Funai Soken Holdings Incorporated

Financial Results Briefing for the Fiscal Year Ended December 2023

[Speaker]	Takayuki Nakatani	President and Group CEO
	Tatsuro Ono	Director, Executive Vice President, and Head of Corporate Management Divisional Headquarters
	Eijiro Saito	Executive Officer, Head of Corporate Strategy Department

February 9, 2024

Presentation

Nakatani: I am Nakatani, President and Group CEO of Funai Soken Holdings Incorporated. I always appreciate your favor for our group in advance. Today, I would like to explain the contents of the financial announcement for FY12/2023, released yesterday, according to excerpts from the financial summary material.

I will begin with a summary of the financial results, followed by an explanation of future segment results by Director, Executive Vice President, Ono. Thereafter, I will explain the earnings forecast for the present fiscal year and the medium-term management plan, shareholder returns, and other matters again.

I will now provide an overview of our financial results for FY12/2023.

1. Executive Summary

Funai Soken Holdings

(1) Consolidated Income

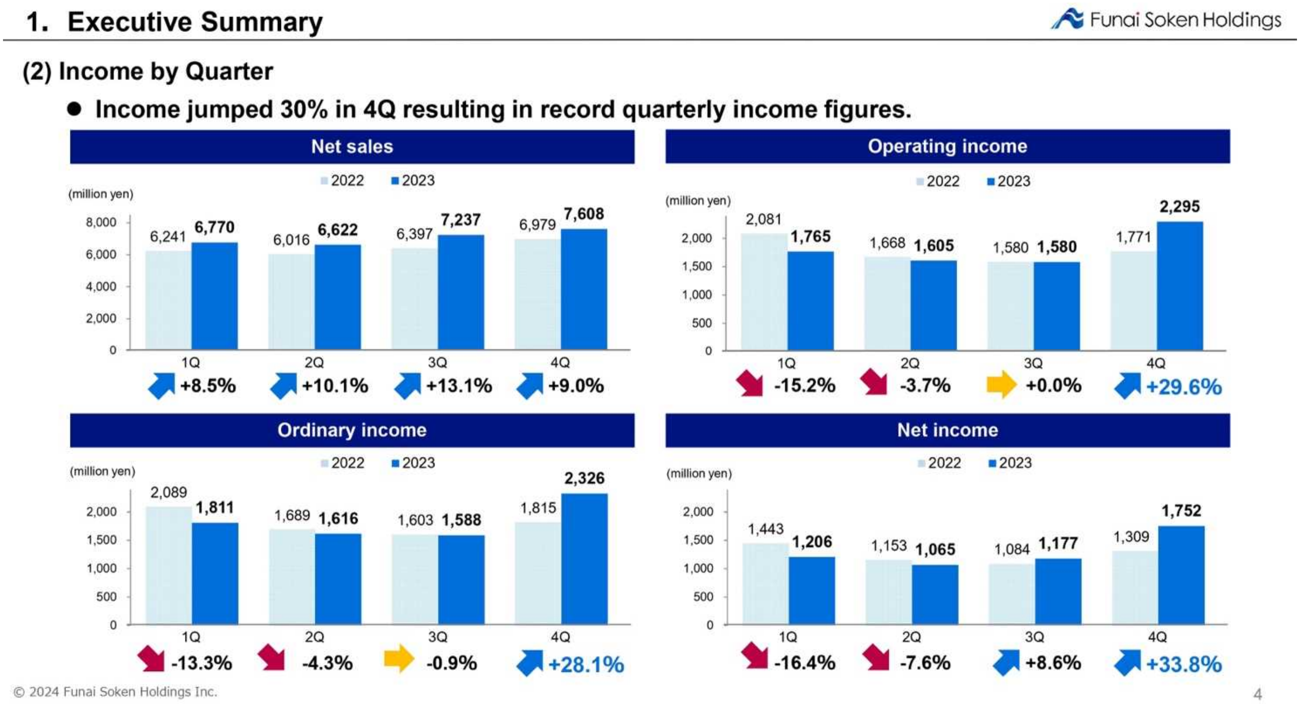
- **Sales and income both up for the third consecutive year—records set**
- **Aggressive investment in human capital meant operating income ended below forecasts but sales remain on track with double-digit growth**

