Non-Audited

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending Dec. 31, 2020 (January 1, 2020 – September 30, 2020)

October 30, 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	
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 11, 2020
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. 2020 3rd Quarter Consolidated Financial Results (January 1, 2020 – September 30, 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	
Nine months ending	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Sep. 30, 2020	18,411	(1.1)	3,632	(11.6)	3,695	(10.5)	2,450	(10.3)
Sep. 30, 2019	18,607	19.7	4,109	19.1	4,127	17.8	2,730	7.6

Notes: Comprehensive income: 2,433 million yen (down 13.3%) in the nine months ending Sep. 30, 2020
2,807 million yen (up 15.5%) in the nine months ending Sep. 30, 2019

	Earnings per share (basic)	Earnings per share (diluted)
Nine months ending	Yen	Yen
Sep. 30, 2020	49.22	48.67
Sep. 30, 2019	54.10	53.57

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2020	27,593	23,554	82.9
As of Dec. 31, 2019	28,419	23,165	79.4

Reference: Shareholders' equity: 22,866 million yen as of Sep. 30, 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	-	20.00	-		
FY2020 forecast				25.00	45.00

Notes: * Amendments to dividend numbers compared to most recently announced figures? None
* FY2019 dividend per share comprised an ordinary dividend of 20.00 yen and an anniversary 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)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	25,100	(2.5)	4,900	(14.1)	5,000	(13.1)	3,400	(12.1)	68.30

Notes: Amendments to performance numbers compared to most recently announced forecasts? Yes
Please refer to our Notice Regarding the Amendment of Forecasts, released on October 30, 2020, for information relating to consolidated forecasts for the year ended December 2020.

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 (including treasury stock)	Sep. 30, 2020	53,000,000	Dec. 31, 2019	53,000,000
2) Number of treasury shares at end of nine-month period	Sep. 30, 2020	3,220,748	Dec. 31, 2019	3,220,991
3) Average number of shares during nine-month period (cumulative total)	Sep. 30, 2020	49,779,240	Sep. 30, 2019	50,464,301

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 Nine Months Ending Sep. 30, 2020

(1) Results of Operations

The third quarter was severe for the Japanese economy, as Covid-19 caused it to deteriorate suddenly, corporate revenues to decline, and unemployment to rise. Lingering concerns about the virus's spread mean the outlook is opaque; close attention must be paid to the impact in Japan and internationally, 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, net sales were 18,411 million yen in the first nine months of the year (down 1.1% from the same period of the preceding year), operating income was 3,632 million yen (down 11.6%), ordinary income was 3,695 million yen (down 10.5%), and net income attributable to owners of the parent was 2,450 million yen (down 10.3%).

I. Net sales: 18,411 million yen (down 1.1% from the same period of the preceding year)

Cumulative sales for the year so far (January through September) were down. Consulting sales began to pick up as orders recovered somewhat in the third quarter (July through September), but not enough to soak up the decreases in orders and revenue in the second quarter (April through June) caused by Covid-19.

Consequently, net sales decreased 1.1% from the same period of the previous year to 18,411 million yen.

II. Operating income: 3,632 million yen (down 11.6% from the same period of the preceding year)

Cost of sales was 12,441 million yen, compared with 12,244 million yen in the same period of the preceding year, and SG&A expenses were 2,338 million yen, compared with 2,253 million yen. The lower proportion of high-profit consulting sales among total sales pushed operating income downward.

Consequently, operating income decreased 11.6% from the same period of the preceding year to 3,632 million yen.

III. Ordinary income: 3,695 million yen (down 10.5% from the same period of the preceding year)

Non-operating income was 96 million yen, compared with 73 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 32 million yen, compared with 55 million yen, as a result of contributions made.

Consequently, ordinary income decreased 10.5% from the same period of the previous year to 3,695 million yen.

IV. Net income attributable to owners of the parent: 2,450 million yen (down 10.3% from the same period of the preceding year)

Income taxes totaled 1,240 million yen, compared with 1,391 million yen in the same period of the preceding year, and net income attributable to owners of the parent was 2,450 million yen, down 10.3% from the same period in the preceding year.

Segment-Specific Performance

The performance of each business segment is outlined below.

