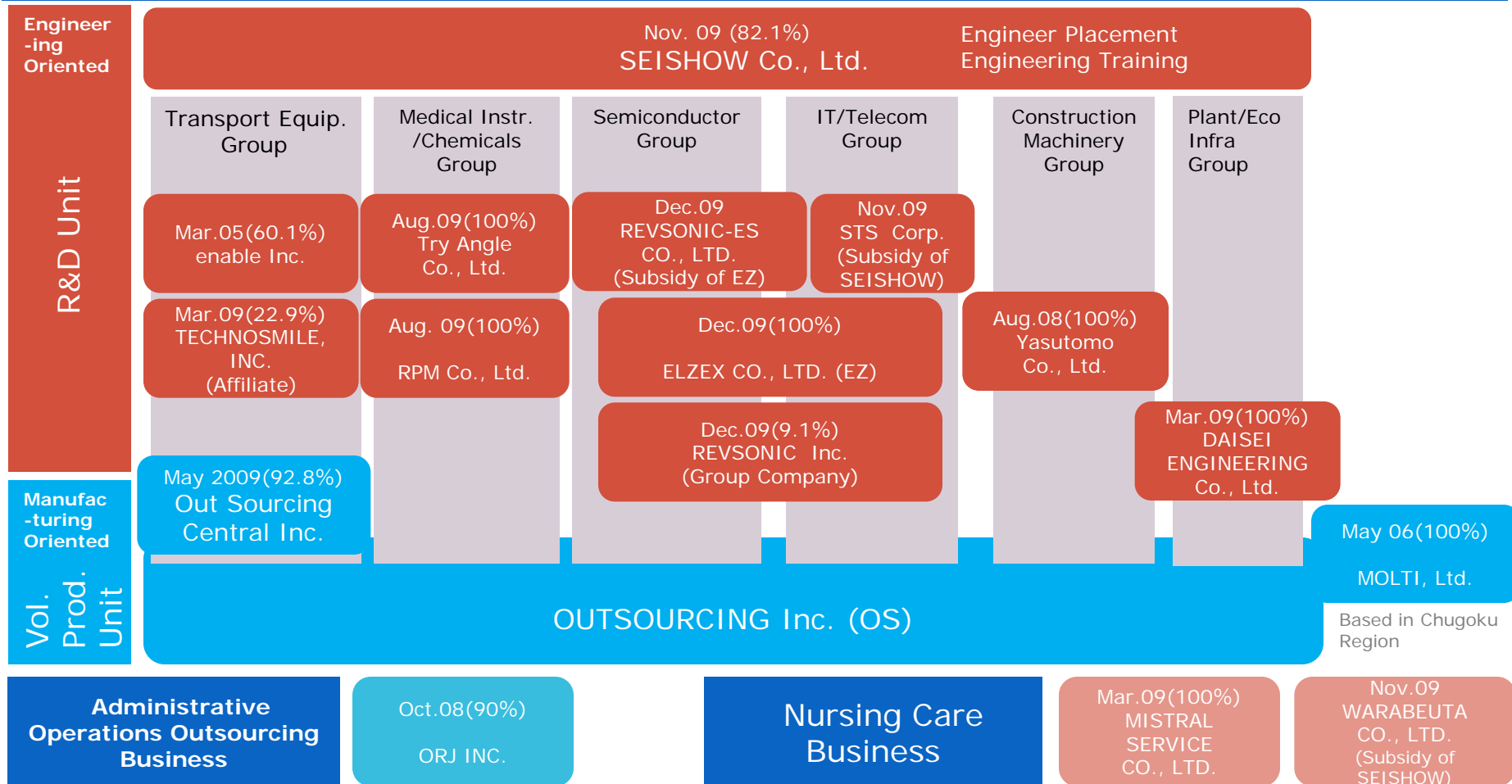
# Differentiating Ourselves in Shift to Contracted Production Outsourcing: Our Group's Integrated Outsourced Contracting Business

