Non-Audited

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending Dec. 31, 2020 (January 1, 2020 – March 31, 2020)

May 20, 2020

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
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Scheduled date of payment of dividend: -
Scheduled date of filing quarterly report: May 21, 2020
Supplementary materials compiled to explain 1st-quarter financial statements? Yes / No
Briefing to be held to explain 1st-quarter financial results? Yes / No

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

1. 2020 1st Quarter Consolidated Financial Results (January 1, 2020 – March 31, 2020)

(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	
Three months ending	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2020	6,547	10.5	1,475	3.4	1,519	4.7	999	5.3
March 31, 2019	5,926	25.0	1,426	21.2	1,451	20.7	949	18.9

Notes: Comprehensive income: 946 million yen (down 4.2%) in the three months ending Mar. 31, 2020
988 million yen (up 15.6%) in the three months ending Mar. 31, 2019

	Earnings per share (basic)	Earnings per share (diluted)
Three months ending	Yen	Yen
March 31, 2020	20.09	19.87
March 31, 2019	18.82	18.65

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Mar. 31, 2020	26,948	23,024	83.0
As of Dec. 31, 2019	28,419	23,165	79.4

Reference: Shareholders' equity: 22,371 million yen as of Mar. 31, 2020
22,573 million yen as of Dec. 31, 2019

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Year ending Dec. 31, 2019	-	17.00	-	23.00	40.00
Year ending Dec. 31, 2020	-				
FY2020 forecast		20.00	-	25.00	45.00

Notes: 1. Amendments to dividend numbers compared to most recently announced forecasts? None
2. FY2019 dividend per share comprised an ordinary dividend of 20.00 yen and a commemorative bonus dividend of 3.00 yen. The bonus dividend was to commemorate the group's 50th anniversary.

3. Forecast Consolidated Financial Results for FY2020 (January 1, 2020 – December 31, 2020)

(Percentages represent year-on-year change, full-year figures represent change compared with previous year; first-half figures represent change compared with same period in previous fiscal year.)

	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
First half	12,000 to 12,400	Down 0.7 to 2.6	2,100 to 2,300	Down 20.0 to 26.9	2,100 to 2,300	Down 21.1 to 28.0	1,350 to 1,450	Down 24.4 to 29.6	27.12 to 29.13
Full year	-	-	-	-	-	-	-	-	-

Notes: Amendments to performance numbers compared to most recently announced forecasts? Yes

Please refer to our Notice Regarding Revision of Financial Result Forecast, released on May 20, 2020, for information relating to consolidated forecasts for the second quarter of the year ended December 2020. Also note that, because of the difficulty at this stage in calculating rationally the impact Covid-19 will have on performance over the course of FY2020, the forecasts published on February 5, 2020, are hereby temporarily restated as "to be determined." Funai Soken Holdings will publish its forecasts promptly at such time as it becomes possible to do so.

Remarks

(1) Changes in consolidated subsidiaries in this quarter: 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 1Q 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 three-month period (including treasury stock)	Mar. 31, 2020	53,000,000	Dec. 31, 2019	53,000,000
2) Number of treasury shares at end of three-month period	Mar. 31, 2020	3,222,611	Dec. 31, 2019	3,220,991
3) Average number of shares during three-month period (cumulative total)	Mar. 31, 2020	49,778,174	Mar. 31, 2019	50,438,802

Notes: 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 Three Months Ending Mar. 31, 2020

(1) Results of Operations

The first quarter was severe for the Japanese economy, as Covid-19 caused it and others around the world to deteriorate suddenly, financial markets to decline, and unemployment to rise. Lingering concerns about further worsening of the virus's spread means the outlook is opaque and there is no room for complacency.

We at the Funai Soken Consulting Group sought to make the best of the restricted circumstances by holding online seminars, web-based consulting, and telecommuting.

As a result, first quarter sales and income increased over the same quarter in the preceding year: net sales were 6,547 million yen (up 10.5%), operating income was 1,475 million yen (up 3.4%), ordinary income was 1,519 million yen (up 4.7%), and net income attributable to owners of the parent company was 999 million yen (up 5.3%).

I. Net sales: 6,547 million yen (up 10.5% over the same period of the preceding year)

Sales of online advertisement agency services (part of our consulting business) grew, as did sales in our direct recruiting business.