I. Consulting

Consulting sales were higher than the same period in the preceding year in our core segment, the housing and real estate industry. Operations in other industries were badly impacted by Covid-19, except for increases in online marketing and digital solution consulting. In terms of individual solution categories, monthly support services, which make up at least 60 percent of our operations, suffered a large decrease in new orders and sales in the second quarter as seminars and management workshops were suspended or moved online, but trended toward recovery in the third quarter. Similarly, we achieved solid growth in accounts for online advertisement agency services.

Profit ratio decreased slightly, as significant cost savings in travel expenses (realized through restrictions on commuting and business trips) and seminar venue hire costs were exceeded by increases in fixed costs as a result of workforce growth and a lower proportion of high-profit consulting sales among total sales.

In sum, business appears to have bottomed out in the second quarter and begun an upward trend in the third quarter, but that uptick has not yet been enough to cover the second-quarter lag. Therefore, sales and income were down from the same period in the preceding year.

Consequently, net sales decreased 2.5% from the same period of the preceding year to 13,882 million yen, and operating income decreased 11.1% from the same period of the preceding year to 3,570 million yen.

II. Logistics

Deeper mining of existing clients and spot orders resulted in increased sales for our logistics operations compared to the same period in the preceding year. Although growth in new orders for logistics consulting services slowed, we still managed to increase revenues in this area. Logistics trading sales, however, were down from the same period in the preceding year due to a downturn in the movement among businesses and individuals led to a decline in fuel sales and a drop-off in the unit price of fuel. Profit ratio declined due to a lower proportion of high-profit logistics consulting sales among total sales, and an increase in personnel costs due to an increase in workforce numbers ensured profits were down in this period.

Consequently, net sales rose 10.6% over the same period of the preceding year to 1,955 million yen, and operating income decreased 6.9% from the same period of the preceding year to 220 million yen.

III. Direct Recruiting

Direct recruiting sales were up over the same period in the preceding year due to an increase in base contracts despite the cancellation of seminars caused by Covid-19, which resulted in a decrease in new clients and in clients publishing help-wanted ads. In addition, we launched a new staffing business in the third quarter. The direct recruiting business ran a cumulative operating loss in this quarter due to upfront investments, 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 of the preceding year.

Consequently, net sales rose 5.8% over the same period of the preceding year to 1,850 million yen, and operating income ended on a net loss of 92 million yen, compared with a net operating loss of 181 million yen in the same period of the preceding year.

IV. Other Businesses

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

Consequently, sales decreased 15.4% from the same period of the preceding year to 706 million yen, and operating income ended on a net loss of 95 million yen, compared with operating income of 25 million yen in the same period of the preceding year.

(2) Financial Position

Assets

Total assets decreased 825 million yen from the end of FY2019 to 27,593 million yen at the end of the third quarter.

Current assets decreased 1,057 million yen from the end of FY2019 to 15,637 million yen. This was mainly due to decreases in cash, deposits, trade notes, accounts receivable, and securities.

Noncurrent assets increased 231 million yen from the end of FY2019 to 11,955 million yen. This was mainly due to an increase in investment securities.

Liabilities

Total liabilities decreased 1,214 million yen from the end of FY2019 to 4,039 million yen at the end of the third quarter.

Current liabilities decreased 1,178 million yen from the end of FY2019 to 3,753 million yen. This was mainly due to a decrease in current portion of bonds and income taxes payable.

Noncurrent liabilities decreased 36 million yen from the end of FY2019 to 286 million yen. This was mainly due to a decrease in deferred tax liabilities.

Net Assets

Total net assets increased 389 million yen from the end of FY2019 to 23,554 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 and a decrease in retained earnings as these were appropriated.

Equity Ratio

Equity ratio increased 3.5 points from the end of FY2019 to 82.9% at the end of the third quarter.

(3) Consolidated Forecast and Other Forward-Looking Information

The Japanese economy continues to face stern challenges caused by Covid-19, and the ongoing effects, which are predicted to linger stubbornly over the long term, are certain to have some impact on the SMEs who make up the bulk of Funai Soken Consulting Group's clientele. The group has had to adapt. Our traditional in-person events such as seminars for business proprietors have been moved online, and consulting services are now provided remotely via web conferencing rather than by consultants visiting clients' premises. In addition, we have invested our efforts into acquiring new clients by offering SMEs digital shift consulting solutions amid the Covid-19 difficulties. Moreover, our early uptake web-based operations and telecommuting as part of our digital shift has ensured that hiring and back-office operations remain robust.

