OUTSOURCING Inc. (Securities Code: 2427/TSE 1st Section)

# Financial Results for the Fiscal Year Ended December 31, 2018

February 2019



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### Consolidated Financial Results Summary

| (¥ million)                                  |         | FY1     | 2/17      |                      |         | FY1     | 2/18    |                      |        |       |
|--|---------|---------|-----------|----------------------|---------|---------|---------|----------------------|--------|-------|
|  |         | Ac      | tual      |                      |         | Ac      | YoY     |                      |        |       |
|  | 1H      | 2H      | Full-Year |                      | 1H      | 2H      | Full    | -Year                | Chan   | ges   |
|  | Amount  | Amount  | Amount    | Composition<br>Ratio | Amount  | Amount  | Amount  | Composition<br>Ratio | Amount | Ratio |
| Revenue                                      | 105,811 | 124,361 | 230,172   | 100.0%               | 139,099 | 172,212 | 311,311 | 100.0%               | 81,139 | 35.3% |
| Cost of sales                                | 86,035  | 98,321  | 184,356   | 80.1%                | 112,618 | 136,293 | 248,911 | 80.0%                | 64,555 | 35.0% |
| Gross profit                                 | 19,776  | 26,040  | 45,816    | 19.9%                | 26,481  | 35,919  | 62,400  | 20.0%                | 16,584 | 36.2% |
| SG&A expenses                                | 16,489  | 18,297  | 34,786    | 15.1%                | 21,514  | 25,755  | 47,269  | 15.2%                | 12,483 | 35.9% |
| Operating profit                             | 3,474   | 7,886   | 11,360    | 4.9%                 | 4,908   | 10,165  | 15,073  | 4.8%                 | 3,713  | 32.7% |
| Profit before tax                            | 3,075   | 7,320   | 10,395    | 4.5%                 | 3,887   | 9,150   | 13,037  | 4.2%                 | 2,642  | 25.4% |
| Profit for the period                        | 1,740   | 5,189   | 6,929     | 3.0%                 | 2,465   | 6,199   | 8,664   | 2.8%                 | 1,735  | 25.0% |
| Profit attributable to owners of the Company | 1,390   | 4,790   | 6,180     | 2.7%                 | 2,069   | 5,627   | 7,696   | 2.5%                 | 1,516  | 24.5% |

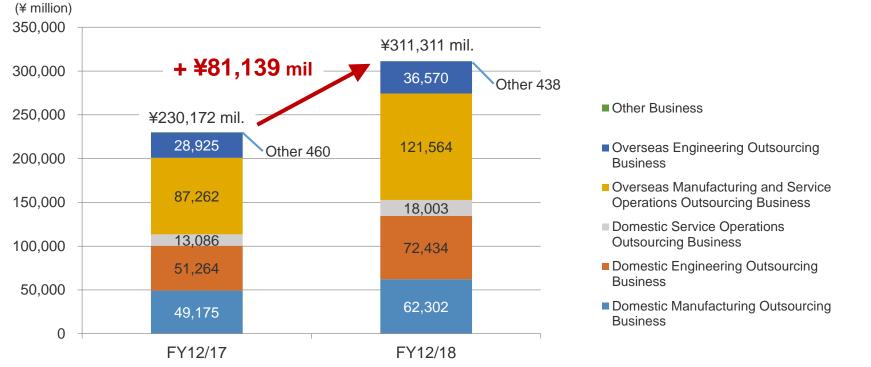
\*The amounts shown are rounded off to the nearest million yen.

Highlights of Consolidated Financial Results

### **Revenue ¥311,311 million (+35.3% YoY)**

Through generating group synergies, all segments grew and revenue exceeded initial guidance by ¥21,311 million.

- In Japan, in addition to ongoing demand arising from revised labor laws, demand for foreigner technical intern trainees<sup>1</sup>arose.
- Overseas, schemes for human resource mobility from countries with abundant workforces to those with tight conditions expanded globally.



\*FY12/17 segments in the graph have been restated to correspond to new segment classifications from FY12/18.

\*1  $\rightarrow$  Please refer to P.26-30

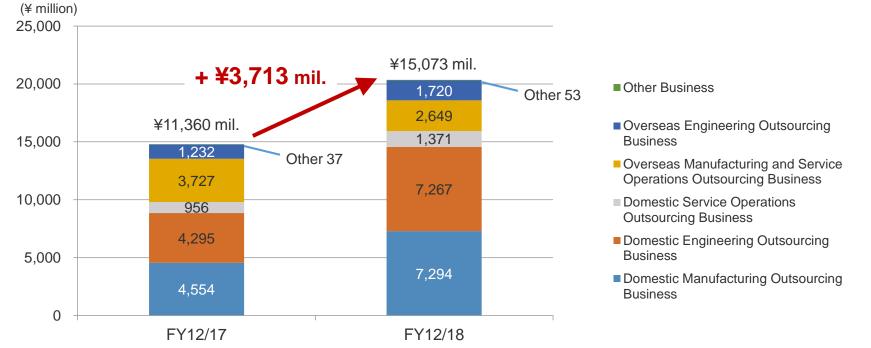
### Out-Sourcing!

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Highlights of Consolidated Financial Results

## Operating Profit ¥ 15,073 million (+32.7% YoY)

- Operating profit exceeded initial guidance by ¥1,273 million, posting a new record high, absorbing larger than initially planned leading investments toward a new growth phase, on strong orders and new hires based on differentiated strategies.
- Due to uncertainties regarding Brexit, the Company at its own discretion booked an impairment loss of ¥700 million for its group subsidiary VERACITY OSI UK LIMITED, which is engaged in consulting work in the U.K. mainly for accounting and finance.



\*FY12/17 segments in the graph have been restated to correspond to new segment classifications from FY12/18.

\*The operating profit adjustments (FY12/17 ¥(3,441) million and FY12/18 ¥(5,281) million) are not shown in the graph but are reflected in the total operating profit amounts.

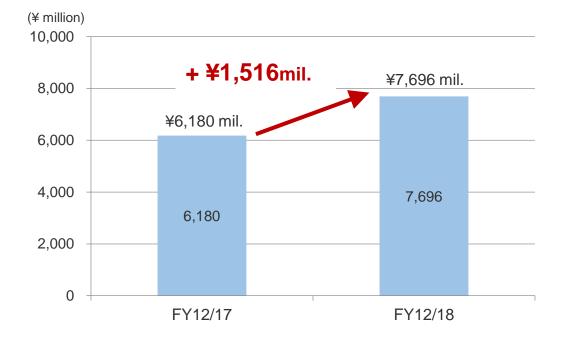
Out-Sourcing!

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Highlights of Consolidated Financial Results

### Profit Attributable to Owners of the Company ¥7,696 million (+24.5% YoY)

- Profit attributable to owners of the Company exceeded initial guidance by ¥796 million, renewing a record high, due to strong revenue and operating profit
- The Company booked financial gain of ¥900 million from revaluation of written put option liabilities related to noncontrolling shareholders of VERACITY OSI UK LIMITED





Highlights of Consolidated Financial Results

### **Overview by Operating Segment**

**Domestic Manufacturing Outsourcing Business** 

Revenue: ¥ 62,302 million (+26.7% YoY) Operating Profit: ¥7,294 million (+60.2% YoY)

Results grew on the back of the advantage in business related to technical intern trainees<sup>2</sup> and the PEO scheme through risk-taking toward development from 2015.

Revenue increased from growth in the PEO scheme which resolves client issues arising from the revised labor laws.

Overall gross profit margin rose 1.1pp YoY to 27.0% due to growth in high margin administrative operations outsourcing of technical intern trainees (gross profit margin over 35%).

Operating profit margin improved 2.4pp YoY to 11.7% due to the rise in gross profit margin and decline in SG&A expenses ratio (operating profit margin for administrative outsourcing of technical intern trainees is over 20%).

\*2  $\rightarrow$  please refer to P.26-30

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Highlights of Consolidated Financial Results

### **Overview by Operating Segment**

#### **Domestic Engineering Outsourcing Business**

Revenue: ¥72,434 million (+41.3% YoY) Operating Profit: ¥7,267 million (+69.2% YoY)

Results grew on the increase in the number of hires in both new graduates and mid-career staff becoming an advantage.

- Through establishing a scheme for engineer dispatch of starting from low-end entry positions, achieved entry into a
  wide range of technical fields, and established a mechanism for career change in field and occupation for individual
  engineers whose skill sets have become no longer necessary in the current environment where the cycle for required
  technical skills has shortened, providing an opportunity to obtain new skills at KEN School.\*3
- Established a mechanism for career advancement into high-end areas through improving skills at KEN School when technology is required over the longer term for certain fields and occupations.\*3

Revenue increased on the rise in the number of hires.

Gross profit margin rose 3.5pp YoY to 27.4% on the rise in contract unit prices.

Operating profit margin rose 1.6pp YoY to 10.0%, with revenue, gross profit margin and operating profit margin all posting record highs.

(Ref. figures) ■ KEN School scheme: The scheme for training inexperienced people at the Group's KEN School and then assigning them Initial full-year plan 1,500 ⇒ Actual 1,544

■ Taking in displaced engineers from industry consolidation.<sup>3</sup> Incorporating staff from agencies which are unable to maintain business due to the "2018 Problem" <sup>4</sup> as a result of the Revised Worker Dispatching Act Initial full-year plan 650 ⇒ Actual 1,028

■ Hiring of new graduates:<sup>3</sup> Initial estimated new hires  $750 \Rightarrow$  Actual Apr-2018 new hires 1,050

\*3  $\rightarrow$  please refer to P.31-34 \*4  $\rightarrow$  please refer to P.49

Highlights of Consolidated Financial Results

### **Overview by Operating Segment**

**Domestic Service Operations Outsourcing Business** 

Revenue: ¥ 18,003 million (+37.6% YoY) Operating Profit: ¥1,371 million (+43.4% YoY)

Results grew on winning multiple orders for large-lot projects after enhancing bonded insurance required for bidding on auctions for business within US military facilities.<sup>5</sup>

Earnings growth stagnated in 3Q due to the above average number of typhoon strikes forcing construction work to be halted, however, the lag was made up in 4Q.

Operating profit margin rose 0.3pp YoY to 7.6% on improved profitability, with both revenue and operating profit rising sharply.

\*5  $\rightarrow$  please refer to P.35

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Highlights of Consolidated Financial Results

### **Overview by Operating Segment**

**Overseas Manufacturing and Service Operations Outsourcing Business** 

Revenue: ¥ 121,564 million (+39.3% YoY) Operating Profit: ¥2,649 million (-28.9% YoY)

Revenue rose sharply on increased hires from favorable progress on the cross-border HR mobility scheme<sup>6</sup> in Europe, and steady growth of various public works related outsourcing businesses<sup>6</sup> in Europe and Australia.

Operating profit declined by 28.9% YoY, booking a one-time expense of ¥700 million for a voluntary impairment loss regarding uncertainties about Brexit.

Each business scheme differentiated from competitors expanded favorably.



