

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

# Financial Results for the 2<sup>nd</sup> Quarter of Fiscal Year Ending December 31, 2019

August 2019



# Contents

---

- P. 2 Consolidated Financial Results for Q2 FY12/19 (IFRS)
- P. 17 Consolidated Financial Forecasts for FY12/19 (IFRS)
- P. 20 References

# Consolidated Financial Results for Q2 FY12/19 (IFRS)



# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## ● Consolidated Financial Results Summary

(¥ million)	FY12/18		FY12/19		YoY	
	Q2 YTD Actual		Q2 YTD Actual		Changes	
	Amount	Composition Ratio	Amount	Composition Ratio	Amount	Ratio
<b>Revenue</b>	<b>139,099</b>	<b>100.0%</b>	<b>177,585</b>	<b>100.0%</b>	<b>38,486</b>	<b>27.7%</b>
<b>Cost of sales</b>	112,618	81.0%	144,732	81.5%	32,114	28.5%
<b>Gross profit</b>	<b>26,481</b>	<b>19.0%</b>	<b>32,853</b>	<b>18.5%</b>	<b>6,372</b>	<b>24.1%</b>
<b>SG&amp;A expenses</b>	21,615	15.5%	29,063	16.4%	7,448	34.5%
<b>Operating profit</b>	<b>4,807</b>	<b>3.5%</b>	<b>5,703</b>	<b>3.2%</b>	<b>896</b>	<b>18.6%</b>
<b>Profit before tax</b>	3,786	2.7%	3,532	2.0%	(254)	-6.7%
<b>Profit for the period</b>	2,390	1.7%	1,982	1.1%	(408)	-17.1%
<b>Profit attributable to owners of the Company</b>	<b>2,027</b>	<b>1.5%</b>	<b>1,511</b>	<b>0.9%</b>	<b>(516)</b>	<b>-25.5%</b>

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

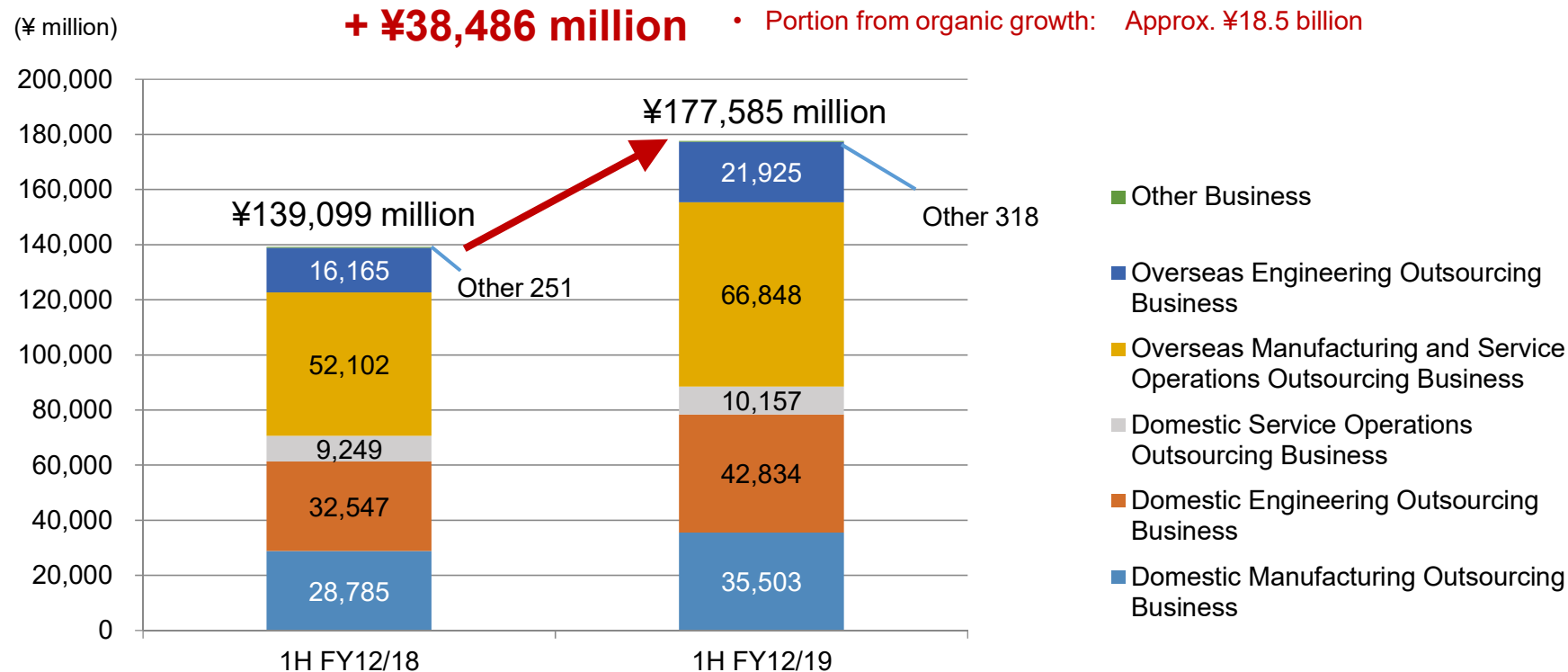
# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## ● Highlights of Consolidated Financial Results

**Revenue**      **¥177,585 million (+27.7% YoY)**

- Through generating group synergies, all business segments achieved growth
  - In Japan, captured needs arising from revised labor laws, and additionally made steady progress in capturing growing needs for use of foreign workers
  - Overseas, the scheme for mobilizing people on a global scale from countries with abundant workforce to those with tight labor markets expanded steadily

- Portion derived from M&A:      Approx. ¥20 billion  
(reflects the contribution from companies acquired in 2018, and no M&A in 2019)
- Portion from organic growth:      Approx. ¥18.5 billion

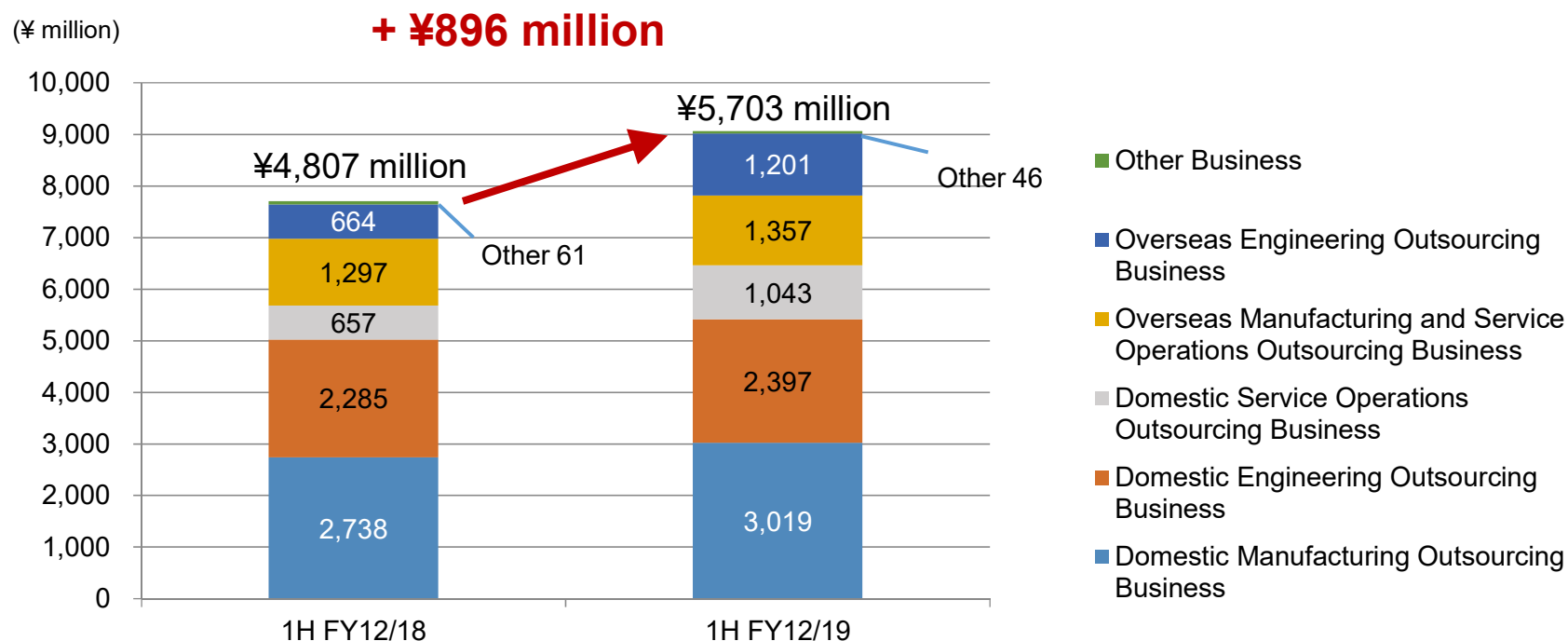


# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## ● Highlights of Consolidated Financial Results

**Operating Profit      ¥ 5,703 million (+18.6% YoY)**

- Through an increase in gross profit, absorbed large leading investments to ensure continuing double-digit growth over the medium-to-long term, posted a record high; increased by ¥854 million YoY, and topping initial guidance by ¥803 million compared to the initial forecast



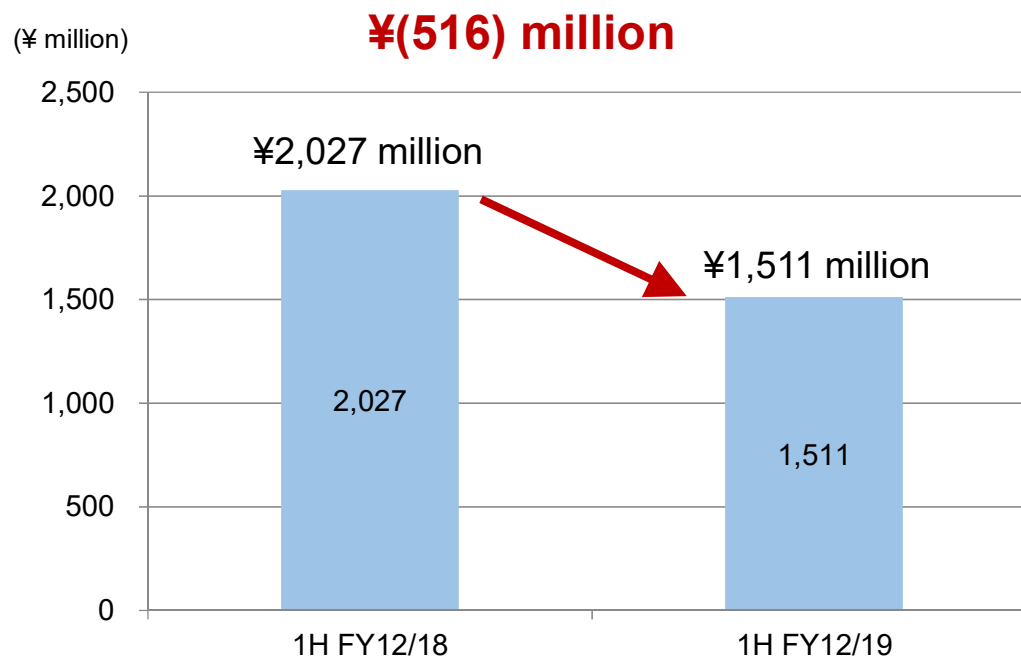
\*The operating profit adjustments (FY12/18 ¥(2,895) million and FY12/19 ¥(3,360) million) are not shown in the graph but are reflected in the total operating profit amounts.

# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## ● Highlights of Consolidated Financial Results

**Profit Attributable to Owners of the Company**    **¥ 1,511 million (-25.5% YoY)**

- Declined YoY due to the major impact from the one-off financial expenses of ¥909 million already booked in Q1 for revaluation of the fair value of put options \*



\* During the quarter under review, in revaluing the fair value of put options, the financial results of the group companies underlying the options were stronger than expected, which rose the fair value, and the difference with the end of the previous fiscal term was booked as a one-off financial expense.

Since it is treated on a consolidated basis, it is not taken into account for tax calculation, and the profit for the quarter is impacted by the same amount.

# Consolidated Financial Results for Q2 FY12/19 (IFRS)

- Highlights of Consolidated Financial Results

## Overview by Operating Segment

### Domestic Manufacturing Outsourcing Business <sup>\*1</sup>

Revenue	¥35,503 million	+ 23.3% YoY
Operating profit	¥3,019 million	+ 10.3% YoY

In the manufacturing dispatching and contract outsourcing, domestic manufacturers were impacted by the decline in exports to China as a result of trade dispute between the U.S. and China, and many competitors suffered a net decline in dispatch employees.

