Better future for people, business and society
Funai Soken Holdings

Funai Soken Holdings Incorporated

Financial Results Briefing for the Fiscal Year Ended December 2020

February 9, 2021

Speaker & Q&A:
Sakae Takashima, President & Group CEO

Q&A:
Takahisa Okumura, Director & Senior Vice President, Head of Management Administration Divisional Headquarters
Eijiro Saito, Executive Officer, General Manager of Corporate Administration Office

FY2020 Financial Report

Funai Soken Holdings

■ **Consolidated Income**

- Operating income, ordinary income, and net income all exceeded the forecast issued on October 30, 2020.
- Although there was a late uptick in sales driven by a recovery in consulting orders, this was not enough to absorb the drop in revenues and orders caused by the impact of Covid-19 in the April-to-June quarter, and net sales ended 2.8% down from the preceding year.
- Operating income was 12.7% down, ordinary income was 11.5% down, and net income was 9.6% down from the preceding year due to a drop in higher-profit-margin consulting sales as a percentage of total sales.

	FY12/19		FY12/20			Compared with forecast issued on Oct. 30, 2020	
	Amount (million yen)	% of total	Amount (million yen)	% of total	Change (%)	Amount (million yen)	Change (%)
Net sales	25,752	100.0	25,027	100.0	-2.8	25,100	-0.3
Operating income	5,705	22.2	4,982	19.9	-12.7	4,900	+1.7
Ordinary income	5,755	22.3	5,091	20.3	-11.5	5,000	+1.8
Net income attributable to owners of the parent	3,868	15.0	3,498	14.0	-9.6	3,400	+2.9

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I'm Takashima, President and Group CEO of Funai Soken Holdings. We thank you for your ongoing support to our group.

Today, I'd like to explain the details of what you are seeing. I will explain based on the materials released on February 5th. The time is limited, and so, I will explain by excerpting from the contents.

For details of the materials, please visit our website or contact our IR & PR Office. We will set up a separate explanation opportunity for you.

First, please let me explain our financial results for the fiscal year ended December 2020.

First, the consolidated earnings.

Net sales were JPY25.027 billion, down 2.8% YoY, operating income was JPY4.982 billion, down 12.7% YoY, ordinary income was JPY5.091 billion, down 11.5% YoY, and net income was JPY3.498 billion, down 9.6% YoY.

Compared to the results forecasts released on October 30, net sales were basically in line with the forecasts, and operating income, ordinary income, and net income were each slightly higher than the forecasts.

The impact of the third wave of COVID-19 from December resulted in a slump in new order activities until the end of the period, resulting in a severe decline in sales and profits.

FY2020 Financial Report

Funai Soken Holdings

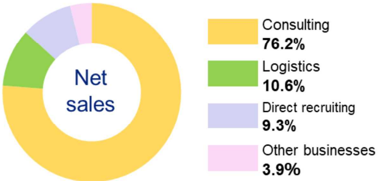
■ **Results of Operations by Segment**

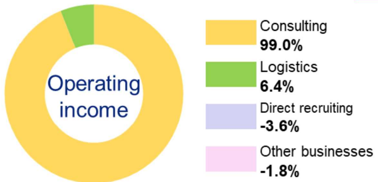
- **Sales and income were down in our core consulting segment despite an increase in sales of online advertisement agency services, as the suspension of in-person seminars and workshops led to a decline in new orders for consulting contracts.**
- **Sales increased in the logistics segment through deep mining of existing clients and growth of spot orders for logistics operations.**
- **Sales were down in the direct recruiting segment due to a decrease in ad placements, and operating income ended on a net loss due to an increase in personnel costs and systems development costs.**

(Units: Million yen; %)

Net sales	FY12/19	FY12/20	
	Amount	Amount	Change
Consulting	19,592	19,058	-2.7
Logistics	2,441	2,638	+8.0
Direct recruiting	2,564	2,331	-9.1
Other businesses	1,130	975	-13.7
(Intra-group & whole-group transactions)	23	23	-
Total	25,752	25,027	-2.8

Operating income	FY12/19	FY12/20	
	Amount	Amount	Change
Consulting	5,395	4,801	-11.0
Logistics	344	311	-9.6
Direct recruiting	-80	-174	—
Other businesses	23	-88	—
(Intra-group & whole-group transactions)	22	131	—
Total	5,705	4,982	-12.7





*Percentages exclude intra-group & whole-group transactions

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Next, I will explain the operating results by segment.

The mainstay Management Consulting business posted net sales of JPY19.058 billion, down 2.7% YoY, and operating income of JPY4.801 billion, down 11.0% YoY.

Since April, we have shifted face-to-face seminars and management workshops to a web-based format. As a result, customer attraction itself is returning to the condition prior to COVID-19, but new orders have been sluggish, resulting in a slight decrease in net sales compared to the previous year. Operating income declined, due in part to an increase in the ratio of the Listing business, which has a relatively low profit margin, and the continuation of necessary investments, such as active recruitment.

In the Logistics business, sales increased 8.0% YoY to JPY2.638 billion due in part to large-scale spot orders received in the Logistics Operations business. However, operating income decreased 9.6% YoY to JPY311 million due to a decrease in high-margin Logistics Consulting services.

In the Direct Recruiting business, sales declined by JPY2.331 billion, down by 9.1%, due to a decline in the number of recruiting advertisement placements since COVID-19 and sluggish growth in new orders following the discontinuation of large-scale seminars. Operating income was negative JPY174 million, resulting in an operating loss.