Highlights of Consolidated Financial Results

### **Overview by Operating Segment**

**Overseas Engineering Outsourcing Business** 

Revenue: ¥ 36,570 million (+26.4% YoY) Operating Profit: ¥1,720 million (+39.5% YoY)

Results grew on growth for each of BPO contract work<sup>7</sup> for central and local governments in Europe and Australia using proprietarily developed systems, various outsourcing businesses for public facilities and contract work for financial institutions. BPO(Business Process Outsourcing): blanket contract

Results grew on the increased number of hires from starting a scheme for the training and assignment of engineers at an OS Group school<sup>7</sup> in Australia for the ICT field for the government and financial sectors.

Both revenue and operating profit posted record highs on a quarterly basis in 4Q on favorable growth in each business scheme.



Highlights of Consolidated Financial Results

### FY12/18 Consolidated Financial Results General Overview

- The Company has a future growth vision which includes a short-medium term revenue target of ¥1 trillion, and long-term goal of becoming the dominant global No.1 HR services company, and in order to achieve these goals, it is identifying structural changes in society arising from progress in the future, revealing clear growth drivers arising from subsequent demand, and it is making major leading investments to capture that demand.
- By chance benefitting from strength in certain industries and by chance posting earnings growth leads to uncertainty from the following year onward
   Investments made prior to 2017 which are linked to current growth:
- Concentrating client weight in automakers: From 2007, commenced leading investments toward establishing schemes for acquiring automakers as clients which would not get caught up in price competition
- Technical intern trainees: From 2011, commenced leading investment toward establishing a scheme for overseas training centers and domestic administrative outsourcing business, surmising that business related to technical intern trainees would expand on the progression of labor shortages in the wake of the declining birthrate and aging society in Japan
- PEO scheme: From 2012, the Japanese government tightened labor laws and regulations for the objective of escaping the deflation recession, and predicting that a response to fixed-term contract employees hired directly by makers would become necessary, commenced leading investment toward establishing a scheme
- Mobilization of workers: From 2012, determined that cross-border mobility of human resources would be an effective measure toward satisfying the supply/demand gap between population decline in countries which need workers and population increase in countries not in strong need of workers, commenced leading investment toward establishing a scheme
- KEN School: From 2014, amidst the emergence of new technologies accelerating and existing technologies becoming obsolete, determined that diversification of covered industrial fields for Domestic Engineering Outsourcing Business would become necessary, and commenced leading investment toward establishing a scheme for the training, assignment and transfer of low-end entry engineers

#### $\ensuremath{\mathbb O}$ Investments made in 2018 which are linked to future growth

- Acquired OTTO Holding B.V. (the Netherlands): determined that mobilization will become increasingly necessary to fill the supply/demand gap of workers
- Acquired ALLEN LANE TOPCO LIMITED (the U.K.): determined that going forward, reduction of civil servants and privatization of public works will

continue on a global scale

 Acquired PROJECT MANAGEMENT PARTNERS PTY LIMITED (Australia): the shortage of engineers is also growing in Australia, and determined that a scheme for training and assignment through a school similar to that of KEN School is required

2018 revenue was ¥81,139 million, +35.3% YoY, and operating profit was ¥3,713 million, +32.7% YoY, after implementing major leading investments in order to establish a clear trend toward the long-term vision

#### Consolidated Financial Results (Quarterly Trends)

| (¥ million)   |        |        | FY12/17 |        |           |        |        | FY12/18 |        |           |
|---|--------|--------|---------|--------|-----------|--------|--------|---------|--------|-----------|
|   |        |        | Actual  | _      |           |        |        | Actual  |        |           |
|   | Q1     | Q2     | Q3      | Q4     | Full-Year | Q1     | Q2     | Q3      | Q4     | Full-Year |
| Revenue   | 50,238 | 55,573 | 59,704  | 64,657 | 230,172   | 63,198 | 75,901 | 81,959  | 90,253 | 311,311   |
| Gross profit  | 9,343  | 10,433 | 11,977  | 14,063 | 45,816    | 12,250 | 14,231 | 16,360  | 19,559 | 62,400    |
| Ratio of gross profit                                 | 18.6%  | 18.8%  | 20.1%   | 21.8%  | 19.9%     | 19.4%  | 18.7%  | 20.0%   | 21.7%  | 20.0%     |
| SG&A expenses   | 8,009  | 8,480  | 8,929   | 9,368  | 34,786    | 9,922  | 11,592 | 12,089  | 13,666 | 47,269    |
| Ratio of SG&A expenses                                | 15.9%  | 15.3%  | 15.0%   | 14.5%  | 15.1%     | 15.7%  | 15.3%  | 14.7%   | 15.1%  | 15.2%     |
| Operating profit                                      | 1,422  | 2,052  | 3,230   | 4,656  | 11,360    | 2,050  | 2,858  | 4,375   | 5,790  | 15,073    |
| Ratio of operating profit                             | 2.8%   | 3.7%   | 5.4%    | 7.2%   | 4.9%      | 3.2%   | 3.8%   | 5.3%    | 6.4%   | 4.8%      |
| Profit before tax                                     | 1,239  | 1,836  | 2,934   | 4,386  | 10,395    | 1,935  | 1,952  | 4,194   | 4,956  | 13,037    |
| Ratio of profit before tax                            | 2.5%   | 3.3%   | 4.9%    | 6.8%   | 4.5%      | 3.1%   | 2.6%   | 5.1%    | 5.5%   | 4.2%      |
| Profit attributable to owners of the Company          | 544    | 846    | 1,750   | 3,040  | 6,180     | 1,186  | 883    | 2,080   | 3,547  | 7,696     |
| Ratio of profit attributable to owners of the Company | 1.1%   | 1.5%   | 2.9%    | 4.7%   | 2.7%      | 1.9%   | 1.2%   | 2.5%    | 3.9%   | 2.5%      |
| QoQ/YoY Changes                                       |        |        | FY12/17 |        |           |        |        | FY12/18 |        |           |
|   |        |        | Actual  | _      |           |        |        | Actual  |        |           |
|   | Q1     | Q2     | Q3      | Q4     | Full-Year | Q1     | Q2     | Q3      | Q4     | Full-Year |
| Revenue   | 22.6%  | 10.6%  | 7.4%    | 8.3%   | 71.4%     | -2.3%  | 20.1%  | 8.0%    | 10.1%  | 35.3%     |
| Gross profit  | 4.6%   | 11.7%  | 14.8%   | 17.4%  | 65.0%     | -12.9% | 16.2%  | 15.0%   | 19.5%  | 36.2%     |
| SG&A expenses   | 27.7%  | 5.9%   | 5.3%    | 4.9%   | 60.7%     | 5.9%   | 16.8%  | 4.3%    | 13.1%  | 35.9%     |
| Operating profit                                      | -12.0% | 44.4%  | 57.4%   | 44.1%  | 104.2%    | -56.0% | 39.4%  | 53.1%   | 32.4%  | 32.7%     |
| Profit before tax                                     | -31.8% | 48.2%  | 59.8%   | 49.5%  | 110.5%    | -55.9% | 0.9%   | 114.9%  | 18.2%  | 25.4%     |
| Profit attributable to owners of the Company          | -61.0% | 55.4%  | 106.9%  | 73.7%  | 103.4%    | -61.0% | -25.6% | 135.6%  | 70.5%  | 24.5%     |

\*The amounts shown are rounded off to the nearest million yen.

### • Financial Results by Operating Segment (Quarterly Trends)

| (¥ million)   |   |        |        | FY12/17 |        |           |         |         | FY12/18 |         |           |
|---|---|--------|--------|---------|--------|-----------|---------|---------|---------|---------|-----------|
|   |   |        |        | Actual  |        |           |         |         | Actual  |         |           |
|   |   | Q1     | Q2     | Q3      | Q4     | Full-Year | Q1      | Q2      | Q3      | Q4      | Full-Year |
|   | Revenue   | 10,909 | 11,633 | 12,542  | 14,091 | 49,175    | 13,848  | 14,937  | 15,853  | 17,664  | 62,302    |
|   | Operating profit                                      | 655    | 907    | 981     | 2,011  | 4,554     | 1,368   | 1,370   | 1,640   | 2,916   | 7,294     |
| Domestic Manufacturing                              | No. of worksite employees at term-end                 | 9,480  | 10,295 | 10,686  | 11,096 | 11,096    | 11,050  | 11,826  | 12,363  | 13,698  | 13,698    |
| Outsourcing Business                                | No. of outsourcing administrative workers at term-end | 3,381  | 3,480  | 4,095   | 5,628  | 5,628     | 5,554   | 6,716   | 7,467   | 11,225  | 11,225    |
|   | No. of placed workers                                 | 834    | 1,065  | 881     | 834    | 3,614     | 818     | 1,033   | 971     | 1,030   | 3,852     |
| Domestic Engineering                                | Revenue   | 11,279 | 12,306 | 13,174  | 14,775 | 51,264    | 15,359  | 17,188  | 18,826  | 21,061  | 72,434    |
| Outsourcing Business                                | Operating profit                                      | 583    | 661    | 1,243   | 1,808  | 4,295     | 986     | 1,299   | 1,767   | 3,215   | 7,267     |
|   | No. of worksite employees at term-end                 | 6,286  | 7,161  | 7,956   | 8,716  | 8,716     | 9,474   | 10,943  | 12,138  | 12,763  | 12,763    |
| Domestic Service Operations<br>Outsourcing Business | Revenue   | 823    | 3,801  | 3,813   | 4,649  | 13,086    | 4,574   | 4,675   | 4,145   | 4,609   | 18,003    |
|   | Operating profit                                      | (5)    | 292    | 328     | 341    | 956       | 356     | 301     | 387     | 327     | 1,371     |
|   | No. of worksite employees at term-end                 | 1,762  | 2,503  | 2,803   | 2,932  | 2,932     | 2,890   | 2,985   | 2,815   | 3,370   | 3,370     |
| Overseas Manufacturing and                          | Revenue   | 20,612 | 20,924 | 22,351  | 23,375 | 87,262    | 21,943  | 30,159  | 33,748  | 35,714  | 121,564   |
| Service Operations                                  | Operating profit                                      | 929    | 655    | 1,246   | 897    | 3,727     | 380     | 1,018   | 1,393   | (142)   | 2,649     |
| Outsourcing Business                                | No. of worksite employees at term-end                 | 31,953 | 32,219 | 33,024  | 35,180 | 35,180    | 32,281  | 46,034  | 47,197  | 44,868  | 44,868    |
|   | Revenue   | 6,491  | 7,069  | 7,711   | 7,654  | 28,925    | 7,329   | 8,836   | 9,305   | 11,100  | 36,570    |
| Overseas Engineering<br>Outsourcing Business        | Operating profit                                      | 164    | 291    | 388     | 389    | 1,232     | 309     | 355     | 484     | 572     | 1,720     |
|   | No. of worksite employees at term-end                 | 1,893  | 2,038  | 2,132   | 1,956  | 1,956     | 2,091   | 2,252   | 2,507   | 3,043   | 3,043     |
|   | Revenue   | 124    | 110    | 113     | 113    | 460       | 145     | 106     | 82      | 105     | 438       |
| Other Business                                      | Operating profit                                      | 8      | (7)    | 16      | 20     | 37        | 19      | 42      | 23      | (31)    | 53        |
|   | No. of worksite employees at term-end                 | 4      | 5      | 5       | 3      | 3         | 3       | 3       | 4       | 4       | 4         |
| Adjustments   | Operating profit                                      | (912)  | (747)  | (972)   | (810)  | (3,441)   | (1,368) | (1,527) | (1,319) | (1,067) | (5,281)   |
| Total   | Revenue   | 50,238 | 55,573 | 59,704  | 64,657 | 230,172   | 63,198  | 75,901  | 81,959  | 90,253  | 311,311   |
|   | Operating profit                                      | 1,422  | 2,052  | 3,230   | 4,657  | 11,360    | 2,050   | 2,858   | 4,375   | 5,790   | 15,073    |