- Thanks to the contribution from our PEO scheme, although period-end worksite employees of 14,018 fell slightly below the plan, it achieved a net gain of roughly 500 from the end of Q1

In the administrative operations contract outsourcing of foreign workers, manufacturers are moving toward expanded use, however as a result of revisions to the Immigration Control Act, there were major delays in the screening of status of residence due to disruptions at the administrative organization

- The number under the contract outsourcing at the Q2-end was 13,528, with roughly 1,100 being pushed back against the plan

The main factor for the YoY growth rate of operating profit coming in below the growth rate of revenue was due to one-off leading investment to strengthen the organizational structure toward expansion of various businesses related to foreign workers, including administrative contract outsourcing expected to be the main business in the future for this segment.

### Impact of the U.S.-China trade disputes:

**There is an impact mainly for some suppliers to China, and since there are some clients with high unit price contracts among those manufacturers in this segment, there is some impact on revenue and profit.**

<sup>\*1</sup> → Please refer to P.23-32.



# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## ● Highlights of Consolidated Financial Results

### Overview by Operating Segment

#### Domestic Engineering Outsourcing Business<sup>\*2</sup>

Revenue	¥42,834 million	+ 31.6% YoY
Operating profit	¥2,397 million	+ 4.9% YoY

In this era when various technologies are being upgraded daily, and against a backdrop of many engineers being required in every field, there is ongoing demand for engineers in Japan which has a demographic issue of outright population decline.

- The scheme using KEN school for career change and career advancement meets young people's preference of "a firm where you can pursue your passion" to a firm with name value, which is a major advantage in recruitment, and the number of worksite employees at Q2-end exceeded plan by 200
- While the YoY growth of operating profit was lower than that of revenue, due to the temporary factor of pre-assignment training expenses arising in Q2 for the 1,600 new graduates hired for this fiscal year, growth of operating profit is expected to exceed revenue growth from Q3

#### Impact of the U.S.-China trade disputes:

**Since current demand for engineers is a factor of demographic issues and is not due to the economy, there is no impact from the U.S.-China trade disputes.**

<sup>\*2</sup> → Please refer to P.33-36.

# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## ● Highlights of Consolidated Financial Results

### Overview by Operating Segment

#### Domestic Service Operations Outsourcing Business<sup>\*3</sup>

Revenue	¥10,157 million	+ 9.8% YoY
Operating profit	¥1,043 million	+ 58.6% YoY

It has become possible to bid for large projects as the amount of bonded insurance required for projects within US military facilities has expanded to ¥70 billion

- Already secured orders exceeding the amount of FY12/19 full-year revenue plan
- Profit margins have risen sharply on improved profitability from projects becoming large scale

#### Impact of the U.S.-China trade disputes:

Since this segment is focused mainly on HR services for various facilities and maintenance / installation work for buildings and facilities which are indispensable in the US military facilities, and which are less susceptible to fluctuations in the economy and environment, there is no impact from the U.S.-China trade disputes.

<sup>\*3</sup> → Please refer to P.37.

# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## ● Highlights of Consolidated Financial Results

### Overview by Operating Segment

#### Overseas Manufacturing and Service Operations Outsourcing Business<sup>\*4</sup>

Revenue	¥66,848 million	+ 28.3% YoY
Operating profit	¥1,357 million	+ 4.7% YoY

Capturing needs arising in various regions on a global basis

- Manufacturing related: the scheme for cross-border HR mobility to fill wage differentials and workforce supply/demand gaps expanded steadily
- Service Operations related: various public works related outsourcing businesses in Europe and Australia expanded steadily
- Through collaboration with Domestic Services Operations Outsourcing Business, developed new businesses for the US military facilities in the Pacific Rim, commencing business in Guam from Q2
- The YoY growth of operating profit was lower than that of revenue, is due to the impact of greater than expected one-off expenses from restructuring unprofitable business in Southeast Asia implemented in Q1 and contract cancellations in Germany from revised labor laws, and profit growth is expected to exceed revenue growth from Q3

#### Impact of the U.S.-China trade disputes:

**As business territories include Europe, Australia, South America and Asia, so there is no direct impact, however there was an impact on manufacturing related business from the economic slowdown in Germany, which was made up by logistics related business in the Netherlands. In addition, the impact from Brexit on public works related business in the U.K. was offset by shifting the focus from the central government to local governments.**

<sup>\*4</sup> → Please refer to P.38-40.

# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## ● Highlights of Consolidated Financial Results

### Overview by Operating Segment

#### Overseas Engineering Outsourcing Business <sup>\*5</sup>

Revenue	¥21,925 million	+ 35.6% YoY
Operating profit	¥1,201 million	+ 80.7% YoY

In the advanced countries, demand for engineers as well as for reducing civil servants and privatizing public works are growing.

- In order to respond to growing demand for engineers in advanced countries, a scheme similar to KEN school engineer training for career change and career advancement was commenced in Australia, aiming for increase in recruitment

BPO = Business Process Outsourcing

- In Europe and Australia, the BPO business for various governments using our in-house developed systems was developed across the Group, achieving business growth and productivity gain, and profit margins improved

#### Impact of the U.S.-China trade disputes:

**Since this segment consists of providing contract businesses for central and local governments as well as supplying engineers under the same demographic constraints as Japan, which are less susceptible to fluctuations in the economy and environment, there is no impact from the U.S.-China trade disputes.**

\*5 → Please refer to P.41.

# Consolidated Financial Results for Q2 FY12/19 (IFRS)

- Highlights of Consolidated Financial Results

## Summary of the Group Overall

While it can be surmised that there is a large impact from the U.S.-China trade disputes on manufacturing dispatch schemes to boost employees simply for production hikes, the weight of this type of scheme in the OS Group is extremely small, and for the Group overall there is virtually no impact

Since the Company's PEO scheme and the foreign workforce related businesses is such business models responding to manufacturers issues and needs arising from the revisions in the labor laws and the Immigration Control Act, the businesses are expanding steadily

Engineering Outsourcing Business continues to meet the high needs for engineers in various fields and industries on a global basis even during the periods of some economic slowdown, and the outsourcing business for US military facilities and various contract businesses for central and local governments, businesses which are less susceptible to fluctuations in the economy and environment, are steadily expanding.

**For the Group overall, the businesses, which have different cycles from the manufacturing cycle and the areas which are less susceptible to economic fluctuation, continue to expand globally, and while absorbing major investments to ensure maintaining double-digit growth over the medium-to-long term, we believe that our business expansion is progressing favorably against the overall Group budget.**

# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## ● Consolidated Financial Results (Quarterly Trends)

(¥ million)	FY12/18					FY12/19	
	Q1	Q2	Actual Q3	Q4	Full-Year	Actual Q1	Actual Q2
Revenue	63,198	75,901	81,959	90,253	311,311	86,404	91,181
Gross profit	12,250	14,231	16,360	19,559	62,400	16,065	16,788
Ratio of gross profit	19.4%	18.7%	20.0%	21.7%	20.0%	18.6%	18.4%
SG&A expenses	9,922	11,693	12,240	13,815	47,670	14,361	14,702
Ratio of SG&A expenses	15.7%	15.4%	14.6%	15.6%	15.3%	16.6%	16.1%
Operating profit	2,050	2,757	4,224	5,641	14,672	2,543	3,160
Ratio of operating profit	3.2%	3.6%	5.5%	6.0%	4.7%	2.9%	3.5%
Profit before tax	1,935	1,851	4,044	4,806	12,636	1,403	2,129
Ratio of profit before tax	3.1%	2.4%	5.2%	5.0%	4.1%	1.6%	2.3%
Profit attributable to owners of the Company	1,186	841	2,019	3,485	7,531	498	1,013
Ratio of profit attributable to owners of the Company	1.9%	1.1%	2.6%	3.7%	2.4%	0.6%	1.1%

QoQ/YoY Changes	FY12/18					FY12/19	
	Q1	Q2	Actual Q3	Q4	Full-Year	Actual Q1	Actual Q2
Revenue	-2.3%	20.1%	8.0%	10.1%	35.3%	-4.3%	5.5%
Gross profit	-12.9%	16.2%	15.0%	19.5%	36.2%	-17.9%	4.5%
SG&A expenses	5.9%	17.8%	2.5%	17.3%	37.0%	2.1%	2.4%
Operating profit	-56.0%	34.5%	62.3%	20.4%	29.2%	-52.8%	24.3%
Profit before tax	-55.9%	-4.4%	132.0%	6.1%	21.6%	-69.2%	51.6%
Profit attributable to owners of the Company	-61.0%	-29.0%	152.1%	59.4%	21.9%	-85.3%	103.6%

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

# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## Financial Results by Operating Segment and Revenue by Region (Quarterly Trends)

(¥ million)	FY12/18					FY12/19		
	Actual					Actual		
	Q1	Q2	Q3	Q4	Full-Year	Q1	Q2	
Domestic Manufacturing Outsourcing Business	Revenue	13,848	14,937	15,853	17,664	62,302	17,546	17,957
	Operating profit	1,368	1,370	1,640	2,916	7,294	1,369	1,650
	No. of worksite employees at term-end	11,050	11,826	12,363	13,698	13,698	13,531	14,018
	No. of outsourcing administrative workers at term-end	5,554	6,716	7,467	11,225	11,225	12,418	13,528
	No. of placed workers	818	1,033	971	1,030	3,852	924	1,034
Domestic Engineering Outsourcing Business	Revenue	15,359	17,188	18,826	21,061	72,434	20,513	22,321
	Operating profit	986	1,299	1,767	3,215	7,267	1,348	1,049
	No. of worksite employees at term-end	9,474	10,943	12,138	12,763	12,763	13,214	15,036
Domestic Service Operations Outsourcing Business	Revenue	4,574	4,675	4,145	4,609	18,003	4,806	5,351
	Operating profit	356	301	387	327	1,371	400	643
	No. of worksite employees at term-end	2,890	2,985	2,815	3,370	3,370	2,670	2,657
Overseas Manufacturing and Service Operations Outsourcing Business	Revenue	21,943	30,159	33,748	35,714	121,564	33,014	33,834
	Operating profit	380	917	1,242	(291)	2,248	335	1,022
	No. of worksite employees at term-end	32,281	46,034	47,197	44,868	44,868	42,280	44,707
Overseas Engineering Outsourcing Business	Revenue	7,329	8,836	9,305	11,100	36,570	10,364	11,561
	Operating profit	309	355	484	572	1,720	583	618
	No. of worksite employees at term-end	2,091	2,252	2,507	3,043	3,043	3,280	3,718
Other Business	Revenue	145	106	82	105	438	161	157
	Operating profit	19	42	23	(31)	53	2	44
	No. of worksite employees at term-end	3	3	4	4	4	3	4
Adjustments	Operating profit	(1,368)	(1,527)	(1,319)	(1,067)	(5,281)	(1,494)	(1,866)
Total	Revenue	63,198	75,901	81,959	90,253	311,311	86,404	91,181
	Operating profit	2,050	2,757	4,224	5,641	14,672	2,543	3,160

Revenue by region (¥ million)	FY12/18					FY12/19	
	Actual					Actual	
	Q1	Q2	Q3	Q4	Full-Year	Q1	Q2
Japan	33,926	36,906	38,906	43,439	153,177	43,026	45,786
Asia (excl. Japan)	4,716	4,367	4,453	3,340	16,876	3,414	3,427
Oceania	9,149	11,133	11,347	12,821	44,450	11,783	13,271
Europe	14,057	21,785	25,456	28,357	89,655	26,225	26,573
South America	1,350	1,710	1,797	2,296	7,153	1,956	2,124
Total	63,198	75,901	81,959	90,253	311,311	86,404	91,181

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

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

# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## Summary of Consolidated Statement of Financial Position