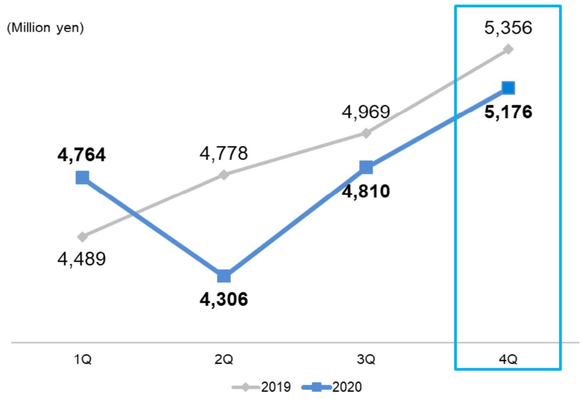
FY2020 Financial Report

Funai Soken Holdings

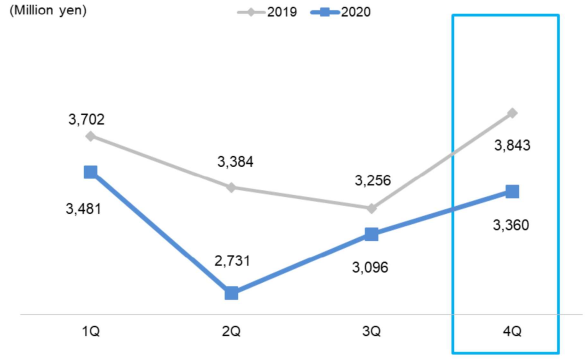
■ **Results of Operations by Segment: Consulting—Sales & Consulting Orders by Quarter**

・**The decrease in sales and income caused by Covid-19 bottomed out in the April-to-June quarter. Sales and consulting orders have been in a recovering trend since the third quarter.**

Consulting sales



Consulting orders



*Total management consulting income from the consulting segment.

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This section explains in detail the Management Consulting business, which is our core business.

In this graph, the left-hand side shows the quarterly sales of the Management Consulting business, with the grey line representing the results for 2019 and the blue line representing the results for 2020.

As you can see, it bottomed out in Q2 of FY2020, the period from April to June, and has been gradually recovering since the Q3.

Next, the graph to the right shows the amount of orders received by quarter. I explained earlier that new orders were sluggish, and as a result, orders fell sharply in Q2, when we began to refrain from holding seminars.

Similar to net sales, this business has been gradually recovering since then due to the switch from face-to-face seminars to web-based seminars and the improvement in orders received from such web-based seminars.

In any event, we would like to return to the original pace of double-digit growth for our group at the earliest possible.

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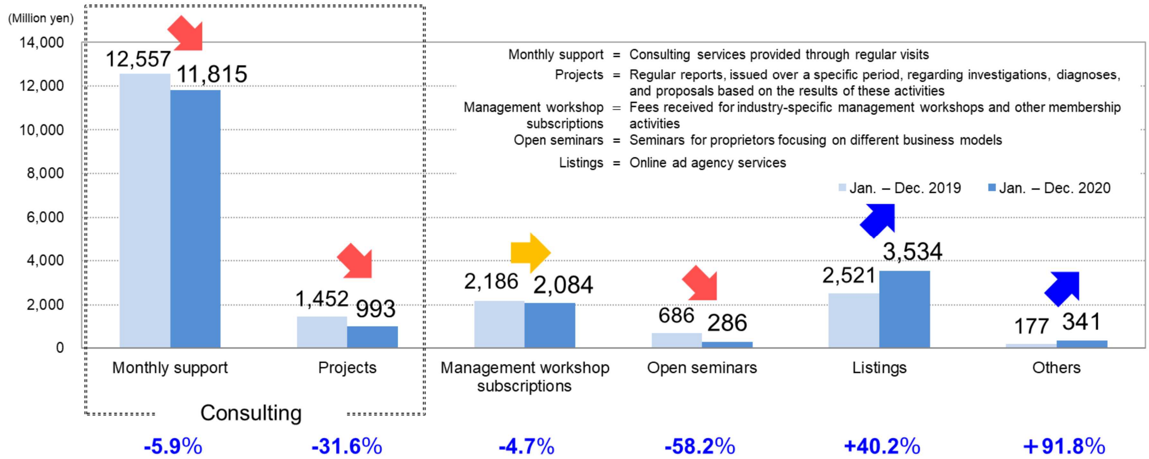
■ **Results of Operations by Segment: Consulting—Sales by Service Category**

- **The portion of total consulting sales occupied by monthly support decreased 5.9% y-o-y despite the recovery since the third quarter.**
- **Management workshop subscription income was solid as workshops were moved online due to Covid-19 and membership renewals among existing members remained steady.**
- **Open seminars were eventually held online, but the impact of the initial suspension saw sales finish 58.2% down y-o-y.**
- **Web ad listing sales increased 40.2% on the back of a solid increase in accounts from FY2020.**



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This is the status of sales in the Management Consulting business by operation.

First of all, projects in the Management Consulting business are very weak during the recession, as they have been in the past. Even in the current COVID-19 crisis, we suffered a 31.6% decrease.

On the other hand, our monthly support, which is a pillar of our earnings, decreased by 5.9% due to the switchover to remote support at the early stage. Similarly, the number of management workshops declined by only 4.7%. Although we struggled in terms of new subscription and registration, we were able to maintain contract renewal rates with existing customers, which resulted in such results.

The number of open seminars decreased significantly by 58.2%, partly due to the inability to hold face-to-face seminars. Especially in the fiscal year under review, which was affected by COVID-19, we urgently switched to web-based seminars in order to increase the number of customers for acquisition of consulting orders rather than incomes from seminars. At the same time, we held seminars about 1.5 times more often than usual, but revenues declined significantly.

The Listing business continued to expand steadily, with an increase of 40.2%.

