Financial Results for
the 3rd Quarter of Fiscal Year
Ending December 31, 2022

Nov 2022

OUTSOURCING Inc.
Securities Code: 2427/TSE Prime Section

【Title】
OUTSOURCING Announces Consolidated Revenue Growth of Over 20% YoY but Downgrades Full-Year Forecasts Due to Macro-Environmental Impact.

【Date】
November 16, 2022.

【Speaker】
Mr. Haruhiko Doi, Chairman and CEO of OUTSOURCING Inc.

Explanation of Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2022

Mr. Haruhiko Doi: Good morning, everyone. My name is Doi. I would like to thank you for taking time out of your busy schedule today to attend our briefing session. Thank you very much.

We have announced downward revisions of our full-year earnings forecast. We would like to express our deepest apologies to all analysts and investors who are following our company. My presentation today includes the details that led to this earnings revision. I would kindly appreciate it if you could listen until the end.

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*The numbers in this document are rounded off to the nearest unit. The total numbers, increases and decreases, and ratios may not match due to rounding.

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Today's agenda is on page 2 of the handout. As I mentioned at the beginning, in addition to the financial summary, I will explain about the downward revision to our earnings forecast in detail.
Therefore, please understand that the presentation may take a little longer than usual.

Progress on major items (as of October 31, 2022)

Progress in Measures to Prevent Recurrence of Inappropriate Accounting

Progress Status of Major Items (as of October 31, 2022)

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- In order to reliably and effectively promote measures to prevent recurrence, we established a **recurrence prevention committee** led by the top management on February 18, 2022.
- The recurrence prevention committee holds meetings **twice a month** to manage the implementation of measures to prevent recurrence.
- The measures to prevent recurrence is proceeding according to the timetable stipulated in the improvement report.

1. Submission of the improvement status report

- On September 22, 2022, we submitted and published an improvement status report to the Tokyo Stock Exchange that describes the implementation details and results of the measures to prevent recurrence stipulated in the improvement report.

2. Expansion of personnel in the accounting division and securing of high-quality human resources

- Accepted 4 seconded employees from OUTSOURCING TECHNOLOGY Inc. with the purpose of effective unified management and personnel expansion by providing OS accounting department shared business of OUTSOURCING TECHNOLOGY Inc.
- Strengthened the accounting system by recruiting 5 managers with expertise in accounting, including those experienced in accounting and finance practices at listed companies and those experienced in accounting auditing.

3. Implementation of basic online seminars for internal rules

- The basic online seminars for internal rules were held 3 times from July to September 2022. The seminars explain specific internal rules, such as the basic structure of regulations and the flow of the system and procedures for revision of regulations, and promote understanding of internal rules.

4. Implementation of monitoring by the accounting division

- In accordance with the results of the financial analysis and verification of the journal analysis tool to detect allegations of inappropriate accounting introduced as measures to prevent recurrence, the OS accounting division interviews the persons in charge and monitors them through documented evidence checks with enable Inc. and RPM Co., Ltd.

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First is the progress in measures to prevent the recurrence of inappropriate accounting. On September 22, we submitted a report on the progress of such measures to the Tokyo Stock Exchange as an improvement status report, and it was accepted. Although we may receive some instructions from the TSE in the future, their acceptance of the improvement status report has put an end to the matter for now.

Consolidated Income Statement

Consolidated Financial Results Summary for 3Q FY12/22 (IFRS)

Consolidated Statement of Profit and Loss

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Unit: ¥ billion

	Quarterly Results (Jul. 1, 2022 – Sep. 30, 2022)					Cumulative Results (Jan. 1, 2022 - Sep. 30, 2022)				
	FY12/21 3Q	FY12/22 3Q	YoY	Initial Fcst. 3Q	Differences (vs. forecasts)	FY12/21 3Q YTD	FY12/22 3Q YTD	YoY	Initial Fcst. 3Q YTD	Differences (vs. forecasts)
Revenue	147.4	177.2	+ 20.2%	182.0	- 4.8	412.1	502.3	+ 21.9%	505.0	- 2.7
Gross profit	26.7	32.2	+ 20.6%	-	-	76.7	91.2	+ 19.0%	-	-
(Gross profit margin)	18.1%	18.2%	+ 0.1pt	-	-	18.6%	18.2%	- 0.4pt	-	-
SG&A expenses	22.5	27.4	+ 21.6%	-	-	64.2	78.2	+ 21.8%	-	-
Operating profit	5.0	5.4	+ 7.4%	9.0	- 3.6	16.6	16.3	- 1.5%	19.5	- 3.2
(Operating profit margin)	3.4%	3.0%	- 0.4pt	4.9%	- 1.9pt	4.0%	3.2%	- 0.8pt	3.9%	- 0.6pt
Profit before tax	0.0	4.6	-	-	-	10.9	12.3	+ 13.1%	17.7	- 5.4
Profit	-1.8	2.3	-	-	-	4.6	6.2	+ 34.1%	11.1	- 4.9
Profit attributable to owners of parent	-2.1	2.4	-	-	-	3.5	6.3	+78.0%	10.5	- 4.2

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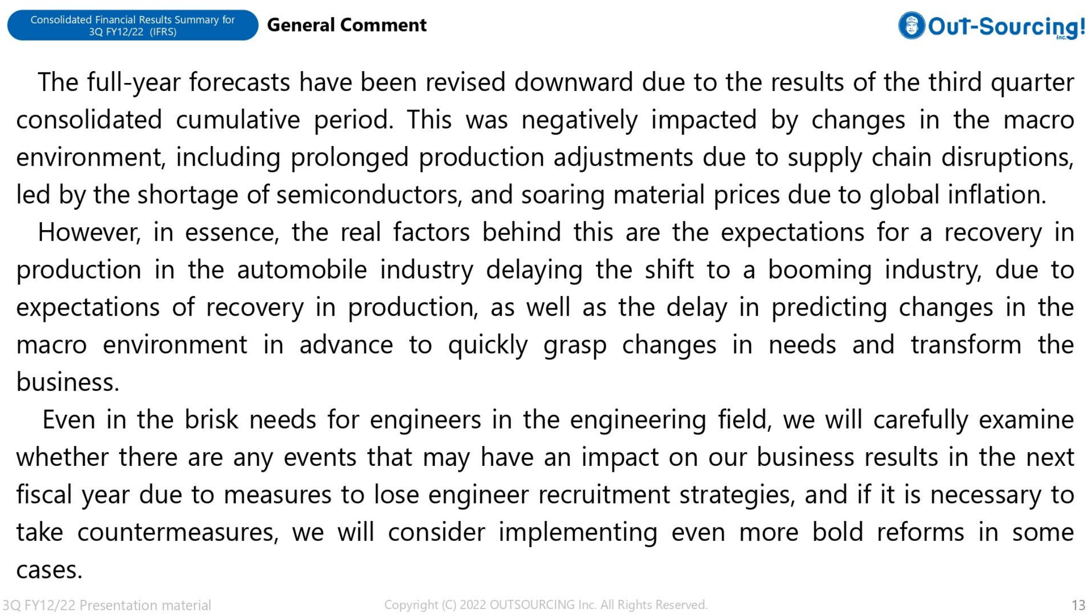
Shown here is the consolidated income statement. The left side of the table shows the results for the third quarter and the right side shows the nine-month cumulative results with regard to sales revenue and operating profit for the accounting period under review.

