Non-Audited

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending Dec. 31, 2019 (January 1, 2019 – September 30, 2019)

November 5, 2019

Company name:	Funai Soken Holdings, Inc.	Stock Exchange listing: Tokyo Stock Exchange
Stock code:	9757	URL: https://hd.funaisoken.co.jp
President & Group CEO:	Sakae Takashima	
Contact:	Takahisa Okumura, director and senior vice president, Head of Management Administration Divisional Headquarters Telephone: +81-(0)6-6232-0130	

Scheduled date of payment of dividend: -
Scheduled date of filing quarterly report: November 13, 2019
Supplementary materials compiled to explain 3rd-quarter financial statements? $\boxed{\text{Yes}}$ / No
Briefing to be held to explain 3rd-quarter financial results? Yes / $\boxed{\text{No}}$

(Figures are rounded to the nearest million yen; fractions of one million discarded rather than rounded up or down)

1. 2019 3rd Quarter Consolidated Financial Results (January 1, 2019 – September 30, 2019)

(1) Consolidated Results of Operations

(Percentages represent change from the same quarter last year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
Nine months ending	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Sep. 30, 2019	18,607	19.7	4,109	19.1	4,127	17.8	2,730	7.6
Sep. 30, 2018	15,550	12.8	3,450	(5.6)	3,505	(4.5)	2,538	2.8

NB: Comprehensive income: 2,807 million yen (up 15.5%) in the nine months ending Sep. 30, 2019
2,431 million yen (down 7.3%) in the nine months ending Sep. 30, 2018

	Earnings per share (basic)	Earnings per share (diluted)
Nine months ending	Yen	Yen
Sep. 30, 2019	54.10	53.57
Sep. 30, 2018	49.97	49.46

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2019	27,995	23,458	81.9
As of Dec. 31, 2018	26,732	22,370	82.2

NB: * Shareholders' equity: 22,931 million yen as of Sep. 30, 2019
21,968 million yen as of Dec. 31, 2018

* We started applying the Accounting Standards Board of Japan Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting (released February 16, 2018) at the beginning of the first quarter of this fiscal year, and have applied them retroactively to figures from the preceding year's consolidated financial position.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Year ending Dec. 31, 2018	-	15.00	-	20.00	35.00
Year ending Dec. 31, 2019	-	17.00	-		
FY2019 forecast				23.00	40.00

NB: * Amendments to dividend numbers compared to most recently announced figures? None

* FY2018 dividend per share comprised an ordinary dividend of 18.00 yen and a bonus dividend of 2.00 yen. The bonus dividend was paid to distribute extraordinary income earned in FY2018.
* FY2019 dividend forecast: ordinary dividend of 20.00 yen per share and commemorative bonus dividend of 3.00 yen. The bonus dividend is to commemorate the group's 50th anniversary.

3. Forecast Consolidated Financial Results for the Year (January 1, 2019 – December 31, 2019)

(Percentages represent year-on-year change)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	23,500	8.3	5,400	9.2	5,400	7.8	3,700	4.2	73.36

NB: Amendments to performance numbers compared to most recently announced forecasts? None

Remarks

(1) Changes in consolidated subsidiaries in 1Q, 2Q, and 3Q: None

Changes in scope of consolidation:

- No. of new companies added: None

  Names of new companies added:
- No. of companies removed: None

  Names of companies removed:

(2) Application of specific accounting procedures when compiling 3Q consolidated financial statements: None

(3) Changes in accounting policies; changes in estimates; re-statement of amendments

1) Changes in accounting policies caused by revision of accounting standards: None
2) Other changes in accounting policies: None
3) Changes in accounting estimates: None
4) Re-statement of amendments: None

(4) Number of issued shares (common stock)

1) Number of shares issued at end of nine-month period (incl. treasury stock)	Sep. 30, 2019	53,000,000	Dec. 31, 2018	53,000,000
2) Number of treasury shares at end of nine-month period	Sep. 30, 2019	2,523,931	Dec. 31, 2018	2,562,581
3) Average number of shares during nine-month period (cumulative total)	Sep. 30, 2019	50,464,301	Sep. 30, 2018	50,794,646

NB: This financial summary is excluded from quarterly review by a CPA or auditing company.