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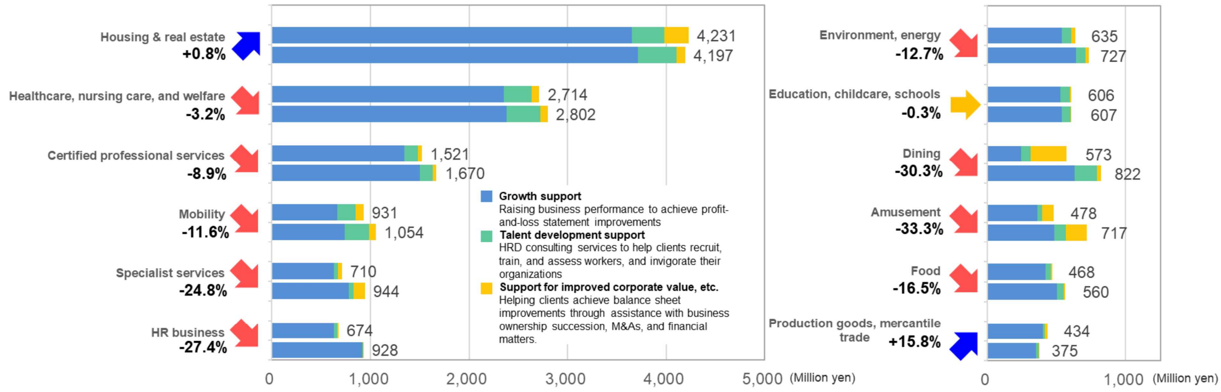
■ **Results of Operations by Segment: Consulting—Sales by Sector**

- **The core housing & real estate sector experienced y-o-y growth despite the adverse conditions.**
- **Sales in the production goods and mercantile trade sector were robust as early development of solutions designed to counter the impact of Covid-19 proved effective.**
- **The situation remains severe across the board, but there were increases in online marketing and digital-related consulting sales.**

Upper bar: Jan. – Dec. 2020
Lower bar: Jan. – Dec. 2019



Figures show total sales of consulting contracts, management workshop subscriptions, and open seminars, grouped in accordance with the company's industry classifications, for Jan. through Dec. 2019 and 2020.

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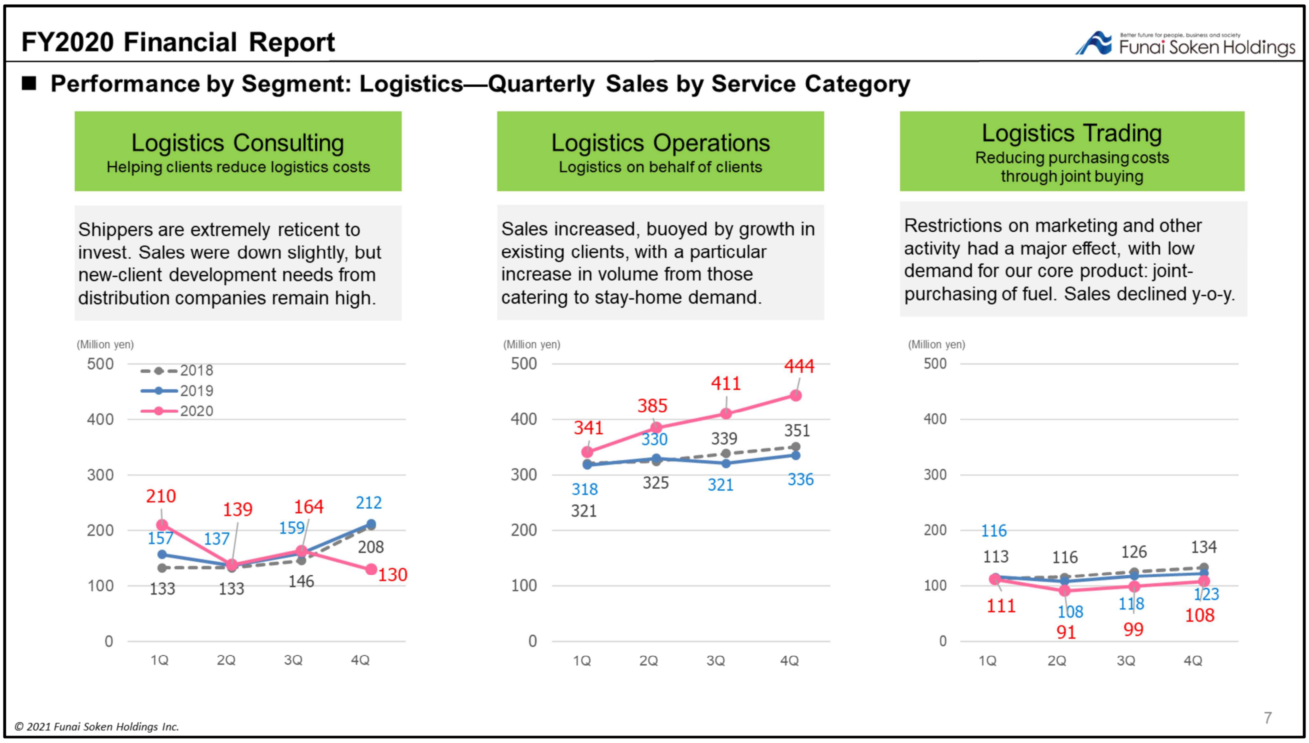
This is the sales status of the Management Consulting business again by industry.

Due to the rapid changes in the business conditions of our customers and the industry, there are wide variations among industries.