As for cumulative results, while progress exceeded the plan until the middle of the third quarter, both sales revenue and operating profit fell short of the plan as of the end of the third quarter.
Therefore, we judged the business environment would not change dramatically in the fourth quarter from the third quarter and therefore revised the full-year forecasts.

General Review



This is a general review of the third quarter results. The reasons for the forecast revision are listed in the upper section of the slide, which include the prolonged production adjustment due to supply chain disruptions, the lack of expected recovery production in the automobile industry, and the sharp rise in prices, especially material prices, due to inflation. However, I believe the essential reason for the revision was our inability to estimate the situation and take prompt action, such as shifting to well-performing sectors.

Also, in the engineering field, although the figures look good due to strong demand, the number of recruits has not met the plan. As it may affect our future, we need to scrutinize our recruitment strategy to prevent profits from decreasing.

Details on the revisions of earnings & dividend forecasts

Revision of Consolidated Financial Forecast and Dividend Forecast

Details of Revision of Financial Forecast and Dividend Forecast

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- The essence of the factor was that we were unable to respond appropriately to major changes in the environment and **delayed the necessary business transformation**.
- In addition to the above, one-time factors such as an **impairment loss on goodwill and other assets of approximately 3.3 billion yen.** and 1Q **financial expense of 2.4 billion yen**, pushed down earnings at all stages.
- In accordance with the revision of the financial forecast, the year-end dividend forecast was lowered from **45 yen per share to 22 yen per share** (Calculated based on a payout ratio of 30%).

Revision of Consolidated Financial Forecast and Dividend Forecast

		Initial Fcst.	Revised Fcst.	Differences	% change
Revenue	(¥ bn)	695.0	686.0	- 9.0	- 1.3%
Operating profit	(¥ bn)	32.0	22.0	- 10.0	- 31.3%
Profit before tax	(¥ bn)	29.6	17.0	- 12.6	- 42.6%
Profit	(¥ bn)	19.3	9.0	- 10.3	- 53.4%
Profit attributable to owners of the Company	(¥ bn)	18.5	9.0	- 9.5	- 51.4%
Basic earnings per share for the period	(¥)	146.93	71.46	---	---
Year-end dividend forecast	(¥)	45.00	22.00	---	---

Revision of Operating Profit Forecast by Segment

		Initial Fcst.	Revised Fcst.	Differences	% change
Consolidated Operating profit	(¥ bn)	32.0	22.0	- 10.0	- 31.3%
- Domestic Engineering	(¥ bn)	11.0	11.0	± 0.0	0.0 %
- Domestic Manufacturing	(¥ bn)	8.8	5.9	- 2.9	- 33.0%
- Domestic Service Operations	(¥ bn)	4.7	3.0	- 1.7	- 36.2%
- Overseas Engineering	(¥ bn)	6.8	7.8	+ 1.0	+ 14.0%
- Overseas Manufacturing and Service Operations	(¥ bn)	10.0	4.7	- 5.4	- 53.5%
- Adjustment (Head office expenses, etc.)	(¥ bn)	- 9.4	- 10.6	- 1.2	- 12.2%

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Page 14 lists the details of the revisions of the earnings forecast. The left side of the slide lists the consolidated totals, and the right side details the breakdown by segment. We expect the differences shown here.

Please allow me to explain in detail one by one. As for Domestic Engineering, the performance remained above the initial plan, but the number of recruits fell short of the plan. Profit was boosted due in part to the recorded recruiting expenses that were less than the plan, leading to the concern I mentioned earlier (it may affect our future).

As for Domestic Manufacturing, the automobile-related sectors, in which recovery production had been expected, ended up being sluggish. Currently, nearly 27,000 field service employees are working in our Domestic Manufacturing segment. Of them, those in transportation equipment are involved not only with manufacturers but also with suppliers. Due to the production adjustments in the automobile-related sectors, these workers worked an average of 21 hours less than planned. The lower operating hours have become a negative factor on the profit side.

As a cause of our inappropriate accounting, the investigation report raised up the extremely high budget. Therefore, some of you may be concerned that our decision to revise our earnings forecast this way was precisely due to the budget having been set too high. Let me explain regarding this point.

As I reported earlier, the hours worked were less than the assumption in Domestic Manufacturing. The minus 21 hours from the plan refers to the average hours reduced among the field service employees associated with transportation equipment, which is only an average. The hours were reduced even more in some workplaces.

It does not mean we had developed the plan based on our expectation of working hours. We formulated it according to the client's request for the number of personnel to be secured based on their production plan and corporate calendar. We thought we had a slightly conservative plan, naturally taking into account the risks involved.

Although the likelihood of no recovery production was high, we delayed judging the situation, which ultimately led to the earnings forecast revisions, and we regret this.

When we formulated the initial budget, everyone believed that recovery production should happen in FY2022, from the number of cars sold and the length of time for delivery to the users. Our desire to cooperate with our client automakers in recovery production delayed our decisions.

Though it was a lengthy explanation, what I wanted to tell you was that we did not set a high goal, but rather the budget was what we judged as reasonable based on the information available at the time it was formulated. Nevertheless, we must make this revision for the reasons I have just explained.

As for Domestic Services, most works are the renovations and maintenances of U.S. military facilities. Many contracts are awarded through bidding and for work that takes several years for completion. Therefore, most of the works underway now were contracted through bidding last year or the year before. Back then, because we did not assume that the yen's depreciation and major inflation would occur all at once in 2022, we developed the initial budget with no such assumptions.

However, the yen’s depreciation and inflation caused materials prices to skyrocket suddenly. Also, projects for U.S. military facilities often specify U.S.-made materials, and dollar settlements in material procurement pushed costs up due to the weak yen. With soaring material prices, it resulted in a double burden on us. Also, delays in construction progress due to delays in the shipment of building materials caused a 1.7 billion yen discrepancy in the segment’s operating profit.

The analysts and investors who follow us should understand that we have been very conservative in the development of the plan in this segment. The initial budget would be met when re-estimated at the exchange rate and material prices assumed at the time of the bidding and assuming that materials were procured as planned.

Since the results in Overseas Engineering exceeded the initial budget significantly, we have revised the segment’s end-of-term operating profit upward by 1 billion yen.

