

OUTSOURCING Announces Investigation Report on Inappropriate Accounting—Limited Impact on Rating, but JCR Will Watch Progress in Preventive Measures, etc.

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the release of the investigation report on inappropriate accounting by OUTSOURCING Inc. (security code: 2427).

- (1) On November 5, 2021, OUTSOURCING Inc. (the "Company") released the "Notice Regarding Suspicions of Inappropriate Accounting at Our Consolidated Subsidiaries and Postponement of Announcement of Financial Results for the Third Quarter of the Fiscal Year Ending December 2021" and on December 28, 2021, it released the "Notice Regarding Submission of Approval Application for Re-extension of the Deadline for Filing the Quarterly Securities Report for the Three Months Ended September 30, 2021" and "Notice Regarding Receipt of the Investigation Report from the Investigation Commission." In the Company's press release and the Investigation Report from the Investigation Commission, it was announced that: (i) it was discovered that inappropriate accounting had been conducted in a wide and diverse range of 13 consolidated subsidiaries (4 of which are absorbed) other than the 4 companies including the Company, which were the initial targets of the investigation; (ii) it will be necessary to amend the financial statements of past fiscal years as a result of this matter, and the cumulative impact will be a decrease of 951 million yen in net sales and a decrease of 277 million yen in operating profit based on J-GAAP. (In addition, the Investigation Commission pointed out an additional accumulated impairment loss of 1.02 billion yen in relation to this matter.) As for OUTSOURCING TECHNOLOGY Inc. (a wholly owned subsidiary), which had applied for public listing on the Tokyo Stock Exchange, it was announced on November 15 that it had withdrawn its application for the public listing.
- (2) JCR believes that the impact on the Company's profit and financial aspects due to the amendment of the past fiscal years' results will be small, and that the direct impact of this matter on the rating will be limited. However, this case indicates that serious problems were contained in the governance of the entire Group, and an early and fundamental restructuring of the governance system is required. JCR will continue to check the future developments such as the impact of this matter on the Company's business relationships with its clients and the impact of the withdrawal of OUTSOURCING TECHNOLOGY's application for the public listing on its financial strategy, and will closely monitor the formulation and implementation of measures to prevent recurrence.

Naoki Kato, Yusuke Tsuboi

<Reference>

Issuer: OUTSOURCING Inc.

Long-term Issuer Rating: BBB Outlook: Stable

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