- Our Group establishes a framework to provide integrated outsourced contracting services
  - Organizes engineering group to upgrade ability to secure R&D oriented outsourced contracting orders



# Streamlining and Upgrading Group Infrastructure

## Production Outsourcing Business



Review, restructure business domains to fortify, upgrade Group infrastructure in fiscal 2010

# Financial Forecasts for FY12/10



# Consolidated Forecast for FY12/10 (as of Feb.10, 2010)

(¥Million)	FY12/10 Actual		FY12/10 Forecast		Year-on-Year Change	
	Amount	Composition	Amount	Composition	Amount	Ratio
Net Sales	17,964	100.0%	26,000	100.0%	8,036	44.7%
Operating Income	△150	- 0.8%	1,600	6.2%	1,750	-
Ordinary Income	22	0.1%	1,700	6.5%	1,678	-
Current Net Income	△215	-1.2%	1,000	3.8%	1,015	-

## Forecast by Business Segment for FY12/10

	(No. of Workers)	FY12/09 Q4 Act.	FY12/10 Forecast				
	(¥Million)		Q1	Q2	Q3	Q4	Full Year
Production Outsourcing *	No. of Worksite Employees at Term's End	6,109	6,100	6,150	6,400	6,700	-
	Net Sales	5,569	5,822	5,860	6,177	6,499	24,360
	Operating Income	160	134	192	234	312	874
Administrative Operations Outsourcing	Net Sales	85	109	206	347	370	1,033
	Operating Income	3	55	142	261	273	733
Others (incl. Nursing-Care Service)	Net Sales	177	160	160	160	160	640
	Operating Income	27	20	20	20	20	80
Eliminations	Operating Income	Δ20	Δ20	Δ20	Δ20	Δ20	Δ80
Total	Net Sales	5,832	6,091	6,227	6,685	7,029	26,033
	Operating Income	172	191	334	495	586	1,607
	Operating Margin	2.9%	3.1%	5.4%	7.4%	8.3%	6.2%

\* Includes sales of subsidiaries from recruitment agency services with the exception of ORJ

- Of the orders of integrated contracts for full-scale administrative services received at the end of fiscal 2009, some ¥700 million in operating income they represent will be posted in fiscal 2010.



# Overseas Business Development



# Background to Overseas Business Development

- Local production/local consumption trend progresses due to foreign exchange risks and such environmental issues as CO2 reduction
- While populations of developed nations stagnate, populations of emerging economies, particularly in Asia, are growing



- Primary axis of global economic growth shifting to emerging economies centered on China
- World's leading makers shifting production to Asia, whose economies have begun emphasizing domestic consumption



- Given its location in Asia, Japan is being presented with lucrative opportunities as companies around the world set up factories in the emerging Asian countries

Given the sustainable growth potential of markets overseas for many years to come, our Group is committed to developing its overseas businesses as a major profit driver by directing the full force of our expertise in production outsourcing.

## *Our Vision for International Markets*

- *By providing the best of Japan's engineering knowhow, expertise and services to foreign markets, we aim to achieve sustained growth over the mid- and long-term*

## Business Profile

- Overseas Business Unit established in December 2009
  - Recruited management personnel from a major competitor with expertise in launching operations in China and other countries
- Target Markets
  - Phase One (Asia Region): FY12/10 - FY12/11
    - China, Korea, Taiwan Indonesia, Thailand, India
  - Phase Two (South/Latin America; Other Regions): FY12/11 - FY12/12
    - Russia, Brazil, Middle East, Africa

## Business Profile

- Target Markets
  - Local transplants of Japanese companies
  - Large local manufacturers, state-run manufacturers
  - Companies developing technologies specializing in such areas the environment, alternative fuels and safety-related products
- Business Domains
  - To encompass OUTSOURCING Group's entire business line, from Production Outsourcing to Outsourced Administrative services
- FY12/10 Business Plan
  - Domestic Operations: Aggressively expand opportunities to tap the market to train foreign workers in Japan as a pre-emptive measure before current regulations relaxed
  - Overseas Operations: Cater to high demand for engineers and technicians at local manufacturing sites, especially for automotive industry

