

FY2017-2020 Medium-Term Management Plan

※Partially revised on December 14, 2016

VISION 2020: Tackling New Frontiers
— Evolving into a game-changing enterprise

January 2017



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

The Company was established in 1997 as an outsourcing firm with business domain in the manufacturing mass production area.

- Until 2010 ⇒ Manufacturing Outsourcing Business expanded favorably on the back of steady upwardly sloping growth in domestic production for “Made in Japan” value-added, and being able to easily secure personnel from an abundant workforce
- 2010~2015 ⇒ Growth in Manufacturing Outsourcing Business has become difficult under the previous scheme due to structural changes in society, and in the Medium-Term Management Plan announced in February 2015, the Company explained in detail the paradigm shift from being merely a provider of domestic manufacturing outsourcing services.
-
- 2016 ⇒ **Period for upfront investments(M&A) for building a structure on a global scale into future growth areas and regions meeting current**
- Large funds were deployed for this paradigm shift in entering outsourcing business in new industry sectors globally, and the phase of building the platform for growth has finished, with leading investments winding up.
- 2017 ⇒ **Period for base-building strategically toward the next leap**
- By establishing a robust corporate governance system for subsidiaries acquired through M&As and thorough review of recouping investments, generate cash flows from an established business structure
- 2018~2020 ⇒ **Period for new leap forward with an eye on global No.1**
- Targeting lateral development through expansion of global consolidated subsidiaries generating healthy cash flows into all countries, build a platform for becoming global No.1

VISION 2020 **FY2020 Net Sales** **¥441.0 billion**

FY2020 EBITDA **¥34.4 billion**

(EBITDA margin: 7.8%)

* IFRS based

*As a result of revising up net sales estimates for Domestic Service Operations Outsourcing Business and Overseas Manufacturing and Service Operations Outsourcing Business, consolidated net sales and EBITDA targets are revised up.

Net Sales by Operating Segment:	Domestic Engineering Outsourcing Business	¥97.0 billion
	Domestic Manufacturing Outsourcing Business	¥88.0 billion
*Revised up the forecast as of Dec. 14, 2016 ⇒	Domestic Service Operations Outsourcing Business	¥38.0 billion
	Overseas Engineering Outsourcing Business	¥83.0 billion
*Revised up the forecast as of Dec. 14, 2016 ⇒	Overseas Manufacturing and Service Operations Outsourcing Business	¥129.0 billion
	Other Segments Total	¥6.0 billion

Sales growth for all dispatch businesses were directly correlated to the net increase in the number of dispatched individuals



Business Model until Now, and Structural Changes in Society

【Until Now】

- The process for dispatch business operators to achieve net increases in the number of dispatched individuals was repetition of: making sales calls to more and more makers ⇒ waiting for demand from makers to arise ⇒ securing contracts when demand arises ⇒ recruiting staff through recruitment media ⇒ hiring ⇒ and achieving retention through dispatching assignment
- Worker dispatching business for the manufacturing mass production area achieved growth by repeating the process of hiring fixed-term contract workers when manufacturers hike production, and cancelling employment periods when manufacturers cut production, thereby avoiding labor expense becoming fixed expenses, and employment techniques for achieving net increases in enrolled dispatched employees
- Even when one manufacturer cut production and the contract was finished, at the same time multiple other manufacturers started up production, and by being able to attract abundant personnel through recruitment offers, the Company was able to secure new contracts on a scale greater than finished contracts



【Now】

- Through transfer of production overseas for consumer electronics, etc., domestic production for major electronics makers have also become mainly automobile-related, resulting in synchronization of the production cycle, and on top of recruiting needs becoming concentrated into the same period, declining childbirth overlapped, making hiring difficult

Among many other providers in the industry blindly continuing to use the scheme for past growth, given structural changes in society, the OS Group decided that future growth based on the business model until now of repeating the process of hiring fixed-term contract workers through recruitment media and cancelling contracts was no longer possible.

The Company has focused its Manufacturing Outsourcing Business into its PEO Scheme, adopting a strategy of converting dispatched employees from fixed-term contract workers to full-time employment, achieving sharp net increases in the number of dispatched employees.

* Please refer to P.7 on the PEO Scheme.

Comparison of worker dispatching through variable personnel expenses (use of fixed-term contract workers) and worker dispatching through fixed personnel expenses (use of full-time employees) during mass cancellations by clients due to economic deterioration from a Lehman-type event

	Advantages	Disadvantages/Risks
Worker dispatching through variable personnel expenses (use of fixed-term contract workers)	Through large-scale dismissals when clients cancel contracts, net sales to decline sharply, while avoiding profits to drop into the red	New hiring is required when the economy recovers, however, recruiting is difficult due to the tight labor markets, causing recruitment expenses to rise, and earnings recovery is difficult, remaining depressed at the trough level.
	Disadvantages/Risks	Advantages
Worker dispatching through fixed personnel expenses (use of full-time employees)	Profits to drop into deficit during economic deterioration due to having large numbers of surplus staff	When the economy recovers, enrolled employees can be used immediately, and earnings recover vertically.

At first glance, use of fixed-term contract workers for highly volatile Manufacturing Outsourcing Business may seem reasonable, however if fixed-term contract workers are used under recent tight hiring conditions, and mass cancellations of fixed-term contract workers are used to get over economic deterioration following a Lehman-type event, during the subsequent economic recovery period, no matter how much demand arises, re-hiring becomes difficult, and earnings remain depressed at the trough level without being able to get back the number of staff cancellations.

Responding to the disadvantages/risks of worker dispatching using full-time contract employees for the manufacturing outsourcing area is precisely the Company's strategy.

The OS Group is building a tenacious group structure that can secure total Group profits in surplus even while maintaining employment of full-time employees used in dispatching during periods of economic deterioration, and by being able to immediately use employees maintained during periods of economic deterioration, can achieve immediate growth in profits.