	FY2022		FY2023			Compared with forecast issued on Feb. 8, 2023	
	Amount (million yen)	% of total	Amount (million yen)	% of total	Change (%)	Amount (million yen)	Change (%)
Net sales	25,635	100.0	28,238	100.0	+10.2	28,500	-0.9
Operating income	7,100	27.7	7,247	25.7	+2.1	7,900	-8.3
Ordinary income	7,197	28.1	7,343	26.0	+2.0	7,950	-7.6
Net income attributable to owners of the parent	4,990	19.5	5,201	18.4	+4.2	5,500	-5.4

3

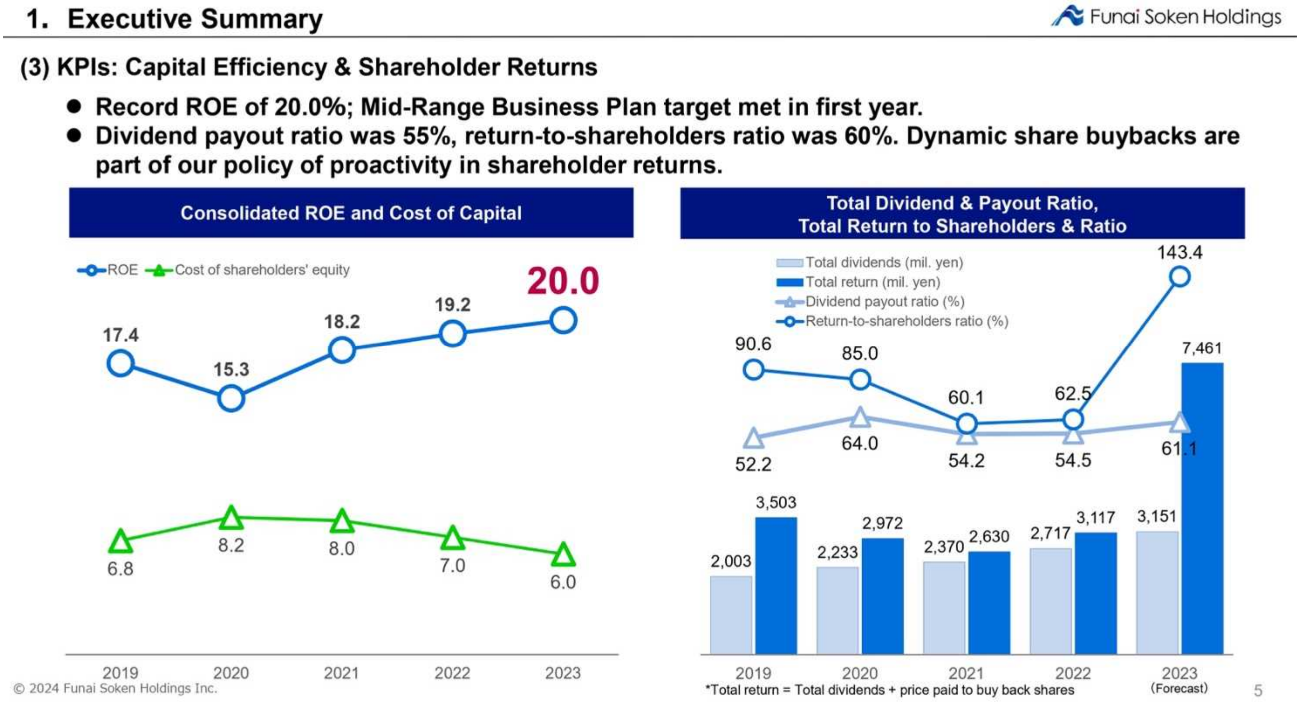
First, I will explain consolidated income. Net sales totaled JPY28,238 million, up 10.2% YoY. Operating income was JPY7,247 million, up 2.1% YoY. Ordinary income was JPY7,343 million, up 2% YoY. Net income attributable to owners of the parent was JPY5,201 million, up 4.2% YoY, and we achieved growth in both sales and income for the third consecutive period, recording a new high performance again for the reporting period.