Statement Regarding the Use of Forward-Looking Statements

Forecasts in these materials regarding future performance are based on reasonable judgments made in accordance with information currently available. Actual results may differ greatly from these forecasts for a number of factors. Please refer to “Results of Operations” on page 2 of the appendix for further information concerning the conditions on which these forecasts are based and further cautions with respect to the use of forward-looking statements.

Appendix Contents

1. Qualitative Information regarding the Nine Months Ending Sep. 30, 2019

(1) Results of Operations

Japanese corporate revenues and employment statistics recovered gradually in the third quarter of FY2019, but uncertainty regarding US trade policy, financial market trends, and the economic impact of repeated natural disasters mean the outlook remains unclear.

Under these circumstances in the final year of our Mid-Range Business Plan (2017-2019), we at the Funai Soken Consulting Group remain committed to achieving the targets we set for ourselves in our quest for ever higher corporate value as a provider of comprehensive management consulting solutions.

As a result, net sales were 18,607 million yen in the first nine months of the year (up 19.7% over the same period of the preceding year), operating income was 4,109 million yen (up 19.1%), ordinary income was 4,127 million yen (up 17.8%), and net income attributable to owners of the parent company was 2,730 million yen (up 7.6%).

I. Net sales: 18,607 million yen (up 19.7% over the same period of the preceding year)

Net sales in our core consulting business increased steadily, and we successfully added new clients for our direct recruiting services.

Consequently, sales rose 19.7% over the same period of the previous year to 18,607 million yen.

II. Operating income: 4,109 million yen (up 19.1% over the same period of the preceding year)

Cost of sales increased to 12,244 million yen from 10,099 million yen in the same period of the preceding year, and SG&A expenses rose to 2,253 million yen from 2,000 million yen. This inflated operating expenses, but the aforementioned increase in net sales pushed operating income up over the preceding year.

Consequently, operating income increased 19.1% over the same period of the preceding year to 4,109 million yen.

III. Ordinary income: 4,127 million yen (up 17.8% over the same period of the preceding year)

Non-operating income was 73 million yen, compared with 72 million yen in same period of the preceding year, as a result of refunded consumption taxes; while non-operating expenses were 55 million yen, compared with 17 million yen in same period of the preceding year, as a result of contributions made.

Consequently, ordinary income rose 17.8% over the same period of the previous year to 4,127 million yen.

IV. Net income attributable to owners of the parent company: 2,730 million yen (up 7.6% over the same period of the preceding year)

Income taxes totaled 1,391 million yen, compared with 1,276 million yen in the same period of the preceding year, and net income attributable to owners of the parent company was 2,730 million yen, up 7.6% over the same period in the preceding year.

Note that extraordinary income of 320 million yen was recorded in this period last year as a result of the sale of investment securities.

Segment-Specific Performance

The performance of each business segment is outlined below.

Starting in the second quarter, we have changed our method of reporting segments due to the increased financial importance of our Direct Recruiting business, which was previously included in the Other Businesses segment. Thus, this report uses the post-change segments. See the Segment Information section of the consolidated financial statements and notes for more details.

I. Consulting

Performance in our principal sectors—housing and real estate, and healthcare, nursing care and welfare—was robust, and net sales tracked at a solid pace. Support to help clients improve business performance, our core service, remained strong in the housing and real estate sector. In the healthcare, nursing care and welfare sector, as well as the certified professional services sector, new clients gained from seminars on timely topics ensured robust performance and contributed to an increase in workshop membership. Consulting for the HR services industry has also grown substantially amidst increased demand for solutions to labor shortages in recent years. This quarter was a profitable one, as we successfully boosted operating income by increasing net sales in addition to streamlining sales work to reduce the cost of business trips and other expenses.