- Aim to keep the weight of Manufacturing Outsourcing Business **below 10%** of total Group EBITDA
- For **the remaining 90%**, target global expansion into outsourcing businesses not susceptible to changes in the environment and economy, in sectors with different cycles from the manufacturing cycle

Measures for Each Operating Segment

Domestic Manufacturing-Related Business

- Domestic Manufacturing Outsourcing Business: specializing in the PEO Scheme ⇒ Please refer to P.7.

Diversifying into industries with different cycles from manufacturing, as well as outsourcing business in sectors that are less susceptible to fluctuations in the economy

- Domestic Engineering Outsourcing Business: Expanding the engineer training scheme for IT- and construction-related
⇒ Please refer to P.8.
- Domestic Service Operations Outsourcing Business: Expanding business for the convenience store industry and US military bases
⇒ Please refer from P.9 to P.11.
- Overseas Engineering Outsourcing Business: Expanding contract business on consignment from private companies and national/local governments
⇒ Please refer to P.13 and P.14.
- Overseas Manufacturing and Service Operations Outsourcing Business: Expanding consignment from national/local governments and private companies
⇒ Please refer to P.15 and P.16.

Medium-Term Management Plan VISION 2020: Tackling New Frontiers

Measures for Each Operating Segment

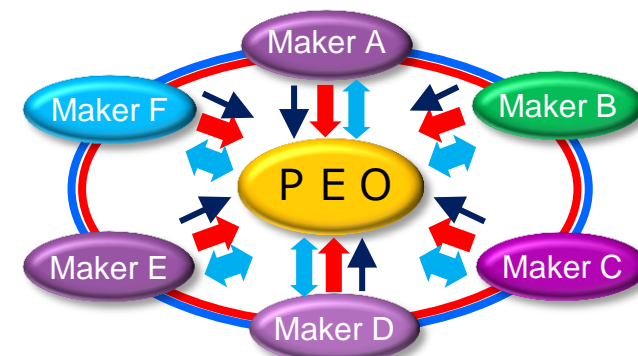
*Please refer to P.19-23 for Revised Worker Dispatching Act, etc.

Domestic Manufacturing Outsourcing Business

Promoting the PEO *PEO stands for Professional Employer Organization.

【PEO Scheme】

- ➡ Makers become members of the PEO Association managed by PEO Co., Ltd.
- ➡ PEO takes on fixed-term contract employees directly employed by the maker as its regular employees.
- ↔ Dispatching of regular employees meeting the needs of makers for long-term use



【Incidental Scheme】

Taking on dispatched workers of dispatching business operators that found it difficult to continue operations under tightened regulations of the Revised Worker Dispatching Act, and implementing M&A

【Advantages】

- Recruitment media expenses are not required
- Since this replaces maker fixed-term contract employees which are used in the field of long-term cycle production fluctuation, contract periods with makers are being extended
- Compared with dispatching which is used in the field of short-term cycle production fluctuation, contract unit prices with makers increase by over 30%

* Under the Revised Worker Dispatch Act in 2015, it is more efficient for makers rather than using direct employment of fixed-term contract employees to use dispatching of regular employees.

【PEO Enrollment Plan】

	Q2-End FY12/16 Actual	FY12/16-End	FY12/17-End	FY12/18-End	FY12/19-End	FY12/20-End
Number of Persons Enrolled	4,063	5,500	10,000	15,000	18,000	20,000

【Segment Net Sales Plan】

	Q3 FY12/16 Actual	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20
Net Sales	¥24.4 billion	¥34.1 billion	¥47.0 billion	¥59.0 billion	¥72.0 billion	¥88.0 billion

Medium-Term Management Plan VISION 2020: Tackling New Frontiers



Measures for Each Operating Segment

Domestic Engineering Outsourcing Business

Focus on engineers for IT industries and construction managing engineers for civil engineering and construction industries in both of which demand remains robust over the medium-to long-term.

Efficiently securing engineering staff that are difficult to hire through the Company's proprietary scheme

【Scheme Utilizing a School for Training Engineers】

The OS Group's KEN School uses an engineer training curriculum jointly developed with telecom carriers and leading general contractors, conducting training of inexperienced workers recruited previously employed in other fields of manufacturing outsourcing, etc.

After 2 months training at the school, newly trained engineers are assigned at appropriate workplaces, slightly dropping initial contract unit prices

Workers Placement Targets (Cumulative Total) FY12/16 : over 1,200; FY12/20: over 1,800 to be assigned

【Career Change Scheme】

Conduct further practical training after assignment from the school

1 year after assignment, official career change to an engineer, and contract unit prices to clients are risen by over 30%

Career Change Workers Targets (Cumulative Total) FY12/16: over 700; FY12/20: over 1,200 to be assigned

【Segment Net Sales Plan】

	Q3 FY12/16 Actual	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20
Net Sales	¥29.2 billion	¥39.9 billion	¥48.0 billion	¥62.0 billion	¥75.0 billion	¥97.0 billion