For Overseas Manufacturing and Service, the downward revision to the segment’s operating profit is 5.4 billion yen, the largest deviation from the plan. Of which, just under 3 billion yen is for impairment losses that factor in the concern that inflation overseas may be more advanced than in Japan. It also includes the effect of the conservative cost process of certain assets at our consolidated subsidiary in Chile, amounting to 0.7 billion yen.

For operating profit, we consider that 3.3 billion yen out of the revised 10 billion yen is due to one-time costs such as impairment losses. Although the term "one-time costs" may not be strictly appropriate, we desire to bring these costs to almost zero through restructuring and other measures.

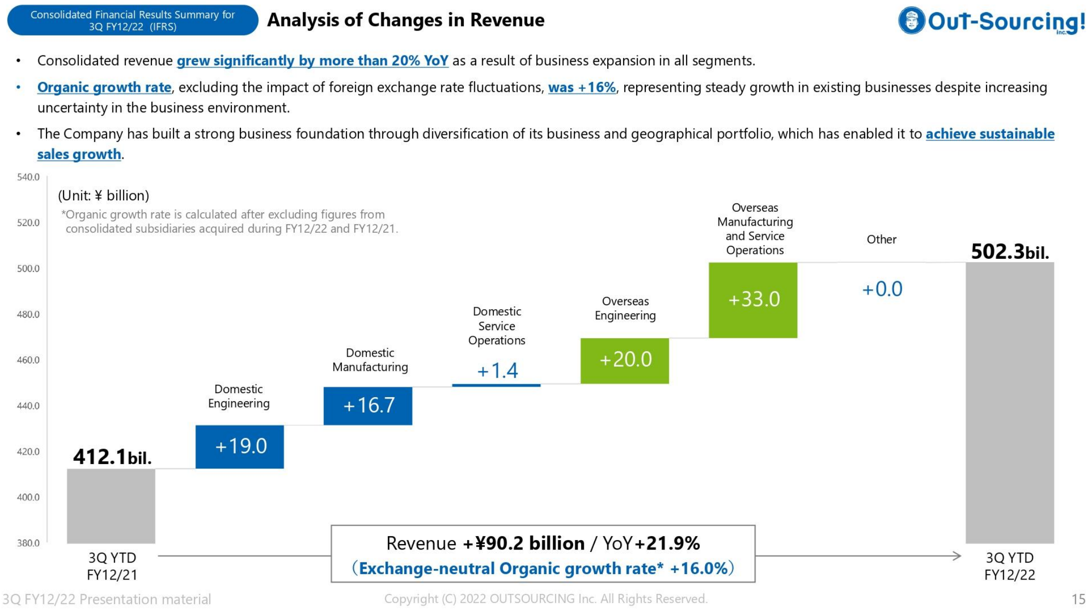
Also, pre-tax income was fully affected by the sum of impairment losses and one-time financial expenses incurred due to put options. However, future recordings of these financial expenses will not happen for OTTO, as it has become our wholly owned subsidiary. Although some consolidated subsidiaries in the group have put options remaining, the amounts are marginal.
Therefore, you should not expect any significant financial expenses related to put options incurred in the future. Based on this, we view these financial expenses, which have had a significant impact on pre-tax income and below, as one-time factors.

As a supplementary note, the most significant factor of the forecast revision this time should be the fact that we were not flexible enough to make quick decisions, such as shifting to favorable sectors, as I mentioned earlier. It may sound contradictory, but in my opinion, the lack of recovery production, the rising cost of materials, and the yen's depreciation are only excuses.

One of the reasons for our inability to make a flexible shift was the replacement of the key members in March as a result of the inappropriate accounting case, which was not due to the macro environment but a matter of our responsibility. There was a major replacement of executive officers and other personnel, including the heads of the Domestic Manufacturing and Domestic Engineering segments. I am not talking about the pros and cons of the replacement but pointing out the fact that some of the insights that had been developed were missed out during that transitional period.

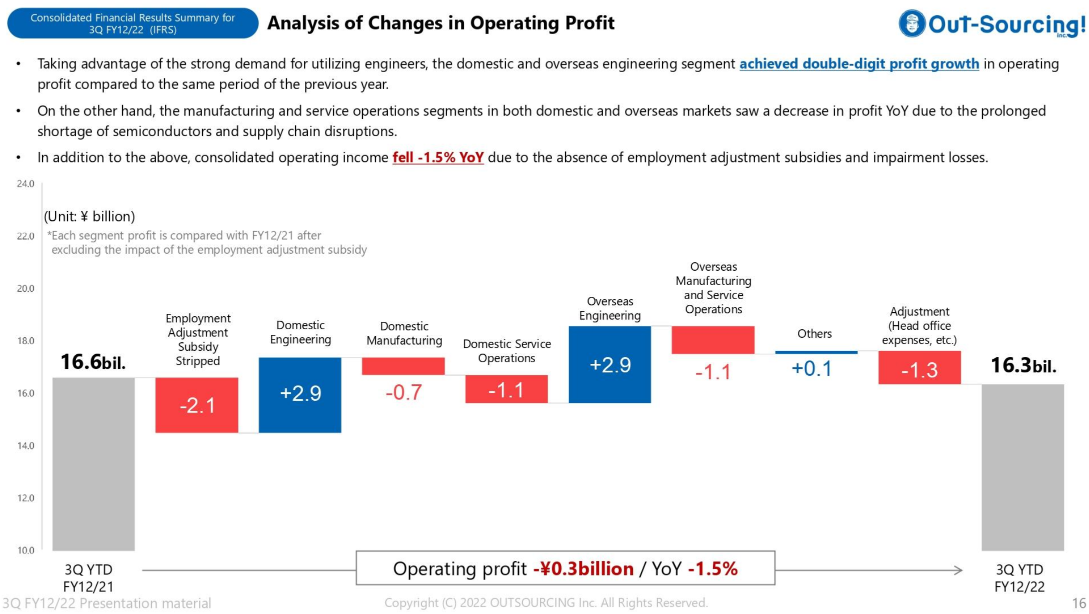
We will ensure that this does not happen again. While preventing the recurrence is an extremely high priority, it does not mean we can reject all conventional business strategies developed based on insights. Some of our employees may misunderstand this point. From the perspective of pursuit of profits, free competition, and the interests of our shareholders, a sense of urgency regarding figures is necessary even after the structural change to prevent a recurrence of the inappropriate accounting. We should eliminate the excessive pressure pointed out in the investigation report, but it doesn't mean we can put off the flexible and prompt formulation and implementation of specific strategies in response to environmental changes from time to time. I would like to correct such misunderstandings properly.

Analysis of changes in sales revenue



As for sales revenue, all segments reported year-on-year increases. Overseas segments saw a significant growth due to M&A. Also, the overall organic growth rate was 16% higher than the same period of the previous year, even after excluding the boost due to the weaker yen.