# Reference I : Financial Data



# Quarterly Results by Business Segment for FY12/09

(¥Million)		FY12/09			
		Q1	Q2	Q3	Q4
Production Outsourcing Business *	Net Sales	3,908	3,548	4,174	5,569
	Operating Income	△300	△89	11	160
Administrative Operations Outsourcing Business	Net Sales	7	36	54	85
	Operating Income	0	15	16	3
Nursing-Care Business	Net Sales	35	100	104	107
	Operating Income	8	19	19	21
Other Businesses	Net Sales	56	40	64	70
	Operating Income	6	0	8	6
Eliminations	Operating Income	△17	△17	△4	△20
Total	Net Sales	4,007	3,725	4,397	5,832
	Operating Income	△303	△70	51	172

\* Includes sales of subsidiaries from recruitment agency services with the exception of ORJ

## Quarterly Results by Industry for FY12/09

(¥Million)	FY12/09			
	Q1	Q2	Q3	Q4
Production Outsourcing Business	3,908	3,548	4,174	5,569
Foods	1,044	873	843	675
Electric Equipment	994	1,081	1,052	1,614
Transport Equipment	465	261	751	1,332
Chemicals/Medicals	849	810	938	1,070
Metals	119	52	61	98
Others	435	467	527	777

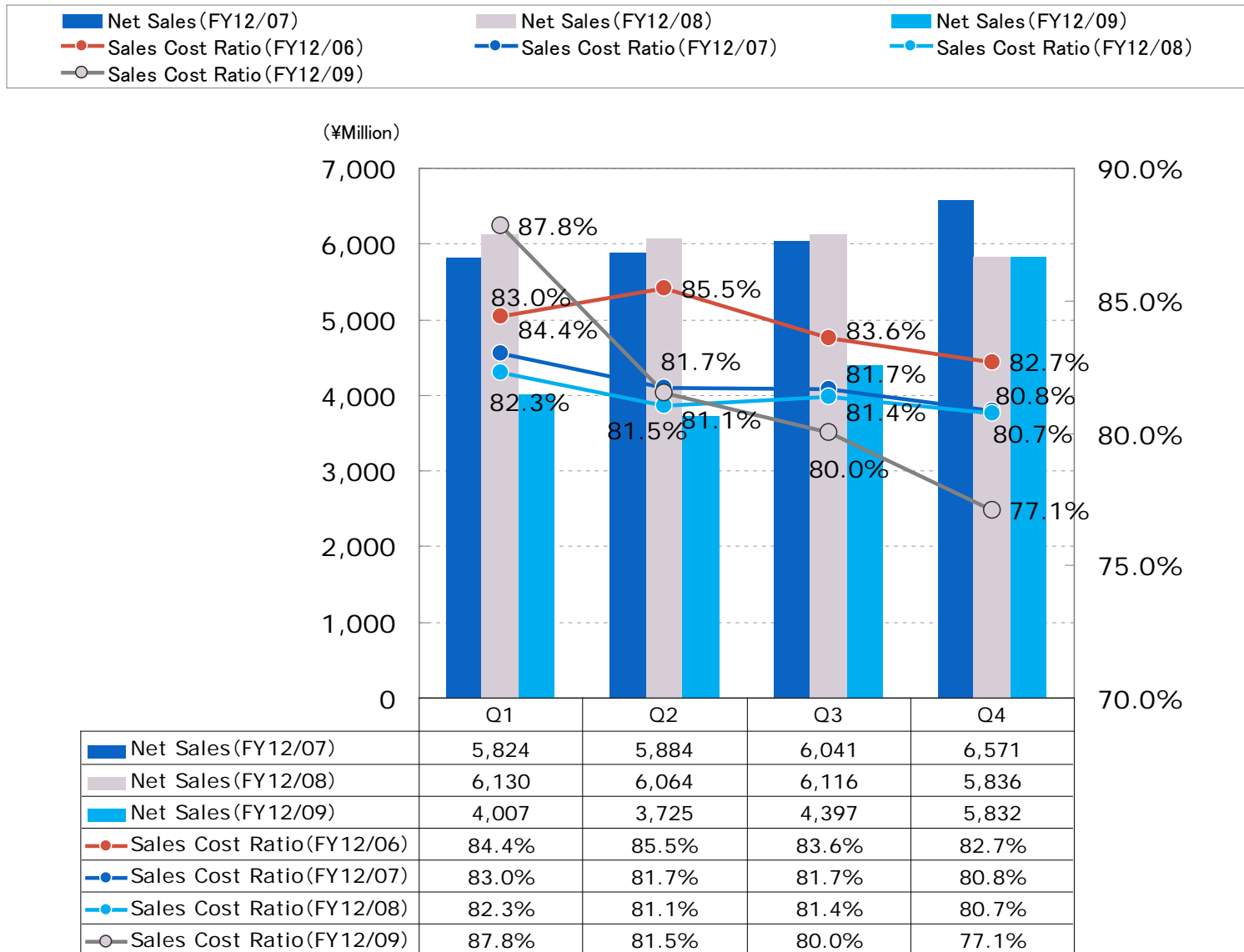
Sizable contribution in transportation equipment-related sales generated by OUTSOURCING CENTRAL CO., LTD., a joint venture with a major automaker's subsidiary that we acquired in June 2009.