The figures of Dining, Specialist services, Human Resources businesses, and Amusement declined significantly as often pointed out that they are struggling due to the COVID-19 crisis. On the other hand, the figure of Housing & Real Estate, which is the main product category, turned positive from the previous year, and the figure of Production Goods, which are making progress in AI and robotics, was extremely favorable.

Either way, this graph also shows the current severe conditions in the industries and the recipients of support. We primarily support for growth execution and development of human resources, and enhancement of their value for small and medium-sized companies. In response to the recent COVID-19 crisis, we will work together with company owners to overcome the current difficulties and to support New Normal that lies ahead.



Next, I will explain the Logistics business.

Overall, sales increased but profits decreased. For the breakdown, as you can see, our logistics operations performed well. This was particularly strong as a result of an increase in logistics by client companies adapted to the stay-at-home demand.

On the other hand, in the high-margin Logistics Consulting operation, new orders did not grow as in the Management Consulting business, and as a result, sales declined in Q4.

However, as a whole, this business is less susceptible to the impact of COVID-19 among the three business segments, and we will once again expand the scope of our business in the future.

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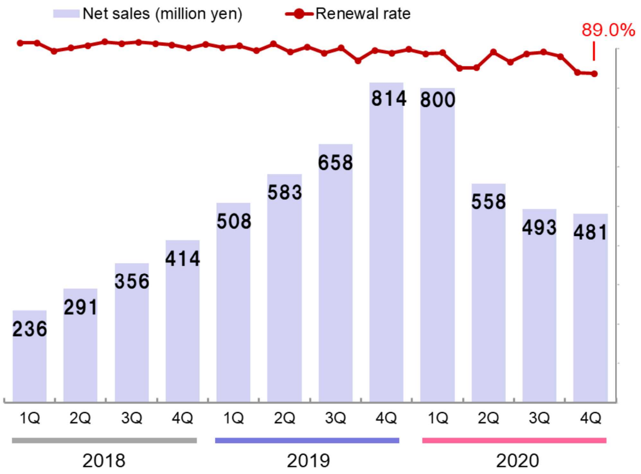
■ Results of Operations by Segment: Direct Recruiting

- **Although, due to Covid-19, seminar cancellations have seen new customer acquisitions decrease and fewer ad placements have resulted in a large drop in sales, the existing client renewal rate of our cloud-based AI recruiting service remains strong at 89 percent.**
- **A new staffing business was launched in the third quarter.**



Major Direct Recruiting Services

Cloud-based AI recruiting service

- Uses big data and an automated AI system to create ads that attract responses.
- Automated listing in optimal, cost-effective media reduces cost per response.
- AI allows for 24-hour 365-day operation and integrated administration of respondents, streamlining hiring work.

Fixed-Fee "All You Can Hire" service

- Lowers recruiting costs. No additional charges, regardless of the number of people hired. Fixed fee means the more you use, the more you save.
- Guaranteed number of hires (our commitment to you).
- Full refund if your ad does not result in a hire.
- "Blind" resumes made available in real time.

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Next, I will explain the Direct Recruiting business.

This business was most significantly affected by the recent COVID-19 because the key point is how to win recruiting advertising placements from companies.

Since the start of its performance in 2018, the Indeed business and the cloud services adopted by AI have been supported, and the business has grown steadily to this point. In FY2020, this business finally entered the profitable phase. However, the market as a whole became stagnant due to the impact of COVID-19, and our Direct Recruiting business also became significantly affected, as you can see.

However, we believe that the structural labor shortage will continue in the domestic market, and thus, we believe that it will gradually return to the recovery trend as recruitment needs increase again.

Currently, as a new theme, in Q3 of last year, we launched a subscription-type service called flat-rate unlimited recruitment as our unique service of recruitment. This service commits to the number of people to be hired, and we are aiming to increase the number of contracts specifically in medical and nursing care personnel, for which there is a particularly strong need at present.

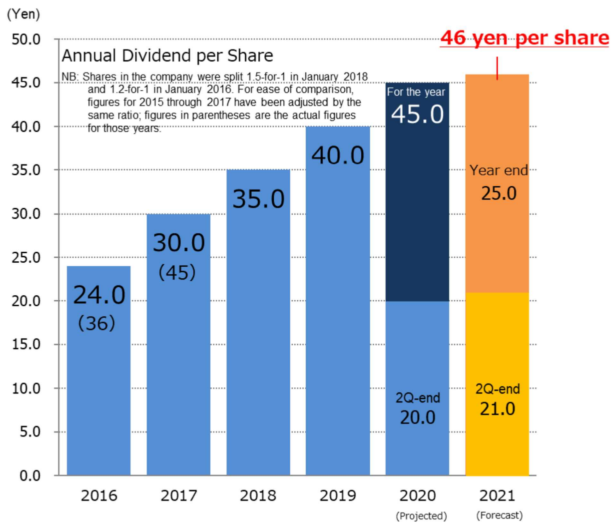
Forecasts & Shareholder Returns

Funai Soken Holdings

■ **Dividends**

• **In 2021, we plan to pay a total dividend of 46 yen per share, comprising an interim dividend of 21 yen and a year-end dividend of 25 yen.**

	Initial forecast		Actual dividend	
Record date	Dividend (per share)	Details	Dividend (per share)	Details
FY2016 1.2-for-1 share split	36.0	2Q-end 15.0 Year end 21.0	36.0	2Q-end 15.0 Year end 21.0
FY2017	39.0	2Q-end 15.0 Year end 24.0	45.0	2Q-end 15.0 Year end 30.0
FY2018 1.5-for-1 share split	33.0	2Q-end 15.0 Year end 18.0	35.0	2Q-end 15.0 Year end 20.0 *including special dividend of 2.0
FY2019	40.0	2Q-end 17.0 Year end 23.0	40.0	2Q-end 17.0 Year end 23.0 *Including a commemorative dividend of 3.0
FY2020	45.0	2Q-end 20.0 Year end 25.0	45.0	2Q-end 20.0 Year end 25.0
FY2021 (Forecast)	46.0	2Q-end 21.0 Year end 25.0		