Analysis of changes in operating profit



For operating profit, due in part to the elimination of employment adjustment subsidies, profit increased in our Domestic and Overseas Engineering segments but decreased in non-engineering segments. One of the reasons for the decrease in profit despite the sales growth was the recording of impairment losses. The other factor was the effect of lower profit per person in Manufacturing.

Because of the demand for personnel, the number of field-service employees has increased, and overall sales have risen. However, the average number of hours worked per person has decreased while fixed costs such as legal welfare expenses remained almost the same, which deteriorates the gross profit margin. As a result of this, profit dropped.

In Domestic Services, sales growth was outpaced by surging raw material prices and foreign exchange losses on dollar settlements. The Overseas Manufacturing and Service segment has experienced impairment losses and the same phenomenon as in Japan, i.e., falling per capita profits.

Analysis of changes in quarterly profit attributable to the owners of parent

Consolidated Financial Results Summary for 3Q FY12/22 (IFRS)

Analysis of Changes in Profit Attributable to Owners of Parent

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- Quarterly profits **increased significantly YoY** due to the decrease in one-time financial costs related to put options.
- As the OTTO Group became a wholly owned subsidiary in January 2022, no such major financial costs will be recorded after 2Q, **eliminating uncertainty on profit before tax and below**.
- Making OTTO Group a wholly-owned subsidiary will contribute to increased future intake profits and **further creation of group synergies**.

Unit: ¥ billion

	FY12/21 3Q YTD	FY12/22 3Q YTD	YoY Changes (Amount)	Main reasons
Operating profit	16.6	16.3	- 0.3	
Finance income	1.1	0.7	- 0.4	
Finance costs	6.9	4.8	- 2.1	
Financial costs related to put options	4.8	2.5	- 2.3	Finance costs through early purchase of remaining shares of the OTTO Group in the Netherlands, etc.
Profit before tax	10.9	12.3	+ 1.4	
Income tax expense	6.3	6.1	- 0.2	
Profit	4.6	6.2	+ 1.6	
Profit attributable to owners of parent	3.5	6.3	+ 2.7	

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For the quarterly profit attributable to the owners of parent, the one-time financial expenses related to put options, which had a significant impact until 2021, decreased to 2.5 billion yen. Since the current term is the last term when the one-time financial expenses are recorded for OTTO in the Netherlands, we expect a significant recovery from next year onward.

Consolidated Statements of Financial Position

Consolidated Financial Results Summary for 3Q FY12/22 (IFRS)

Consolidated Statement of Financial Position

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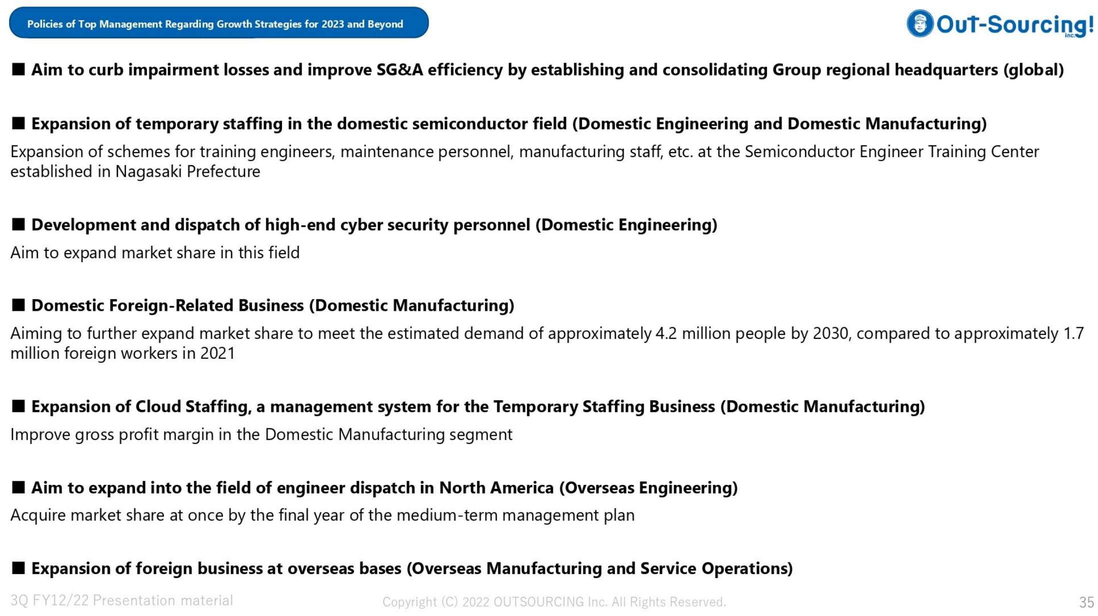
Unit: ¥ billion

	FY12/21 4Q YTD	FY12/22 3Q YTD	YoY Changes (Amount)	Main reasons
Total assets	351.9	**406.8**	**+ 54.9**	
Current assets	167.2	**198.5**	**+ 31.3**	
Cash and cash equivalents	48.3	**54.0**	**+ 5.7**	
Trade and other receivables	88.1	**109.1**	**+ 21.1**	Increased due to the growing numbers of group companies and expansion of business scale
Non-current assets	184.7	**208.3**	**+ 23.5**	
Goodwill	83.7	**98.6**	**+ 15.0**	Increased due to purchase of shares through M&A and currency translation differences due to current exchange rate (yen depreciation) (¥5.7 bil.)
Current liabilities	212.5	**195.4**	**- 17.1**	Reclassification of a portion of borrowings from current to non-current
Non-current liabilities	67.0	**127.7**	**+ 60.8**	Same as above and increased due to borrowing of business funds
Equity	72.5	**83.7**	**+ 11.2**	
Equity ratio	18.7%	**19.4%**	**+ 0.7pt**	
Interest-bearing liabilities	151.6	**200.2**	**+ 48.6**	Increased due to borrowing of business funds

Here is our financial position. The significant increase in goodwill is due in part to M&A, of course. However, the main factor is a 5.7 billion yen increase in exchange differences due to the yen's depreciation. Other than that, there is nothing of particular concern as all have grown at decent rates.

Since I have already mentioned the status of each segment in my explanation of the earnings forecast revision, please allow me to discuss our growth strategy now. I will explain regarding the status and future outlook of each segment later in this briefing.

Policy on growth strategies for 2023 and beyond from the top management



Please see pages 34 and 35. I am going to explain what I am thinking now as the top management regarding our future growth strategy. We have so far neither presented our corporate plan for 2023 and beyond nor announced a new medium-term management plan. We would like to release those detailed figures after collecting and reviewing opinions and policy proposals from each department, discussing them with the Board of Directors, and refining the medium-term management plan. Again, I cannot give you the details at the moment as it depends on the decision of the Board of Directors, but I will explain what I am thinking in general terms today.