Measures for Each Operating Segment

Domestic Service Operations Outsourcing Business

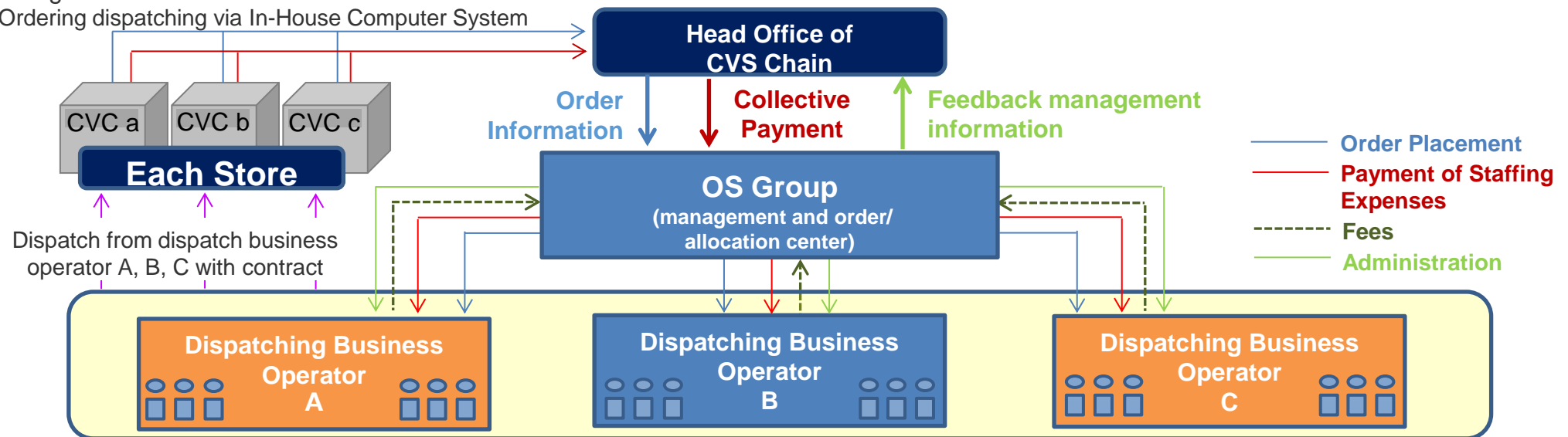
Entering and expanding business for the convenience store industry which continued to grow despite a decline in earnings for super markets and department stores during the Lehman Brothers collapse

Undertaking whole management of dispatching business operators used by franchisees from leading convenience chains

- Upon receiving aggregate orders from every franchisees via chain headquarters, allocates them to dispatch business operators
- Manage and advise appropriateness regarding dispatched workers' insurance subscriptions and salary payments including overtime
- Receive 5% of sales as fees from each dispatch business operator

【Image View】

Ordering dispatching via In-House Computer System



- Targeting FY2017 convenience store outsourcing net sales of ¥3.0 billion and gross profit margin of 50%
- Establishing the above business model and promoting the know-how to potential clients with national chains

Measures for Each Operating Segment

Domestic Service Operations Outsourcing Business

Globally expanding on-base outsourcing business for US military bases which is immune from the effect of the business cycle and has high barriers to entry

- The Company has consolidated and taken on contract dispatching, etc. for operations within welfare facilities including restaurants and shops at US military bases in Okinawa
 - ⇒ The Company won a new order from the US military base in Iwakuni at the end of FY12/15, and is accelerating business development to other bases located in Japan
- Expecting to receive additional orders within FY12/16 for repair and maintenance operations for military facilities including runways and hangars
 - ⇒ Developing into Pacific Rim regions, including the U.S.A. (California, Alaska, Hawaii and Guam), Australia and South Korea

【Segment Net Sales Plan as of July 29, 2016 of Medium-Term Management Plan Announcement】

	Q3 FY12/16 Actual	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20
Net Sales	¥2.5 billion	¥3.4 billion	¥5.0 billion	¥8.0 billion	¥10.0 billion	¥18.0 billion

Medium-Term Management Plan VISION 2020: Tackling New Frontiers

Additional revised material: new M&A in Domestic Service Operations Outsourcing Business

AMERICAN ENGINEERING CORPORATION (AEC)

- Scheduled to acquire AEC as a wholly-owned subsidiary on April 1, 2017 (announced August 4, 2016)
⇒ AEC is taking on consignment air conditioning and electrical facilities construction work as well as maintenance and repairs work of military facilities on US military bases in Japan including Okinawa, Yokota, Atsugi, Yokosuka, Misawa, Iwakuni, Sasebo, etc.
- Through collaboration with the OS Group's outsourcing business within US military bases, aiming to maximize synergy creation
⇒ Since AEC is headquartered in the U.S., this is expected to generate large synergies in business development into major US military bases in the Pacific Rim including California, Alaska, Hawaii, Guam, etc.
- The 2017-2020 Medium-Term Management Plan announced on July 29, 2016 does not include earnings for AEC nor synergy effects.
⇒ Segment net sales including AEC in the partial revision to the Medium-Term Management Plan announced on December 14, 2016

	Q3 FY12/16 Actual	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20
Net Sales	¥2.5 billion	¥3.4 billion	¥12.5 billion	¥20.0 billion	¥25.0 billion	¥38.0 billion

Measures for Each Operating Segment Global Development of Overseas Business



Seeking to maximize synergies through global development of Engineering and Manufacturing and Service Operations Outsourcing Business in each country

Medium-Term Management Plan VISION 2020: Tackling New Frontiers



Measures for Each Operating Segment

Overseas Engineering Outsourcing Business

In each country, expanding contract business on public services from central/local governments and on various operations from private enterprises

Contract business on public services less susceptible to the effects of changes in the economy and environment, and in developed countries, reduction of public employees and outsourcing of public services to the private sector is quite active, with the global market for outsourcing to the private sector estimated at several trillion yen.