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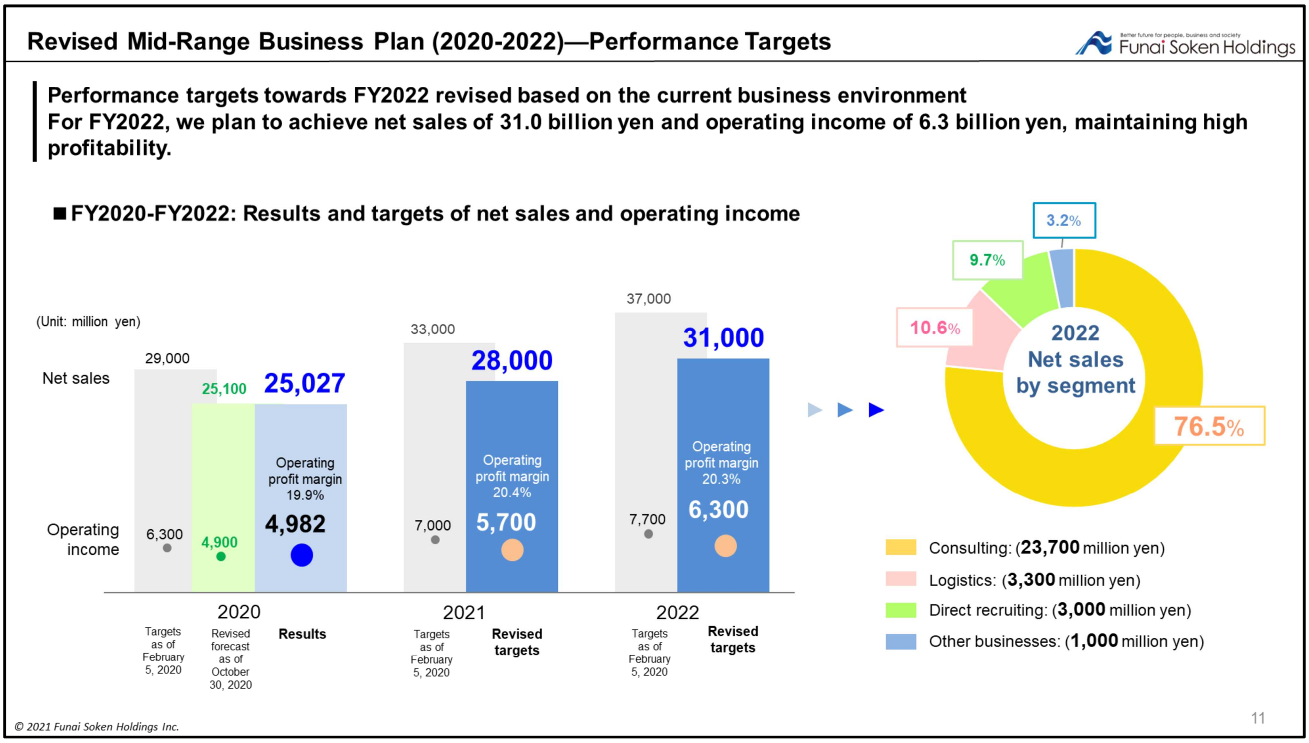
Next, I would like to report on dividends.

For FY2020, we plan to pay a year-end dividend of JPY25 per share for an annual dividend of JPY45 per share including interim dividend of JPY20 per share. These dividends remain unchanged. In FY2021, we plan to pay an interim dividend of JPY21 per share, an increase of JPY1 per share, and a year-end dividend of JPY25 per share, which will make an annual dividend of JPY46 per share.

We will continue to work to increase dividends in a sustainable manner under the sustainable growth of the group, and I would like to ask for your continued support.



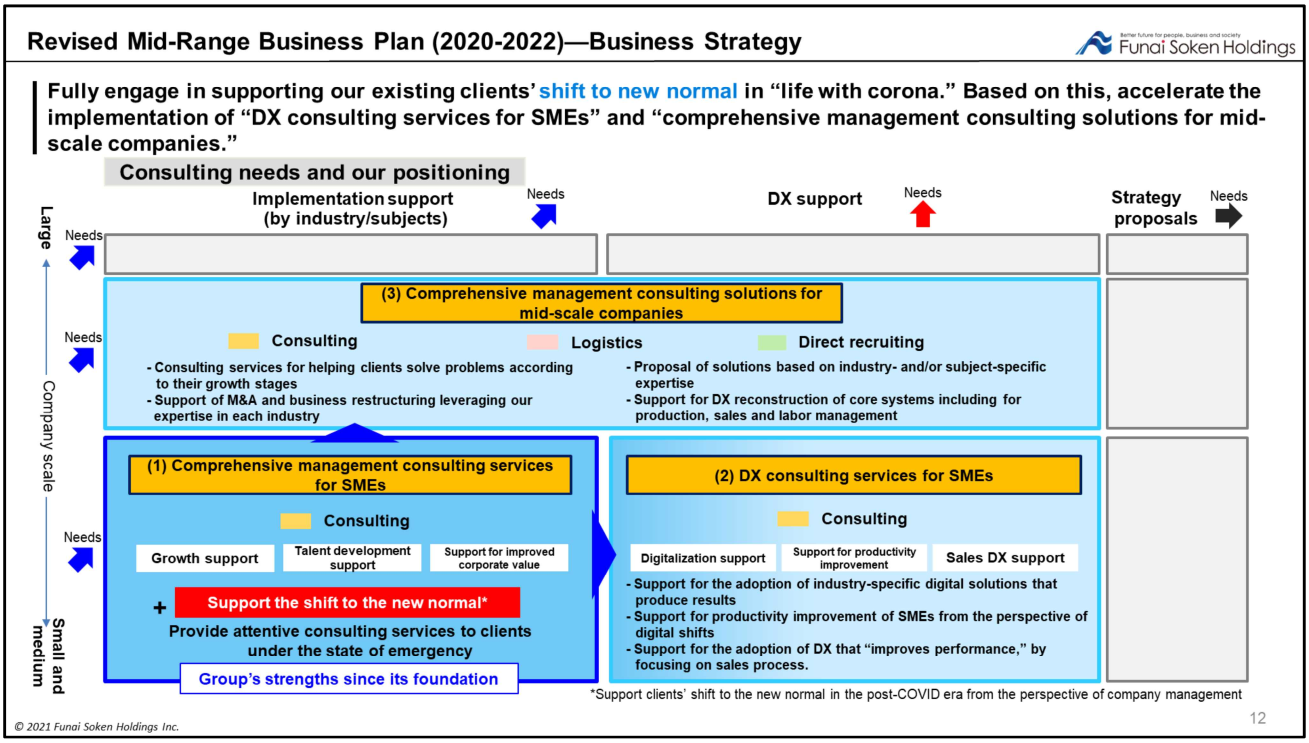
We will continue to explain the Medium-Term Management Plan, which has been partially revised this time.