| Dovonuo hy Dogion  |        |        | FY12/17 |        |           | FY12/18 |        |        |        |           |       |  |  |
|--------------------|--------|--------|---------|--------|-----------|---------|--------|--------|--------|-----------|-------|--|--|
| Revenue by Region  |        |        | Actual  |        |           |         |        | Actual |        |           |       |  |  |
| (¥ million)        | Q1     | Q2     | Q3      | Q4     | Full-Year | Q1      | Q2     | Q3     | Q4     | Full-Year |       |  |  |
| Japan              | 23,135 | 27,580 | 29,642  | 33,628 | 113,985   | 33,926  | 36,906 | 38,906 | 43,439 | 153,177   | 1     |  |  |
| Asia (excl. Japan) | 4,232  | 4,500  | 4,751   | 5,289  | 18,772    | 4,716   | 4,367  | 4,453  | 3,340  | 16,876    | *1: - |  |  |
| Oceania            | 8,685  | 9,540  | 10,178  | 10,048 | 38,451    | 9,149   | 11,133 | 11,347 | 12,821 | 44,450    | 1     |  |  |
| Europe             | 12,922 | 12,866 | 14,030  | 14,309 | 54,127    | 14,057  | 21,785 | 25,456 | 28,357 | 89,655    | 1     |  |  |
| South America      | 1,264  | 1,087  | 1,103   | 1,383  | 4,837     | 1,350   | 1,710  | 1,797  | 2,296  | 7,153     | *2: I |  |  |
| Total              | 50,238 | 55,573 | 59,704  | 64,657 | 230,172   | 63,198  | 75,901 | 81,959 | 90,253 | 311,311   | á     |  |  |

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

2: Inter-segment transactions in revenue by region are eliminated.

### Summary of Consolidated Statement of Financial Position

| (¥ million)                                  | FY12    | /17-End              | FY12/    | 18-End               | YoY Changes |   |
|--|---------|----------------------|----------|----------------------|-------------|---|
|  | Amount  | Composition<br>Ratio | Amount   | Composition<br>Ratio | Amount      |   |
| Current assets                               | 59,312  | 47.6%                | 93,636   | 51.6%                | 34,324      |   |
| (Cash and cash equivalents)                  | 19,108  | 15.3%                | 29,451   | 16.2%                | 10,343      |   |
| (Trade and other receivables)                | 34,390  | 27.6%                | 50,165   | 27.6%                | 15,775 (    | 6 |
| (Inventories)                                | 1,373   | 1.1%                 | 1,509    | 0.8%                 | 136         |   |
| Non-current assets                           | 65,333  | 52.4%                | 87,941   | 48.4%                | 22,608      |   |
| Property, plant and equipment                | 6,922   | 5.6%                 | 10,249   | 5.6%                 | 3,327       |   |
| Goodwill                                     | 39,239  | 31.5%                | 57,065   | 31.4%                | 17,826      | 6 |
| Intangible assets                            | 10,936  | 8.8%                 | 11,288   | 6.2%                 | 352         |   |
| Other non-current financial assets           | 3,137   | 2.5%                 | 5,378    | 3.0%                 | 2,241       |   |
| Total assets                                 | 124,645 | 100.0%               | 181,577  | 100.0%               | 56,932      |   |
| Current liabilities                          | 51,594  | 41.4%                | 67,246   | 37.0%                | 15,652      |   |
| (Trade and other payables)                   | 23,758  | 19.1%                | 32,038   | 17.6%                | 8,280       |   |
| (Bonds and borrowings)                       | 14,354  | 11.5%                | 14,822   | 8.2%                 | 468         |   |
| (Income tax payables)                        | 4,659   | 3.7%                 | 4,635    | 2.6%                 | (24)        |   |
| Non-current liabilities                      | 46,294  | 37.1%                | 56,054   | 30.9%                | 9,760       |   |
| (Bonds and borrowings)                       | 33,727  | 27.1%                | 39,265   | 21.6%                | 5,538       | 6 |
| (Other non-current financial liabilities)    | 5,740   | 4.6%                 | 11,125   | 6.1%                 | 5,385       | 6 |
| Total liabilities                            | 97,888  | 78.5%                | 123,300  | 67.9%                | 25,412      |   |
| Share capital                                | 7,131   | 5.7%                 | 25,123   | 13.8%                | 17,992      |   |
| Share premium                                | 8,843   | 7.1%                 | 26,587   | 14.6%                | 17,744      | - |
| Treasury shares                              | (0)     | -0.0%                | (0)      | 0.0%                 | 0           |   |
| Other share premium                          | (5,814) | -4.7%                | (14,178) | -7.8%                | (8,364)     | ł |
| Retained earnings                            | 14,057  | 11.3%                | 19,990   | 11.0%                | 5,933       |   |
| Equity attributable to owners of the Company | 24,958  | 20.0%                | 55,362   | 30.5%                | 30,404      |   |
| Non-controlling interests                    | 1,799   | 1.5%                 | 2,915    | 1.6%                 | 1,116       |   |
| Equity                                       | 26,757  | 21.5%                | 58,277   | 32.1%                | 31,520      |   |
| Total liabilities and equity                 | 124,645 | 100.0%               | 181,577  | 100.0%               | 56,932      |   |

Trade and other receivables: Increased from acquiring subsidiaries' shares and expanding businesses

Goodwill:

Increased from acquiring subsidiaries' shares

Bonds and borrowings:

Increased due to loans following business combination

Other non-current financial liabilities: Increased due to booking liabilities following business combination

Share capital/Share premium: Increased due to the issuance of new shares

Other share premium:

Decreased due to accounting treatment following business combination

\*The amounts shown are rounded off to the nearest million yen.

Summary of Consolidated Statement of Cash Flows

| (¥ million)  | FY12/17<br>Actual<br>Amount | FY12/18<br>Actual<br>Amount | YoY<br>Changes<br>Amount |   |
|--|-----------------------------|-----------------------------|--------------------------|---|
| Profit before tax                                  | 10,395                      | 13,037                      | 2,642                    |   |
| Depreciation and amortization                      | 2,481                       | 3,190                       | 709                      |   |
| Decrease (increase) in trade and other receivables | (4,094)                     | (7,226)                     | (3,132)                  |   |
| Increase (decrease) in trade and other payables    | 2,640                       | 2,657                       | 17                       |   |
| Cash flows from operating activities               | 10,132                      | 8,496                       | (1,636)                  |   |
| Payments for purchase of business                  | (7,817)                     | (22,739)                    | (14,922)                 |   |
| Cash flows from investing activities               | (8,498)                     | (30,018)                    | (21,520)                 |   |
| Increase (decrease) of borrowings                  | (759)                       | 2,517                       | 3,276                    |   |
| Dividends paid                                     | (733)                       | (1,937)                     | (1,204)                  |   |
| Cash flows from financing activities               | 5,389                       | 32,442                      | 27,053                   | • |
| Cash and cash equivalents at end of period         | 19,108                      | 29,451                      | 10,343                   |   |

Cash flows from operating activities: Decreased from increase in trade and other receivables

Cash flows from investing activities: Decreased from increase in payments for purchases of business

Cash flows from financing activities: Increased due to the issuance of new shares

# Consolidated Financial Forecasts for FY12/19 (IFRS)



### • Summary for FY12/18 Consolidated Financial Forecasts

| (¥ million)                                  |         |         | 12/18   |                      |         |         | 12/19   |                      |        |       |
|--|---------|---------|---------|----------------------|---------|---------|---------|----------------------|--------|-------|
|  |         |         | tual    |                      |         | Fore    |         | YoY Cha              | anges  |       |
|  | 1H      | 1H 2H   |         | Year                 | 1H      | 2H      | Full    | Year                 |        |       |
|  | Amount  | Amount  | Amount  | Composition<br>Ratio | Amount  | Amount  | Amount  | Composition<br>Ratio | Amount | Ratio |
| Revenue                                      | 139,099 | 172,212 | 311,311 | 100.0%               | 171,000 | 214,000 | 385,000 | 100.0%               | 73,689 | 23.7% |
| Cost of sales                                | 112,618 | 136,293 | 248,911 | 80.0%                | -       | -       | -       | -                    | -      | -     |
| Gross profit                                 | 26,481  | 35,919  | 62,400  | 20.0%                | -       | -       | -       | -                    | -      | -     |
| SG&A expenses                                | 21,514  | 25,755  | 47,269  | 15.2%                | -       | -       | -       | -                    | -      | -     |
| Operating profit                             | 4,908   | 10,165  | 15,073  | 4.8%                 | 4,900   | 14,100  | 19,000  | 4.9%                 | 3,927  | 26.1% |
| Finance income                               | 69      | 56      | 66      | 0.0%                 | -       | -       | -       | -                    | -      | -     |
| Finance costs                                | 1,090   | 1,071   | 2,102   | 0.7%                 | -       | -       | -       | -                    | -      | -     |
| Profit before tax                            | 3,887   | 9,150   | 13,037  | 4.2%                 | 4,200   | 13,300  | 17,500  | 4.5%                 | 4,463  | 34.2% |
| Profit for the period                        | 2,465   | 6,199   | 8,664   | 2.8%                 | 2,600   | 8,800   | 11,400  | 3.0%                 | 2,736  | 31.6% |
| Profit attributable to owners of the Company | 2,069   | 5,627   | 7,696   | 2.5%                 | 2,100   | 7,900   | 10,000  | 2.6%                 | 2,304  | 29.9% |

\*The amounts shown are rounded off to the nearest million yen.