Full swing entry into Engineering Outsourcing Business in Europe and Australia in FY12/15 is being rolled out globally

- The U.K., Belgium, Australia, India, etc.
 - ⇒ Dispatching of IT-related engineers/system engineers, contracting, etc. of consultant work for Oracle products, developing Engineering Outsourcing Business for private enterprises, governments and public institutions
 - Group companies engaged in these businesses are working together, aiming to accelerate development in the U.S.A., Europe and Asia
- The U.K. *Details shown on the following page
 - ⇒ Through use of the debt collection process optimization system developed proprietarily by the Group's local subsidiary, further expanding contract business for public debt collection operations of national and local governments
 - ⇒ The Company plans to newly roll out multi-function BPO (Business Process Outsourcing) business for various types of work for the UK national and local governments, along with offering cloud service
 - Expanding development of outsourcing public services to the private sector which is proceeding in countries that were former members of the British Commonwealth, as well as development in the U.S.A., Europe and Asia

【Segment Net Sales Plan】

	Q3 FY12/16 Actual	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20
Net Sales	¥14.5 billion	¥21.1 billion	¥23.5 billion	¥34.0 billion	¥59.0 billion	¥83.0 billion

Measures for Each Operating Segment

Overseas Engineering Outsourcing Business

In August 2016, acquired two companies through M&A which are engaged in contract business for all types of work at the U.K. central and local governments

- Allen Lane Consultancy Limited (ALC)
- Libelata UK Limited (Liberata)

About ALC

- ALC was established in 2004 with main business in financial HR and specialized management for public business
- In 2011, the company commenced managed services for supporting the accounting system of the Ministry of Justice
- The Managed Services Department achieved growth through thoroughness of services provided, and has led to diversification of its customer base to include each agency of the U.K. central government
- Among specific work, it is involved in supporting core operations of government management (for example, verification review of plans to increase and decrease prison facilities, etc.), and is well-positioned to gain information concerning new government projects
- It is involved in important decisions (advise service) such as when the central government outsources work to the private sector, divests a government section, etc.

About Liberata

- The company is engaged in business process innovation, offering BPO, BPS and BPA services to the UK central and local governments as its clients *The company has 11 offices nationwide, with staff of 1,424 professionals *BPS: Managed Services; BPA: Business Process Automation Services
- The company is offering services on over 400 projects to nearly 70% of local governments
- Going forward the company will pursue widespread development of the government-related market which is expected to grow steadily, and holds a platform to achieve definite and stable growth

Synergies including with Apr-2016 M&A acquisitions of JBW and CDL

- ALC is an important source of information concerning auction bidding preparations for JBW/CDL and Liberata, and will take on a support role (positioned like an upstream supply chain provider for central government services)
- In addition to directly winning orders on government projects, JBW/CDL will also subcontract a portion of BPO work taken as part of comprehensive orders won by Liberata from the central government

*Specific synergy effects from the new consolidations of only what is confirmed so far includes sales for JBW, expected to be roughly £1.2 million

- When JBW/CDL go after a large government project based on information sourced by ALC, Liberata is well-positioned to become a joint proposal partner

Medium-Term Management Plan VISION 2020: Tackling New Frontiers



Measures for Each Operating Segment

Overseas Manufacturing and Service Operations Outsourcing Business

In each country, expanding contract business on public services from central/local governments and on various operations from private enterprises

Globally developing Manufacturing Outsourcing Business including entering Europe, Australia and Asia in FY12/15

- Australia

⇒ Further expansion of outsourcing business for all types of public services less susceptible to changes in the economy and environment, including contract work on consignment from government-related clients such as prisons and airport facilities maintenance, etc.

Developing business to former member countries of the British Commonwealth: Malaysia, Singapore, New Zealand, etc.

- Hong Kong, Malaysia etc.

⇒ Contract work for agency payroll processing business, counting among customers German global luxury car makers, US investment banks, precision equipment makers, etc, handling payrolls for over 120,000 employees, based in 19 Asian countries

Accelerating development in Asia where diffusion of agency payroll processing business is spreading, which is less susceptible to impact from the economy

Globally developing Manufacturing Outsourcing Business including entering Chile in FY12/15, and plans to enter the German market

- Chile, Germany

⇒ Further expansion of Manufacturing Outsourcing Business in Chile, and plans to enter Europe's leading industrial nation Germany

Developing business in Chile to South and Central America, and developing business in Germany to active manufacturing in Eastern Europe, and the rest of Western Europe

【Segment Net Sales Plan as of July 29, 2016 of Medium-Term Management Plan Announcement】

	Q3 FY12/16 Actual	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20
Net Sales	¥20.7 billion	¥30.8 billion	¥48.6 billion	¥61.5 billion	¥76.0 billion	¥95.0 billion

Medium-Term Management Plan VISION 2020: Tackling New Frontiers



Additional revised material:

new M&A in Overseas Manufacturing and Service Operations Outsourcing Business

Orizon Holding GmbH (Orizon Holding)

- Acquisition as a wholly-owned subsidiary was completed on January 4, 2017 (announced December 14, 2016)
⇒ As the 8th largest staffing company in Germany, Orizon Holding is particularly strong in the mechanical engineering, aviation and medical sectors, targeting to raise organizational efficiency with state-of-the-art IT technology to drive future business growth, and has high profitability relative to industry peers.
- Collaboration with the Group companies engaged in developing Domestic and Overseas Manufacturing Outsourcing Business
⇒ The Company is involved in the expansion of manufacturing in one of the largest industrial powers in Europe in Germany, and buoyant demand for expanding industrialization into Eastern Europe, which is expected to generate synergies with the Group companies in global labor procurement, etc.
- The 2017-2020 Medium-Term Management Plan announced on July 29, 2016 does not include earnings for Orizon Holding nor synergy effects.
⇒ Segment net sales including Orizon Holding in the partial revision to the Medium-Term Management Plan announced on December 14, 2016

	Q3 FY12/16 Actual	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20
Net Sales	¥20.7 billion	¥30.8 billion	¥67.1 billion	¥95.5 billion	¥110.0 billion	¥129.0 billion

Medium-Term Management Plan: Upward Revision of Numerical Targets from FY12/17 Onward