## Reference II : Corporate Indices

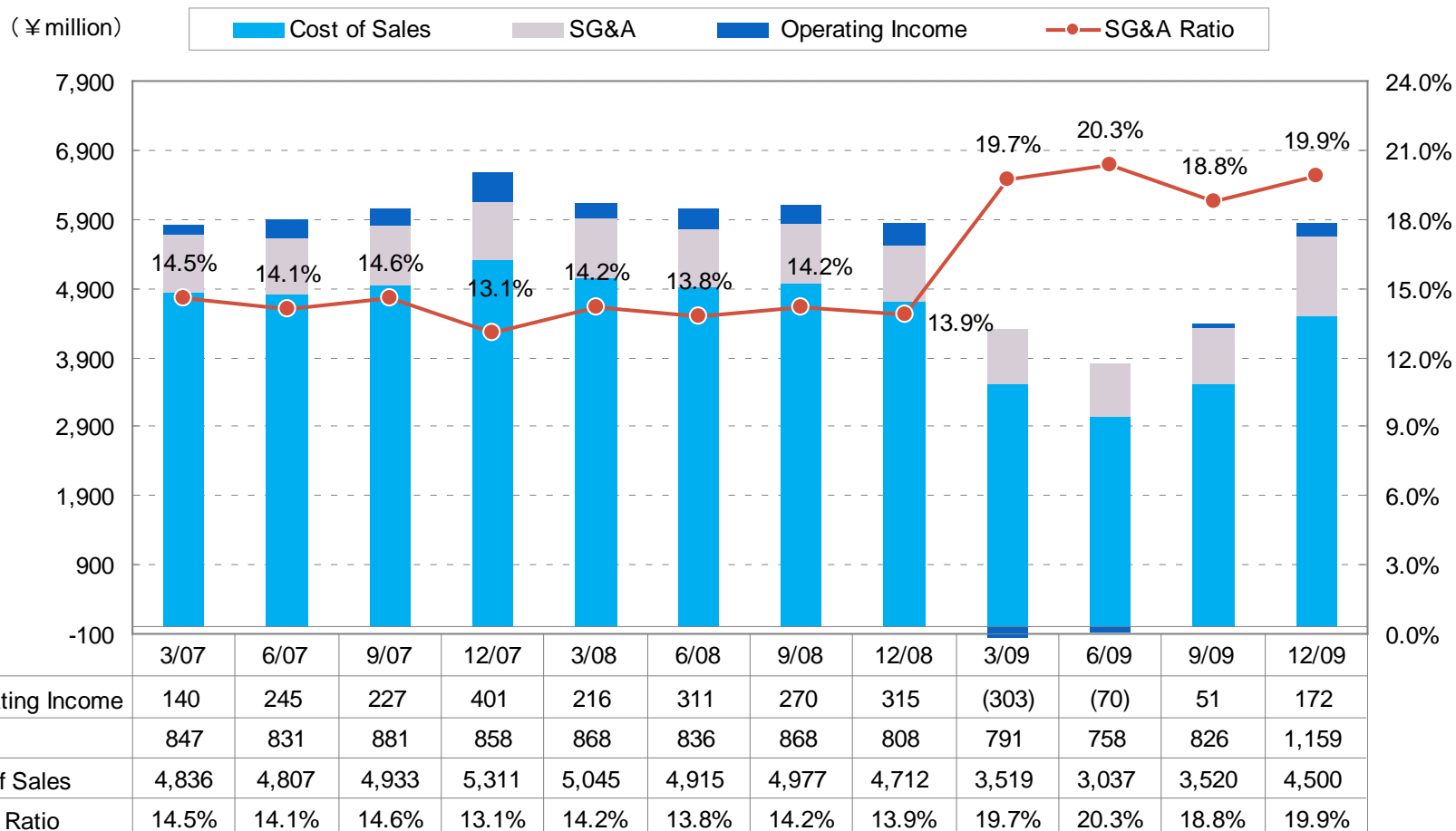




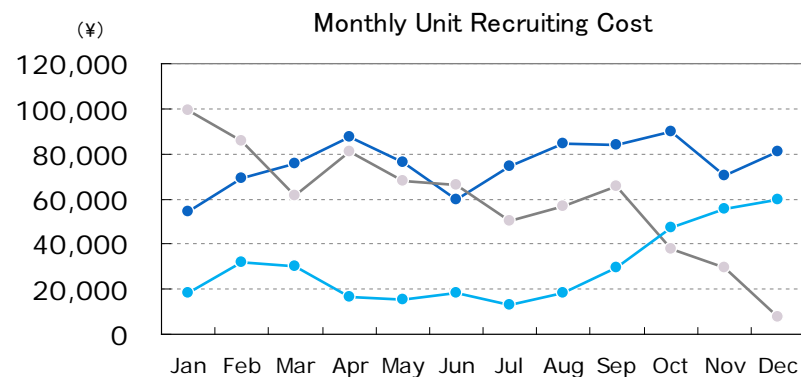
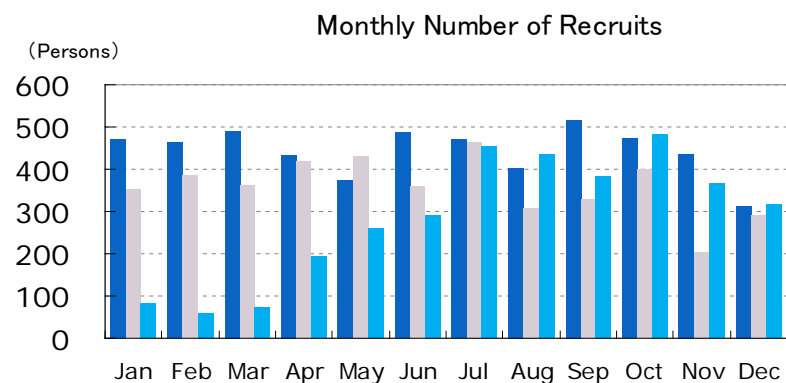
# Quarterly Changes in Net Sales and Cost Ratio (Consolidated)