(¥ million)	FY12/18-End		Q2-End FY12/19		vs FY12/18-End
	Amount	Composition Ratio	Amount	Composition Ratio	Amount
<b>Current assets</b>	<b>93,636</b>	<b>50.5%</b>	<b>103,806</b>	<b>45.9%</b>	<b>10,170</b>
Cash and cash equivalents	29,451	15.9%	31,197	13.8%	1,746
Trade and other receivables	50,165	27.1%	52,685	23.3%	2,520
Inventories	1,509	0.8%	1,688	0.7%	179
<b>Non-current assets</b>	<b>91,736</b>	<b>49.5%</b>	<b>122,254</b>	<b>54.1%</b>	<b>30,518</b>
Property, plant and equipment	10,249	5.5%	8,749	3.9%	(1,500)
Right-of-use assets	-	-	19,537	8.6%	-
Goodwill	54,059	29.2%	58,141	25.7%	4,082
Intangible assets	17,949	9.7%	16,836	7.4%	(1,113)
Other non-current financial assets	5,518	3.0%	14,238	6.3%	8,720
<b>Total assets</b>	<b>185,372</b>	<b>100.0%</b>	<b>226,060</b>	<b>100.0%</b>	<b>40,688</b>
<b>Current liabilities</b>	<b>67,246</b>	<b>36.3%</b>	<b>96,332</b>	<b>42.6%</b>	<b>29,086</b>
Trade and other payables	32,038	17.3%	37,603	16.6%	5,565
Bonds and borrowings	14,822	8.0%	24,944	11.0%	10,122
Lease Liabilities	-	-	15,144	6.7%	-
Income tax payables	4,635	2.5%	5,643	2.5%	1,008
<b>Non-current liabilities</b>	<b>57,824</b>	<b>31.2%</b>	<b>72,982</b>	<b>32.3%</b>	<b>15,158</b>
Bonds and borrowings	39,265	21.2%	34,915	15.4%	(4,350)
Lease Liabilities	-	-	20,237	9.0%	-
Other non-current financial liabilities	11,125	6.0%	10,622	4.7%	(503)
<b>Total liabilities</b>	<b>125,070</b>	<b>67.5%</b>	<b>169,314</b>	<b>74.9%</b>	<b>44,244</b>
Share capital	25,123	13.6%	25,133	11.1%	10
Share premium	26,587	14.3%	26,566	11.8%	(21)
Treasury shares	(0)	0.0%	(0)	0.0%	0
Other share premium	(14,178)	-7.6%	(14,413)	-6.4%	(235)
Retained earnings	19,825	10.7%	18,756	8.3%	(1,069)
<b>Equity attributable to owners of the Company</b>	<b>55,202</b>	<b>29.8%</b>	<b>52,456</b>	<b>23.2%</b>	<b>(2,746)</b>
<b>Non-controlling interests</b>	<b>5,100</b>	<b>2.8%</b>	<b>4,290</b>	<b>1.9%</b>	<b>(810)</b>
<b>Equity</b>	<b>60,302</b>	<b>32.5%</b>	<b>56,746</b>	<b>25.1%</b>	<b>(3,556)</b>
<b>Total liabilities and equity</b>	<b>185,372</b>	<b>100.0%</b>	<b>226,060</b>	<b>100.0%</b>	<b>40,688</b>

Booked due to the start of application of IFRS 16 Leases

### IFRS 16 Leases

⇒ This accounting standard requires all leases in principle to be on the Statement of Financial Position, and its application commenced from January 1, 2019.

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



# Consolidated Financial Results for Q2 FY12/19 (IFRS)

## Summary of Consolidated Statement of Cash Flows

(¥ million)	FY12/18 1H Amount	FY12/19 1H Amount	YoY Changes Amount
Profit before tax	3,786	3,532	(254)
Depreciation and amortization	1,530	5,652	4,122
Decrease (increase) in trade and other receivables	(3,649)	(2,616)	1,033
Increase (decrease) in trade and other payables	4,247	5,078	831
<b>Cash flows from operating activities</b>	<b>2,278</b>	<b>9,114</b>	<b>6,836</b>
Payments for purchase of business	(11,280)	(4,657)	6,623
<b>Cash flows from investing activities</b>	<b>(17,080)</b>	<b>(3,695)</b>	<b>13,385</b>
Increase (decrease) of borrowings	18,851	5,436	(13,415)
Dividends paid	(1,937)	(2,636)	(699)
<b>Cash flows from financing activities</b>	<b>16,429</b>	<b>(3,370)</b>	<b>(19,799)</b>
<b>Cash and cash equivalents at end of period</b>	<b>20,368</b>	<b>31,197</b>	<b>10,829</b>

Cash flows from operating activities:  
Reflects an increase in depreciation from commencing application of IFRS 16 Leases

Cash flows from investing activities:  
Increased from decrease in payments for purchases of business

Cash flows from financing activities:  
Reflected decrease of borrowings

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

\*As of the publication of these materials, the Consolidated Statement of Cash Flows is undergoing audit procedures by the auditor, and it is subject to potential change.

# Consolidated Financial Forecasts for FY12/19 (IFRS)



# Consolidated Financial Forecasts for FY12/19 (IFRS)

## Summary for FY12/19 Consolidated Financial Forecasts

(¥ million)	FY12/18 Actual				FY12/18 Actual 1H Amount	FY12/19 Forecasts				YoY Changes	
	1H	2H	Full-Year			1H	2H	Full-Year		Amount	Ratio
	Amount	Amount	Amount	Composition Ratio		Amount	Amount	Amount	Composition Ratio		
<b>Revenue</b>	<b>139,099</b>	<b>172,212</b>	<b>311,311</b>	<b>100.0%</b>	<b>177,585</b>	<b>171,000</b>	<b>214,000</b>	<b>385,000</b>	<b>100.0%</b>	<b>73,689</b>	<b>23.7%</b>
Cost of sales	112,618	136,293	248,911	80.0%	144,732	-	-	-	-	-	-
<b>Gross profit</b>	<b>26,481</b>	<b>35,919</b>	<b>62,400</b>	<b>20.0%</b>	<b>32,853</b>	-	-	-	-	-	-
SG&A expenses	21,615	26,055	47,670	15.3%	29,063	-	-	-	-	-	-
<b>Operating profit</b>	<b>4,807</b>	<b>9,865</b>	<b>14,672</b>	<b>4.7%</b>	<b>5,703</b>	<b>4,900</b>	<b>14,100</b>	<b>19,000</b>	<b>4.9%</b>	<b>4,328</b>	<b>29.5%</b>
Finance income	69	56	66	0.0%	52	-	-	-	-	-	-
Finance costs	1,090	1,071	2,102	0.7%	2,223	-	-	-	-	-	-
<b>Profit before tax</b>	<b>3,786</b>	<b>8,850</b>	<b>12,636</b>	<b>4.1%</b>	<b>3,532</b>	<b>4,200</b>	<b>13,300</b>	<b>17,500</b>	<b>4.5%</b>	<b>4,864</b>	<b>38.5%</b>
<b>Profit for the period</b>	<b>2,390</b>	<b>5,977</b>	<b>8,367</b>	<b>2.7%</b>	<b>1,982</b>	<b>2,600</b>	<b>8,800</b>	<b>11,400</b>	<b>3.0%</b>	<b>3,033</b>	<b>36.3%</b>
<b>Profit attributable to owners of the Company</b>	<b>2,027</b>	<b>5,504</b>	<b>7,531</b>	<b>2.4%</b>	<b>1,511</b>	<b>2,100</b>	<b>7,900</b>	<b>10,000</b>	<b>2.6%</b>	<b>2,469</b>	<b>32.8%</b>

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

# Consolidated Financial Forecasts for FY12/19 (IFRS)

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

(¥ million)		FY12/18					FY12/19							
		Actual					Actual		Forecasts					
		Q1	Q2	Q3	Q4	Full-Year	Q1	Q2	Q3	Q4	1H	2H	Full-Year	
Domestic Manufacturing Outsourcing Business	Revenue	13,848	14,937	15,853	17,664	62,302	17,546	17,957	22,200	25,400	37,000	47,600	84,600	
	Operating profit	1,368	1,370	1,640	2,916	7,294	1,369	1,650	2,600	3,220	3,000	5,820	8,820	
	No. of worksite employees at term-end	11,050	11,826	12,363	13,698	13,698	13,531	14,018	16,051	17,686	15,141	17,686	17,686	
	No. of outsourcing administrative workers at term-end	5,554	6,716	7,467	11,225	11,225	12,418	13,528	17,230	20,000	14,690	20,000	20,000	
	No. of placed workers	818	1,033	971	1,030	3,852	924	1,034	920	940	1,740	1,860	3,600	
Domestic Engineering Outsourcing Business	Revenue	15,359	17,188	18,826	21,061	72,434	20,513	22,321	25,100	27,400	43,000	52,500	95,500	
	Operating profit	986	1,299	1,767	3,215	7,267	1,348	1,049	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	13,214	15,036	15,403	16,111	14,828	16,111	16,111	
Domestic Service Operations Outsourcing Business	Revenue	4,574	4,675	4,145	4,609	18,003	4,806	5,351	6,100	6,700	9,500	12,800	22,300	
	Operating profit	356	301	387	327	1,371	400	643	550	690	560	1,240	1,800	
	No. of worksite employees at term-end	2,890	2,985	2,815	3,370	3,370	2,670	2,657	4,328	4,891	3,819	4,891	4,891	
Overseas Manufacturing and Service Operations Outsourcing Business	Revenue	21,943	30,159	33,748	35,714	121,564	33,014	33,834	38,890	38,470	62,000	77,360	139,360	
	Operating profit	380	917	1,242	(291)	2,248	335	1,022	1,680	1,460	1,560	3,140	4,700	
	No. of worksite employees at term-end	32,281	46,034	47,197	44,868	44,868	42,280	44,707	53,333	55,674	49,507	55,674	55,674	
Overseas Engineering Outsourcing Business	Revenue	7,329	8,836	9,305	11,100	36,570	10,364	11,561	11,300	12,000	19,200	23,300	42,500	
	Operating profit	309	355	484	572	1,720	583	618	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	3,280	3,718	3,331	3,431	3,336	3,431	3,431	
Other Business	Revenue	145	106	82	105	438	161	157	210	230	300	440	740	
	Operating profit	19	42	23	(31)	53	2	44	(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)	(1,494)	(1,866)	(1,770)	(1,770)	(3,500)	(3,540)	(7,040)	
Total	Revenue	63,198	75,901	81,959	90,253	311,311	86,404	91,181	103,800	110,200	171,000	214,000	385,000	
	Operating profit	2,050	2,757	4,224	5,641	14,672	2,543	3,160	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.

## References

- P.21 Main Business Schemes in Each Business Segment
- P.42 Target Levels in the New Medium-term Management Plan under Preparation
- P.50 Strengthening Group Governance
- P.55 Regarding Employment in Japan
- P.56 Supplemental Information



## Main Business Schemes in Each Business Segment

- Regardless of business segment, the HR service which is a stock business of employment requires an advantage in recruitment

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

⇒ For competitors, the number of hires has been squeezed due to fierce recruitment competition, and at the same time recruitment cost is rising



The Company has secured an overwhelming advantage in hiring through business domains not yet entered by competitors, schemes for career advancement and career change using the Group's KEN school, and global development of HR mobility.

# Main Business Schemes in Each Business Segment

## Business schemes that respond to HR needs differentiated from competitors in each business segment

### ■ Domestic Manufacturing Outsourcing Business (P.23-32)

- Promoting the growing businesses related to foreign workers, expanding the staff procurement by bringing workers 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.33-36)

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

### ■ Domestic Service Operations Outsourcing Business (P.37)

While it is relatively easy to hire for stable jobs, there is a high entry barrier for competitors for the outsourcing business in the US military facilities, which is now being rolled out into the Pacific Rim.

### ■ Overseas Manufacturing and Service Operations Outsourcing Business (P.38-40)

- Manufacturing: Expanding the cross-border HR mobility
- Service Operations: Global development of public work-related businesses and for which hiring is relatively easy which are less susceptible to impact from the economy

### ■ Overseas Engineering Outsourcing Business (P.41)

Global development of BPO business for governments which hiring is relatively easy which are less susceptible to impact from the economy.

# Main Business Schemes in Each Business Segment

## Domestic Manufacturing Outsourcing Business

(Administrative Operations Outsourcing Business mainly related to foreign workforce)

Revisions of the Technical Intern Training Act and Immigration Control Act related to the use of foreign workers (excerpt)

## 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 trainees ➡ Based on Japan's official program, the Technical Intern Training Program, makes 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.

## Revised Immigration Control Act (Immigration Control and Refugee Recognition Act)

### Enforced in April 2019

- This is a major shift in policy for accepting foreign workers which in the past had been limited to those with advanced skills in specialized fields, creating new categories of status of residence (Specified Skilled Worker), allowing employment in the area of basic labor works.

\*Specified Skilled Worker ➡ New categories of status of residence issued to those who have completed the Technical Intern Training Program, and who satisfy immigration requirements including passing designated exams, etc.