Consequently, sales rose 15.6% over the same period of the preceding year to 14,236 million yen, and operating income increased 24.1% over the same period of the preceding year to 4,015 million yen.

II. Logistics

Deeper mining of existing clients, higher retail prices, and other developments resulted in increased sales for our logistics operations compared to the same period in the preceding year. Increased orders for logistics consulting from existing clients, orders for a new major project, seminars covering a variety of new topics, and record-breaking workshop membership also contributed to the rise in sales. As logistics consulting is relatively highly profitable, the increase in revenue in that field drove profits up as well.

Consequently, sales rose 0.5% over the same period of the preceding year to 1,768 million yen, and operating income increased 26.1% over the same period of the preceding year to 236 million yen.

III. Direct Recruiting

Net sales were approximately double the same period in the preceding year thanks to our successful addition of new clients on the strength of an active market for career changes buoyed by increased job postings by Japanese companies. After the first three quarters, the direct recruiting business is running a cumulative operating loss for the year due to upfront investments that began in the preceding year, mainly in sales promotions and personnel costs related to our operating framework, such investments intended to expand sales sooner rather than later.

Consequently, sales rose 97.9% over the same period of the preceding year to 1,749 million yen, and operating losses were 181 million yen, compared with operating income of 34 million yen in the same period of the preceding year.

IV. Other Businesses

Net sales increased compared to the same period of the preceding year due to the addition of systems development business; the decrease in profit is due in part to our failure to capture an order for a contact center consulting project with a major corporation. However, our IT consulting business enjoyed stable orders that resulted in higher revenue than planned.

Consequently, sales rose 45.3% over the same period of the preceding year to 834 million yen, and operating income decreased 20.1% from the same period of the preceding year to 25 million yen.

(2) Financial Position

We started applying the Accounting Standards Board of Japan Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting (released February 16, 2018) at the beginning of the first quarter of this fiscal year, and applied them retroactively to figures from the preceding year for the following comparisons and analysis.

Assets

Total assets increased 1,262 million yen from the end of FY2018 to 27,995 million yen at the end of the third quarter.

Current assets increased 1,364 million yen from the end of FY2018 to 15,954 million yen. This was mainly due to an increase in cash, deposits, and short-term investment securities.

Noncurrent assets decreased 102 million yen from the end of FY2018 to 12,040 million yen. This was mainly due to a decrease in investment securities.

Liabilities

Total liabilities increased 174 million yen from the end of FY2018 to 4,536 million yen at the end of the third quarter.

Current liabilities increased 563 million yen from the end of FY2018 to 4,239 million yen. This was mainly due to an increase in current portion of bonds and provision for bonuses, and a decrease in current portion of long-term loans payable and income taxes payable.

Noncurrent liabilities decreased 389 million yen from the end of FY2018 to 297 million yen. This was mainly due to a decrease in bonds payable and an increase in long-term loans payable.

Net Assets

Total net assets increased 1,088 million yen from the end of FY2018 to 23,458 million yen at the end of the third quarter. This was mainly due to an increase in net income attributable to owners of the parent company and a decrease in retained earnings as these were appropriated.

Equity Ratio

Equity ratio decreased 0.3 points from the end of FY2018 to 81.9% at the end of the third quarter.

(3) Consolidated Forecast and Other Forward-Looking Information

In the final year of our Mid-Range Business Plan (2017-2019), the Funai Soken Consulting Group remains fully committed to achieving the targets we set for ourselves in our quest to strengthen our organization in each segment and area, and provide ever higher corporate value as a provider of comprehensive management consulting solutions.

We intend to help our clients improve their corporate value by providing more robust, customized support for the industries in which we have demonstrated ongoing strength, namely housing and real estate, as well as healthcare, nursing care and welfare—the principal sectors of our consulting business. We also aim to normalize and improve our support for strategic digitalization to help small and medium-sized enterprises improve productivity and resolve labor shortages.