# Quarterly Changes in SG&A Expenses and Operating Income ( Consolidated)

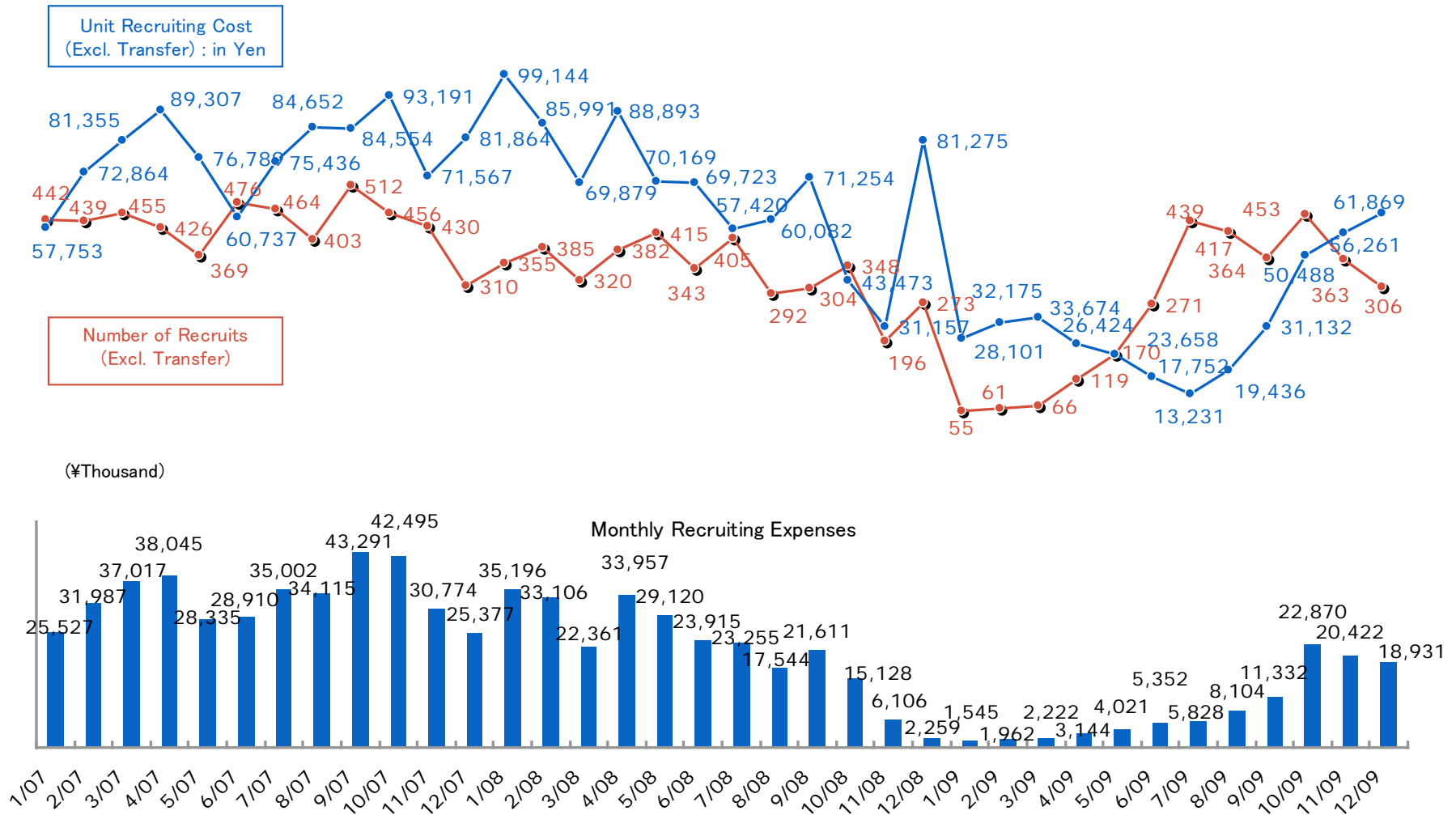


# Monthly Changes in Recruiting Cost per Head

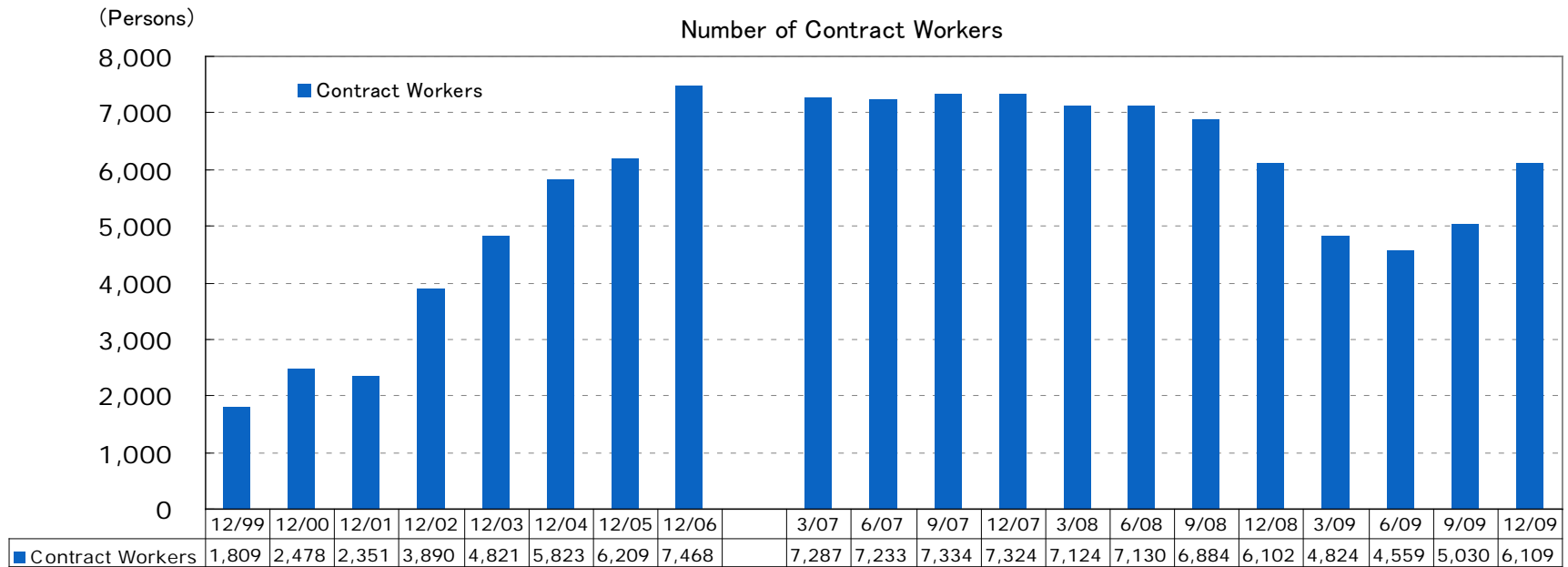


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<span style="color: blue;">■</span> No. of Recruits (incl. Transfer) in 2007	470	462	489	435	372	486	469	404	516	472	438	314
<span style="color: lightblue;">■</span> No. of Recruits (incl. Transfer) in 2008	355	387	362	420	430	361	463	308	331	399	205	290
<span style="color: cyan;">■</span> No. of Recruits (incl. Transfer) in 2009	85	61	74	193	261	290	452	436	385	485	366	318
<span style="color: blue;">◆</span> Unit Recruiting Cost (incl. Transfer) in 2007	54,313	69,236	75,699	87,460	76,169	59,487	74,631	84,442	83,899	90,032	70,259	80,819
<span style="color: lightblue;">◆</span> Unit Recruiting Cost (incl. Transfer) in 2008	99,144	85,546	61,772	80,850	67,721	66,247	50,227	56,961	65,441	37,917	29,789	7,790
<span style="color: cyan;">◆</span> Unit Recruiting Cost (incl. Transfer) in 2009	18,183	32,175	30,034	16,292	15,410	18,458	12,850	18,589	29,434	47,157	55,800	59,534

# Monthly Changes in General Applicants Recruitment



# Quarterly Changes in Number of Contract Workers



A cautionary note on forward-looking statements:

This material contains forward-looking statements about the Company's future plans and forecasts, which are based on the Company's assumptions and beliefs judged from the information currently available and are subject to a number of risks and uncertainties. This may cause actual results differ materially from those projected

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