#### Summary for Financial Forecasts by Operating Segment (Annual, Semi-Annual and Quarterly Trends)

| (¥ million)                                  |   |         |         | FY12/18<br>Actual |         |           |         |         |         | FY12/19<br>Forecasts |         |         |           |
|--|---|---------|---------|-------------------|---------|-----------|---------|---------|---------|----------------------|---------|---------|-----------|
|  |   | Q1      | Q2      | Q3                | Q4      | Full-Year | Q1      | Q2      | Q3      | Q4                   | 1H      | 2H      | Full-Year |
|  | Revenue   | 13,848  | 14,937  | 15,853            | 17,664  | 62,302    | 17,500  | 19,500  | 22,200  | 25,400               | 37,000  | 47,600  | 84,600    |
|  | Operating profit                                      | 1,368   | 1,370   | 1,640             | 2,916   | 7,294     | 1,100   | 1,900   | 2,600   | 3,220                | 3,000   | 5,820   | 8,820     |
| Domestic Manufacturing                       | No. of worksite employees at term-end                 | 11,050  | 11,826  | 12,363            | 13,698  | 13,698    | 13,757  | 15,141  | 16,051  | 17,686               | 15,141  | 17,686  | 17,686    |
| Outsourcing Business                         | No. of outsourcing administrative workers at term-end | 5,554   | 6,716   | 7,467             | 11,225  | 11,225    | 12,729  | 14,690  | 17,230  | 20,000               | 14,690  | 20,000  | 20,000    |
|  | No. of placed workers                                 | 818     | 1,033   | 971               | 1,030   | 3,852     | 840     | 900     | 920     | 940                  | 1,740   | 1,860   | 3,600     |
| Demostie Engineering                         | Revenue   | 15,359  | 17,188  | 18,826            | 21,061  | 72,434    | 20,000  | 23,000  | 25,100  | 27,400               | 43,000  | 52,500  | 95,500    |
| Domestic Engineering<br>Outsourcing Business | Operating profit                                      | 986     | 1,299   | 1,767             | 3,215   | 7,267     | 1,370   | 1,030   | 2,790   | 3,510                | 2,400   | 6,300   | 8,700     |
|  | No. of worksite employees at term-end                 | 9,474   | 10,943  | 12,138            | 12,763  | 12,763    | 12,868  | 14,828  | 15,403  | 16,111               | 14,828  | 16,111  | 16,111    |
| Domestic Service                             | Revenue   | 4,574   | 4,675   | 4,145             | 4,609   | 18,003    | 4,500   | 5,000   | 6,100   | 6,700                | 9,500   | 12,800  | 22,300    |
| Operations Outsourcing                       | Operating profit                                      | 356     | 301     | 387               | 327     | 1,371     | 190     | 370     | 550     | 690                  | 560     | 1,240   | 1,800     |
| Business                                     | No. of worksite employees at term-end                 | 2,890   | 2,985   | 2,815             | 3,370   | 3,370     | 3,169   | 3,819   | 4,328   | 4,891                | 3,819   | 4,891   | 4,891     |
| Overseas Manufacturing                       | Revenue   | 21,943  | 30,159  | 33,748            | 35,714  | 121,564   | 29,750  | 32,250  | 38,890  | 38,470               | 62,000  | 77,360  | 139,360   |
| and Service Operations                       | Operating profit                                      | 380     | 1,018   | 1,393             | (142)   | 2,649     | 510     | 1,050   | 1,680   | 1,460                | 1,560   | 3,140   | 4,700     |
| Outsourcing Business                         | No. of worksite employees at term-end                 | 32,281  | 46,034  | 47,197            | 44,868  | 44,868    | 46,287  | 49,507  | 53,333  | 55,674               | 49,507  | 55,674  | 55,674    |
| Overseas Engineering                         | Revenue   | 7,329   | 8,836   | 9,305             | 11,100  | 36,570    | 9,100   | 10,100  | 11,300  | 12,000               | 19,200  | 23,300  | 42,500    |
| Outsourcing Business                         | Operating profit                                      | 309     | 355     | 484               | 572     | 1,720     | 430     | 640     | 720     | 610                  | 1,070   | 1,330   | 2,400     |
|  | No. of worksite employees at term-end                 | 2,091   | 2,252   | 2,507             | 3,043   | 3,043     | 3,113   | 3,336   | 3,331   | 3,431                | 3,336   | 3,431   | 3,431     |
|  | Revenue   | 145     | 106     | 82                | 105     | 438       | 150     | 150     | 210     | 230                  | 300     | 440     | 740       |
| Other Business                               | Operating profit                                      | 19      | 42      | 23                | (31)    | 53        | (60)    | (130)   | (80)    | (110)                | (190)   | (190)   | (380)     |
|  | No. of worksite employees at term-end                 | 3       | 3       | 4                 | 4       | 4         | 3       | 4       | 3       | 3                    | 4       | 3       | 3         |
| Adjustments                                  | Operating profit                                      | (1,368) | (1,527) | (1,319)           | (1,067) | (5,281)   | (1,600) | (1,900) | (1,770) | (1,770)              | (3,500) | (3,540) | (7,040)   |
| Total  | Revenue   | 63,198  | 75,901  | 81,959            | 90,253  | 311,311   | 81,000  | 90,000  | 103,800 | 110,200              | 171,000 | 214,000 | 385,000   |
|  | Operating profit                                      | 2,050   | 2,858   | 4,375             | 5,790   | 15,073    | 1,940   | 2,960   | 6,490   | 7,610                | 4,900   | 14,100  | 19,000    |

\*1: The amounts shown are rounded off to the nearest million yen.

\*2: Inter-segment transactions in revenue by region are eliminated.



### Consolidated Financial Forecasts for FY12/19 (IFRS)

 Foreign exchange rate assumptions against consolidated financial forecasts for FY12/19 released

The Company is maximizing hedging of downside risk of foreign exchange rates as an excuse.

Initial guidance for FY12/19 prepared using foreign exchange rates at the time in November, 2018 yielded revenue over ¥400 billion and operating profit over ¥20 billion.

Since overseas revenue accounts for over half of the total and the yen rate appreciated rapidly coming into January to the JPY107-109/USD level, along with growing uncertainties surrounding Brexit, the initial forecast for FY12/19 was calculated taking a further 7% discount to the peak average monthly yen rate of last August against EUR and GBP which account for a large portion of overseas revenue

| Currency unit                   | EUR    | GBP    | AUD   | USD    |
|---------------------------------|--------|--------|-------|--------|
| 7% discount to<br>Aug2018 (JPY) | 119.32 | 133.09 | 75.75 | 103.30 |





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HR services is a recurring stock business, and an advantage in hiring is required.

Increasing the number of effective applicants and achieving a net increase in the number enrolled is directly linked to growth of HR business.

\*Effective applicants: Applicants who were successfully hired

⇒ Since other competitors in the industry have similar job offer details in taking orders in a side by side manner, the number of hires comes under pressure due to intensified hiring competition, and at the same time recruitment cost rises.

The number of effective applicants for the Company is rising as it globally deploys entering business domains that are attractive to applicants where competitors do not yet have a presence, as well as schemes for advancing skills and career change through use of the Group's schools.



HR services is a recurring stock business, and an advantage in hiring is required.

#### Schemes responding to HR needs differentiated from competitors by segment:

#### Domestic Manufacturing Outsourcing Business (P.26-30)

- Promoting the growing business related to use of foreign workers, expanding staff procurement by bringing staff from countries with growing populations to Japan
- Realizing systematic and stable recruitment through the PEO scheme under which fixed-term contract employees hired directly by makers are hired as indefinite-term employees of the Company

#### Domestic Engineering Outsourcing Business (P.31-34)

Established a system supported by job seekers including a scheme for starting from low-end entry positions in engineer dispatch rolled out to a wide range of technical fields, as well as schemes enabling career change and career advancement to meet prevailing market needs

#### Domestic Service Operations Outsourcing Business (P.35)

Rolling out outsourcing business within US military facilities in Okinawa and elsewhere in Japan, where hiring is relatively easy as a stable occupation, to facilities in the Pacific Rim

#### Overseas Manufacturing and Service Operations Outsourcing Business (P.36-38)

- · Manufacturing: Expanding cross-border HR mobility
- Service Operations: Global development of public work related business where hiring is relatively easy being less susceptible to impact from the economy

#### Overseas Engineering Outsourcing Business (P.39)

Global development of BPO business for governments where hiring is relatively easy being less susceptible to impact from the economy

• HR services is a recurring stock business, and an advantage in hiring is required.

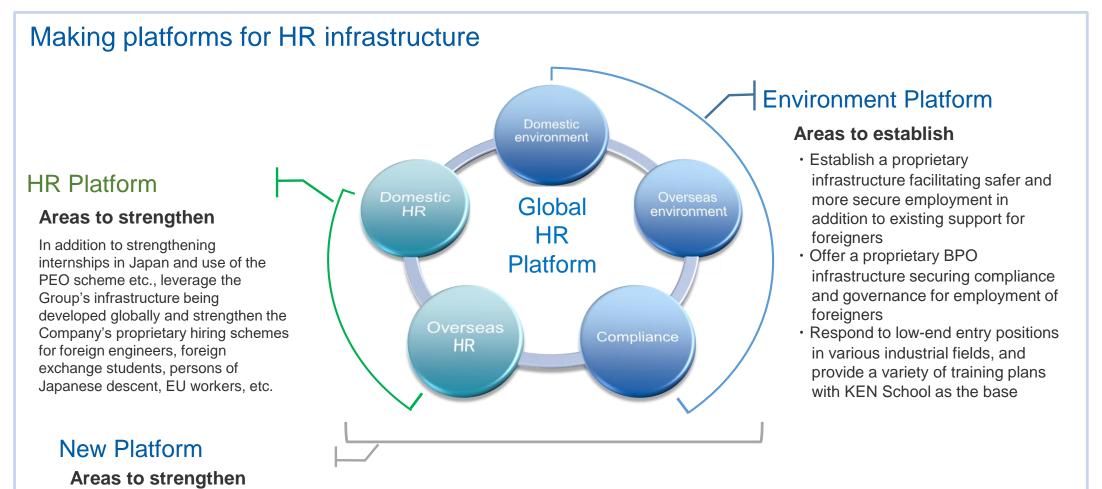
#### 2019 Plan for Number Enrolled by Quarter

| Business Segment  |   | FY12/18<br>Q1-End<br>Actual | FY12/18<br>Q2-End<br>Actual | FY12/18<br>Q3-End<br>Actual | FY12/18<br>Q4-End<br>Actual | FY12/19<br>Q1-End<br>Plan | FY12/19<br>Q2-End<br>Plan | FY12/19<br>Q3-End<br>Plan | FY12/19<br>Q4-End<br>Plan | Net Increase in No.<br>of Enrolled Staff<br>from FY12/18-End<br>to FY12/19-End |
|---|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|--|
| Domestic Manufacturing<br>Outsourcing                           | No. of worksite employees at<br>term-end<br>*Incl. PEO        | 11,050                      | 11,826                      | 12,363                      | 13,698                      | 13,757                    | 15,141                    | 16,051                    | 17,686                    | 3,988  |
|   | No. of workers under outsourcing administration at term-end   | 5,554                       | 6,716                       | 7,467                       | 11,225                      | 12,729                    | 14,690                    | 17,230                    | 20,000                    | 8,775  |
|   | Cumulative no. of placed workers                              | 818                         | 1,851                       | 2,822                       | 3,852                       | 840                       | 1,740                     | 2,660                     | 3,600                     | (252)  |
| Domestic Engineering<br>Outsourcing                             | No. of worksite employees at term-end<br>*Incl. new graduates | 9,474                       | 10,943                      | 12,138                      | 12,763                      | 12,868                    | 14,828                    | 15,403                    | 16,111                    | 3,348  |
|   | (No. of new graduates)  |                             | 1,050                       |                             |                             |                           | 1,500                     |                           |                           | 450  |
| Domestic Service<br>Operations Outsourcing                      | No. of worksite employees at term-end                         | 2,890                       | 2,985                       | 2,815                       | 3,370                       | 3,169                     | 3,819                     | 4,328                     | 4,891                     | 1,521  |
| Overseas Manufacturing<br>and Service<br>Operations Outsourcing | No. of worksite employees at term-end                         | 32,281                      | 46,034                      | 47,197                      | 44,868                      | 46,287                    | 49,507                    | 53,333                    | 55,674                    | 10,806   |
| Overseas Engineering<br>Outsourcing                             | No. of worksite employees at term-end                         | 2,091                       | 2,252                       | 2,507                       | 3,043                       | 3,113                     | 3,336                     | 3,331                     | 3,431                     | 388  |
|   | Total   | 64,158                      | 82,607                      | 87,309                      | 92,819                      | 92,763                    | 103,061                   | 112,336                   | 121,393                   | 28,574   |



HR services is a recurring stock business, and an advantage in hiring is required.