In our logistics business, better performance in areas we have heretofore been unable to improve, such as new logistics consulting product development (a prominent example of this is our matching services focused on the kei category of subcompact vehicles) and online consulting services, contributed to enhanced results.

As the direct recruiting business in Japan continues to expand, it is vital that we increase net sales by acquiring new clients as soon as possible to make our services highly sustainable for those clients. Therefore, we intend to continue expanding our business through upfront investments, mainly in sales promotions and personnel costs related to our operating framework, and systems development.

In sum, we forecast consolidated net sales of 23,500 million yen, operating income of 5,400 million yen, ordinary income of 5,400 million yen, and net income attributable to owners of the parent company of 3,700 million yen for FY2019.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(Unit: Thousand yen)

	FY12/18 (As of Dec. 31, 2018)	FY12/19 3Q (As of Sep. 30, 2019)
Assets		
Current assets		
Cash and deposits	11,022,585	11,635,512
Trade notes and accounts receivable	2,393,699	2,574,622
Short-term investment securities	301,784	601,734
Work in process	113,784	177,083
Raw materials and supplies	7,053	6,245
Other current assets	786,604	995,733
Allowance for doubtful accounts	(35,443)	(36,151)
Total current assets	14,590,069	15,954,780
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures, net	1,270,842	1,316,863
Land	4,602,643	4,602,643
Lease assets, net	30,944	21,084
Other property, plant, and equipment, net	119,570	192,037
Total property, plant, and equipment	6,024,001	6,132,629
Intangible assets		
Leasehold rights	322,400	322,400
Software	280,596	266,948
Other intangible assets	191,732	166,746
Total intangible assets	794,730	756,095
Investments and other assets		
Investment securities	4,451,647	4,042,144
Assets related to retirement benefits	480,131	515,202
Other investments and other assets	400,624	601,581
Allowance for doubtful accounts	(8,408)	(7,044)
Total investments and other assets	5,323,993	5,151,883
Total noncurrent assets	12,142,725	12,040,608
Total assets	26,732,794	27,995,388

(Unit: Thousand yen)

	FY12/18 (As of Dec. 31, 2018)	FY12/19 3Q (As of Sep. 30, 2019)
Liabilities		
Current liabilities		
Trade notes and accounts payable	331,448	304,364
Current portion of bonds	-	500,000
Current portion of long-term loans payable	100,000	-
Lease obligations	13,691	10,445
Income taxes payable	1,033,185	793,837
Provision for bonuses	-	812,132
Other current liabilities	2,196,932	1,818,329
Total current liabilities	3,675,257	4,239,108
Noncurrent liabilities		
Bonds payable	500,000	-
Long-term loans payable	-	100,000
Retirement benefit liabilities	54,660	61,279
Lease obligations	19,695	12,317
Deferred tax liabilities	70,716	82,179
Other noncurrent liabilities	41,635	41,635
Total noncurrent liabilities	686,707	297,411
Total liabilities	4,361,964	4,536,520
Net assets		
Shareholders' equity		
Capital stock	3,125,231	3,125,231
Capital surplus	2,946,634	2,947,675
Retained earnings	17,729,542	18,592,896
Treasury stock	(1,861,703)	(1,840,404)
Total shareholders’ equity	21,939,705	22,825,399
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	121,786	177,352
Foreign currency translation adjustments	16,284	15,293
Accumulated adjustments for retirement benefits	(109,225)	(86,827)
Total accumulated other comprehensive income	28,845	105,818
Subscription rights for shares	402,278	527,651
Total net assets	22,370,829	23,458,868
Total liabilities and net assets	26,732,794	27,995,388

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statement of Income
First Three Quarters

(Unit: Thousand yen)