# Main Business Schemes in Each Business Segment

## Domestic Manufacturing Outsourcing Business

(Administrative Operations Outsourcing Business mainly related to foreign workforce)

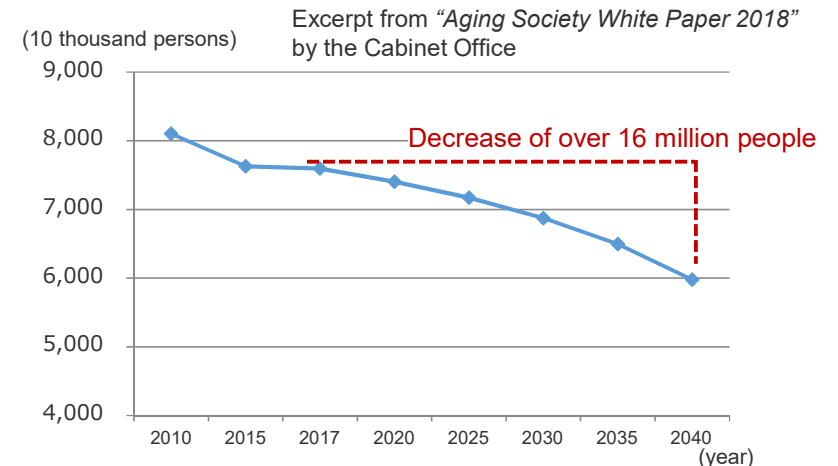
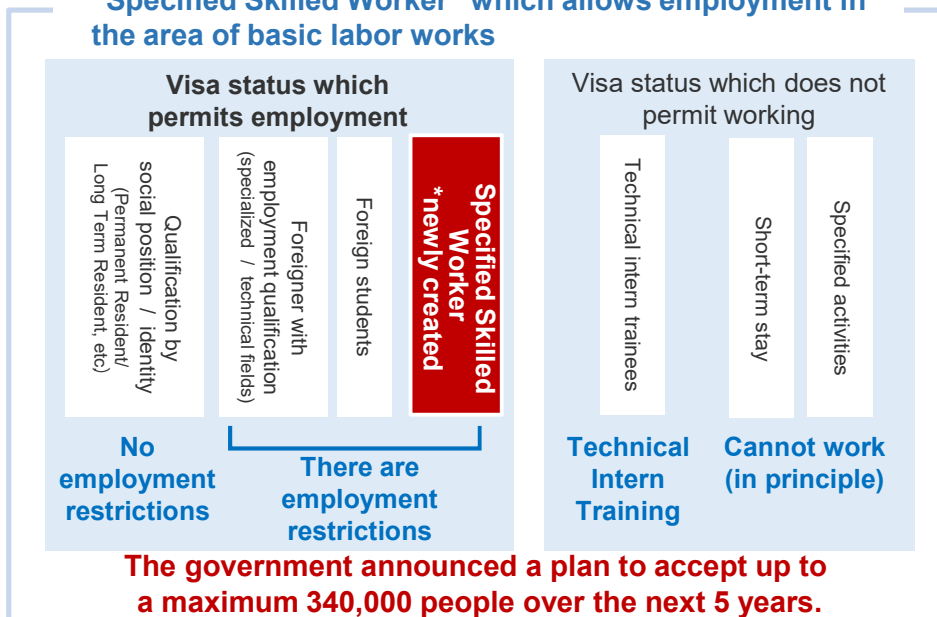
- Deregulation regarding foreign workers, advanced due to the declining domestic workforce population
  - Population trend and future forecast for Japan's age group of 15-64 years old (productive ages)

■ 1.46 million foreign workers as of October 2018

**+14.2% YoY**

From Registration Status Summary of  
"The Employment Situation of Foreigners" by MHLW

- Positioning of the new visa (residence) status program "Specified Skilled Worker" which allows employment in the area of basic labor works



- The Administrative Operations Outsourcing contract period is extended with the addition of "Specified Skilled Worker" residence period



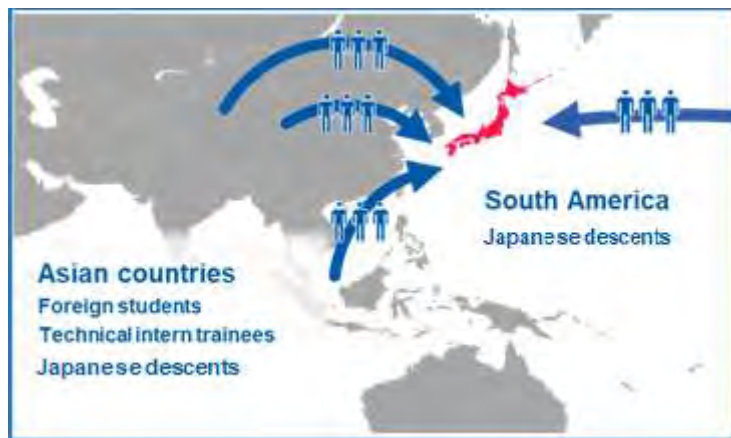
# Main Business Schemes in Each Business Segment

## Domestic Manufacturing Outsourcing Business

(Administrative Operations Outsourcing Business mainly related to foreign workforce)

Promotion of the businesses related to the use of foreign workers continues to expand through matching the needs of makers and foreign workers.

- The OS Group has already established a proprietary recruitment network and utilization scheme as countermeasures for the makers' domestic workforce shortage by expanding use of foreign exchange students, technical intern trainees and those of Japanese descent from Asia, as well as those of Japanese descent from South America
- OS Group businesses related to the use of foreign workers
  - When a maker hires technical intern trainees, those with specified skills coming to Japan or those of Japanese descent, are sent by the group companies handling Japanese language training programs locally. Also, various administrative contract operations take place after they arrive in Japan including arrangement of dormitories, support for language and daily living, etc.
  - The OS Group is also broadly engaged in directly hiring Japanese descents and foreign exchange students for use in dispatch and contract works, as well as HR placement to makers, etc.



- Actual number of persons under Administrative Operations Outsourcing

**End of 2Q FY12/19 13,528 persons**

- Centering around ORJ which is a pioneer in the field of administrative operations business, the Group will go for the market for expanded use of foreign workers, leveraging its competitive advantages

**End of FY12/23**

**Aiming at over 100,000 persons**

**for business related to the use of foreign workers**

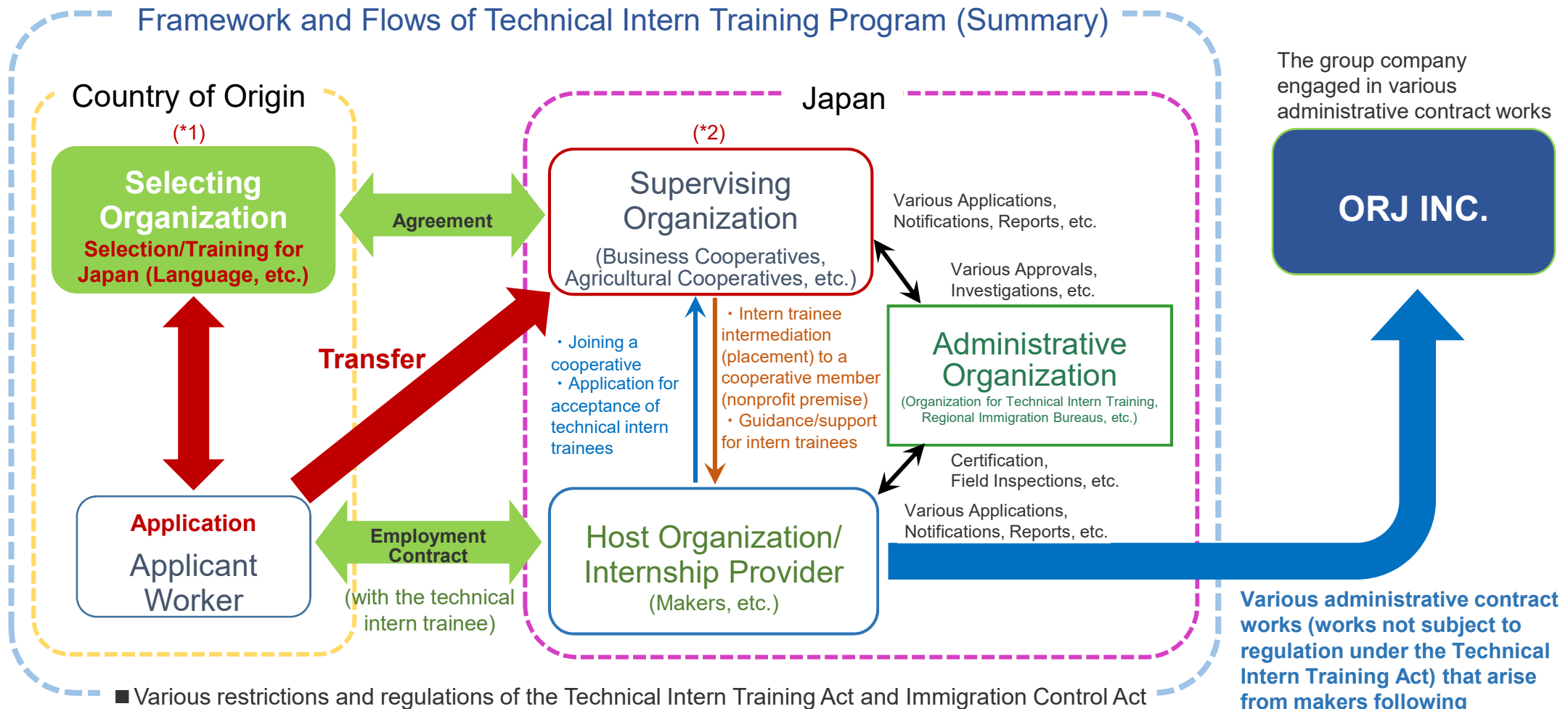
# Main Business Schemes in Each Business Segment

## Domestic Manufacturing Outsourcing Business

(Administrative Operations Outsourcing Business mainly related to foreign workforce)

### Current status of the Technical Intern Training Program

#### Framework and Flows of Technical Intern Training Program (Summary)



There are organizations that cooperate closely with the Company at the selecting organizations (\*1) and supervising organizations (\*2) in the figure above.

Various administrative contract works (works not subject to regulation under the Technical Intern Training Act) that arise from makers following acceptance of technical intern trainees






# Main Business Schemes in Each Business Segment


## Domestic Manufacturing Outsourcing Business

(Administrative Operations Outsourcing Business mainly related to foreign workforce)


- ❑ Provide **“compliant comprehensive support”** to makers related to hiring foreigners
- ❑ Provide **“work and living environments with safety and peace of mind”** to foreigners

**Country of origin**  
(Asian countries, South America)


-  Actual work explanation, interview
-  Japanese language training
-  Training on Japanese culture and daily life
-  Document application support
-  Departure support



Before coming to Japan  
Japanese language training



Training on Japanese culture and daily life



Departure and immigration support

**Japan**

-  Interpretation, translation
-  Support for company housing and meals
-  Multilingual call center
-  Handling problems and daily living consultation
-  Support for international money transfers
-  Consultation contact for foreigners coming to Japan (administrative consignment)
-  Japanese culture and local community life (various recreational planning)



Training by ORJ's Japanese language center



Daily living support in cooperation with government organizations



Recreation with local residents

- The OS Group emphasizes service and training which serve as a bridge between foreigners coming to Japan, employment acceptance firms and local communities.

### The achievements of “service” and “training” by pioneer ORJ in Administrative Operations Outsourcing Business

As the disappearance of technical intern trainees becomes a problem, ORJ has only a small number of disappearances, and the gap of the rate of disappearance with the market average continues to expand every year.