First, the performance plan.

I have explained the performance for FY2021, and so, please see our medium-term business plan again for the performance for FY2022.

We revised our targets for FY2021 to net sales of JPY28 billion and operating income of JPY5.7 billion and for FY2022, to net sales of JPY31 billion and operating income of JPY6.3 billion.

As a slogan for internal use this year, we announced to employees Regain Lost Time-Recover the 50th Anniversary Lost. Last year, 2020, marked our 50th anniversary. I've said it before, but we will strive to return to our original double-digit growth as soon as possible.



Next, regarding the business strategies of the medium-term management plan.

This has not changed significantly from the medium-term management plan we announced last year. I think some people will see it for the first time today. Please let me explain a little.

In this figure, the vertical axis indicates the size of the companies we support, and from the bottom, there are small and medium-sized companies, medium-sized companies, and large-sized companies. The small and medium-sized companies and medium-sized companies are divided by approximately JPY5 billion of annual sales. The large-sized companies are mainly listed companies.

The horizontal axis shows the consulting needs and the consulting areas we respond to, and we divide them into three consulting areas according to their characteristics: execution support; digital transformation support; strategy proposals.

Over the years, we have provided execution support services to small and medium-sized companies. In this figure, it is shown in the lower left area. Specifically, we provide growth execution support, human resource development support, and specific solutions for value enhancement support to small and medium-sized companies nationwide by industry.

Generally speaking, foreign consulting companies, think tanks, etcetera, differ significantly from our business type because the strategic proposal area in the upper right of this figure is larger. The consulting service for small and medium-sized companies is an attractive consulting field even over the long term, as consulting needs have not yet materialized and there is relatively less competition with rival businesses.

Under the medium-term plan, as a leading company in this area, we will support the adoption of New Normal for the post COVID-19 time, as well as fully-fledged digital transformation support. Currently, affected by COVID-19, many of the managers of small and medium-sized companies are strongly aware of the need for digital transformation. Thus, we will take this as an opportunity and once again accelerate the adoption of digital transformation.

In 2020, we already had a successful start of the so-called online sales solution that integrates marketing automation, SFA, and CRM, and packages everything from digital customer attraction to online seminars. In each industry, there are activities to improve productivity and introduce robots to provide contactless services, and we intend to make these activities fully fledged in the future.

Third, as a comprehensive management consulting company, we will once again promote the establishment of a team consulting system for medium-sized companies. Among companies we support and member companies, many of them have continued to grow rapidly through our relationships and have already become the number one companies in their regions or in their industries.

We will take on challenges towards providing new solutions, including IPO support, rebranding support, support for establishment of holdings and M&A and develop a system for in-house team consulting.

Revised Mid-Range Business Plan (2020-2022)—Human Resources Strategy

Funai Soken Holdings

Design an environment that helps diverse human resources demonstrate their strengths in the new normal era
Realize Group's sustainable growth based on a positive spiral of hiring, development and demonstration of strengths

	Human resources strategy: Mid-range business plan (2020-2022)	Human resources strategy: Results in 2020 and progress status
01: Recruit	**Group's employee number to reach 1,600 (adding approx. 400) in 2022** (1) Continue proactively hiring consultants and consultant candidates (hiring 200-250 per year); (2) Expand new hires for DX functions; (3) Accelerate hiring of non-Japanese (especially in Shanghai, China); and (4) Strengthen hiring of licensed professionals	**Revised** - Considering the present business environment, Group's employee number to reach 1,500 (adding approx. 300) in 2022 **Ongoing** - Talent for DX functions: Hired 24 individuals (Funai Consulting, results for 2020) *Definition of talent for DX functions is given by our own internal standards - Hired 43 non-Japanese (Group-wide results for 2020)
02: Develop	**Redevelop Early Development Program in response to the headcount increase** (1) Set up Talent Development Center (TDC) Foster early development of staff for DX functions, and maximizing the consultants' ELTV (employee lifetime value) (2) Continue early development of team leaders (with target deadline within five years) Results in 2019: 3 years and 8 months	**Ongoing** - Enhancing various development programs including DX education with the establishment of Talent Development Center (TDC)  **Achieved** - Results in 2020: 4 years and 1 month
03: Retain	**Establish an environment that helps diverse human resources demonstrate their strengths** (1) Introduce and establish a new personnel evaluation system based on four career courses (i) Consulting Development Course, (ii) Business Development Course, (iii) Corporate Professional Course, and (iv) Management Course (2) Increase the flexibility of work hours and places towards realizing a working environment with improved efficiency Expand and strengthen "remote support" that makes it possible to conduct consulting from anywhere	**Ongoing** - Funai Consulting, the core company, has developed and adopted the new personnel evaluation system. This is the second year (establishment phase) of the operation of the new system **Achieved** - Given the COVID crisis, accelerated development and establishment of the remote-support environment, which is now utilized in our ordinary consulting service