	First Three Quarters of FY12/18 (Jan. 1 – Sep 30, 2018)	First Three Quarters of FY12/19 (Jan. 1 – Sep 30, 2019)
Net sales	15,550,360	18,607,219
Cost of sales	10,099,497	12,244,469
Gross profit	5,450,863	6,362,749
SG&A expenses	2,000,786	2,253,208
Operating income	3,450,077	4,109,540
Non-operating income		
Interest income	6,949	7,711
Dividend income	9,574	5,964
Gain on sales of investment securities	25,934	23,468
Gain on valuation of investment securities	807	1,865
Refunded consumption taxes	16,510	23,241
Other non-operating income	13,110	11,420
Total non-operating income	72,886	73,672
Non-operating expenses		
Interest expenses	4,101	3,924
Investment partnership management expenses	4,579	3,847
Contributions	-	42,000
Other non-operating expenses	8,609	5,455
Total non-operating expenses	17,290	55,228
Ordinary income	3,505,674	4,127,985
Extraordinary income		
Gain on reversal of subscription rights for shares	865	-
Gain on sales of noncurrent assets	-	624
Gain on sales of investment securities	319,938	647
Total extraordinary income	320,804	1,272
Extraordinary losses		
Loss on retirement of noncurrent assets	3,135	464
Loss on sales of investment securities	-	6,807
Dispute settlement costs	8,643	-
Total extraordinary losses	11,778	7,271
Net income before income taxes and other adjustments	3,814,699	4,121,986
Current income taxes	1,485,273	1,603,598
Deferred income taxes	(208,926)	(211,824)
Total income taxes	1,276,347	1,391,774
Net income	2,538,352	2,730,211
Net income attributable to owners of the parent company	2,538,352	2,730,211

Consolidated Statement of Comprehensive Income

First Three Quarters

(Unit: Thousand yen)

	First Three Quarters of FY12/18 (Jan. 1 – Sep 30, 2018)	First Three Quarters of FY12/19 (Jan. 1 – Sep 30, 2019)
Net income	2,538,352	2,730,211
Other comprehensive income		
Valuation difference on available-for-sale securities	(127,840)	55,565
Foreign currency translation adjustments	(1,694)	(991)
Adjustments for retirement benefits	22,340	22,398
Total other comprehensive income	(107,194)	76,972
Comprehensive income	2,431,157	2,807,183
Details		
Comprehensive income attributable to owners of the parent company	2,431,157	2,807,183

(3) Notes on Consolidated Financial Statements

Notes on Going Concern Assumptions

None to report.

Notes on Significant Changes to Shareholders' Equity

None to report.

Additional Information

Adoption of Partial Amendments to Accounting Standard for Tax Effect Accounting

Starting from the first quarter of FY2019, the Funai Soken Consulting Group has adopted the Accounting Standards Board of Japan's Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28; February 16, 2018). Accordingly, deferred tax assets are listed under other investments and other assets, and deferred tax liabilities are listed under noncurrent liabilities.

Segment Information

I. First Three Quarters of FY12/18 (Jan. 1 – Sep. 30, 2018)
Information About Net Sales, Income, and Losses for Each Segment

(Unit: Thousand yen)

	Consulting	Logistics	Direct Recruiting	Others(1)	Total	Adjustment(2)	Amount listed in consolidated statement of income(3)
Net sales							
Sales to external customers	12,314,030	1,760,137	884,061	574,384	15,532,613	17,747	15,550,360
Inter-segment sales and transfers	144,258	184,846	12,173	5,089	346,369	(346,369)	-
Total	12,458,289	1,944,984	896,235	579,474	15,878,982	(328,622)	15,550,360
Segment income	3,234,570	187,511	(34,999)	32,311	3,419,394	30,683	3,450,077

Notes

1. The “others” category includes income from IT consulting, contact center consulting, and systems development.
2. Adjustments of segment income/losses include elimination of inter-segment transactions and whole-group revenues and expenses that are not attributable to any segment. Whole-group income is comprised of outsourcing fees, consulting fees, and rental income from group companies, and whole-group expenses are comprised of those incurred in the operations of the group’s holding company not attributable to any segment.
3. Income/losses are adjusted against operating income in the consolidated statement of income.