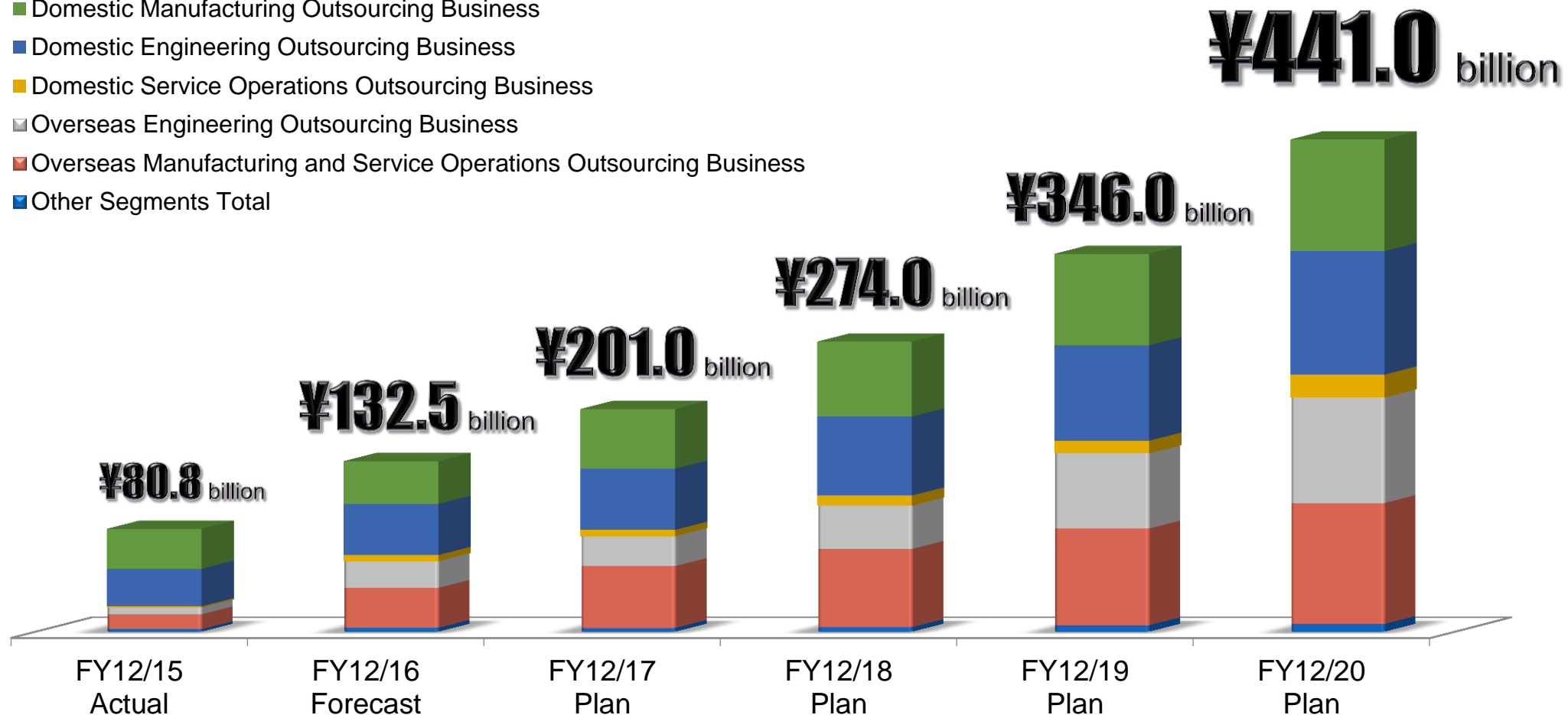
*FY12/16-FY12/20 net sales revised



Net Sales Plan by Operating Segment (revised on December 14, 2016)

Achieve through implementation of various measures including M&A with high synergies for each operating segment

- Domestic Manufacturing Outsourcing Business
- Domestic Engineering Outsourcing Business
- Domestic Service Operations Outsourcing Business
- Overseas Engineering Outsourcing Business
- Overseas Manufacturing and Service Operations Outsourcing Business
- Other Segments Total



Medium-Term Management Plan: Upward Revision of Numerical Targets from FY12/17 Onward