Net sales grew at a double-digit growth, almost in line with the plan. Operating income fell short of the forecast partly because of aggressive investment in human resources. The number of consultants was however 982, far exceeding a planned 950, and increasing significantly 120 YoY. This contributed to an increase in costs in the short term, and we consequently failed to reach the plan. But this is an investment in growth for further growth in the future.



This is a quarterly breakdown of FY2023 results. Although we struggled considerably in H1 of FY2023, our performance got better in Q4 because of the sales activities we have actively conducted since the beginning of the year to recruit human resources and acquire leads.

In addition, Q4 saw a significant increase in income. The reason is as follows: we achieved higher net sales, and controlled costs by controlling seminar DM and web promotion expenses, and also by reducing recruitment costs for the period with a sufficient number of consultants, resulting from a good recruitment.



For capital efficiency and shareholder returns, the Company proactively implemented a flexible share buyback program in FY2023, contributing to a record-high consolidated ROE of 20%, achieving the 20% target set in the FY2025 medium-term management plan in the first year.

We also achieved our dividend payout ratio target of 55% and return-to-shareholders ratio target of 60%.

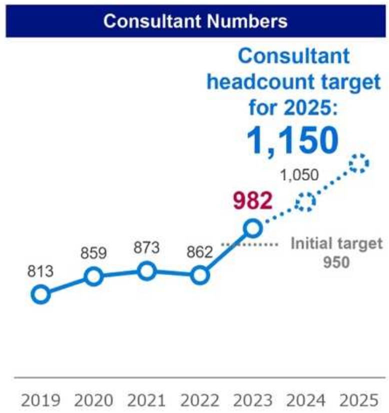
1. Executive Summary

Funai Soken Holdings

(3) KPIs: Staffing Levels (by Category)

- **Consultant numbers (one of our most important KPIs) have far exceeded the initial target of 950.**
- **We remain committed to seeking more consultants, both in headcount and percentage of total workforce.**

	FY2022	FY2023		
Total headcount	1,382 Up by 65 (+4.9%)	1,535	Net gain	Up by 153 (+11.1%)
Consultants	862 Down by 11 (-1.3%) %age of total workforce: 62.4%	982	Net gain	Up by 120 (+13.9%) %age of total workforce: 64.0% (+1.6 pts)
Business staff	305	325	Net gain	Up by 20 (+6.6%)
Workforce admin	215	228	Net gain	Up by 13 (+6.0%)
DX staff incl. in above	260	332	Net gain	Up by 72 (+27.7%)



*"Business staff" are those that work in consulting departments with a direct bearing on sales but who are not consultants; roles include development engineering, product sales, management workshop operations staff, etc.
*Business staff and workforce admin staff are new categories introduced in 2022. Year-on-year comparisons are calculated starting in 2023.
*DX staff are counted in accordance with Funai Soken Holdings definition of "digital transformation staff."