Consequently, net sales rose 10.5% over the same period of the previous year to 6,547 million yen.

II. Operating income: 1,475 million yen (up 3.4% over the same period of the preceding year)

Cost of sales increased to 4,246 million yen from 3,761 million yen in the same period of the preceding year, and SG&A expenses rose to 825 million yen from 738 million yen. This inflated operating expenses, but the aforementioned increase in net sales pushed operating income up over the preceding year.

Consequently, operating income rose 3.4% over the same period of the previous year to 1,475 million yen.

III. Ordinary income: 1,519 million yen (up 4.7% over the same period of the preceding year)

Non-operating income was 50 million yen, compared with 29 million yen in same period of the preceding year, due to factors such as gains on sales of investment securities acquired by investing surplus funds, while non-operating expenses were 6 million yen, compared with 5 million yen in same period of the preceding year.

Consequently, ordinary income rose 4.7% over the same period of the previous year to 1,519 million yen.

IV. Net income attributable to owners of the parent company: 999 million yen (up 5.3% over the same period of the preceding year)

Income taxes totaled 517 million yen, compared with 501 million yen in the same period of the preceding year, and net income attributable to owners of the parent was 999 million yen, up 5.3% over the same period in the preceding year.

Segment-Specific Performance

The performance of each business segment is outlined below. Starting in the second quarter of FY2019, 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

Net sales tracked at a solid pace, buoyed by robust sales of consulting services to help clients improve performance in our core segment, the housing and real estate industry. Sales of online advertisement agency services also grew. However, Covid-19 had a significant impact: sales at Funai Consulting Shanghai dropped sharply amid restrictions on its ability to operate, and in Japan, the cancellation of in-person seminars and study tours of model businesses caused a drop-off of new orders.

Consequently, net sales rose 6.1% over the same period of the preceding year to 4,764 million yen, but operating income decreased 1.6% from the same period of the preceding year to 1,368 million yen.

II. Logistics

Deeper mining of existing clients and higher retail prices resulted in increased sales for our logistics operations compared to the same period in the preceding year. In addition to increased orders for logistics consulting, substantial orders from new clients also contributed to a large increase in sales. Moreover, given the relatively profitable nature of logistics consulting, the increase in sales of those services naturally led to growth in operating income.

Consequently, net sales rose 11.9% over the same period of the preceding year to 663 million yen, and operating income rose 16.4% over the same period of the preceding year to 120 million yen.

III. Direct Recruiting

Net sales were up only approximately 50 percent over the same period in the preceding year as Covid-19 caused the cancellation of seminars, which resulted in a decrease in new clients and in clients publishing help-wanted ads. The direct recruiting business ran a cumulative operating loss in this first quarter 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, but the size of that loss was smaller than in the same period last year.

Consequently, net sales rose 57.3% over the same period of the preceding year to 800 million yen, but operating income decreased 85.1% from the same period of the preceding year and ended on a net loss of 15 million yen.

IV. Other Businesses

Sales and operating income were both down as Covid-19 resulted in restrictions on operations and delayed work.

Consequently, net sales decreased 5.0% from the same period of the preceding year to 312 million yen, and operating income decreased 98.6% from the same period of the preceding year to 0 million yen.

(2) Financial Position

Assets

Total assets decreased 1,470 million yen from the end of FY2019 to 26,948 million yen at the end of the first quarter.

Current assets decreased 1,598 million yen from the end of FY2019 to 15,096 million yen. This was mainly due to a decrease in cash, deposits, and short-term investment securities.

Noncurrent assets increased 128 million yen from the end of FY2019 to 11,852 million yen. This was mainly due to an increase in investment securities.

Liabilities

Total liabilities decreased 1,329 million yen from the end of FY2019 to 3,924 million yen at the end of the first quarter.

Current liabilities decreased 1,298 million yen from the end of FY2019 to 3,632 million yen. This was mainly due to a decrease in current portion of bonds and income taxes payable.

Noncurrent liabilities decreased 30 million yen from the end of FY2019 to 291 million yen. This was mainly due to a decrease in deferred tax liabilities.

Net Assets

Total net assets decreased 140 million yen from the end of FY2019 to 23,024 million yen at the end of the first quarter.