Although we had to make a major revision to our earnings forecast this time, we will certainly put in our best efforts to turn around the performance. The fields for our growth still exist in this industry, so please be assured.

All the matters listed on this slide are important, but a particularly important thing that we must initiate is the reorganization of our group. Currently, the number of consolidated subsidiaries has grown to nearly 300, some of which are paper companies due to stock acquisition schemes upon M&A, local customs, etc. Others are sub-subsidiaries within the consolidated subsidiary group, whose business differs from that of the parent company. In extreme cases, some consolidated subsidiaries have no clear reason for being in such businesses.

When the number of companies becomes as many as 300, even I cannot read difficult foreign company names or distinguish between similar names. Under such circumstances, SG&A efficiency is low. Therefore, above all, I would like to consolidate such companies as much as possible to enhance global governance.

As for impairments, for example, merging with the parent company in a consolidation may lower the evaluation result of impairment risk. We use a very strict auditing firm to determine impairments. I intend to proceed with consolidations to reduce impairment risk, increase the efficiency of SG&A, and enhance global governance, assuming these factors will boost our operating profit.

I mentioned earlier regarding Domestic Engineering and Domestic Manufacturing that we expected recovery production in transportation equipment so much that we delayed various actions. However, recovery production in transportation equipment remained weak in this quarter. On the other hand, many industry sectors were doing so well that there was a serious shortage of personnel. In domestic semiconductor-related sectors, construction of new plants is underway in various locations in Kyushu, with new construction plans for the future.

Transportation equipment accounts for a relatively high proportion in our business. Transportation equipment manufacturers expected us to secure personnel according to their production plan for recovery production, which in part delayed our shift to strong sectors.

In the future, we will grow well-performing sectors such as semiconductors while responding to recovery production when it happens.

Both Domestic Engineering and Domestic Manufacturing dispatch personnel to semiconductor industry sectors. Engineering also sends people to the semiconductor technology field.
Engineering alone earns about 10 billion yen, which accounts for a significant share of the electrical equipment-related sectors. Since semiconductor requires skilled engineers even outside of automotive and transportation equipment, we will train personnel at the Semiconductor Engineer Training Center before sending them to the semiconductor sites to increase sales.

Our main business is automotive. Our current share in semiconductor is not that high, but we intend to expand our business in collaboration with Domestic Engineering and Domestic Manufacturing.

Regarding Domestic Engineering, we intend to dramatically increase the number of cyber security personnel, who are high-end engineers in high demand. You might have a strong image that we are an engineering staffing company that dispatches inexperienced engineers starting at the low end based on the KEN School scheme. However, the cyber security personnel I am talking about here are high-end personnel. The estimated monthly sales per person is about 1.5 million yen, nearly double or triple the sales of a general engineer under dispatch.

We are already working on it with various business operators. Low-end engineers account for a large portion of our personnel right now. So, we will continue to grow this area significantly.

The foreigners-related business in Domestic Manufacturing remained strong up until 2019 due to high demand. However, the growth was cut off by the spread of COVID-19.

The restrictions have been gradually eased since around April 2022. Now visitors can enter the country basically without testing at the time of entry. The Japan International Cooperation Agency, JICA, estimates that approximately 4.2 million foreign workers will be needed by 2030. Therefore, we will strongly promote the expansion of our market share to meet this need.

Regarding the undertaking of the management of foreign technical intern trainees, the countries in which they wish to work were not limited to Japan. However, there were many technical intern trainees, especially from Southeast Asia, who wished to work in Japan but had to wait to enter the country despite having completed all the training necessary to come to Japan.

These people on the waiting list will come to Japan as the restrictions on entry are eased. So, there is no doubt that we will see a return to the trend before the COVID-19 pandemic.

Also, there is a problem of foreign technical intern trainees coming to Japan in debt, which has become a social issue. There is an agreement between the nations that they must receive 4 to 6 months of training in their home country before coming to Japan, including education on the Japanese language, Japanese culture, and the work they will be engaged in.

If they are required to pay the training and travel expenses, they would be in substantial debt. So, in cooperation with the receiving company and the sending institution, we are promoting an initiative that allows foreign workers to come to Japan without any debt. This kind of initiative has not been seen to date. These efforts have already resulted in the actual debt-free entry of workers starting this November.

Those who can borrow money to come to Japan are still better off. Many people, especially those in the inland areas, cannot even borrow money. We would like to promote a way to accept that such people are able to come to Japan. Please look forward to this project as well.

We are developing “Cloud Staffing” jointly with those in the same business. It is a temporary staffing management system that will systemize management and recruitment, which used to be done by manpower. Thus, this system will bring us higher gross profit margins. Also, we are looking to expand into North America through our Overseas Engineering segment.

Currently, the need to go to areas where people understand English, such as Europe rather than Japan, is coming up from Southeast Asian countries where people understand English to some extent. Against this backdrop, our consolidated European companies expect to secure human resources such as healthcare managers. Reflecting these situations in our plan, we intend to expand our foreigners-related business in our overseas subsidiaries.

Thus, our strategy has deviated slightly from our medium-term management plan announced before the COVID-19 pandemic. I have only reported on our offensive strategies so far. Other than those, we must make significant changes from the medium-term management plan, in areas such as financial strategies, efforts to prevent the recurrence of inappropriate accounting, and further enhancement of global governance. We are currently reviewing our medium-term management plan and hope to release detailed figures and other information when we announce our full-year financial results in February 2023.

KPIs and results of each segment against the business plan

Overview and Future Outlook for Each Operating Segment

KPI and Financial Results for Consolidated Business Plan

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- The order backlog at term-end in the above table indicates the number of orders received at term-end for temporary engineers in the Domestic Engineering segment and for manufacturing dispatch workers in the Domestic Manufacturing segment, and the amount of orders received at term-end for the U.S. military facilities business in the Domestic Service Operations segment.
- The order backlog at term-end for the Domestic Manufacturing Outsourcing segment includes the number of people simultaneously ordered by each manufacturer to multiple dispatch companies and orders with the assignment date in next month or later.