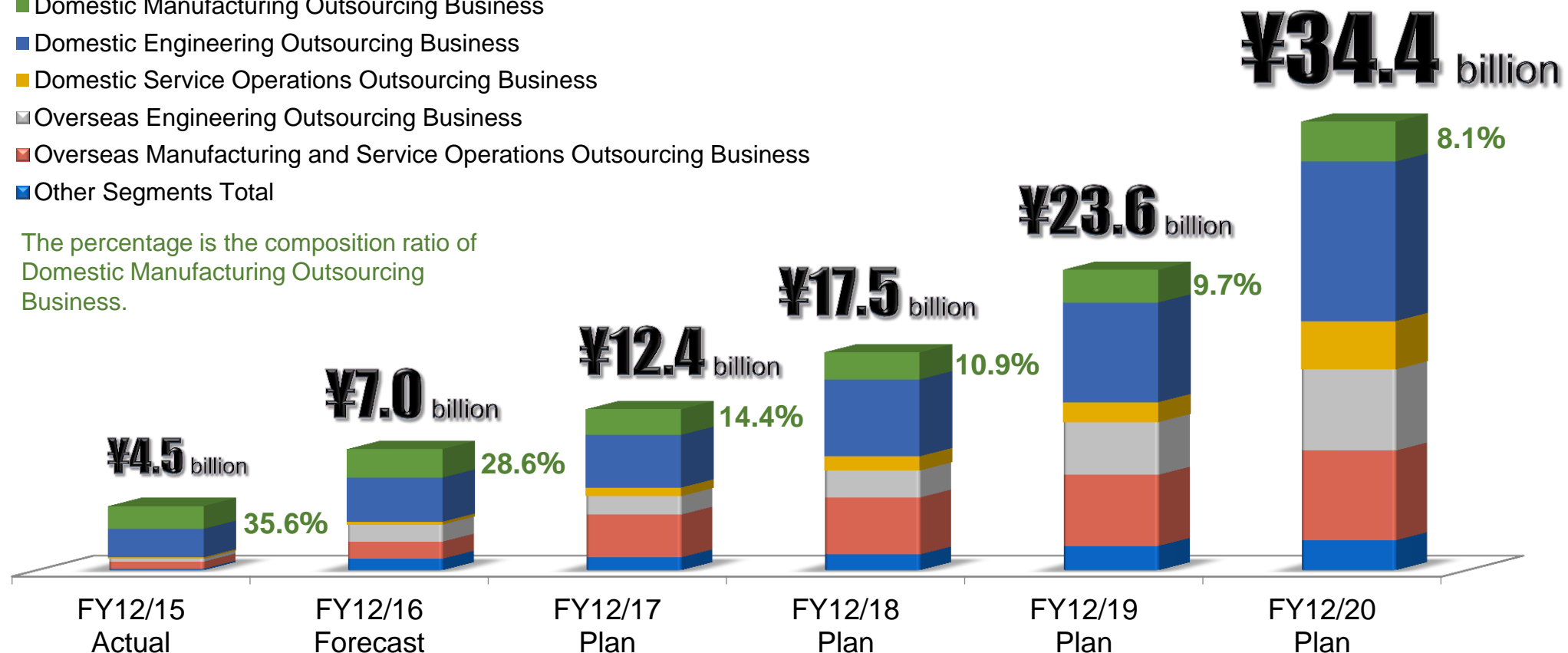
*FY12/16-FY12/20 EBITDA revised



EBITDA Plan by Operating Segment (revised on December 14, 2016)

- Domestic Manufacturing Outsourcing Business
- Domestic Engineering Outsourcing Business
- Domestic Service Operations Outsourcing Business
- Overseas Engineering Outsourcing Business
- Overseas Manufacturing and Service Operations Outsourcing Business
- Other Segments Total

The percentage is the composition ratio of Domestic Manufacturing Outsourcing Business.



*FY12/15: J-GAAP based; FY12/16-FY12/20: IFRS based

In FY12/20, achievement of reducing the EBITDA composition ratio for highly volatile Domestic Manufacturing Outsourcing Business within 10% of the total, reaching consolidated EBITDA over ¥30 billion.

Supplementary Materials

Overview of Revised Acts

1. Revised Worker Dispatching Act Enforced in September 2015 (abstract)

- Requiring dispatching business operators to secure employment stabilization measures for dispatched workers at the expiration of dispatching period *Partly obligation to make efforts
- No restriction on period for regular worker dispatching
 - *Before revised: Up to 3 years at the same manufacturing workplace
- For dispatching 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
- Abolishing specified works had no restriction on period and limiting up to 3 years for dispatching all fixed-term contract workers by dispatching business operators to the same workplace

2. Revised Labor Contract Act Enforced in April 2013 (abstract)

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

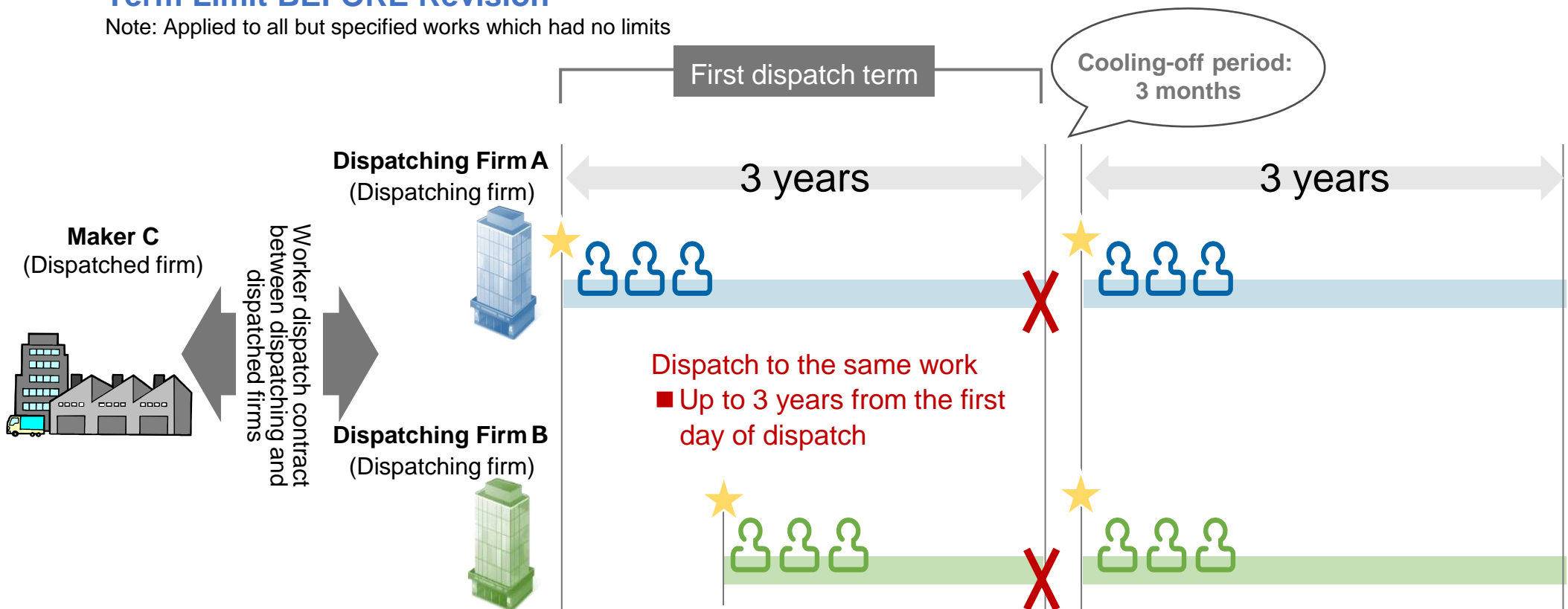
- ◆ The Revised Worker Dispatching Act aims for employment stabilization through foreclosing malicious businesses by imposing various requirements on dispatching business operators and relaxed term limit for regular worker dispatching.
- ◆ The Revised Labor Contract Act aims to reduce unstable employments at any companies.