**This is a proof of the high value-added nature of ORJ's businesses.**

\*Comparison with Ministry of Justice data

# Main Business Schemes in Each Business Segment

## Domestic Manufacturing Outsourcing Business (the PEO Scheme)

### Summary of Revised Labor-related Laws (excerpt)

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

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

■ Marked “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 term (partly obligation for the best efforts)
- Abolished specified occupations which had no term limits for the use on dispatching, and limiting the use of all fixed-term contract employees employed by dispatch business operators to a maximum of 3 years at the same workplace
- No restriction on the term for indefinite-term 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 (the terms of license permissions are tightened)

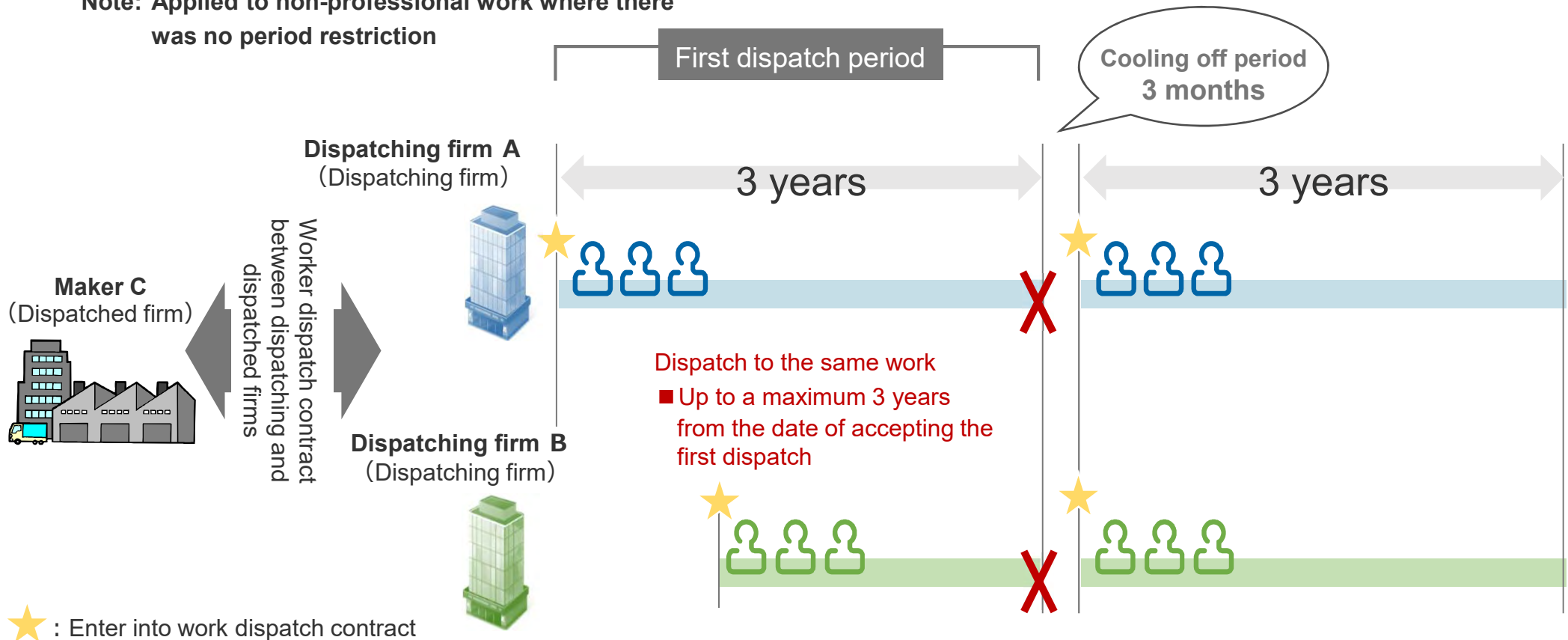
- ◇ The Revised Worker Dispatching Act creates obligations for dispatch agencies with a view toward forcing out bad operators as well as relaxing the term restriction for dispatching full-time employees
- ◇ The objective of the Revised Labor Contracts Act is to control unstable employment for all companies

# Main Business Schemes in Each Business Segment

## Domestic Manufacturing Outsourcing Business (the PEO Scheme)

### Period Limit BEFORE Revision

Note: Applied to non-professional work where there was no period restriction



Dispatch at the same worksite must be totally completed by the end of 3 years, and having a period of no dispatch employees (cooling off period) of over 3 months before restart is stipulated.

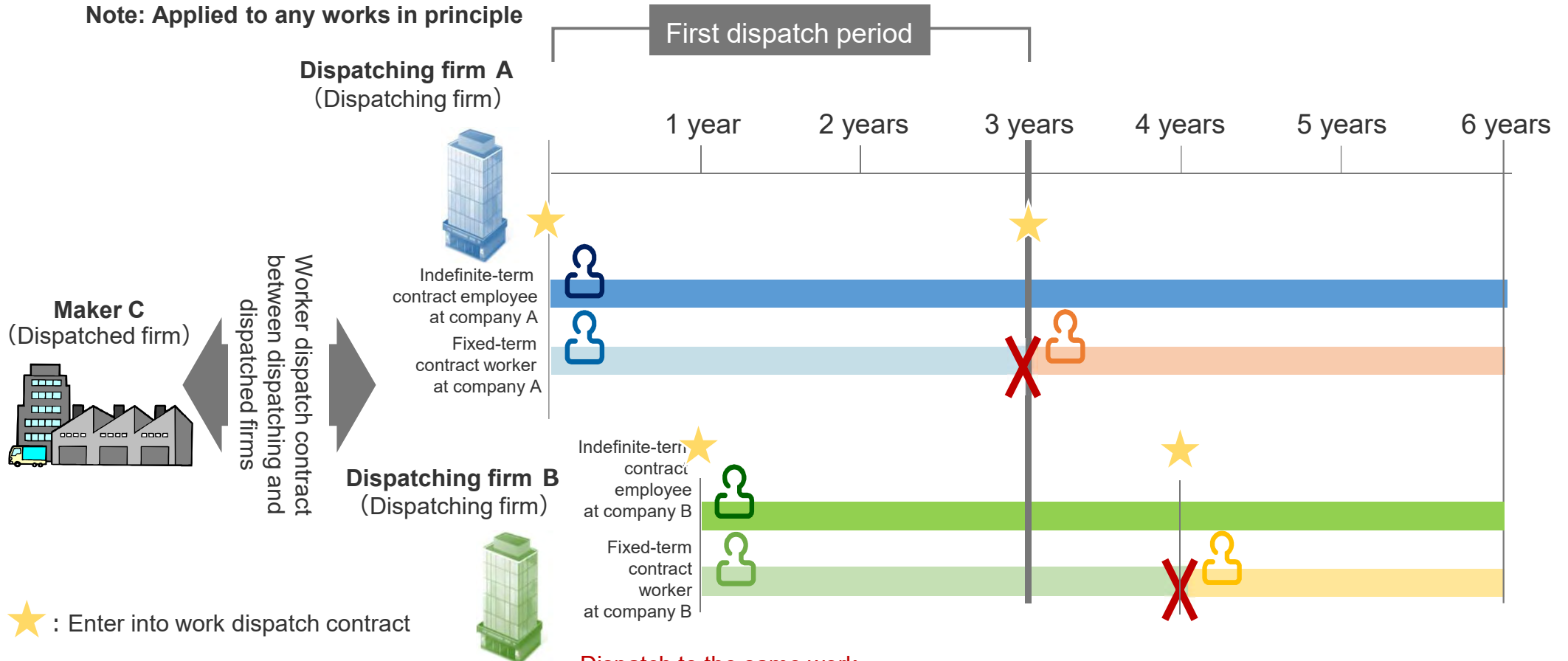
Note: Even if dispatched employees or the dispatching firm are changed, it is still considered continuous dispatch.

# Main Business Schemes in Each Business Segment

## Domestic Manufacturing Outsourcing Business (the PEO Scheme)

### Period Limit AFTER Revision

Note: Applied to any works in principle



#### Dispatch to the same work

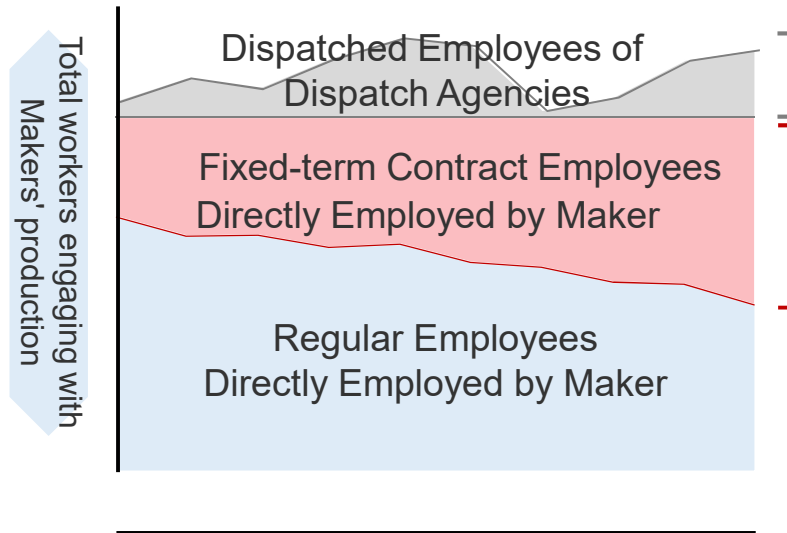
- No period limit for indefinite-term contract worker dispatching
- 3 years limit for fixed-term contract worker dispatching

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

# Main Business Schemes in Each Business Segment

## Domestic Manufacturing Outsourcing Business (the PEO Scheme)

Entering the direct employment area of makers through establishing the PEO scheme

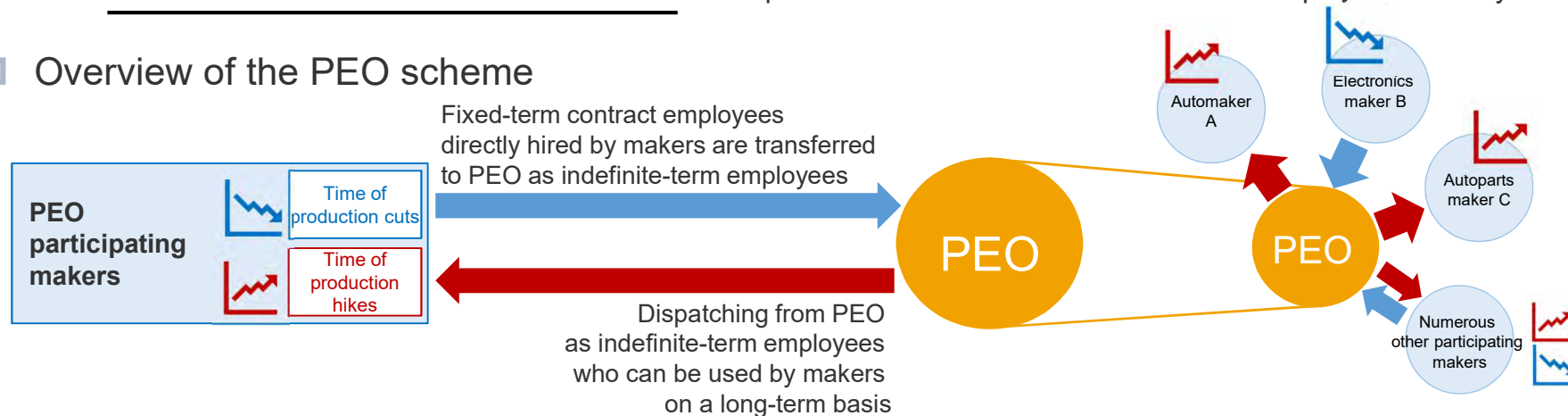


- Traditional business area of temporary dispatch agencies which have no strategy and conduct employment adjustment based on production fluctuations
- Due to the “2018 Problem for Employment” stemming from the revised labor-related laws, continuity risks arose for direct employment of fixed-term contract employees hired by makers

The OS Group devised and established the PEO scheme to resolve employment continuity risk for fixed-term contract employees hired by makers.

As a result of numerous makers participating in the PEO scheme, the OS Group has been able to shift over to the area of long-term utilization previously handled by repetitive contracts of fixed-term contract employees hired by makers.

### Overview of the PEO scheme



Through accepting hiring of fixed-term contract employees as indefinite-term contract employees under the PEO scheme, the Company is expanding business in an area less susceptible to the impact of economic fluctuation.



# Main Business Schemes in Each Business Segment

## Domestic Manufacturing Outsourcing Business (the PEO Scheme)

### Benefits/Demerits from the PEO Scheme

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

#### [Benefits from the 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 contract employee dispatching, contract periods with makers are getting longer
- Since the Company is taking the employment risk of making employees indefinite-term contract ones, 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 the PEO Scheme]

- Since this is the employment of indefinite-term employees, even when the economy deteriorates and clients for dispatching disappear, the employment must be maintained
- Due to the Revised Worker Dispatching Act being enforced in 2015, since makers are expanding the 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 cycles from manufacturing, and into new markets which are less susceptible to the economy with the aim of resolving the demerits of the PEO scheme, which is leading to high growth for the Company.

# Main Business Schemes in Each Business Segment

## Domestic Engineering Outsourcing Business

### Industry Environment for Domestic Engineering Outsourcing

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

Demand for engineers in ICT, AI, IoT, etc. is growing from telecom carriers, network home appliances, etc.

AI: Artificial Intelligence    IoT: Internet of Things (connecting everything to the Internet)

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 continue to emerge one after another in various industrial fields.

# Main Business Schemes in Each Business Segment

## Domestic Engineering Outsourcing Business

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

- Establishing schemes for hiring larger number of 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, targeting to hire 700 in 2019

With the establishment and reinforcement of various measures for the procurement of effective applicants and the realization of a monthly leaving rate of 1.5%, the Company is targeting a net YoY increase in the number of enrolled staff of over 3,300 people at the end of FY12/19.

# Main Business Schemes in Each Business Segment

## Domestic Engineering Outsourcing Business

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

- High evaluation of various schemes for career change and skills advancement, etc. is a competitive advantage in hiring

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 when technical skills acquired by engineers themselves become obsolete or unnecessary, they are able to acquire skills of new field for career change
  - When technical skills are required for longer period, KEN School helps engineers' career development by providing scheme to improve their technical skill to high-end fields
- 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
  - AI: 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.