## **©VISION** "WORKING" Beyond Borders



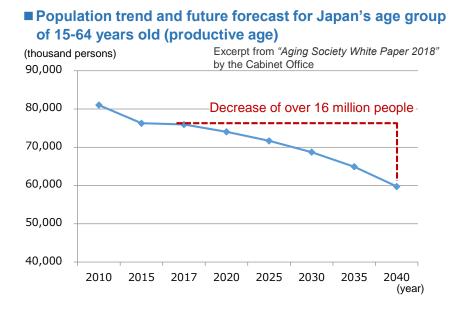
Target optimization of the business ratio with manufacturers by strengthening businesses different from existing businesses in the portfolio including with the US military, service operations and public work

**Domestic Manufacturing Outsourcing Business** 

Respond to changes in manufacturer needs accompanying the declining birthrate and revised labor laws.

Promotion of business related to expanding use of foreigners

Due to the declining domestic population and tight recruitment market, and deregulation of foreign workers, there is growing demand among manufacturers to use foreigners.



As of the end of 2017, foreign workers only accounted for 1.7% of the workforce at 1.29 million (roughly 270,000 technical intern trainees)

The government has established a new status of residence (visa status) effective from April 2019 called "Specified Skills", and is targeting to accept a maximum 340,000 people over the next 5 years.

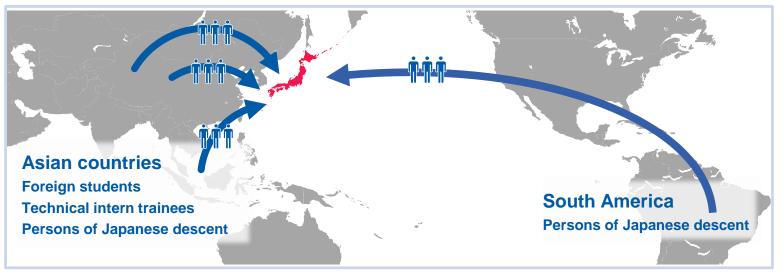
The Company is deploying various measures in Japan and overseas in accordance with specific details, purpose and laws and regulations for each system and scheme for utilization in business related to expanding use of foreigners.

### **Domestic Manufacturing Outsourcing Business**

Respond to changes in manufacturer needs accompanying the declining birthrate and revised labor laws.

#### Promotion of business related to expanding use of foreigners

The Company has established a proprietary recruitment network and utilization scheme in response to measures by manufacturers to deal with the labor shortage in Japan by expanding use of foreign students, technical intern trainees and persons of Japanese descent from Asian countries as well as persons of Japanese descent from South America.



The OS Group is taking various types of administrative work on contract with respect to manufacturers employing technical intern trainees, "Specified Skills" workers and persons of Japanese descent.

• The administration fee per person is agreed through negotiation with manufacturers as a monthly amount.

\*The OS Group also handles dispatch and contract work for use of persons of Japanese descent and foreign students in each business segment, as well as recruiting and placing

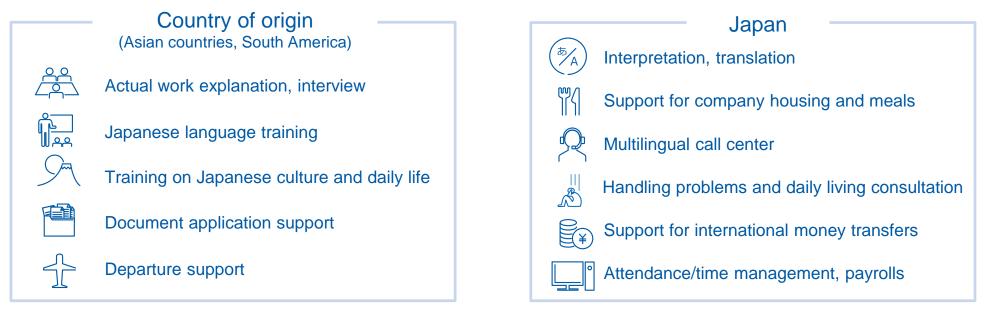
The actual number of persons under Administrative Operations Outsourcing at the end of 2018 reached 11,225, and the Company is targeting a total of over 100,000 just in domestic business related to use of foreigners by 2025, and over 300,000 by 2030.

#### **Domestic Manufacturing Outsourcing Business**

Respond to changes in manufacturer needs accompanying the declining birthrate and revised labor laws

Promotion of business related to expanding use of foreigners

The OS Group is establishing an Environment Platform for supporting foreigners working in Japan with the countries of origin, and creating a safe an secure working and living environment in Japan.



Benefits for the Company from Administrative Operations Outsourcing of foreign workers

- · No employment risk for the Company
- Technical intern trainee contracts can be extended up to a maximum 5 years, and "Specified Skills" workers coming to Japan can be extended indefinitely based on meeting requirements including passing examinations etc.
- The amount of revenue per person under Administrative Outsourcing is lower than for manufacturing dispatch, however, since the cost of sales ratio and SG&A expenses ratio are even lower, operating profit margin is actually higher.
- Technical intern trainees and persons of Japanese descent after returning home can be used locally by the OS Group, and foreign students after graduation can be used as skilled workers.

#### **Domestic Manufacturing Outsourcing Business**

Respond to changes in manufacturer needs accompanying the declining birthrate and revised labor laws.

**PEO** 

Fixed-term contract employees hired directly by makers are hired as indefinite-term employees of the OS Group's PEO.

 $\geq$  Image of the PEO scheme for individual manufacturers

(fixed-term contract employees of dispatch agencies)

Fixed-term contract employees hired directly by makers

All production workers engaged by makers

Maker indefinite-term employees

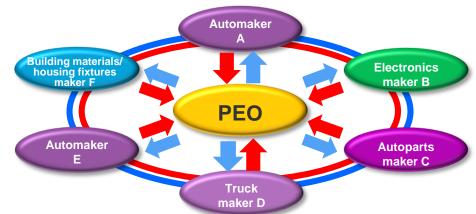
Makers compartmentalize use of dispatch workers, fixed-term contract employees hired directly and indefinite-term employees according to the frequency of response to changes in production.

The Company has determined that the growth mechanism for manufacturing dispatch in response to short-term changes in production has collapsed due to decline in the labor force population as a result of the declining birthrate.

Due to the "2018 Problem" arising as a result of revisions to labor laws, manufacturers are finding it difficult to maintain employment of fixed-term contract employees hired directly.

Due to the "2018 Problem," the Company has shifted to the business area where makers had used fixed-term contract employees hired directly in the past, where an effective solution is through dispatch of indefinite-term employees.

 $\bigcirc$  Overall image of PEO Scheme



Many makers participate in the PEO Scheme run by the Group

Fixed-term contract employees directly hired by makers are transferred to PEO as indefinite-term employees

Dispatching from PEO as indefinite-term employees who can be used by makers on a long-term basis

\*PEO Scheme: Professional Employer Organization (skilled worker employment organization) mechanism

\*Due to requests from makers participating in the PEO scheme, the Company will no longer disclose the number of transfers and those enrolled.

The Company is expanding business under the PEO scheme by accepting maker fixed-term contract employees whose employment is difficult to maintain due to revisions of labor laws.

Domestic Manufacturing Outsourcing Business

Respond to changes in manufacturer needs accompanying the declining birthrate and revised labor laws.

Fixed-term contract employees hired directly by makers are hired as indefinite-term employees of the OS Group's PEO.

[Benefits from PEO Scheme]

- Recruitment media expenses for hiring which have risen due to the labor shortage are not required.
- Since fixed-term contract employees for long-term use by makers are being converted to indefinite-term employee dispatching, contract periods with makers are getting longer.
- Since the Company is taking the employment risk of making employees indefinite-term, contract unit prices
  with makers are roughly 30% higher relative to those of competitors on the presumption of short-term use of
  dispatching.

[Demerits from PEO Scheme]

- Since this is employment of indefinite-term employees, even when the economy deteriorates and clients for dispatching disappear, employment must be maintained.
- Due to the Revised Worker Dispatching Act being enforced in 2015, since makers are expanding use of dispatched workers which has become more convenient, the PEO Scheme will not be able to grow from 2021 onward.

Along with promoting the PEO Scheme from 2015, the Company developed entry on a global scale into fields which have a different business cycle from manufacturing, and into new markets which are less susceptible to the economy with the aim of resolving demerits of PEO, which is leading to high growth for the Company.

**Domestic Engineering Outsourcing Business** 

Industry Environment for Domestic Engineering Outsourcing

Maker demand for R&D engineers is growing from development competition for new technologies such as autonomous driving, electric vehicles, etc.

Al: Artificial Intelligence IoT: Internet of Things (connecting everything to the Internet) Demand for engineers in ICT, AI, IoT etc. is growing from telecom carriers, network home appliances etc.

Demand for system engineers is growing due to rapidly evolving enterprise systems for the finance and retail industries etc.

Demand is growing in the pharmaceutical industry for R&D staff for new drugs for cancer and intractable diseases etc.

Demand is growing for on-site supervisory engineers for building construction projects such as for the Tokyo Olympics, and civil engineering projects under the National Resilience Plan.

...etc.

Demand for engineers continues to grow over the long term as new technologies continues to emerge one after another in various industrial fields.

**Domestic Engineering Outsourcing Business** 

Resolving the issue of tight recruitment relative to ongoing growth in demand for engineers

Establishing many hiring schemes for engineers where demand remains high even in economic downturns



Hiring new graduates

Introduction and use of an intern system Hiring over 1,500 individuals per year



#### Hiring inexperienced people

Establishing and strengthening the training system Hiring over 1,500 individuals per year



Hiring experienced people (mid-career hires)

Establishing and strengthening a staff procurement scheme Hiring over 3,000 individuals per year \*Also focusing on hiring foreign engineers mainly from Asia, hiring 250 in 2018, bringing the number enrolled over 1,000.