Supplementary Materials

Revised Worker Dispatching Act

Term Limit BEFORE Revision

Note: Applied to all but specified works which had no limits



★ : Enter into work dispatch contract

Dispatch to the same workplace must be terminated in 3 years and re-dispatch requires a cooling-off period of 3 months during which no dispatched workers are permitted.

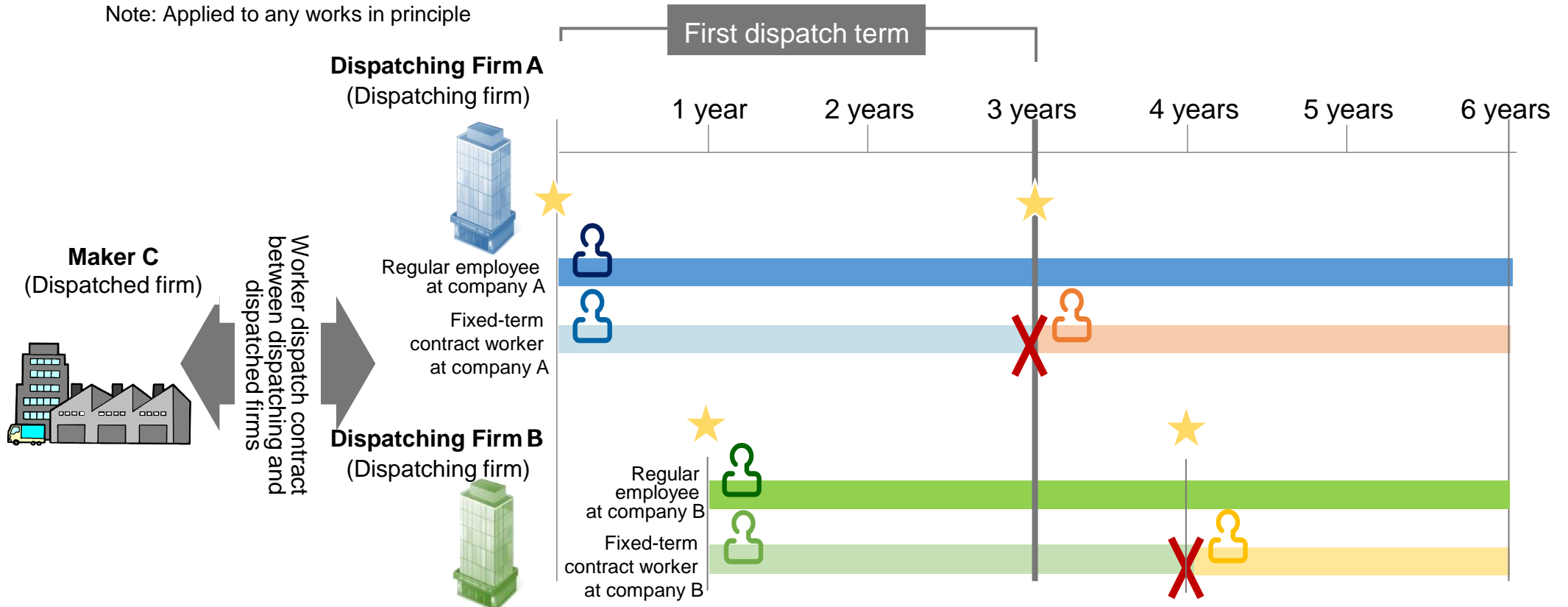
Note: A Change of worker or dispatching firm is deemed as continued dispatch.