Equity Ratio

Equity ratio increased 3.6 points from the end of FY2019 to 83.0% at the end of the first quarter.

(3) Consolidated Forecast and Other Forward-Looking Information

In light of the spread of Covid-19 and the government's declaration of a state of emergency, a long period of stagnation is forecast for the Japanese economy with massive impact on the Funai Soken Consulting Group's main source of clients: SMEs. The limitations placed on our business since concerns about the virus manifested in Japan in February—e.g., suspension of activities such as study tours, in which participants travel together by bus to model businesses; cancellation or switch to online provision of in-person seminars and management workshops for proprietors; and switch of visits by consultants to clients' premises to remote consulting sessions—caused a stagnation in growth of orders. Given the breadth of variety of our SME clients and the pervasiveness of Covid-19's impact, it is extremely difficult to gauge the full effects and the Funai Soken Consulting Group is unable to make a rational full-year forecast for FY2020.

Conversely, our early uptake web-based operations and telecommuting as part of our digital shift has ensured that sales, hiring, and back-office operations remain robust.

For the time being, the forecasts included in our financial results published on February 5, 2020, have been removed—these are "to be determined" for now—and will be re-published promptly at such time as it becomes possible to do so.

As for the second quarter of 2020, in light of trends in sales and orders through April and based on the assumption that Covid-19 will not have subsided by June, forecasts have been amended. Forecasts for the second quarter are now: net sales between 12,000 million yen and 12,400 million yen; operating income between 2,100 million yen and 2,300 million yen; ordinary income between 2,100 million yen and 2,300 million yen; and net income attributable to owners of the parent company between 1,350 million yen and 1,450 million yen. For details, please refer to the Notice Regarding Revision of Financial Result Forecast released on May 20, 2020.

There are no amendments to dividend forecasts at present.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(Unit: Thousand yen)

	FY12/19 (As of Dec. 31, 2019)	First quarter of FY12/20 (As of Mar. 31, 2020)
Assets		
Current assets		
Cash and deposits	11,630,554	10,506,274
Trade notes and accounts receivable	2,870,051	2,765,978
Short-term investment securities	1,001,132	800,293
Work in process	155,685	163,705
Raw materials and supplies	5,759	6,879
Other current assets	1,071,147	897,521
Allowance for doubtful accounts	(39,543)	(44,475)
Total current assets	16,694,787	15,096,177
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures, net	1,311,009	1,291,886
Land	4,602,643	4,602,643
Other property, plant, and equipment, net	196,280	192,847
Total property, plant, and equipment	6,109,933	6,087,377
Intangible assets		
Leasehold rights	322,400	322,400
Software	274,379	271,232
Other intangible assets	177,210	160,980
Total intangible assets	773,990	754,613
Investments and other assets		
Investment securities	3,907,279	4,033,627
Assets related to retirement benefits	473,196	484,643
Other investments and other assets	468,046	500,495
Allowance for doubtful accounts	(8,006)	(8,079)
Total investments and other assets	4,840,516	5,010,686
Total noncurrent assets	11,724,440	11,852,677
Total assets	28,419,227	26,948,855

(Unit: Thousand yen)

	FY12/19 (As of Dec. 31, 2019)	First quarter of FY12/20 (As of Mar. 31, 2020)
Liabilities		
Current liabilities		
Trade notes and accounts payable	347,821	337,634
Current portion of bonds	500,000	-
Short-term loans payable	-	200,000
Income taxes payable	1,159,020	559,111
Provision for bonuses	-	336,550
Other current liabilities	2,925,055	2,199,625
Total current liabilities	4,931,897	3,632,921
Noncurrent liabilities		
Long-term loans payable	100,000	100,000
Retirement benefit liabilities	60,876	61,598
Deferred tax liabilities	109,949	80,700
Other noncurrent liabilities	51,377	49,101
Total noncurrent liabilities	322,203	291,401
Total liabilities	5,254,101	3,924,322
Net assets		
Shareholders' equity		
Capital stock	3,125,231	3,125,231
Capital surplus	2,947,675	2,947,675
Retained earnings	19,731,165	19,586,200
Treasury stock	(3,342,957)	(3,347,518)
Total shareholders' equity	22,461,115	22,311,588
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	211,575	152,452
Foreign currency translation adjustments	16,146	16,305
Accumulated adjustments for retirement benefits	(114,954)	(109,084)
Total accumulated other comprehensive income	112,766	59,673
Subscription rights for shares	591,243	653,270
Total net assets	23,165,126	23,024,532
Total liabilities and net assets	28,419,227	26,948,855