Establishing and strengthening various measures for procurement of effective applicants, and through realizing a turnover rate of 1.5%, targeting a net increase to the number enrolled at the end of last fiscal year of over 3,300 per year.

### Out-Sourcing!

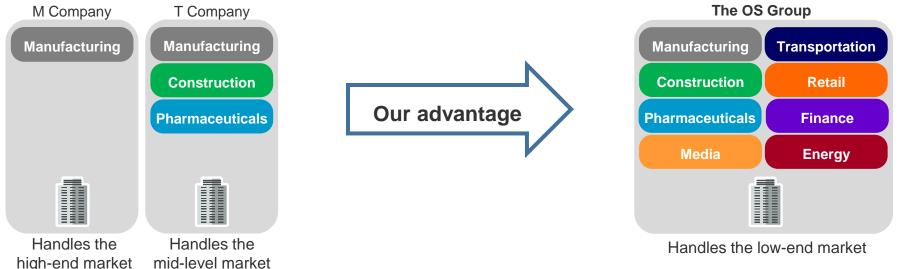
targeting to hire 700 in 2019

**Domestic Engineering Outsourcing Business** 

Resolving the issue of tight recruitment relative to ongoing growth in demand for engineers

Establishing many hiring schemes for engineers where demand remains high even in economic downturns

Reason for the increase in the number of our effective applicants



- The OS Group handles the low-end market in various industrial fields, and achieve raising staff technical skills through KEN School.
- In the present environment where the cycle for required technical skills has shortened, when technical skills acquired by
  engineers themselves become obsolete or unnecessary, the OS Group has established a mechanism for career change through
  acquiring skills in a new technical field at the KEN School.
- Initiatives for in-house services using state-of-the-art technologies (AR TAKUMI, AI, Tapia, etc.) are creating a branding effect for job seekers.

AR TAKUMI: A pioneering platform to realize a remote collaborative work environment developed and provided by the OS Group utilizing AR (augmented reality) technology Al: Development and incorporation of artificial intelligence for various products and services

Tapia: Development and embedding of programs in accordance with applications and objectives of robot business

These various systems and initiatives have been rated highly by both new graduate and general hires, and the number of effective applicants is increasing sharply.

**Domestic Engineering Outsourcing Business** 

Resolving the issue of tight recruitment relative to ongoing growth in demand for engineers

- Establishing many hiring schemes for engineers where demand remains high even in economic downturns
- ◎ Strengthening the hiring, training and assignment of new graduates

By further enrichment of diversified technical fields and deployment of various in-house services, the OS Group will aim to raise recognition and corporate value, increasing the number of hires, shortening the period of the pre-assignment training cost center phase at the KEN School toward early contribution to earnings.

- © Expanding the scheme for using engineer training curriculum jointly developed by the OS group's KEN School and partner firms in various fields such as Advantec for telecom carriers, leading general contractors and pharmaceuticals makers
  - Through mid-career hiring of inexperienced people and those with low technical skills, after 2 months of training using the KEN School and Advantec's curriculum, trainees are placed at appropriate sites on slightly lower contract unit prices.
  - Training is continued after assignment, officially making a career change as an engineer after 1 year, and contract unit prices are hiked by 30%.
- © Securing staff displaced through industry consolidation as a result of the Revised Worker Dispatching Act

Specified dispatching which allowed engaging in dispatching business through just registering disappeared, and since an estimated 80% of dispatch agencies will be unable to acquire a dispatch license due to all becoming subject to a license system and more stringent requirements, the OS Group is expanding incorporation of those displaced through industry consolidation.

Overcome the issue that engineer dispatch agencies cannot grow much due to tight recruitment and expand the scale of business

Domestic Service Operations Outsourcing Business

Strengthening outsourcing business within US military facilities

Rolling out outsourcing business within US military facilities in Okinawa and elsewhere in Japan to facilities in the Pacific Rim

Orders for projects within US military facilities are awarded through the form of bids, and in order to become a selected provider, it is necessary to have strong connections with the US military.

- The Company acquired AMERICAN ENGINEERING CORPORATION (AEC) which has strong connections with the US military through M&A.
- Bonded insurance required by AEC to bid on projects was expanded through the credit rating of the Company, resulting in increased orders from US military facilities.

US military facilities business is being rolled out into the Pacific Rim including Guam, Hawaii, Alaska, etc., targeting to secure orders for revenue of ¥45.0 billion, the current bonded insurance allotment, as well as pursuing a further bonded insurance allotment and expanded orders.

Since Okinawa has many industries with large seasonal fluctuations, stable work related to the US military is welcomed by job seekers.

Since the soon-to-be-entered Guam has a labor shortage, workers will be procured from nearby Asian countries which has an abundance of people through mobility.

Overseas Manufacturing and Service Operations Outsourcing Business

Strengthening global development of human resources and business

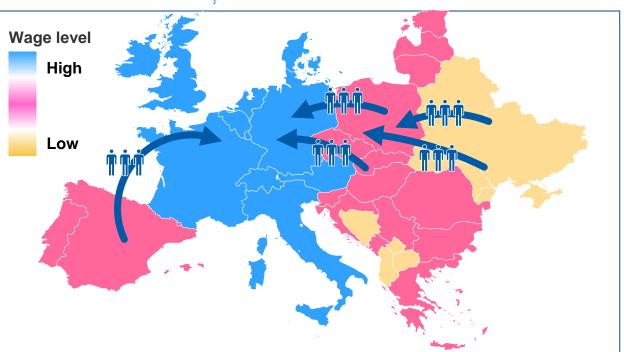
### Manufacturing: Expanding cross-border HR mobility

The OS Group is developing Manufacturing Outsourcing Business in Germany, however, the declining birthrate and aging society coupled with the strong economy have resulted in tight recruitment.

⇒ In order to strengthen the recruitment system, the Company acquired through M&A OTTO Holding B.V. (OTTO) which has many bases mainly in Eastern Europe and has the ability to supply workers to countries which have labor force shortages such as Germany, the Netherlands, Poland.

### **Strategy in Europe**

- Supply workforce from EU countries in Central and Eastern Europe which have high unemployment rates and low wage levels to countries with low unemployment and high wage levels such as Germany and the Netherlands
- II. Supply workforce from non-EU countries which have high unemployment rates and low wage levels to countries like Poland with low unemployment rates and relatively high wage levels



Expand cross-border manufacturing outsourcing business through establishment of a recruitment network across the continent of Europe

Overseas Manufacturing and Service Operations Outsourcing Business Strengthening global development of human resources and business

■ Manufacturing: Expanding cross-border HR mobility

Recruitment system for HR mobility and various measures after recruitment

### Local recruitment activities



Recruitment activities using digital tools and AI



Occupation matching using big data





Registrants of each branch office branch office owners (brokers)

Use of local networks

# Out-Sourcing!

### Pre-employment training



Work training using VR



Strengthening work rules in native languages using digital tools



License acquisition course

### Support after starting employment





Arrangement and provision of living quarters

Pickup support



Multilingual help desk





### Feedback from workers and clients

Overseas Manufacturing and Service Operations Outsourcing Business Strengthening global development of human resources and business

Service Operations: Global development of public work related business

Entering markets which have reduction of public servants and privatization of public work that are growing among developed countries due to fiscal constraints, etc., and expanding the scale of business

 Taking on various outsourcing contract projects for pubic facilities such as prisons and airports from public institutions of many countries



Leveraging the knowhow, infrastructure and engineers, etc. of public works related projects in Australia and New Zealand, accelerating development in Europe, Asia and South America

Since public works related projects are stable business less susceptible to the economic cycle, it is possible to select effective applicants from many job seekers.

Overseas Engineering Outsourcing Business Strengthening global development of human resources and business

Global development of government BPO business

Entering markets which have reduction of public servants and privatization of public work that are growing among developed countries due to fiscal constraints, etc., and expanding the scale of business

- Taking on contract BPO business for various types of work from UK central and local governments using proprietarily developed systems
- Providing one-stop solutions through UK Group companies, where their business scale ranked no.2 in 2018 in the public debt collection market, expected to become no.1 in 2019
- In Oceania expanding outsourcing business of ICT engineers for mainly public institutions

Expanding development by utilizing business knowhow, systems and engineers, etc., to Commonwealth countries and countries whose government and administration structure are close to the U.K. Commonwealth: A loose confederation of 53 member countries based on friendship and cooperative relationships comprised of the UK and colonies which became independent of the former British empire now on equal footing. Since BPO business taken on contract from governments is less susceptible to impact from the economy, it is easy to secure effective applicants.

In Oceania, a similar scheme to that of KEN School in Japan was initiated in September 2018 for training inexperienced people and those with low skills for assignment as engineers, targeting further expansion of effective applicants.

Targeted revenue levels for formulating the next Medium-Term Management Plan

The OUTSOURCING Group has no intention to compete under the old dispatch business model in Japan which does not require reinvestment funds, fighting over tiny growth while building up excess cash.

• In Japan

In Manufacturing and Engineering Outsourcing Businesses, enter new outsourcing businesses that respond to changes in the environment as well as to changes in client needs, accelerating growth in fields which can expect long-term demand for use of engineers and foreigners, toward becoming the dominant domestic firm

Overseas

Through global HR mobilization in manufacturing and engineering, target capturing the opportunity as world population increases from the current 7.5 billion to 10 billion, accelerate global development of government and public works related business, aiming at higher growth than in Japan

 For outsourcing business for US military facilities Roll out business which previously had only been in Japan to the Pacific Rim, targeting stable, longterm growth

As a milestone toward becoming the OS Group's stated goal of becoming the "world's no.1 outsourcing firm," target achieving revenue of over ¥1 trillion in the next Medium-Term Management Plan to be prepared going forward

# Return to Shareholders



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## Dividend details

|                                   | FY12/18<br>Initial Dividend Forecast<br>(February 14, 2018) | FY12/18           | FY12/19<br>Dividend Forecast<br>(February 14, 2019) |
|-----------------------------------|---|-------------------|---|
| Record Date                       | December 31, 2018   | December 31, 2018 | December 31, 2019                                   |
| Dividend per Share                | ¥21.00  | ¥21.00            | ¥24.00  |
| Total Amount of<br>Dividends      | -   | ¥2,636 million    | -   |
| Dividend Payment<br>Starting Date | -   | March 28, 2019    | -   |
| Source of Dividends               | -   | Retained earnings | -   |

While reinvesting a portion of profits to expand business, in order to enhance the rebate of profits to shareholders and to expand the shareholder base, the Company's dividend policy is a consolidated payout ratio of 30% in principle.

For year-end dividends for FY12/18, roughly 9% dilution arose from the issuance of new shares during the period, however since basic EPS (Earning Per Share) exceeded initial guidance due to strong earnings performance, DPS (Dividend Per Share) will be ¥21 (29.4% payout ratio).