Supplementary Materials

Revised Worker Dispatching Act

Term Limit AFTER Revision

Note: Applied to any works in principle



Dispatch to the same work

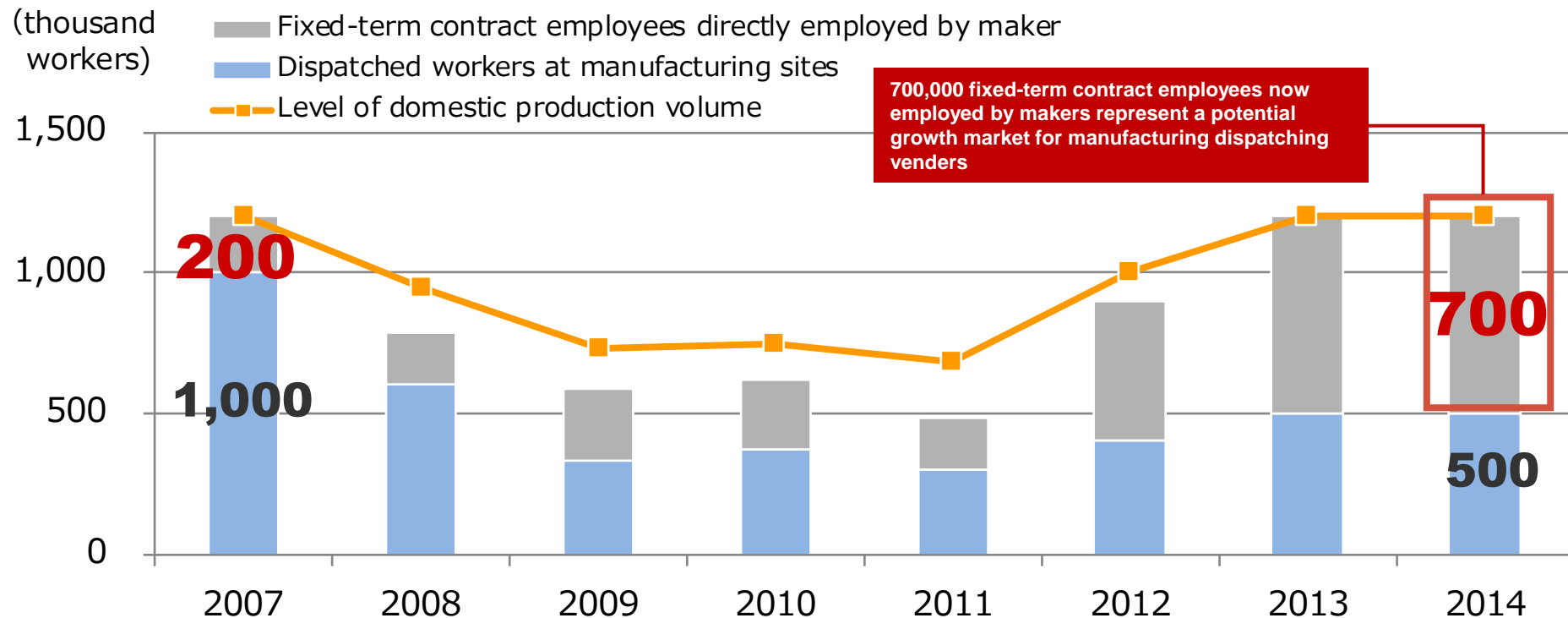
- No term limit for regular dispatching
- 3 year limit for fixed-term contract worker dispatching

Note: When the worker is changed, continued dispatch to the same work is allowed without a cooling-off period.

Supplementary Materials

Newly emerged potential for the manufacturing dispatching industry as a result of the Revised Worker Dispatching Act

[Trend of the Number of Manufacturing Dispatched Workers and Fixed-Term Contract Employees Directly Employed by Makers]



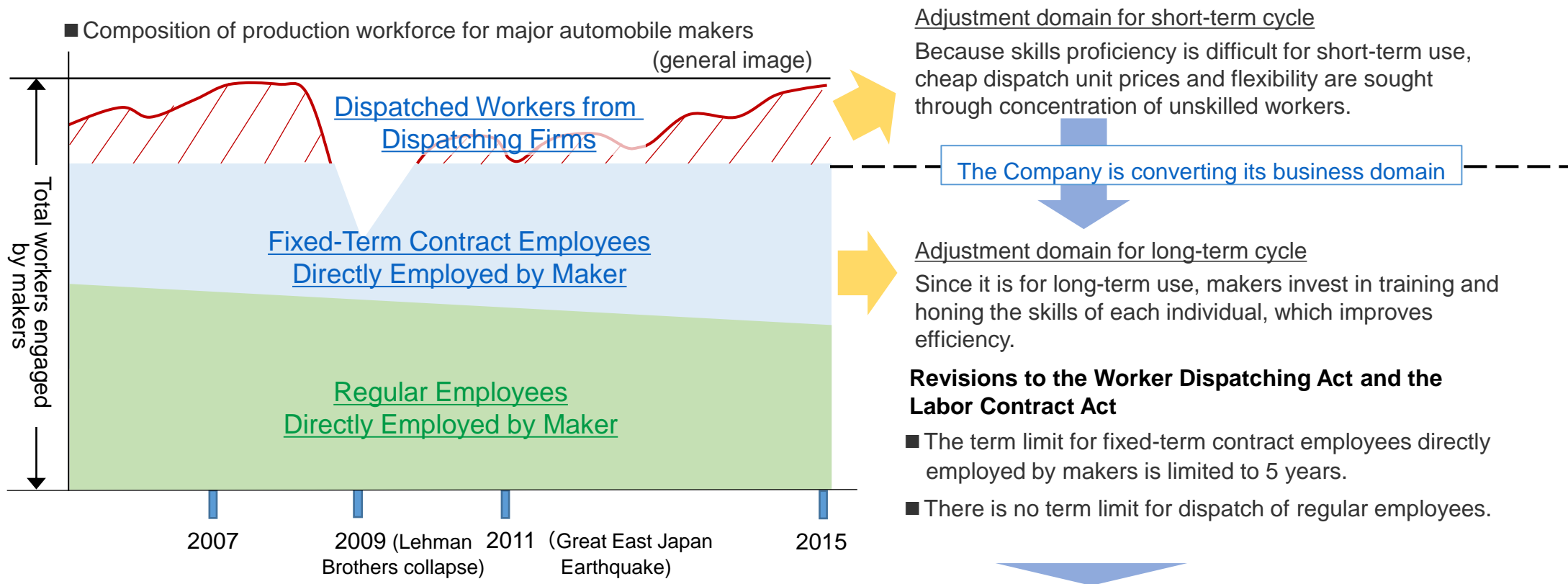
*Source: Company estimates based on the Ministry of Internal Affairs and Communications Labor Force Survey results and other data

Supplementary Materials

Domestic Manufacturing Outsourcing Business

Promoting the PEO Scheme

Pursuant to the Revised Worker Dispatching Act, the Company has broken away from the adjustment domain for short-term cycle production using dispatched workers from dispatching firms, converting to the long-term cycle domain of utilizing fixed-term contract employees directly employed by makers.



On the Revised Law, makers are improving efficiency by changing from the use of directly employed fixed-term contract employees of theirs to the use of dispatched workers, i.e., regular employees of dispatching firms.

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 to differ materially from those projected.

OUTSOURCING Inc.

CEO Office

E-Mail: os-ir@outsourcing.co.jp

URL: <http://www.outsourcing.co.jp/en>