In the second-quarter earnings forecast released on August 20, 2020, the group's earnings forecast for the year was stated as a range rather than specific figures because consulting and sales activities had been curtailed as a result of Covid-19 and it was impossible to foresee when the coronavirus's impact on SMEs—the Funai Soken Consulting Group's main clientele—would subside. Despite the ongoing difficulty of calculating earnings forecasts, Funai Soken Holdings has decided to release its forecast as shown below based on currently available data and predictions. For details, please refer to the Notice Regarding Revision of Finaicial Result Forecasts released on October 30, 2020.

In sum, the revised forecast is: consolidated net sales of 25,100 million yen, operating income of 4,900 million yen, ordinary income of 5,000 million yen, and net income attributable to owners of the parent of 3,400 million yen for FY2020.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(Thousand yen)

	FY12/19 (As of Dec. 31, 2019)	FY12/20 3Q (As of Sep. 30, 2020)
Assets		
Current assets		
Cash and deposits	11,630,554	11,517,886
Trade notes and accounts receivable	2,870,051	2,405,804
Short-term investment securities	1,001,132	704,874
Work in process	155,685	181,072
Raw materials and supplies	5,759	9,122
Other current assets	1,071,147	867,264
Allowance for doubtful accounts	(39,543)	(48,243)
Total current assets	16,694,787	15,637,782
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures, net	1,311,009	1,253,057
Land	4,602,643	4,602,643
Other property, plant, and equipment, net	196,280	167,494
Total property, plant, and equipment	6,109,933	6,023,196
Intangible assets		
Leasehold rights	322,400	322,400
Software	274,379	290,048
Other intangible assets	177,210	145,364
Total intangible assets	773,990	757,813
Investments and other assets		
Investment securities	3,907,279	4,039,264
Assets related to retirement benefits	473,196	505,248
Other investments and other assets	468,046	640,460
Allowance for doubtful accounts	(8,006)	(10,307)
Total investments and other assets	4,840,516	5,174,665
Total noncurrent assets	11,724,440	11,955,675
Total assets	28,419,227	27,593,457

(Thousand yen)

	FY12/19 (As of Dec. 31, 2019)	FY12/20 3Q (As of Sep. 30, 2020)
Liabilities		
Current liabilities		
Trade notes and accounts payable	347,821	322,232
Current portion of bonds	500,000	-
Short-term loans payable	-	200,000
Income taxes payable	1,159,020	561,981
Provision for bonuses	-	755,579
Other current liabilities	2,925,055	1,913,346
Total current liabilities	4,931,897	3,753,140
Noncurrent liabilities		
Long-term loans payable	100,000	100,000
Retirement benefit liabilities	60,876	65,505
Deferred tax liabilities	109,949	76,124
Other noncurrent liabilities	51,377	44,549
Total noncurrent liabilities	322,203	286,179
Total liabilities	5,254,101	4,039,320
Net assets		
Shareholders' equity		
Capital stock	3,125,231	3,125,231
Capital surplus	2,947,675	2,951,428
Retained earnings	19,731,165	20,040,848
Treasury stock	(3,342,957)	(3,347,015)
Total shareholders' equity	22,461,115	22,770,492
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	211,575	177,038
Foreign currency translation adjustments	16,146	16,162
Accumulated adjustments for retirement benefits	(114,954)	(97,343)
Total accumulated other comprehensive income	112,766	95,857
Subscription rights for shares	591,243	687,786
Total net assets	23,165,126	23,554,137
Total liabilities and net assets	28,419,227	27,593,457

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

First Three Quarters

(Thousand yen)