II. First Three Quarters of FY12/19 (Jan. 1 – Sep. 30, 2019)
1. Information About Net Sales, Income, and Losses for Each Segment

(Unit: Thousand yen)

	Consulting	Logistics	Direct Recruiting	Others(1)	Total	Adjustment(2)	Amount listed in consolidated statement of income(3)
Net sales							
Sales to external customers	14,236,465	1,768,424	1,749,946	834,635	18,589,472	17,747	18,607,219
Inter-segment sales and transfers	144,608	385,522	10,829	19,653	560,613	(560,613)	-
Total	14,381,074	2,153,947	1,760,775	854,288	19,150,085	(542,866)	18,607,219
Segment income	4,015,450	236,488	(181,816)	25,820	4,095,942	13,598	4,109,540

Notes

1. The “others” category includes income from IT consulting, contact center consulting, and systems development.
2. Adjustments of segment income/losses include elimination of inter-segment transactions and whole-group revenues and expenses that are not attributable to any segment. Whole-group income is comprised of outsourcing fees, consulting fees, and rental income from group companies, and whole-group expenses are comprised of those incurred in the operations of the group’s holding company not attributable to any segment.
3. Income/losses are adjusted against operating income in the consolidated statement of income.

2. Changes in Report Segments
Changes in Segmenting Method

In the third quarter of last year, we used an absorption-type company split to transfer logistics consulting from one subsidiary, Funai Consulting Inc., to another, Funai Soken Logistics, Inc.; now, logistics consulting, which was formerly part of our management consulting, is included in the logistics business segment.

Starting in the second quarter, we have changed our method of reporting segments due to the increased financial importance of our Direct Recruiting business, which was previously included in the Other Businesses segment.

Furthermore, segment information for the nine months ending Sep. 30, 2018 has been restated using the new segments for reference purposes.

Subsequent Events

Acquisition of Treasury Shares and Purchase of Treasury Shares by Tender

On November 5, 2019, the Funai Soken Holdings Board of Directors voted, in accordance with Article 156 Paragraph 1 of the Companies Act as read in accordance with Article 165 Paragraph 3 and in accordance with the Articles of Incorporation of the company, to acquire treasury stock, the specific method of such acquisition to be acquisition by tender.

For details, please refer to the Notice of Acquisition of Treasury Shares and Tender Offer for Treasury Shares issued on November 5, 2019.

3. Other Information

(1) Orders and Sales

I. Orders

Orders won by each operating segment in the first three quarters of the year are as follows.

Segment	Orders received (unit: 1,000 yen)	Change from same period last year (%)	Orders outstanding (unit: 1,000 yen)	Change from same period last year (%)
Consulting	10,342,929	+2.7	6,602,712	+5.3
Logistics	426,474	(26.5)	225,630	(4.4)
Other businesses	457,045	+2.6	141,064	+43.1

Notes

1. Consulting orders above include only consulting revenues; membership fees and seminar fees are excluded as they are recurring revenues.
2. Logistics revenues include only that earned from logistics consulting activities.
3. Logistics consulting, which was formerly part of our management consulting, was transferred to the logistics business segment in the third quarter of the preceding year; therefore, we retroactively adjusted the above figures for this comparison.
4. Direct recruiting entails no consulting revenues and is therefore not included in the above table.
5. Other income includes only that earned from IT and contact center consulting.
6. The above amounts are based on sale prices.
7. The above amounts do not include consumption tax.

II. Sales

Sales made by each operating segment in the first three quarters of the year are as follows.

Segment	Sales (unit: 1,000 yen)	Change from same period last year (%)
Consulting	14,236,465	+15.6
Logistics	1,768,424	+0.5
Direct Recruiting	1,749,946	+97.9
Other businesses	834,635	+45.3
Total	18,589,472	+19.7

Notes

1. Sales amounts indicate sales to external customers.
2. The above amounts do not include consumption tax.
3. No single customer accounted for 10% or more of aggregate net sales.