Regarding year-end dividends for FY12/19, estimated DPS is ¥24.

# References



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## **OUTSOURCING Group Venture Spirit**

Risks being taken and objectives of the Company's global strategy

### The Company has determined the following risks should be taken for future growth:

- Increase of goodwill from M&A (risk of valuation loss due to failure to achieve targets at the time of M&A)
- Risk associated with an increase of interest-bearing debt from strengthening global expansion (loan withdrawal/credit contraction during a financial crisis, etc.)
- Governance-related risk from an inadequate global management structure (compliance risk, etc.)
- Country risk (risks associated with political change, revisions of laws, etc.)
   .... etc.

All directors and employees of the Company understand the aforementioned risks, constantly maintaining a sense of crisis and focusing on risk-hedging.

- Going forward, promotion of global strategy which takes risks toward further growth is necessary.
- The shareholders' equity ratio declined due to increased loans following M&A transactions until now, and goodwill increased.

An equity financing was implemented in October 2018 in order to strengthen the financial base, securing fund raising capacity through partial repayment of loans and boosting shareholders' equity.

The Company will continue to promote global strategy, evolving into a group that can overcome changes to the environment or major recession, achieving a further rise in corporate value.

# **OUTSOURCING Group Venture Spirit**



The domestic market in Japan is currently strong due to special demand associated with revised labor law and paradigm changes mainly for the auto industry

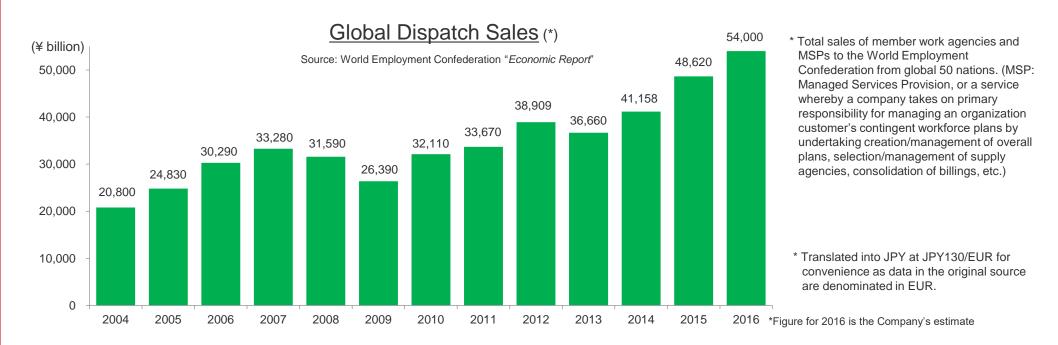
- ⇒ Due to unit price increases from automakers, etc., people are moving from other industries, however, since the population is declining, it is a zero sum game element.
- ⇒ For Japan where the market was limited and small to begin with, going forward with population decline accelerating, long-term sustainable growth is not possible.

Even if the industrial paradigm shift such as rapid progress in the auto industry in autonomous driving and shift to electric vehicles is attracting attention, domestic growth does not amount to much, and annual revenue of roughly ¥200 billion each for Manufacturing and Engineering Outsourcing is the maximum upside potential.

In the near future, there is risk of growth stagnating for individual dispatching firm with Japan-only business portfolios.

## **OUTSOURCING Group Venture Spirit**

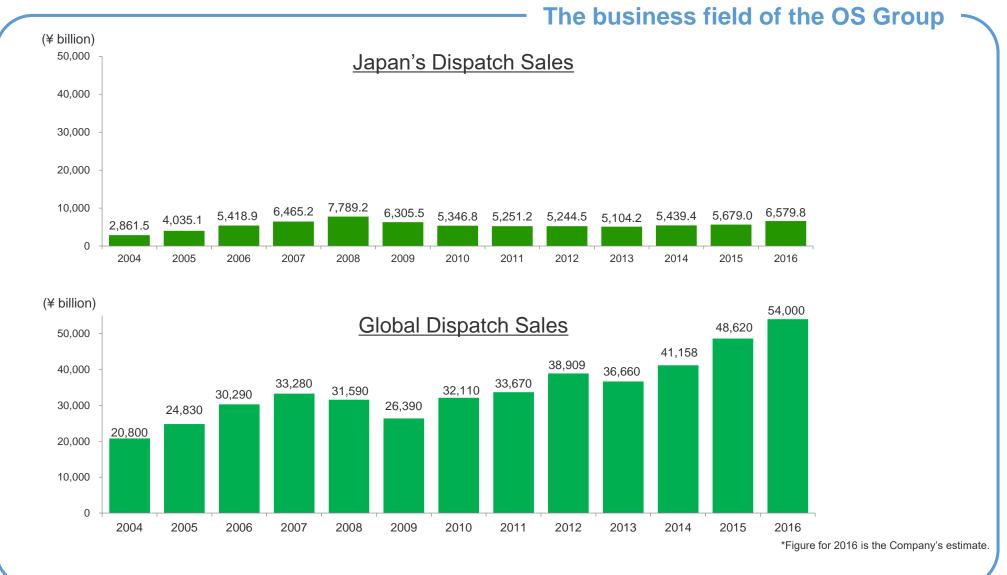
Targeted return for risks assumed listed on P.44



World population is expected to increase from 7.5 billion to 10.0 billion in 2050, forecasting a continuous upwardly sloping market growth.

The top firm in the global dispatch market currently has annual sales of roughly ¥3 trillion, however, competition is estimated to move to the ¥4-5 trillion level in the near future, 20-30 times the size of Japan.

For the OS Group, capturing a growth opportunity to revenue of several trillion yen



Unlimited potential to raise value for the Company's shareholders

### Legal Definition of Employment

The Civil Code stipulates that "an employment contract shall become effective when one of the parties promises to the other party that he/she will engage in work and the other party promises to pay remuneration for the same," and both parties have equal standing.

The Labor Contracts Act stipulates that "a labor contract is established by agreement between a Worker and an Employer on the basis that the Worker will work by being employed by the Employer and the Employer will pay wages for such work," however, in the real world, since employers are positioned advantageously while workers are subordinate, under the special laws of the Labor Standards Act and Labor Contracts Act, etc., mandatory criteria and provisions related to labor contracts (= employment contracts) are established to protect workers.

### Main Names and Forms of Employment

- Regular employees, indefinite-term contract employees, regularly employed employees Form of employment where employment contracts do not specify fixed terms, and both workers and employers enter the agreement under the assumption of long-term employment with the aim of raising skills, etc.
- Non-regular employees, fixed-term contract employees, non-regularly employed employees Form of employment where employment contracts specify fixed terms, and both workers and employers enter the agreement under the assumption that when the term is completed, if needs require, fixed-term employment can be renewed, however, at times when there is a surplus of workers, employment contracts can be cancelled or terminated

### The Revised Labor Contracts Act Enforced in April 2013

Requiring employers to convert fixed-term contracts to regular employments when requested by fixed-term contract employees after 5 consecutive years of services

\*Revised laws marked in red are the "2018 Problem."

### The Revised Worker Dispatching Act Enforced in September 2015

- Dispatch business operators are required to implement employment stabilization measures (asking dispatch clients to employ them directly, etc.) for dispatch workers on completion of the dispatch period (partly obligation for best efforts).
- Abolished specified occupations which had no term limits for use on dispatching, and limiting the use of all fixedterm contract employees employed by dispatch business operators to a maximum of 3 years at the same workplace
- No restriction on period for regular worker dispatching
- For dispatch business operators, planned education and training for dispatched workers and career consulting for those who desire it become mandatory.
- Specified worker dispatching undertaking (notification system) is abolished, and all worker dispatching undertakings come under a license system (Tightened the terms of license permissions).

# Technical Intern Training Act (Act on Proper Technical Intern Training and Protection of Technical Intern Trainees) Enforced in November 2017

- The maximum 3 years internship period was extended to a maximum 5 years.
  - \*Technical intern trainee ⇒ Based on Japan's official program, the Technical Intern Training Program, makers hire foreigners mainly from Asia as technical intern trainees, and after they return to their home countries when the internship is completed, have them use the skills they acquired locally.

## Strengthening Group Governance

### FY2018: Promote activities as the year of group governance "penetration"

| Item   | Jan. Feb. Mar. Apr. May Jun. Jul. Aug. Sep. Oct. Nov. Dec.  |
|--|---|
| Development of global governance policy                                | Asia & South America Explanation to all group<br>companies and monitoring<br>Europe & Australia Explanation to all group<br>companies and monitoring  |
| <ul> <li>Taking hold of<br/>risk management</li> </ul>                 | Application of the internal controls checklist and ongoing creation of risk maps Strengthening the internal reporting system (establishment and operation of a common window for Asia) Implementing governance due diligence and governance post-merger integration (PMI)   |
| <ul> <li>Ongoing evolution of the accounting function</li> </ul>       | Accounting: Strengthening the check function of the consolidated accounts settlement process and ongoing<br>initiatives to speed up and raise efficiency and accuracy of accounts settlement operations<br>Finance: Strengthening international competitiveness through "Global Cash Management (GCM)" based on<br>financial strategy<br>Training: Thorough learning of international accounting standards through internal and external training, and<br>raising the accuracy of accounts settlement processing work overall through revision of manuals,<br>regulations, etc. |
| <ul> <li>Strengthening<br/>information systems<br/>security</li> </ul> | Promoting the global information security infrastructure construction project<br>Making preparations for introduction to<br>group companies in Europe & Australia   |
| <ul> <li>More in-depth<br/>compliance training</li> </ul>              | Developing "training for anti-corruption policy" through e-learning for all group companies<br>"Compliance study to raise corporate value (=legal compliance mechanism)" through e-learning   |

### Steady progress in FY2018 as planned

### Basic approach to corporate governance

Fully embracing its responsibility as an exemplar corporate citizen to contribute to society, OUTSOURCING Inc. established the "Corporate Principles." The Company thus recognizes that, in an effort to achieve growth and enhance corporate value over the medium-to-long term in a constantly changing business environment, management must assign the utmost priority to creating a fully autonomous, highly ethical corporate governance regime that is closely monitored and routinely reviewed. The Company also recognizes that such a regime will prove invaluable in the ongoing building of trust and confidence with all its stakeholders, including shareholders, clients, local communities and employees.



## Formulate global governance policy and strengthen group management structure

Purpose of formulation: For determining the basic policy of corporate governance of OUTSOURCING Inc. and its group companies, establishing a relationship of trust with stakeholders, and aiming to improve growth and corporate value of the Group based on autonomy and ethics.