	First Three Quarters of FY12/19 (Jan. 1 – Sep 30, 2019)	First Three Quarters of FY12/20 (Jan. 1 – Sep 30, 2020)
Net sales	18,607,219	18,411,667
Cost of sales	12,244,469	12,441,262
Gross profit	6,362,749	5,970,405
SG&A expenses	2,253,208	2,338,317
Operating income	4,109,540	3,632,087
Non-operating income		
Interest income	7,711	13,415
Dividend income	5,964	5,617
Gain on sales of investment securities	23,468	55,245
Gain on valuation of investment securities	1,865	3,122
Refunded consumption taxes	23,241	-
Other non-operating income	11,420	19,296
Total non-operating income	73,672	96,697
Non-operating expenses		
Interest expenses	3,924	3,503
Loss on valuation of investment securities	2,516	7,438
Foreign exchange losses	937	6,235
Investment partnership management expenses	3,847	3,272
Contributions	42,000	12,000
Other non-operating expenses	2,001	449
Total non-operating expenses	55,228	32,898
Ordinary income	4,127,985	3,695,886
Extraordinary income		
Gain on sales of noncurrent assets	624	-
Gain on sales of investment securities	647	46
Total extraordinary income	1,272	46
Extraordinary losses		
Loss on retirement of noncurrent assets	464	5,135
Loss on sales of investment securities	6,807	-
Total extraordinary losses	7,271	5,135
Net income before income taxes and other adjustments	4,121,986	3,690,796
Current income taxes	1,603,598	1,412,891
Deferred income taxes	(211,824)	(172,291)
Total income taxes	1,391,774	1,240,600
Net income	2,730,211	2,450,196
Net income attributable to owners of the parent	2,730,211	2,450,196

Consolidated Statement of Comprehensive Income

First Three Quarters

(Thousand yen)

	First Three Quarters of FY12/19 (Jan. 1 – Sep 30, 2019)	First Three Quarters of FY12/20 (Jan. 1 – Sep 30, 2020)
Net income	2,730,211	2,450,196
Other comprehensive income		
Valuation difference on available-for-sale securities	55,565	(34,536)
Foreign currency translation adjustments	(991)	16
Adjustments for retirement benefits	22,398	17,611
Total other comprehensive income	76,972	(16,908)
Comprehensive income	2,807,183	2,433,287
Details		
Comprehensive income attributable to owners of the parent	2,807,183	2,433,287

(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 Three Quarters of FY12/19 (Jan. 1 – Sep. 30, 2019)

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

(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.

II. First Three Quarters of FY12/20 (Jan. 1 – Sep. 30, 2020)

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

(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	13,882,100	1,955,084	1,850,630	706,105	18,393,920	17,747	18,411,667
Inter-segment sales and transfers	100,407	192,517	3,640	6,525	303,090	(303,090)	-
Total	13,982,507	2,147,601	1,854,270	712,630	18,697,010	(285,343)	18,411,667
Segment income	3,570,341	220,240	(92,073)	(95,257)	3,603,250	28,836	3,632,087

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.

Subsequent Events

Purchase and Retirement of Treasury Shares

On October 30, 2020, the Funai Soken Holdings Board of Directors voted to acquire treasury stock as follows in accordance with Article 156 of the Companies Act as read in accordance with Article 165 Paragraph 3, and to retire treasury stock in accordance with Article 178 of the Companies Act.

1. Reason for Purchase and Retirement of Treasury Shares

To keep abreast of changes in the business landscape, increase capital efficiency by maintaining a high per-share value, and implement a dynamic capital policy.

2. Details of Purchase of Treasury Shares

(1)	Class of shares to be acquired:	Common shares
(2)	No. of shares to be acquired:	Max. 420,000
		NB: 0.84% of total outstanding shares (excl. treasury shares)
(3)	Total amount to be spent on acquiring shares:	Max. 1,000 million yen
(4)	Acquisition period:	Nov. 2, 2020 through March 31, 2021
(5)	Method of acquisition:	Purchase on the Tokyo Stock Exchange

3. Details of Retirement of Treasury Shares

(1)	Class of shares to be retired:	Common shares
(2)	No. of shares to be retired:	500,000
		(0.94% of total shares issued by the company prior to retirement)
(3)	Retirement date:	Nov. 13, 2020

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	9,309,183	(10.0)	6,374,571	(3.5)
Logistics	331,978	(22.2)	224,107	(0.7)
Other businesses	230,972	(49.5)	111,906	(20.7)

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 three quarters of the year are as follows.

Segment	Sales (unit: 1,000 yen)	Change from same period last year (%)
Consulting	13,882,100	(2.5)
Logistics	1,955,084	+10.6
Direct recruiting	1,850,630	+5.8
Other businesses	706,105	(15.4)
Total	18,393,920	(1.1)

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.