# Main Business Schemes in Each Business Segment

## Domestic Engineering Outsourcing Business

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

■ High evaluation of various schemes for career change and skills advancement, etc. is a competitive advantage in hiring

◎ 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 with 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 curriculums, 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 registration having disappeared, and since an estimated 80% of dispatch agencies will be unable to acquire a dispatch license due to the license system and more stringent requirements, the OS Group is expanding incorporation of those displaced through the industry consolidation.

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

# Main Business Schemes in Each Business Segment


## Domestic Service Operations Outsourcing Business

### Strengthening outsourcing business within the US military facilities

- The Company is promoting business that is less susceptible to impact from the economic cycle including maintenance and construction contracts for facilities and equipment at the US military facilities in Okinawa and throughout Japan as well as contract operations and dispatch for welfare and recreation facilities, and is proceeding to roll out this same business in the Pacific Rim.

The orders for projects within the 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 amount for AEC to bid on projects was expanded through the credit rating of the Company, resulting in increased orders from the US military facilities



The Company is expanding work for the US military facilities to the Pacific Rim including Hawaii and Alaska, etc. (will be classified as Overseas Service Operations Outsourcing), aiming at securing orders as soon as possible for project revenue equivalent to the expanded bonded insurance amount of ¥70 billion, aiming at further expanding the bonded insurance amount and orders.

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

# Main Business Schemes in Each Business Segment

## Overseas Manufacturing and Service Operations Outsourcing Business

Strengthening global development of human resources and business

### ■ Manufacturing: Expanding cross-border HR mobility

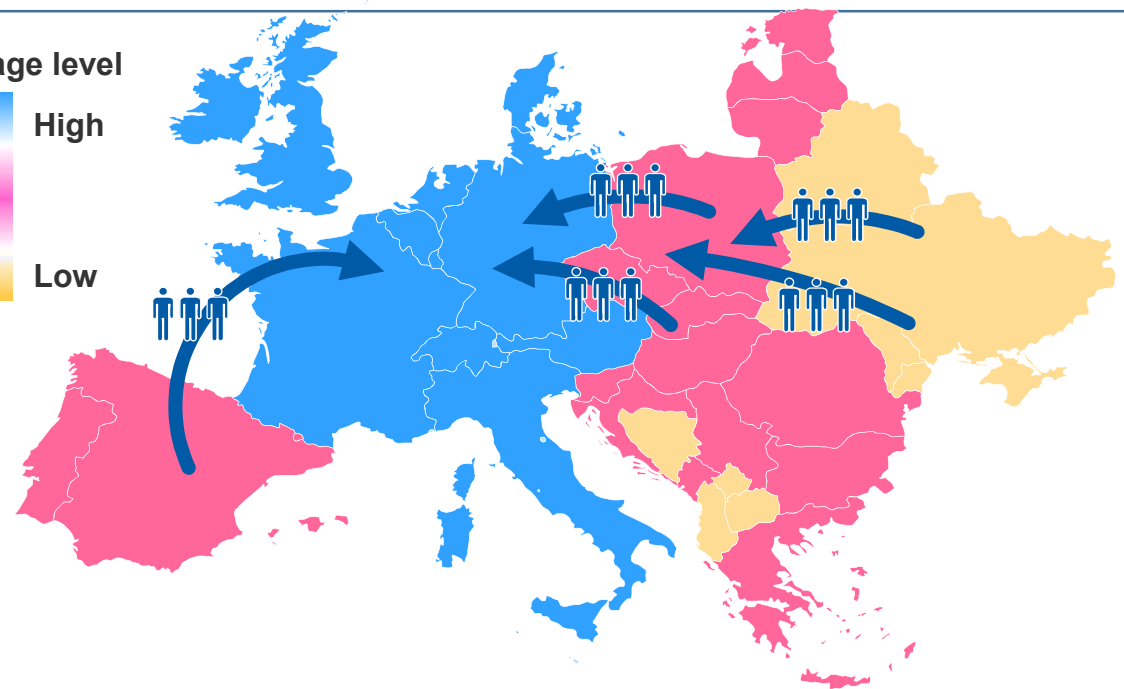
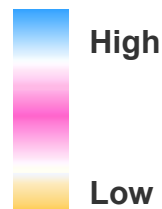
The OS Group is developing Manufacturing Outsourcing Business in Germany, however, the declining birthrate and aging society coupled with the strong economy have resulted in tight recruitment.

⇒ In order to strengthen the recruitment system, the Company acquired OTTO Holding B.V. (OTTO Group) through M&A 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, and Poland.

### Strategy in Europe

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

Wage level



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

# Main Business Schemes in Each Business Segment

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



Hiring through a network with local individual business owners (brokers)

Use of local networks

## Pre-employment training



Work training using VR



Strengthening work rules in native languages using digital tools



License acquisition courses

## Support after starting employment



Arrangement and provision of living quarters



Pickup support



Multilingual help desk



Feedback from workers and clients





## Main Business Schemes in Each Business Segment

### 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 public facilities such as prisons and airports from public institutions of many countries



Leveraging the knowhows, 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.

#### ■ Service Operations: Rolling out business for the US military facilities to the Pacific Rim

Reduction in scale is highly unlikely from a national security perspective, and development of this business for the US military facilities which is less susceptible to impact from the economic cycle, the Company will pursue the business through the group synergies.



Since Guam, where the Company is entering into, has a labor shortage, workers will be procured from nearby Asian countries which have an abundance of people through mobility.

# Main Business Schemes in Each Business Segment

## Overseas Engineering Outsourcing Business

Strengthening global development of human resources and business

### ■ Global development of government BPO businesses

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 businesses

- Taking on contract BPO businesses for various types of work from the UK central and local governments using proprietary developed systems
- Providing one-stop solutions through the 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 knowhows, systems and engineers, etc., to the Commonwealth of Nations and other countries.

Commonwealth: A loose confederation of 53 member countries based on friendship and cooperative relationships comprised of the U.K. and colonies which became independent of the former British empire now on equal footing

Since BPO businesses taken on contract from governments are 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.

# Target Levels in the New Medium-term Management Plan under Preparation

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 growths 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 in client needs, accelerating growth in fields which can expect long-term demand for engineers and foreigners, toward becoming the dominant domestic firm
- Overseas  
Through the 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 the US military facilities  
Roll out businesses which previously had only been in Japan to the Pacific Rim, targeting stable, long-term growth.

As a way toward our long-term goal of becoming the world's No.1 Outsourcing firm, the Company will target achieving operating profit of over ¥70 billion in the next Medium-Term Management Plan being created going forward.

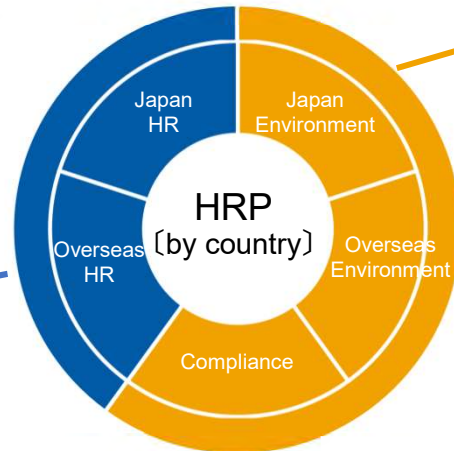
As part of the Company's long-term vision, we are abandoning simple stock businesses, and we are building a business structure where the global group can flexibly respond to changes in the environment and be less susceptible to economic fluctuations.

# Target Levels in the New Medium-term Management Plan under Preparation

- Further expansion of global HR mobility

## Overview of our Global HRP (Human Resource Platform) being developed

### □ HRP Configuration



HR Platform

- Providing industry sectors and job types for diverse workstyles to human resources including both in Japan and overseas

### Environment Platform

- Providing a legally protected and appropriate environment for human resources in and outside of Japan as well as companies operating in and outside Japan

### About HRP

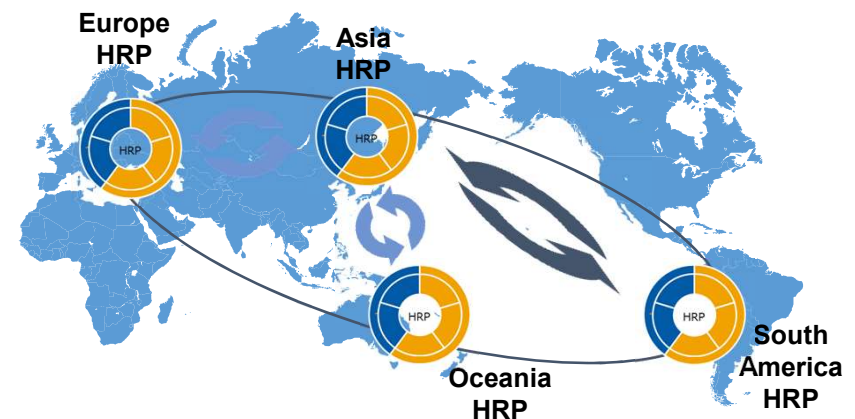
- In line with conditions in each country, using the HRP established by the OS Group becomes a one-stop total solutions platform related to human resources, for not only those working in a said country, but also local people going overseas, foreigners coming to work in the said country, companies trying to procure human resources from overseas, as well as companies looking to expand overseas

### □ Method and Objective of Constructing a Global HRP

- Build an Asian HRP through collaboration with HRPs in each Asian country
- Build HRPs in other regions around the world
- Construct a global HRP through collaboration of regional HRPs around the world

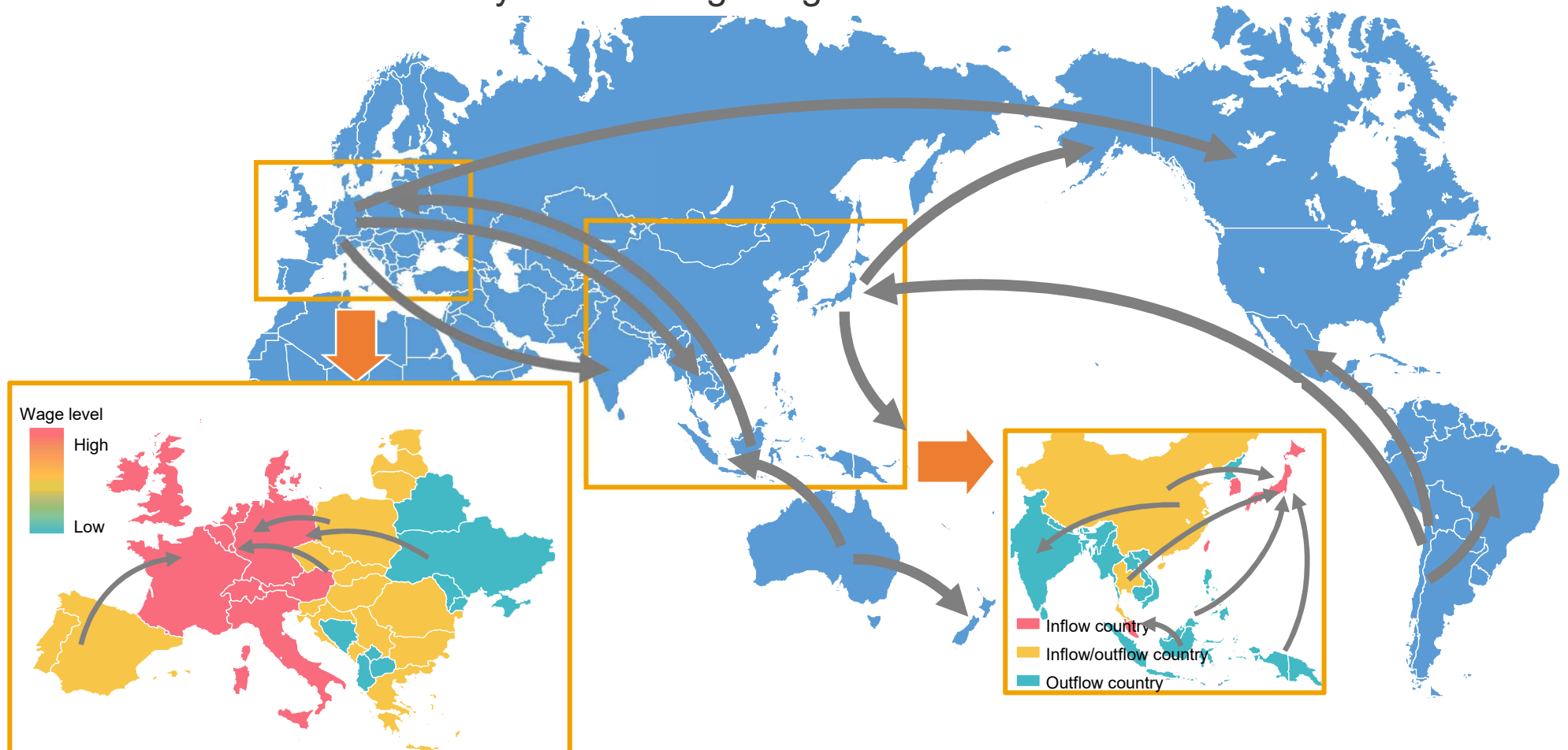
Centralize support for global mobility of workers and companies

**“WORKING” Beyond Borders**



# Target Levels in the New Medium-term Management Plan under Preparation

- Promote of an HR mobility model using the global HRP worldwide



In line with the progress in construction of the global HRP, we are accelerating the HR mobility in the business areas of Manufacturing Outsourcing, Service Operations Outsourcing and Engineering Outsourcing.