(¥ billion)		FY12/21 Actual 1Q	FY12/21 Actual 2Q	FY12/21 Actual 3Q	FY12/21 Actual 4Q	FY12/21 Actual Full-Year	FY12/22 Forecast 1Q	Actual 1Q	Forecast 2Q	Actual 2Q	Forecast 3Q	Actual 3Q	Forecast 4Q	Revised Fcts. 4Q*	Forecast 1H	Actual 1H	Forecasts 2H	Revised Fcts. 2H*	Forecast Full-Year	Revised Fcts. Full-Year*	Differences Full-Year
Domestic Engineering Outsourcing Business	Revenue	27.6	30.0	31.8	34.4	123.8	33.8	34.2	37.4	36.7	40.0	37.5	42.8	39.0	71.2	71.0	82.8	76.5	154.0	147.5	-6.5
	Operating profit	2.2	2.3	2.6	2.8	9.9	1.9	2.9	1.3	2.5	2.8	2.7	5.0	2.9	3.2	5.4	7.8	5.6	11.0	11.0	0.0
	Recruiting expenses	-	-	-	-	-	1.2	1.1	1.4	1.2	1.7	1.3	1.5	1.5	2.6	2.3	3.2	2.8	5.7	5.1	-0.6
	No. of worksite employees at term-end	18,249	20,829	21,163	21,622	21,622	22,300	22,085	25,500	24,571	26,100	24,662	26,700	24,800	25,500	24,571	26,700	24,800	26,700	24,800	-1,900
	Utilization Rate	95.7%	90.8%	95.7%	97.3%	94.9%	96.2%	96.6%	91.0%	93.0%	96.3%	95.7%	97.4%	96.5%	93.4%	94.7%	96.9%	96.1%	95.2%	95.4%	0.2%
	Order backlog at term-end (persons)	4,618	6,026	5,055	6,965	6,965	6,500	5,926	5,300	5,323	7,200	6,306	7,000	7,300	5,300	5,323	7,000	7,300	7,000	7,300	300
Domestic Manufacturing Outsourcing Business	Revenue	23.0	24.5	25.1	27.1	99.7	27.3	27.0	32.5	30.7	34.0	31.6	36.7	31.7	59.8	57.7	70.7	63.3	130.5	121.0	-9.5
	Operating profit	1.7	1.8	1.5	2.2	7.2	1.4	1.5	2.0	1.5	2.3	1.4	3.1	1.6	3.4	3.0	5.4	2.9	8.8	5.9	-2.9
	Recruiting expenses	-	-	-	-	-	0.8	0.9	0.8	1.0	0.9	0.8	0.9	0.8	1.6	1.9	1.8	1.6	3.4	3.5	0.1
	No. of worksite employees at term-end	18,614	20,126	21,341	21,443	21,443	21,800	21,506	24,000	27,000	25,000	26,831	26,500	27,000	24,000	27,000	26,500	27,000	26,500	27,000	500
	No. of workers under outsourced administration at term-end	21,942	21,607	21,076	20,004	20,004	19,000	18,510	18,200	18,660	19,200	19,300	20,000	19,000	18,200	18,660	20,000	19,000	20,000	19,000	-1,000
	Order backlog at term-end (persons)	4,373	6,613	5,923	6,176	6,176	6,600	6,480	6,600	6,552	6,400	6,023	6,700	6,000	6,600	6,552	6,700	6,000	6,700	6,000	-700
Domestic Service Operations Outsourcing Business	Revenue	7.0	7.2	7.3	7.7	29.2	8.1	8.4	8.5	7.0	9.6	7.5	9.8	8.6	16.6	15.4	19.4	16.1	36.0	31.5	-4.5
	Operating profit	1.3	1.0	1.1	0.6	4.0	1.0	1.1	1.0	0.8	1.4	0.5	1.3	0.6	2.0	1.9	2.7	1.1	4.7	3.0	-1.7
	No. of worksite employees at term-end	2,444	2,567	3,074	3,349	3,349	3,100	3,868	3,300	3,344	3,800	3,517	4,000	3,600	3,300	3,344	4,000	3,600	4,000	3,600	-400
	Order backlog at term-end (¥ billion)	25.8	27.3	29.9	29.8	29.8	-	27.5	-	30.5	-	35.6	-	0.0	-	30.5	-	0.0	-	0.0	-
Overseas Engineering Outsourcing Business	Revenue	26.4	36.2	38.0	39.3	139.8	35.8	36.7	37.0	40.7	39.3	43.2	38.9	41.6	72.8	77.4	78.2	84.8	151.0	162.2	11.2
	Operating profit	1.0	1.5	0.5	1.4	4.6	1.4	1.7	1.5	2.1	1.9	2.2	2.0	1.7	2.9	3.8	3.9	3.9	6.8	7.8	1.0
	No. of worksite employees at term-end	13,393	14,726	14,642	14,881	14,881	15,010	13,976	13,040	13,970	12,020	13,045	12,650	12,800	13,040	13,970	12,650	12,800	12,650	12,800	150
Overseas Manufacturing and Service Operations Outsourcing Business	Revenue	39.9	42.9	45.3	48.7	176.8	48.0	48.9	54.6	54.7	59.1	57.4	61.8	62.7	102.6	103.6	120.9	120.2	223.5	223.8	0.3
	Operating profit	1.4	1.5	1.3	2.5	6.7	1.3	0.7	2.0	0.9	3.2	1.2	3.5	1.9	3.3	1.6	6.7	3.0	10.0	4.7	-5.4
	No. of worksite employees at term-end	48,383	49,441	50,669	51,229	51,229	53,250	51,455	56,110	50,080	59,930	53,776	62,550	62,550	56,110	50,080	62,550	62,550	62,550	62,550	0
Other Business	Revenue	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.0
	Operating profit	-0.0	0.1	0.1	0.1	0.2	0.1	0.1	0.0	0.1	0.0	0.0	0.0	-0.0	0.1	0.2	0.0	0.0	0.1	0.3	0.2
	No. of worksite employees at term-end	0	0	0	0	0	0	14	0	21	0	28	0	0	0	21	0	0	0	0	0
Adjustments	Operating profit	-2.5	-1.9	-2.0	-2.2	-8.6	-2.1	-2.1	-2.3	-2.9	-2.6	-2.6	-2.4	-2.9	-4.4	-5.0	-5.0	-5.6	-9.4	-10.6	-1.2
Total	Revenue	123.8	140.8	147.4	157.3	569.3	153.0	155.3	170.0	169.8	182.0	177.2	190.0	183.7	323.0	325.1	372.0	360.9	695.0	686.0	-9.0
	Operating profit	5.2	6.4	5.0	7.4	23.9	5.0	6.0	5.5	5.0	9.0	5.4	12.5	5.7	10.5	10.9	21.5	11.1	32.0	22.0	-10.0

*1: Displayed in ¥billion (rounded off to the nearest ¥0.1 billion) *2: Inter-segment transactions in revenue are eliminated.
*3 A retroactive adjustment to the provisional accounting for business combinations that occurred at the end of the fiscal year ended December 2022 was recorded in the fourth quarter of the fiscal year ended December 2022.

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Here is the status of each segment. I have mentioned some of these in the details of the revision. So, I will explain the points that have not been discussed yet.

Domestic Engineering Segment

Overview and Future Outlook for Each Operating Segment

Domestic Engineering Outsourcing Business

OuT-Sourcing!