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

First Quarter

(Unit: Thousand yen)

	First Quarter of FY12/19 (Jan. 1 – Mar. 31, 2019)	First Quarter of FY12/20 (Jan. 1 – Mar. 31, 2020)
Net sales	5,926,314	6,547,002
Cost of sales	3,761,703	4,246,194
Gross profit	2,164,610	2,300,808
SG&A expenses	738,197	825,744
Operating income	1,426,413	1,475,064
Non-operating income		
Interest income	2,236	3,934
Dividend income	1,049	998
Gain on sales of investment securities	18,891	36,305
Gain on valuation of investment securities	1,464	2,893
Other non-operating income	6,245	6,858
Total non-operating income	29,887	50,989
Non-operating expenses		
Interest expenses	1,282	1,290
Loss on valuation of investment securities	1,914	887
Foreign exchange losses	-	2,325
Investment partnership management expenses	2,047	1,824
Other non-operating expenses	7	334
Total non-operating expenses	5,252	6,662
Ordinary income	1,451,048	1,519,391
Extraordinary income		
Gain on sales of investment securities	10	18
Total extraordinary income	10	18
Extraordinary losses		
Loss on retirement of noncurrent assets	190	2,059
Total extraordinary losses	190	2,059
Net income before income taxes and other adjustments	1,450,868	1,517,351
Current income taxes	568,077	541,697
Deferred income taxes	(66,675)	(24,297)
Total income taxes	501,402	517,399
Net income	949,466	999,951
Net income attributable to owners of the parent	949,466	999,951

Consolidated Statement of Comprehensive Income

First Quarter

(Unit: Thousand yen)

	First Quarter of FY12/19 (Jan. 1 – Mar. 31, 2019)	First Quarter of FY12/20 (Jan. 1 – Mar. 31, 2020)
Net income	949,466	999,951
Other comprehensive income		
Valuation difference on available-for-sale securities	31,317	(59,122)
Foreign currency translation adjustments	(163)	159
Adjustments for retirement benefits	7,458	5,870
Total other comprehensive income	38,612	(53,093)
Comprehensive income	988,078	946,858
Details		
Comprehensive income attributable to owners of the parent	988,078	946,858

(3) Notes on Consolidated Financial Statements

Notes on Going Concern Assumptions

None to report.

Notes on Significant Changes to Shareholders' Equity

None to report.

Segment Information

I. First Quarter of FY12/19 (Jan. 1 – Mar. 31, 2019)

Information About Net Sales, Income, and Losses for Each Segment

(Unit: Thousand yen)

	Consulting	Logistics	Direct recruiting	Others(1)	Total	Adjustment(2)	Amt. listed in consolidated financial statements(3)
Net sales							
Sales to external customers	4,489,959	592,846	508,468	329,379	5,920,653	5,660	5,926,314
Inter-segment sales and transfers	49,650	163,639	4,079	1,861	219,230	(219,230)	-
Total	4,539,609	756,485	512,547	331,240	6,139,883	(213,569)	5,926,314
Segment income	1,390,725	103,402	(102,194)	42,418	1,434,351	(7,938)	1,426,413

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 Quarter of FY12/20 (Jan. 1 – Mar. 31, 2020)

1. Information About Net Sales, Income, and Losses for Each Segment

(Unit: Thousand yen)

	Consulting	Logistics	Direct recruiting	Others(1)	Total	Adjustment(2)	Amt. listed in consolidated financial statements(3)
Net sales							
Sales to external customers	4,764,877	663,218	800,071	312,920	6,541,087	5,915	6,547,002
Inter-segment sales and transfers	37,800	86,633	1,280	542	126,255	(126,255)	-
Total	4,802,678	749,851	801,351	313,462	6,667,343	(120,340)	6,547,002
Segment income	1,368,183	120,349	(15,196)	600	1,473,936	1,128	1,475,064

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

Starting in the second quarter of FY2019, 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. Segment information for FY2019 1Q is provided herein using the post-change segments retroactively. However, because of that retroactive application of post-change segments, there are slight discrepancies between the FY2019 1Q figures in this document and the same figures published last year.