# Target Levels in the New Medium-term Management Plan under Preparation

- Manufacturing and Service Operations Outsourcing Business Segment

## Current HR service



HR service until now = employment stock business

- I. Incur recruitment media expenses, increase staff and expand revenues  $\Rightarrow$  increased number of employees = increased employment risks
- II. Negative impact from economic deterioration  $\Rightarrow$  reduced orders / cancellations, etc. = cancellation expenses, reputation risk and revenue decline
- III. Economic recovery  $\Rightarrow$  start over from a state of reset = repeating the scheme from I. to III.

The HR service has until now accumulated minor growths through repetition of this scheme with high employment risk.

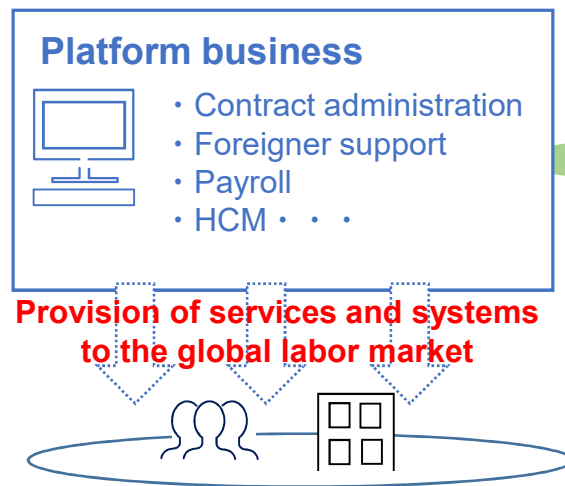
$\Rightarrow$  The OS Group has already achieved significant growth through various measures to reduce and to diversify risk, but even with relatively low risks, the employment stock business area is still large.

**It is extremely risky to attempt to achieve dramatic expansion with only employment stock business.**

# Target Levels in the New Medium-term Management Plan under Preparation

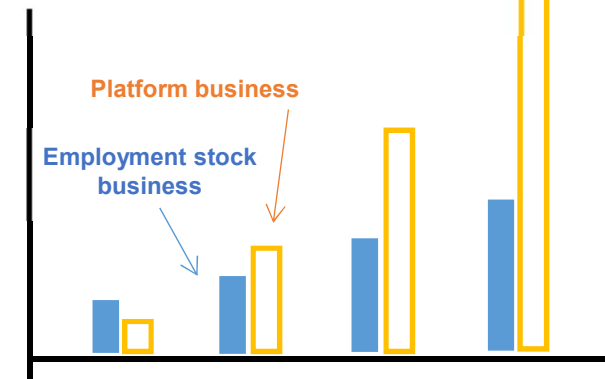
- Manufacturing and Service Operations Outsourcing Business Segment

Business areas where investments are under consideration



**Business growth with investments but low risk**

**Future market size forecast**



Build a platform to promote HR mobility on a global scale

⇒ From a long-term perspective, it is necessary to enter and expand new businesses drawing a line from the existing employment stock business

⇒ Realize further reduction of risks and dramatic growth through expansion into new value-added areas

Going forward, while continuing the traditional dispatch businesses, aim to enter new areas and deploy investments required for that purpose

\*Research and develop new business models in Japan and on a global basis

**Toward business which will become core business of the Company over the medium-to-long term**

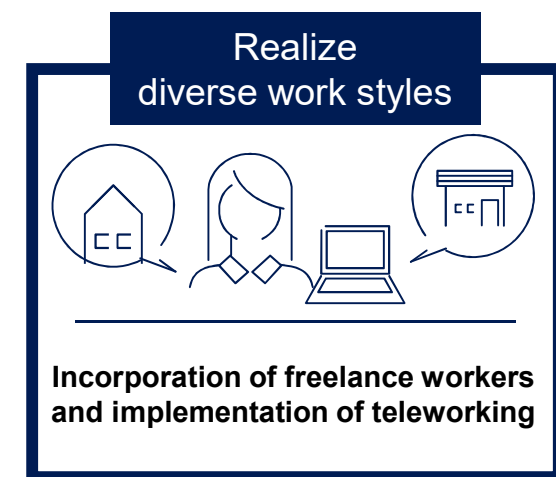
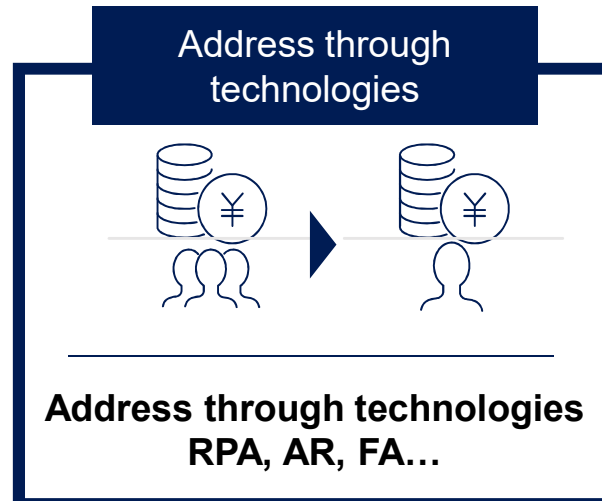
# Target Levels in the New Medium-term Management Plan under Preparation

- Engineering Outsourcing Business Segment

Responding to the changes in Japanese work styles



## Changes in work styles arose to overcome labor shortage





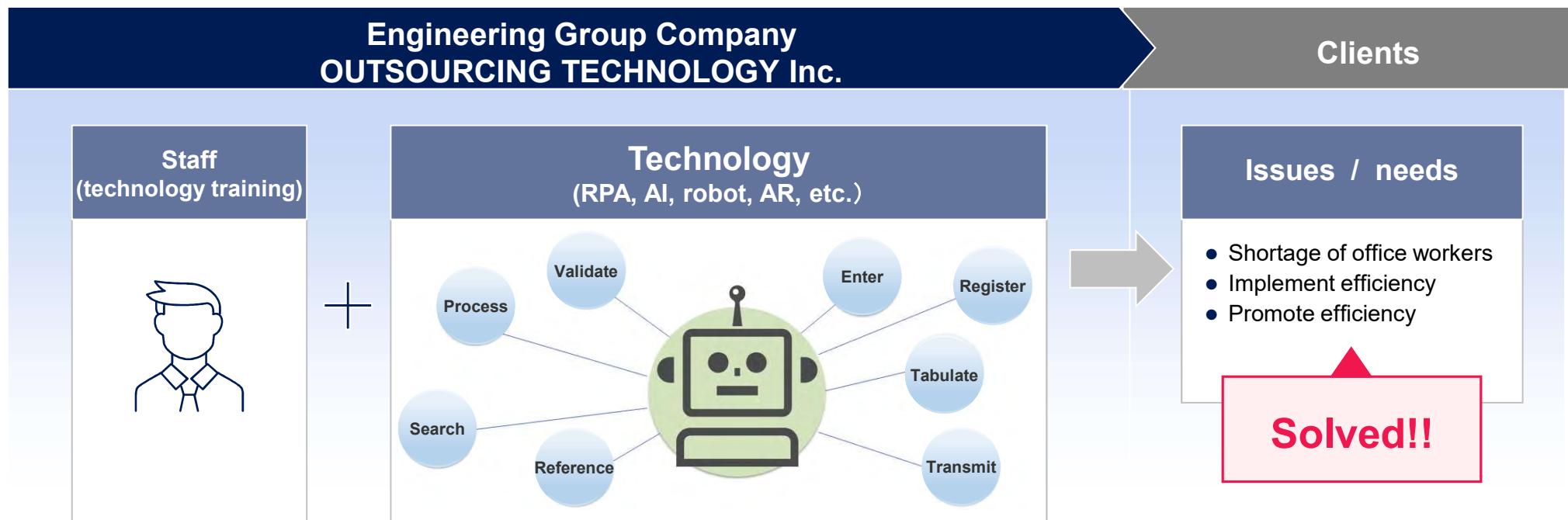
# Target Levels in the New Medium-term Management Plan under Preparation

- Engineering Outsourcing Business Segment  
Responding to the changes in Japanese work styles

Fusion of advanced technologies and HR services

Realize high-value-added business models combined with existing HR platforms by making the full use of automation and efficiency boosting technologies in order to satisfy the excess demand market structure resulting from the declining workforce population

By using RPA, AR, and AI to develop, build, service and sell business models that increase productivity more than ever with fewer personnel, long-term growth is possible even as the workforce declines; proceed to strengthen this area as a long-term vision, targeting differentiation from competitors, and build a unique Dispatch 2.0 business model that is not a simple stock business



# Target Levels in the New Medium-term Management Plan under Preparation

- Engineering Outsourcing Business Segment

## Responding to the changes in Japanese work styles

Under the Dispatch 2.0 business model, we train conventional engineers with the latest technologies such as RPA and AI, and by offering the technologies and engineers as a combined set, there is a reduced cost effect for clients and we will achieve a business area expansion through high productivity, and the gross profit margin will improve significantly through both upgrading our engineers and through technology sales.

While promoting and establishing the Dispatch 2.0 business model in Japan, also rolling it out globally

## Dispatch 2.0 business model

### Dispatch 1.0 (traditional type)



Costs

# Strengthening Group Governance

- 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 values 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.

Specific  
Activities

- Formulate the global governance policy and strengthen the group management structure

Purpose of formulation: To maintain the soundness of the entire Group, under the basic policy of corporate governance of OUTSOURCING Inc. and its group companies

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 Group Governance

- Strengthening the Group's management structure through the global governance policy



## 2019 Priority Measures

### ● Minimizing risks by implementing rules

- Using e-learning, take lectures on the global governance policy, OUTSOURCING Group Code of Corporate Ethics and Conduct, and the anti-corruption policy and establish a recognition test environment, promoting further penetration
- Independent risk management through internal controls (OS Group Minimum Control Requirement)
- Expansion of the internal reporting (enhancement of the existing systems in Asia and Oceania, and the deployment to Europe and South America)
- Strengthen the consolidated accounting system; early settlement and stabilization
- Promotion of establishing a 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 a creation of the J-SOX internal controls

### ● 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

# Strengthening Group Governance

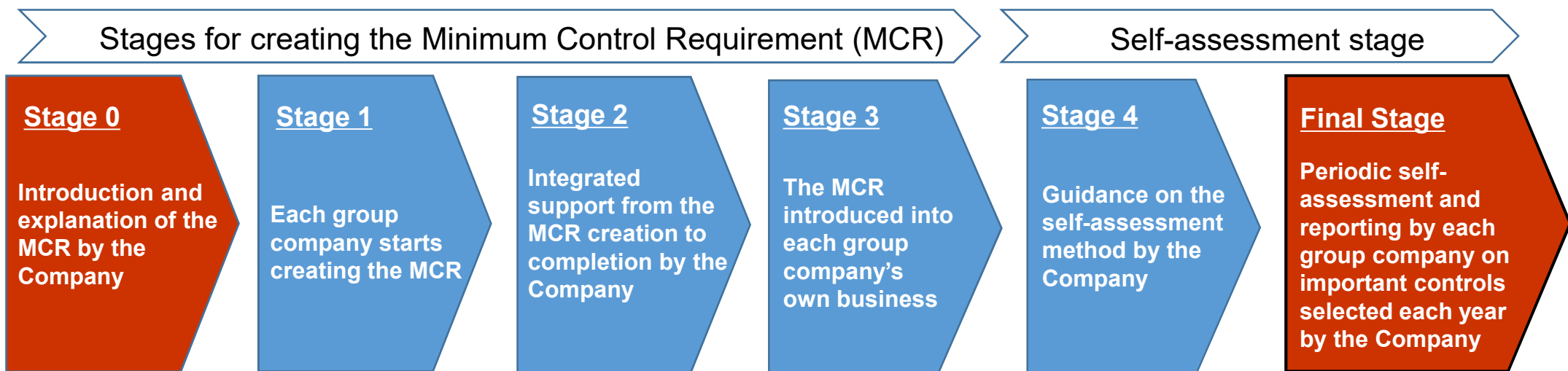
## Promote the introduction of OS Group Minimum Control Requirement (MCR) (1)

### ● Purpose of introducing the MCR

- To be able to minimize operational risks even for small and medium-sized overseas group companies that are not subject to the internal control evaluation (J-SOX)

### ● Points for successful implementation of the MCR

- In order for top management of each group company to understand the actual situation of their own operation systems and to be able to formulate and implement strengthening measures as required, 6 stages have been established for repeating explanation, creation, validation and confirmation, to promote deeper understanding and taking actions
- By establishing the MCR and a separation of duties (SOD) checklist conforming to the details of each group company's business, potential risks can be specified more realistically, preventing efforts from becoming just a paper shuffling exercise



# Strengthening Group Governance

## Promote the introduction of OS Group Minimum Control Requirement (MCR) (2)

- MCR introduction progress status (as of June 30, 2019)

Stage	Subjects	Current status	Schedule going forward		
			Introduction explanation → start creation	Method explanation for self-assessment	Self-assessment results report
Stage 0	4 companies	Briefing session schedule under adjustment	In planning		
Stage 1	1 company	Start creation	Jul. 2019		
Stage 2	2 companies	Creating MCR documents under the guidance of the Business Management Division		Oct.-Nov. 2019	
Stage 3	7 companies	Introduced by each group company to their own operations, confirming controls and division of duties, making improvements as required		Jul.-Nov. 2019	
Stage 4	2 companies	In the process of self-assessment, scheduled to report after completion			The end of Jul. 2019
Final Stage	2 companies	May 2019 Self-assessment report completed			

- Continue efforts to advance each company's stage and activities for newly joined group companies in earnest, in order to minimize the possibility of occurrence of operational risks

# Regarding Employment in Japan

## 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  
The form of employment where employment contracts do not specify fixed terms, and both workers and employers enter agreements 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  
The form of employment where employment contracts specify fixed terms, and both workers and employers enter agreements 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.