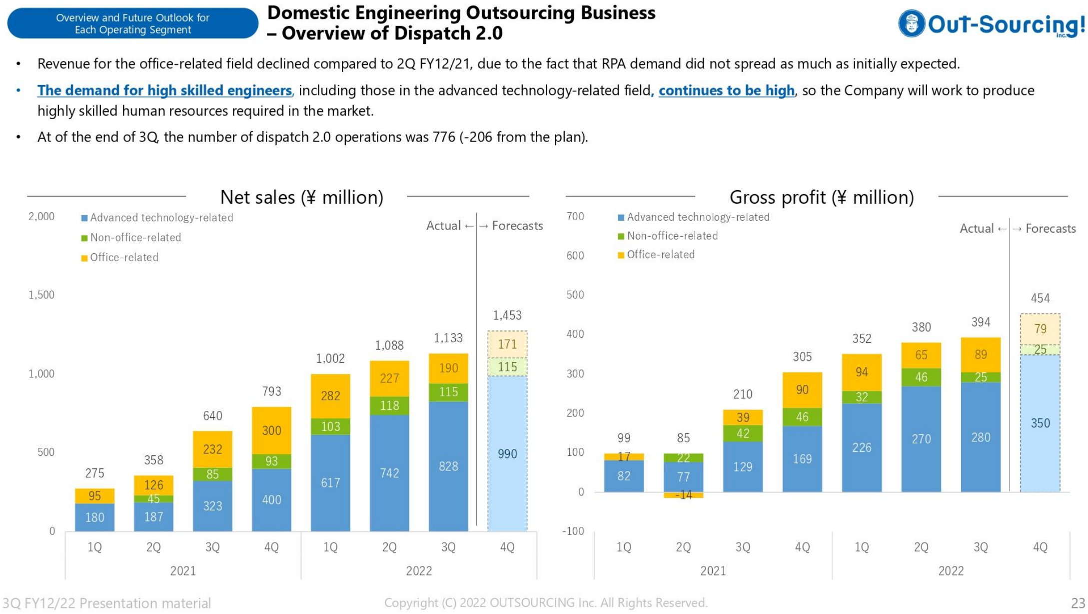
- Engineer needs remained high in all industries, resulting in **increased revenue and profit YoY**.
- Compared to the initial plan, the recruitment strategy did not match with the intensified competition for hiring engineers, and the number of employees fell short of the plan. As a result, **both revenue and operating profit fell short of the plan**.
- Although operating profit for the quarter was below the budget due to the impact of impairment losses, the cumulative operating profit **exceeded the plan by more than 30%**.

		Quarterly Results (Jul. 1, 2022 - Sept. 30, 2022)					Cumulative Results (Jan. 1, 2022 - Sept. 30, 2022)				
		FY12/21 3Q	FY12/22 3Q	YoY	Initial Fcst. 3Q	Differences (vs. forecasts)	FY12/21 3Q YTD	FY12/22 3Q YTD	YoY	Initial Fcst. Full-year	Differences (vs. forecasts)
Revenue	(¥ billion)	31.8	**37.5**	+ 17.8%	40.0	**- 2.5**	89.4	**108.5**	+ 21.3%	111.2	**- 2.7**
Operating profit	(¥ billion)	2.6	**2.7**	+ 5.2%	2.8	**- 0.1**	7.1	**8.1**	+ 14.9%	6.0	**+ 2.1**
Operating profit margin	(%)	8.2%	**7.3%**	- 0.9pt	7.0%	**+ 0.3pt**	7.9%	**7.5%**	- 0.4pt	5.4%	**+ 2.1pt**
No. of worksite employees at term-end	(persons)	21,163	**24,662**	+ 16.5 %	26,100	**- 1,438**	21,163	**24,662**	+ 16.5%	26,100	**- 1,438**
Utilization rate	(%)	95.7%	**95.7%**	-	96.3%	**- 0.6pt**	94.0%	**95.0%**	+ 1.0pt	-	**-**
Order backlog at term-end	(persons)	5,055	**6,306**	+ 24.7%	7,200	**- 894**	5,055	**6,306**	+ 24.7%	7,200	**- 894**

The Domestic Engineering segment is in high demand in all industries. To put it a bit crudely, it has become a business segment that can grow in proportion to the number of recruits.

Thus, recruitment is the key. Again, we are allocating a significant amount of recruitment costs from our budget. However, if recruitment does not go well, some of these costs will be left unused, and it will be more likely to affect our future. So, we would like to take measures to avoid such a situation.

Domestic Engineering Segment - Temporary Staffing 2.0



RPA (Robotic Process Automation) has been already saturated. Currently, there is a high demand for field managers of advanced technology. Our focus is on dispatching such sought-after personnel. However, since the sixth and seventh waves of COVID-19 infections occurred during the period under review, our clients requested us to take action to eliminate contact opportunities, which has caused us delays in plans. Despite that, we believe it is a very promising business.

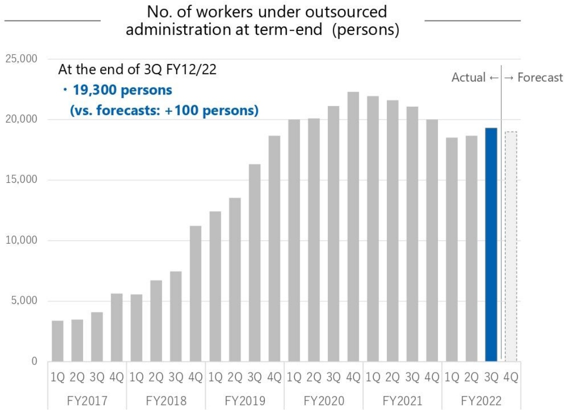
Domestic Manufacturing Segment - management of foreign technical intern trainees

Overview and Future Outlook for Each Operating Segment

Domestic Manufacturing Outsourcing Business – Management Business of Foreign Technical Intern Trainees

OuT-Sourcing!

- As immigration restrictions are gradually relaxed, the number of workers under outsourced administration bottomed out in the 1Q of FY2022 and **turned to an upward trend**.
- **The number of foreign workers** who had previously been permitted to stay in Japan due to difficulties in returning to their home countries is expected **to temporarily increase**.
- As a result, although the number of workers under outsourced administration may fluctuate in the short term, it is expected to **expand in the medium and long term**.



Initiatives to improve the working and living environment of migrant workers

- ORJ, which provides support for the acceptance of Technical Intern Trainees, participated in "**Japan Platform for Migrant Workers towards a Responsible and Inclusive Society**" in November 2020.
- In order to grow sustainably, the Company believes that the **soundness of the market is indispensable**, and is participating in this platform and advancing initiatives.

As for the Domestic Manufacturing segment, as I explained earlier, the restrictions on entry have been eased and are now almost non-existent, so I believe we can return to the
pre-COVID-19 trend.