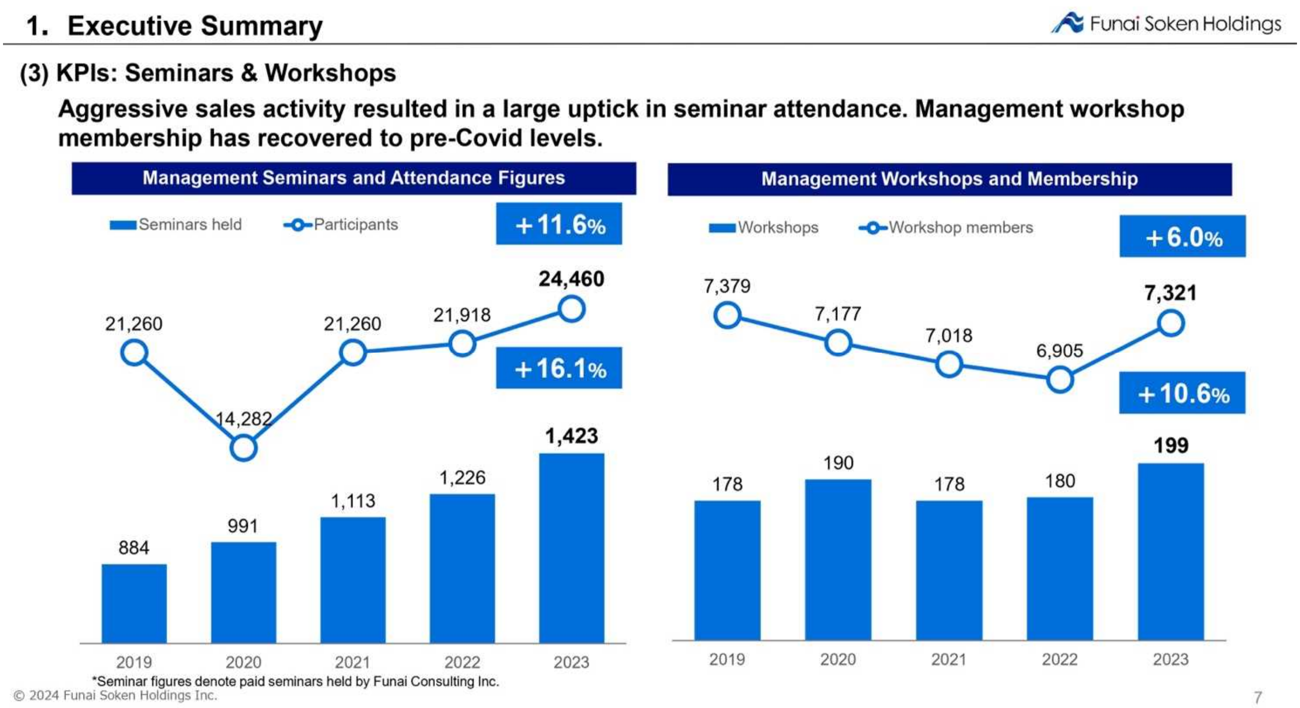
 6

Next, here is a summary of the number of employees, including the number of consultants mentioned briefly at the beginning of this section, and headcount by category.

Since the beginning of the year, we have strived on recruitment and retention to realize our human capital strategy in FY2023, set forth in our medium-term management plan. So, we were able to significantly increase the number of consultants to 982 by the end of FY2023, up 120 YoY, and also increase the consultant ratio.

The increase in the number of consultants is due to a significant improvement in the retention rate along with the efforts made in recruiting. In FY2022, the Group's overall turnover rate was 16.8%, but in FY2023, the turnover rate was reduced to 12.1%, which is one of the reasons why we were able to increase the number of consultants.

Our medium-term management plan has set a target of 1,150 consultants by FY2025. We are on track in terms of human resources since we currently exceed the plan.



The following line graph shows the number of management seminars held, the number of attendees, the number of management workshops, and the number of workshop members.

We share the five-year trend from FY2019, which is before COVID-19. The trend shows that the number of seminar participants, the future prospective client base, increased 11.6% in FY2023.

The number of members of the workshop, a feature of our business model, had been stagnant for the past three years due to COVID-19. But finally, it began to increase last year, reaching 7,321 members as of the end of December. Since our record high of membership before COVID-19 was 7,459, we have now recovered to the point where we can even achieve a new record high. The number of consultants, seminar participants, and management workshop members are leading indicators that will influence our future performance. We will therefore continue to focus on improving these indicators.

From now, Mr. Ono will explain by segment.

Ono: I am always very grateful for your cooperation. I am Ono of Funai Soken Holdings Incorporated. I will now present the results of operations by segment.

2. FY2023 Financial Report

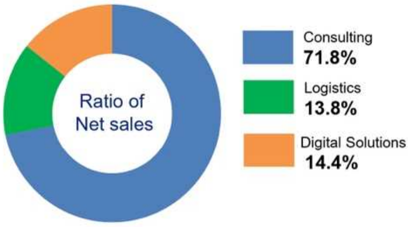
Funai Soken Holdings

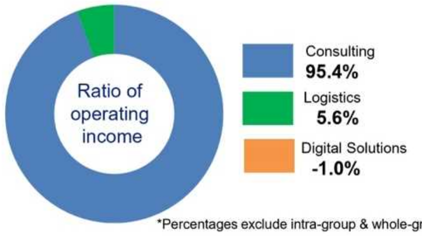
(1) Results of Operations by Segment

- **In the consulting segment, orders were strong and consulting client company numbers grew steadily, resulting in increases in sales and income.**
- **In the logistics and digital solutions segments, an increase in hiring drove personnel costs higher. Thus, sales were up but income was down.**