# Supplemental Information: Domestic Recruitment Plan for FY12/19

## Annual and Semi-Annual Trends

		FY12/18			FY12/19		
		Actual			Actual	Forecasts	
		1H	2H	Full-Year	1H	2H	Full-Year
Manufacturing	<b>No. of workers recruited (persons)</b>	<b>4,329</b>	<b>5,694</b>	<b>10,023</b>	<b>4,534</b>	<b>5,946</b>	<b>11,185</b>
	Recruitment unit price (¥/worker)	78,465	57,543	66,580	85,450	68,613	82,984
Engineering	<b>No. of workers recruited (persons)</b>	<b>3,188</b>	<b>3,081</b>	<b>6,269</b>	<b>3,991</b>	<b>2,517</b>	<b>6,412</b>
	Recruitment unit price (¥/worker)	346,184	405,164	375,171	324,149	565,444	413,581
Service Operations	<b>No. of workers recruited (persons)</b>	<b>2,559</b>	<b>2,177</b>	<b>4,736</b>	<b>1,959</b>	<b>3,037</b>	<b>5,591</b>
	Recruitment unit price (¥/worker)	19,123	17,006	18,150	23,095	20,148	23,543
Recruiting and Placing	<b>No. of workers recruited (persons)</b>	<b>1,851</b>	<b>2,001</b>	<b>3,852</b>	<b>1,958</b>	<b>1,860</b>	<b>3,600</b>
	Recruitment unit price (¥/worker)	155,620	131,796	143,244	174,674	154,964	156,478

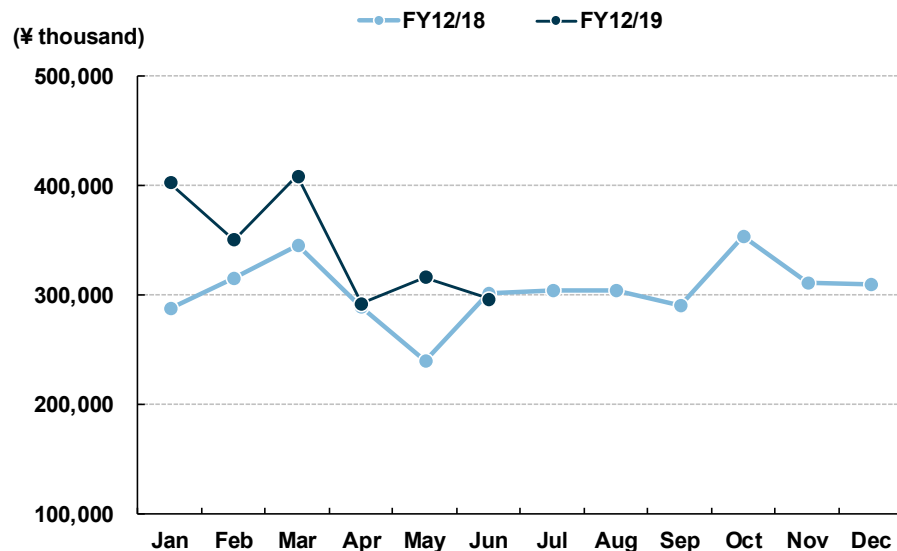
## Quarterly Trends

		FY12/18					FY12/19				
		Actual					Actual		Forecasts		
		Q1	Q2	Q3	Q4	Full-Year	Q1	Q2	Q3	Q4	Full-Year
Manufacturing	<b>No. of workers recruited (persons)</b>	<b>1,681</b>	<b>2,648</b>	<b>2,308</b>	<b>3,386</b>	<b>10,023</b>	<b>2,046</b>	<b>2,488</b>	<b>3,081</b>	<b>2,865</b>	<b>11,185</b>
	Recruitment unit price (¥/worker)	101,105	64,093	78,574	43,208	66,580	126,977	51,301	68,184	69,075	82,984
Engineering	<b>No. of workers recruited (persons)</b>	<b>1,017</b>	<b>2,171</b>	<b>1,835</b>	<b>1,246</b>	<b>6,269</b>	<b>1,155</b>	<b>2,836</b>	<b>1,198</b>	<b>1,319</b>	<b>6,412</b>
	Recruitment unit price (¥/worker)	610,174	222,519	299,054	561,433	375,171	598,655	212,352	602,249	532,016	413,581
Service Operations	<b>No. of workers recruited (persons)</b>	<b>1,338</b>	<b>1,221</b>	<b>1,226</b>	<b>951</b>	<b>4,736</b>	<b>1,070</b>	<b>889</b>	<b>1,406</b>	<b>1,631</b>	<b>5,591</b>
	Recruitment unit price (¥/worker)	19,229	19,007	18,721	14,795	18,150	27,456	17,846	21,934	18,608	23,543
Recruiting and Placing	<b>No. of workers recruited (persons)</b>	<b>818</b>	<b>1,033</b>	<b>971</b>	<b>1,030</b>	<b>3,852</b>	<b>924</b>	<b>1,034</b>	<b>920</b>	<b>940</b>	<b>3,600</b>
	Recruitment unit price (¥/worker)	162,725	149,994	152,800	111,995	143,244	196,934	154,781	159,074	150,942	156,478

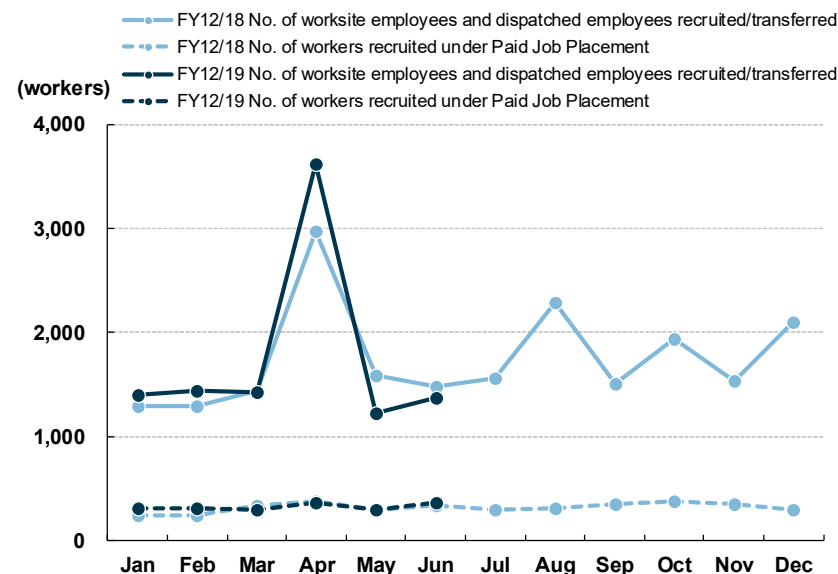
# Supplemental Information: Trends in Recruited Number of Workers and Recruiting Expenses in Japan

## ● Monthly Trends (Consolidated)

Monthly Recruiting Expenses



No. of Worksite Employees and Dispatched Employees Recruited/Transferred



FY12/18		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	No. of worksite employees and dispatched employees recruited/transferred	1,298	1,291	1,447	2,971	1,590	1,479	1,568	2,289	1,512	1,944	1,538	2,101
	No. of workers recruited under Paid Job Placement	240	239	339	383	305	345	302	319	350	374	358	298
	Recruiting expenses (¥ thousand)	288,522	315,618	345,201	289,861	239,816	301,282	305,234	304,662	291,537	353,810	311,238	310,225

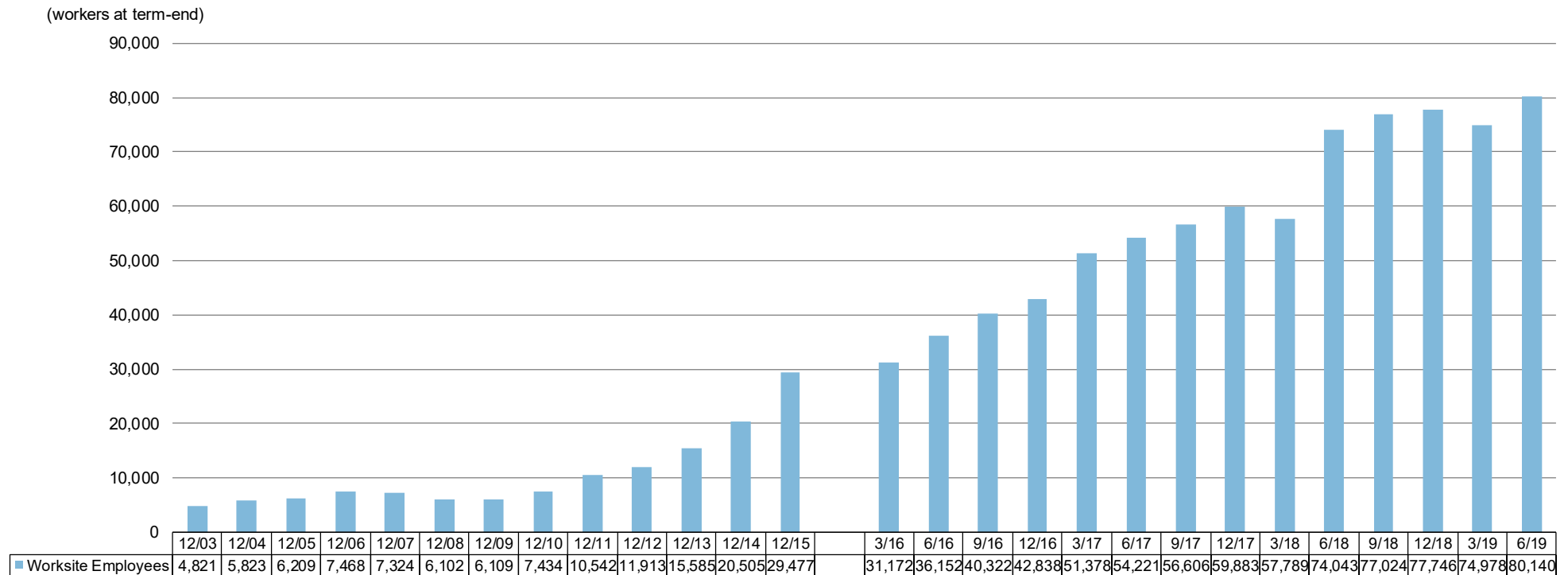
  

FY12/19		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	No. of worksite employees and dispatched employees recruited/transferred	1,406	1,440	1,425	3,616	1,226	1,371						
	No. of workers recruited under Paid Job Placement	313	309	302	372	299	363						
	Recruiting expenses (¥ thousand)	402,799	350,888	408,900	292,607	316,761	296,409						

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

# Supplemental Information: 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.

## Note

---

The consolidated financial statements from Q2 FY12/18 onward have been revised retroactively following the finalization of the provisional accounting treatment for the business combination conducted in Q2 FY12/18.

## Legal Disclaimer

---

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](mailto:os-ir@outsourcing.co.jp)**

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