Domestic Services Segment

Overview and Future Outlook for Each Operating Segment

Domestic Service Operations Outsourcing Business

OuT-Sourcing!

- The U.S. military facilities business, which is the main business in this segment, continued to be affected by **delays in construction progress** due to supply chain disruptions and the **sharp depreciation of the yen**, as in 2Q.
- On the other hand, since **demand remains strong**, including the acquisition of new projects, the potential for business growth over the medium to long term is considered favorable.
- In the security outsourced contracting business, **orders remained firm** and demand did not decline, even in the COVID crisis.

		Quarterly Results (Jul. 1, 2022 - Sept. 30, 2022)					Cumulative Results (Jan. 1, 2022 - Sept. 30, 2022)				
		FY12/21 3Q	FY12/22 3Q	YoY	Initial Fcst. 3Q	Differences (vs. forecasts)	FY12/21 3Q YTD	FY12/22 3Q YTD	YoY	Initial Fcst. Full-year	Differences (vs. forecasts)
Revenue	(¥ billion)	7.3	**7.5**	+ 2.6%	9.6	**- 2.1**	21.5	**22.9**	+ 6.6%	26.2	**- 3.3**
Operating profit	(¥ billion)	1.1	**0.5**	- 53.1%	1.4	**- 0.9**	3.5	**2.4**	- 31.0%	3.4	**- 1.0**
Operating profit margin	(%)	15.2%	**6.9%**	- 8.2pt	14.6%	**- 7.7pt**	16.1%	**10.5%**	- 5.7pt	13.0%	**- 2.5pt**
No. of worksite employees at term-end	(persons)	3,074	**3,517**	+ 14.4%	3,800	**- 283**	3,074	**3,517**	+ 14.4%	3,800	**- 283**
Order backlog at term-end	(¥ billion)	299	**356**	+ 19.1%	-	**-**	299	**356**	+ 19.1%	-	**-**

Our Domestic Services segment focuses on the services for U.S. military facilities. The high cost of materials and currency-exchange losses due to the yen's depreciation slightly depressed the

performance of this segment. However, orders received through bidding have been steady. Rising cost of materials and currency-exchange losses were taken into account for our biddings for those orders received from around May 2022. Therefore, we should be able to return to the trend exceeding the plan from 2023 onward.

Overseas Engineering Segment

Overview and Future Outlook for Each Operating Segment

Overseas Engineering Outsourcing Business

OuT-Sourcing!

- Revenues exceeded the plan with **Ireland and Oceania continuing to drive the segment** in the 3Q.
- Operating profit also grew with improved profit margins due to the growth in revenue as well as **the strong performance of the highly profitable placement and recruiting business**.
- The debt collection business in the U.K. is also on a recovery track compared to the same period last year, when the business environment was affected by COVID-19, and **both revenue and operating profit increased significantly**.

		Quarterly Results (Jul. 1, 2022 - Sept. 30, 2022)					Cumulative Results (Jan. 1, 2022 - Sept. 30, 2022)				
		FY12/21 3Q	FY12/22 3Q	YoY	Initial Fcst. 3Q	Differences (vs. forecasts)	FY12/21 3Q YTD	FY12/22 3Q YTD	YoY	Initial Fcst. Full-year	Differences (vs. forecasts)
Revenue	(¥ billion)	38.0	**43.2**	+ 13.6%	39.3	**+ 3.9**	100.5	**120.6**	+ 19.9%	112.1	**+ 8.5**
Operating profit	(¥ billion)	0.5	**2.2**	+ 310.3%	1.9	**+ 0.3**	3.1	**6.0**	+ 92.9%	4.8	**+ 1.2**
Operating profit margin	(%)	1.4%	**5.1%**	+ 3.7pt	4.8%	**+ 0.3pt**	3.1%	**5.0%**	+ 1.9pt	4.3%	**+ 0.7pt**
No. of worksite employees at term-end	(person)	14,642	**13,045**	- 10.9%	12,020	**+ 1,025**	14,642	**13,045**	- 10.9%	12,020	**+ 1,025**
No. of freelancers	(person)	1,381	**1,876**	+ 35.8%	3,133	**- 1,257**	1,381	**1,876**	+ 35.8%	3,133	**- 1,257**

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For our Overseas Engineering segment, as in Domestic, we are recruiting according to the situation. As it is going very well, there are no concerns that I have to mention.

Overseas Manufacturing and Service Segment

Overview and Future Outlook for Each Operating Segment

Overseas Manufacturing and Service Operations Outsourcing Business

OuT-Sourcing!

- As in Japan, **semiconductor shortages and other supply constraints** affected the manufacturing-related business, mainly in Germany, and both revenue and operating profit fell short of the plan.
- The demand for service operations business (e-commerce-related temporary staffing) conducted by OTTO Group in the Netherlands **remained strong in 3Q**.
- **The operating profit margin fell far short of the plan** as a result of the poor performance of the manufacturing-related business and the goodwill impairment loss.

		Quarterly Results (Jul. 1, 2022 - Sept. 30, 2022)					Cumulative Results (Jan. 1, 2022 - Sept. 30, 2022)				
		FY12/21 3Q	FY12/22 3Q	YoY	Initial Fcst. 3Q	Differences (vs. forecasts)	FY12/21 3Q YTD	FY12/22 3Q YTD	YoY	Initial Fcst. 3Q YTD	Differences (vs. forecasts)
Revenue	(¥ billion)	45.3	**57.4**	+ 26.9%	59.1	**- 1.7**	128.1	**161.1**	+ 25.8%	161.7	**- 0.6**
Operating profit	(¥ billion)	1.3	**1.2**	- 9.1%	3.2	**- 2.0**	4.1	**2.8**	- 32.9%	6.5	**- 3.7**
Operating profit margin	(%)	2.8%	**2.0%**	- 0.8pt	5.4%	**- 3.4pt**	3.2%	**1.7%**	- 1.5pt	4.0%	**- 2.3pt**
No. of worksite employees at term-end	(person)	50,669	**53,776**	+ 6.1%	59,930	**- 6,154**	50,669	**53,776**	+ 6.1%	59,930	**- 6,154**

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Our Overseas Manufacturing and Service segment is involved in staffing for manufacturing in Germany and Asia. But it has been affected by semiconductor shortages, especially in Germany, where there is a decent number of customers in automobile manufacturing like in Japan. In the transportation equipment-related sector, we focused more on the aircraft business than on the automobile business, which is beginning to recover, and we believe it will be a major recovery. The OTTO Group in the Netherlands is the largest in this segment. We will continue to grow its performance in the current year.

The Overseas Manufacturing and Service segment has become the segment with the largest profit discrepancy in our revised forecast. However, by implementing measures to address the issues, we can expect a certain level of performance for 2023 and beyond.

That is all from me. Thank you.