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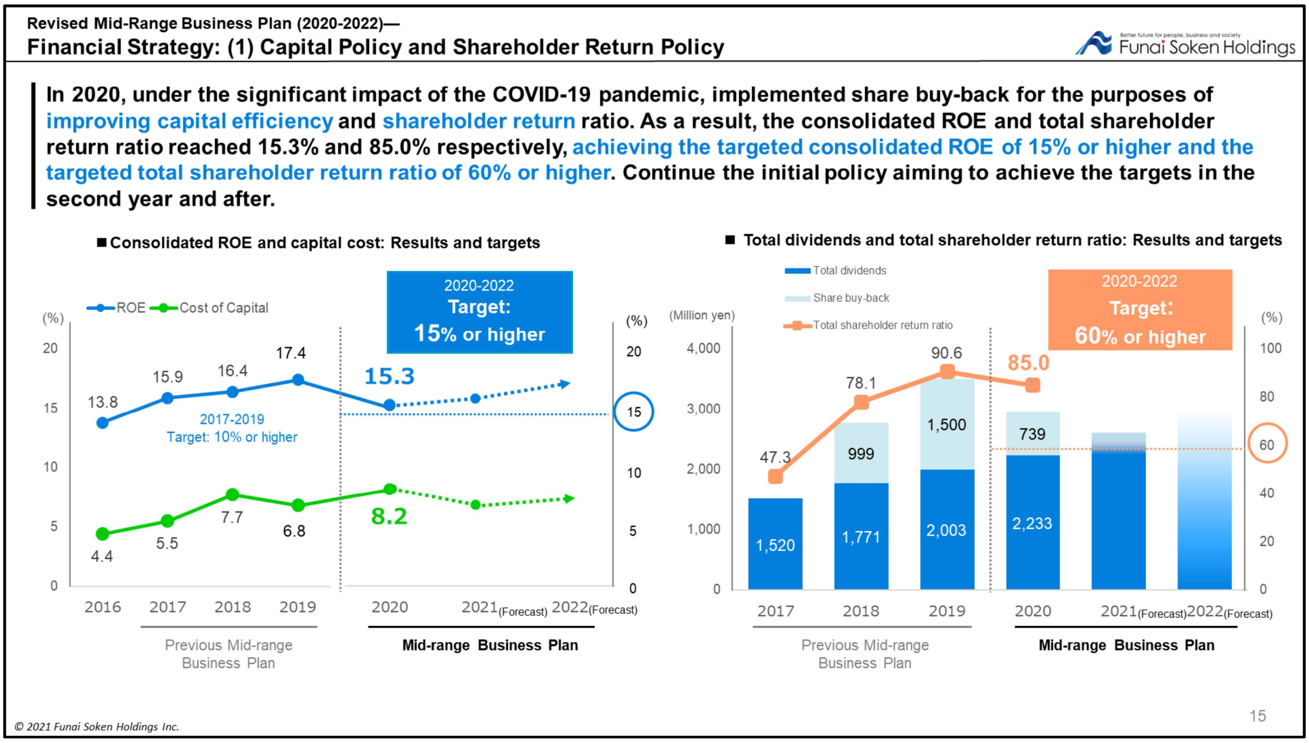
Next, regarding our human resource strategy, we revised the number of recruitments in some part, in light of the current situation, but other than that, we are making steady progress as originally planned.

Our human resource strategy consists of three major themes. The first is active recruitment, the second is early development in response to that, and the third is active participation of talents. By operating the effectively, we are systematically advancing the development of human resources, particularly of new graduates.

In 2020, our business performance struggled, but we continue to actively recruit employees. In 2022, we plan to increase the number of group employees by 300 to approximately 1,500. Going forward, we will expand the recruitment slot of digital transformation in order to fully launch digital transformation consulting, which is also part of our business strategy.

Regarding the second one, early development, we will improve the environment in parallel with proactive recruitment of consultants. As we already established a new organization called the Talent Development Center in 2020, we will create a more in-depth development plan particularly to further train consultants at an early stage.

Third, for active participation of talents, we are working to improve environments in which a diverse range of human resources can actively participate. We also launched a new personnel evaluation system in the last fiscal year. We have been promoting improvements of environments including the steady introduction of these systems, and in the wake of COVID-19, we have moved forward with the full-fledged introduction of remote support systems, including work style reforms, ahead of schedule. This is also a positive side that COVID-19 has created. It has become firmly established at once, and so, I think it will also contribute to improving consulting productivity in the future.