Subsequent Events

Allotment of Stock Options as Compensation to Directors and Executive Officers

A motion was passed at a meeting of the Board of Directors on April 17, 2020, approving the requirements for offering subscription rights for shares to be issued as stock options to our directors (excluding members of the audit and supervisory committee, and independent directors) and executive officers, and the directors and executive officers of our subsidiaries, and determining to call for subscriptions. Accordingly, the subscription rights were issued on May 7, 2020.

Number of subscription rights for shares	287[(1)]
Class of shares	Common shares
Number of shares	51,660[(2)]
Payment amount upon exercise of subscription rights for shares	1 yen per share
Exercise period	May 8, 2020 – May 7, 2050
Issue price and amount to be incorporated into the stated capital when shares are issued by exercising subscription rights	Issue price: 1,752 yen[(3)] Amount to be incorporated into the stated capital: 876 yen
Conditions for exercising subscription rights for shares	See 4 below.
Matters regarding the transfer of subscription rights for shares	Acquisition of subscription rights for shares via transfer must be approved through resolution of the Board of Directors.

Notes

1. The number of shares granted for each subscription right for shares (“the Number of Shares Granted”) shall be 180.
2. After May 7, 2020 (“the Allocation Date”), when we split (including allotment of shares without contribution; this shall continue to apply when referring to share split) or merge our common shares, we will use the following formula to adjust the Number of Shares Granted, and discard any fractions of yen thereof.

   Adjusted Number of Shares Granted = Number of Shares Granted × Ratio of share split/merge

   Also, when mergers or company splits or other circumstances after the Allocation Date necessitate the adjustment of the Number of Shares Granted, we may adjust the Number of Shares Granted as appropriate and to a reasonable extent.
3. The issue price is calculated as the paid-in amount of 1 yen upon exercising subscription rights plus the fair unit value valid on the date the stock options were awarded, 1,751 yen.
4. (1) Within the exercise period, holders of subscription rights for shares may exercise those rights on or after the day following the date on which they forfeit their position as director, auditor, or executive officer at our company or our subsidiaries that they held on the Allocation Date (hereinafter, the date following the date of forfeiture is referred to as “the First Date of Exercise”).

   (2) Notwithstanding the provisions of (1), within the exercise period, holders of subscription rights for shares may exercise those rights under the conditions and within the respective periods set out in (i) and (ii) below (however, (ii) excludes cases of organizational restructuring where merger agreements, share swap agreements, or share transfer plans stipulate the granting of subscription rights for shares in companies subject to reorganization to holders of such subscription rights in accordance with a policy regarding the issuance of such subscription rights).

   (i) When a holder of subscription rights for shares has not reached their First Date of Exercise by May 7, 2049: May 8, 2049 – May 7, 2050

   (ii) When a motion is passed at a shareholders meeting (or, if shareholder resolution is not required, by Board of Directors resolution) approving:

   - A merger agreement in which Funai Soken Holdings is to be extinguished, or
   - A share swap agreement or share transfer plan in which Funai Soken Holdings becomes a wholly owned subsidiary:

   A 15-day period starting on the date following the approval date

(3) (1) and (2) (i) do not apply to people who inherit subscription rights for shares.

(4) Holders of subscription rights for shares who waive those rights may not exercise them.

3. Other Information

(1) Orders and Sales

I. Orders

Orders won by each operating segment in the first quarter 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	3,481,801	(6.0)	6,726,351	(2.3)
Logistics	133,267	2.4	278,450	74.9
Other businesses	79,441	(53.5)	104,380	45.2

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. Direct recruiting entails no consulting revenues and is therefore not included in the above table.
4. Other income includes only that earned from IT and contact center consulting.
5. The above amounts are based on sale prices.
6. The above amounts do not include consumption tax.

II. Sales

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

Segment	Sales (unit: 1,000 yen)	Change from same period last year (%)
Consulting	4,764,877	6.1
Logistics	663,218	11.9
Direct recruiting	800,071	57.3
Other businesses	312,920	(5.0)
Total	6,541,087	10.5

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.