7 Basic Policies: 1) Role and responsibilities of the Board of Directors

- 2) Risk management
- 3) Approval reporting rules
- 4) Regular reports to the parent company
- 5) Internal reporting system
- 6) Internal audit by the parent company
- 7) Education and training

Strengthening the Group's management structure through global governance policy

### **Global Governance Policy**

**Corporate Governance** 

Strengthening the Board of Directors/ Reporting/Internal Audit Systems

Strengthen the education and training system

### Internal Controls and Risk Management

- Strengthening the global governance system
- Strengthening the self-management system concerning controls
- Strengthening the risk management system
- Risk prevention through governance due diligence

### **Corporate Ethics and Compliance**

- Code of Corporate Ethics and Conduct
- Anti-corruption policy
- Strengthen the internal reporting system

### **Business Management Group Platform (Finance/Accounting, IT)**

- Strengthen the consolidated accounting process/work
- Promotion of strategic Global Cash Management
- Promotion of the global information security infrastructure project

### Out-Sourcing!

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Medium-Term Targets

Subject

Sustainable evolution of the global governance system to support persistent growth

Milestones by fiscal year

2019: Minimize risks by implementing rules and early recognition of risks through governance due diligence

2020: Establish the Global Risk Management System

2021: Sustainable evolution of the system according to regional and business area expansion



# 2019 Priority Measures

# Minimizing risks by implementing rules

- Using e-learning, take lectures on global governance policy, OUTCOURCING Group code of corporate ethics and conduct, and anti-corruption policy and establish a recognition test environment, promoting further penetration
- Independent risk management through internal controls (group internal control standards)
- Expansion of internal reporting (enhancement of existing systems in Asia and Oceania, and deployment to Europe and South America)
- Strengthen the consolidated accounting system; early settlement and stabilization
- Promotion of establishing group information systems security infrastructure

# Early recognition of risks through governance due diligence

- Create a system for governance due diligence in the M&A process
- Handle creation of J-SOX internal controls (in the event a target company arises)

# Promote establishment of the Global Risk Management System

• Establish the Global Risk Management System for prevention and recurrence prevention based on expansion of the Group's scale and regions

### • Annual and Semi-Annual Trends

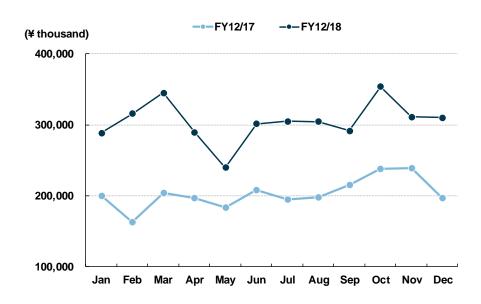
|                                    |                                    |         | FY12/18<br>Actual |           | FY12/19<br>Forecasts |         |           |  |
|------------------------------------|------------------------------------|---------|-------------------|-----------|----------------------|---------|-----------|--|
|                                    |                                    | 1H      | 2H                | Full-Year | 1H                   | 2H      | Full-Year |  |
| Manufacturing                      | No. of workers recruited (persons) | 4,329   | 5,694             | 10,023    | 5,239                | 5,946   | 11,185    |  |
| Manuracturing                      | Recruitment unit price (¥/worker)  | 78,465  | 57,543            | 66,580    | 99,295               | 68,613  | 82,984    |  |
| No. of workers recruited (persons) |                                    | 3,188   | 3,081             | 6,269     | 3,895                | 2,517   | 6,412     |  |
| Engineering                        | Recruitment unit price (¥/worker)  | 346,184 | 405,164           | 375,171   | 315,445              | 565,444 | 413,581   |  |
| Sarijaa Oparationa                 | No. of workers recruited (persons) | 2,559   | 2,177             | 4,736     | 2,554                | 3,037   | 5,591     |  |
| Service Operations                 | Recruitment unit price (¥/worker)  | 19,123  | 17,006            | 18,150    | 27,580               | 20,148  | 23,543    |  |
| Page witing and Dissing            | No. of workers recruited (persons) | 1,851   | 2,001             | 3,852     | 1,740                | 1,860   | 3,600     |  |
| Recruiting and Placing             | Recruitment unit price (¥/worker)  | 155,620 | 131,796           | 143,244   | 158,096              | 154,964 | 156,478   |  |

### • Quarterly Trends

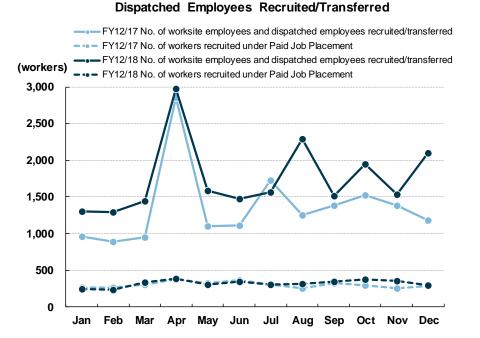
|                        |                                    |         |         | FY12/19<br>Forecasts |         |           |         |         |         |         |           |
|------------------------|------------------------------------|---------|---------|----------------------|---------|-----------|---------|---------|---------|---------|-----------|
|                        |                                    | Q1      | Q2      | Q3                   | Q4      | Full-Year | Q1      | Q2      | Q3      | Q4      | Full-Year |
| Manufacturing          | No. of workers recruited (persons) | 1,681   | 2,648   | 2,308                | 3,386   | 10,023    | 1,988   | 3,251   | 3,081   | 2,865   | 11,185    |
| Manuracturing          | Recruitment unit price (¥/worker)  | 101,105 | 64,093  | 78,574               | 43,208  | 66,580    | 143,784 | 72,090  | 68,184  | 69,075  | 82,984    |
| Engineering            | No. of workers recruited (persons) | 1,017   | 2,171   | 1,835                | 1,246   | 6,269     | 1,165   | 2,730   | 1,198   | 1,319   | 6,412     |
|                        | Recruitment unit price (¥/worker)  | 610,174 | 222,519 | 299,054              | 561,433 | 375,171   | 559,813 | 211,164 | 602,249 | 532,016 | 413,581   |
|                        | No. of workers recruited (persons) | 1,338   | 1,221   | 1,226                | 951     | 4,736     | 1,138   | 1,416   | 1,406   | 1,631   | 5,591     |
| Service Operations     | Recruitment unit price (¥/worker)  | 19,229  | 19,007  | 18,721               | 14,795  | 18,150    | 31,708  | 24,263  | 21,934  | 18,608  | 23,543    |
| Poorwiting and Placing | No. of workers recruited (persons) | 818     | 1,033   | 971                  | 1,030   | 3,852     | 840     | 900     | 920     | 940     | 3,600     |
| Recruiting and Placing | Recruitment unit price (¥/worker)  | 162,725 | 149,994 | 152,800              | 111,995 | 143,244   | 147,171 | 168,292 | 159,074 | 150,942 | 156,478   |

## Trends in Recruited Number of Workers and Recruiting Expenses in Japan

### Monthly Trends (Consolidated)



#### Monthly Recruiting Expenses



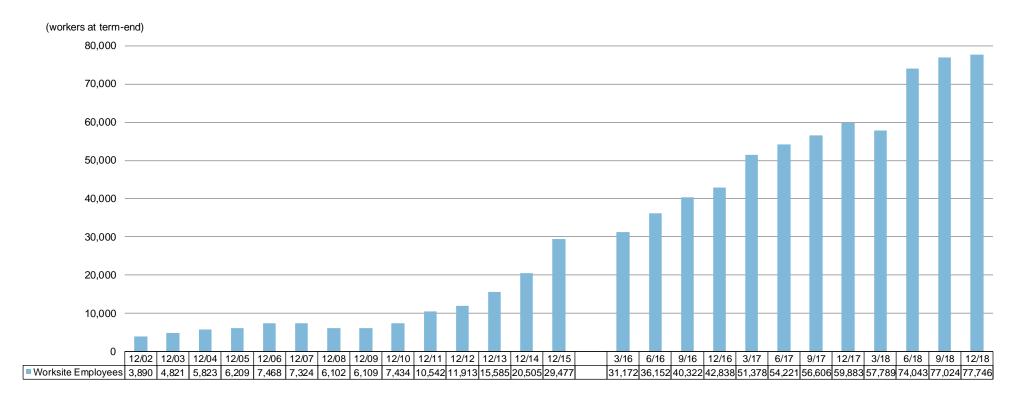
No. of Worksite Employees and

| FY12/17  | Jan          | Feb          | Mar          | Apr          | May          | Jun          | Jul          | Aug                 | Sep          | Oct                 | Nov          | Dec                 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|
| No. of worksite employees and dispatched employees recruited/transferred         | 963          | 889          | 950          | 2,860        | 1,098        | 1,113        | 1,727        | 1,254               | 1,379        | 1,529               | 1,387        | 1,186               |
| – • No. of workers recruited under Paid Job Placement                            | 268          | 265          | 301          | 377          | 323          | 365          | 302          | 252                 | 327          | 291                 | 256          | 287                 |
| Recruiting expenses (¥ thousand)   | 200,402      | 163,084      | 204,090      | 196,759      | 183,252      | 207,908      | 195,140      | 197,760             | 215,804      | 237,753             | 239,310      | 196,738             |
|  |              |              |              |              |              |              |              |                     |              |                     |              |                     |
| FY12/18  | Jan          | Feb          | Mar          | Apr          | Мау          | Jun          | Jul          | Aug                 | Sep          | Oct                 | Nov          | Dec                 |
| FY12/18 No. of worksite employees and dispatched employees recruited/transferred | Jan<br>1,298 | Feb<br>1,291 | Mar<br>1,447 | Apr<br>2,971 | May<br>1,590 | Jun<br>1,479 | Jul<br>1,568 | <b>Aug</b><br>2,289 | Sep<br>1,512 | <b>Oct</b><br>1,944 | Nov<br>1,538 | <b>Dec</b><br>2,101 |
| No. of worksite employees and dispatched employees                               |              |              |              | •            |              |              |              |                     | •            |                     |              |                     |

\*Total number of recruited workers and recruiting expenses in Japan (Worker Dispatching and Contracting, Recruiting and Placing, and Engineering).

### Trends in Number of Worksite Employees and Dispatched Workers

- Quarterly Trends (Consolidated)
  - □ Up to FY12/15: Annual trend
  - □ From FY12/16: Quarterly trend



\*Worksite employees are those working at client manufacturers' worksites, including currently active dispatched workers.

In accordance with provisional accounting treatments associated with business combinations made between August 2016 through April 2017 being finalized, consolidated financial statements from FY12/16 onward have been retrospectively revised.

In addition, since certain accounting treatments for M&A, etc. were inconsistent with IFRS specific accounting treatments, consolidated financial statements for FY12/17 have been amended as of February 14, 2018.



These materials contain forward-looking statements concerning earnings estimates and Company plans, which are based upon the best available information at the present time. Therefore, actual results may differ from plan and estimate values due to various factors in the future. Note that descriptions in these materials are as of the date on this document (or date specified separately therein), and they are subject to change without advanced notice. Also, information described in this document other than corporate information of the Group is quoted by the Company from publicly available sources, but which has not been verified as to the accuracy or appropriateness by the Company, nor does it represent an assurance of them.

OUTSOURCING Inc. CEO Office **E-Mail: os-ir@outsourcing.co.jp** URL: https://www.outsourcing.co.jp/en