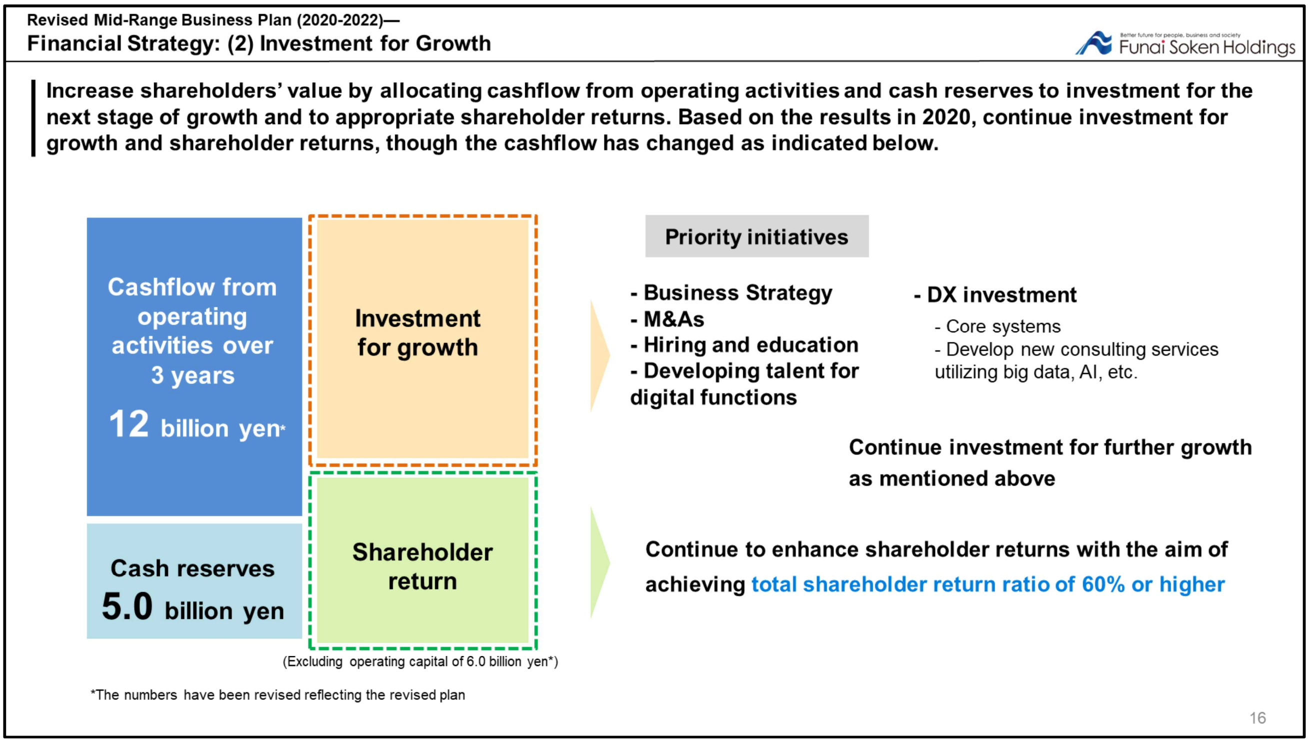


Next is our financial strategy.

In FY2020, as I have explained, we repurchased our own shares in order to improve our capital efficiency and increase the shareholder return ratio, despite the impact of the expansion of COVID-19.

Consequently, in FY2020, we achieved a consolidated ROE of 15.3% and a total return ratio of 85%. We were able to both achieve our targets of a consolidated ROE of 15% or higher and a total return ratio of 60% or higher.

In the second year and beyond, we will continue this initial policy and aim to achieve our targets.



Regarding this allocate growth investments and cash flow, we will allocate operating cash flow and cash on hand gained from business activities to growth investment for future growth and appropriate shareholder returns.

We believe that the cash flow we can obtain from our business activities over these three years will be around JPY12 billion. For the total of JPY17 billion including JPY5 billion of cash on hand at the present, we plan this focused initiative on the right side of the screen.

As focused growth investments, we will continue business strategy investment, M&A investment, and, in addition to this, as explained in the human resources strategy, active recruitment to accelerate investment in digital human resource development in particular.

Furthermore, in terms of digital transformation investment, we intend to invest in the development of core systems and new consulting services utilizing big data and AI.

Change of Representative Directors

Funai Soken Holdings

- The following changes in representative directors are scheduled.

Representative directors (scheduled to take effect on March 27, 2021)

Chairman and Group CEO
Sakae Takashima (currently President & Group CEO)

President and CEO
Takayuki Nakatani (currently Director and Executive Vice President)

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Lastly, I would like to explain the transfer of representatives scheduled in March as described here, including the background.

For this transfer, we established the Successor Nomination Committee. And, under the next succession planning, we have worked on preparations such as identifying the qualifications of the right person and preliminary training. After that, given the advisory of the committee in the end, decision was made at the Board of Directors meeting. And here we are announcing it today.

Mr. Nakatani, who is to be the new president, has accumulated experience as a management consultant at Funai Consulting, the Group's core operating company, and contributed to the Group's business expansion as the company's representative director from March 2016 to March 2020. In addition, since March last year, he has been involved in group strategy as a director of Holdings.

In fact, we have changed presidency approximately in ten years. Our founder, Mr. Yukio Funai, was a president for 20 years, and the second president, third president and I, the fourth president, respectively served as a president for 10 years. Last year, we were in need of unexpected COVID-19 responses. However, following the tradition of this history, we would like to start a new 10-yearplan under the new president in order to continue to vigorously promote sustainable growth into the future as we move into 2030.

Mr. Nakatani has no issues in terms of his experience as president at Funai Consulting Incorporated, his achievements and qualifications as president. At this timing, he starts while responding to the current situation and environmental issues due to COVID-19. Considering this situation, I intend to accelerate the plan as a chairman in tandem with Mr. Nakatani in order to achieve the mid-term plan announced this time.

Thank you very much for your support and cooperation in this new structure. This is all from me.