Net sales	FY2022 Amount (million yen)	FY2023 Amount (million yen)	FY2023 Change (%)
Consulting	18,277	20,284	+11.0
Logistics	3,778	3,886	+2.8
Digital Solutions	3,562	4,051	+13.7
(Intra-group & whole-group transactions)	17	15	–
Total	25,635	28,238	+10.2

Operating income	FY2022 Amount (million yen)	FY2023 Amount (million yen)	FY2023 Change (%)
Consulting	6,238	6,757	+8.3
Logistics	448	394	-11.9
Digital Solutions	176	-70	–
(Intra-group & whole-group transactions)	237	166	–
Total	7,100	7,247	+2.1

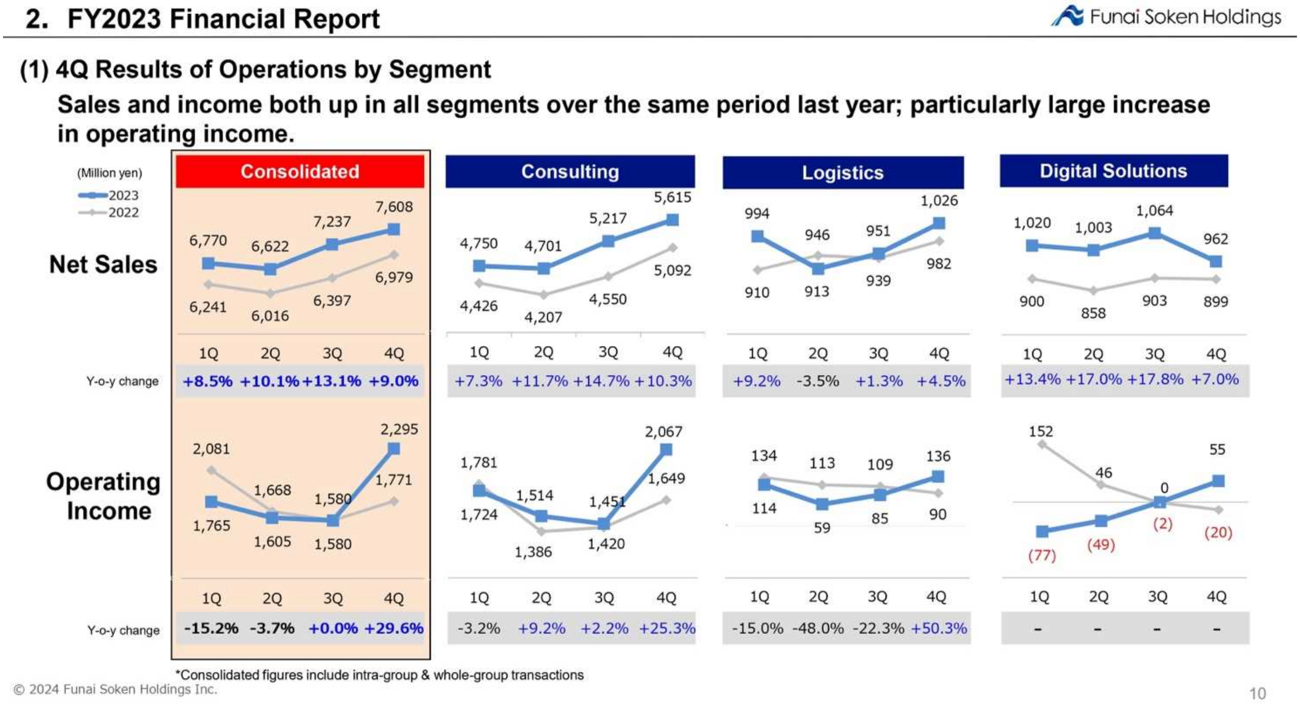




*Percentages exclude intra-group & whole-group transactions

9

First, here are the results of the three businesses. I will now explain each of these segments in detail. The consulting business reported higher sales and higher income; the logistics and digital solutions businesses reported higher sales and lower income.

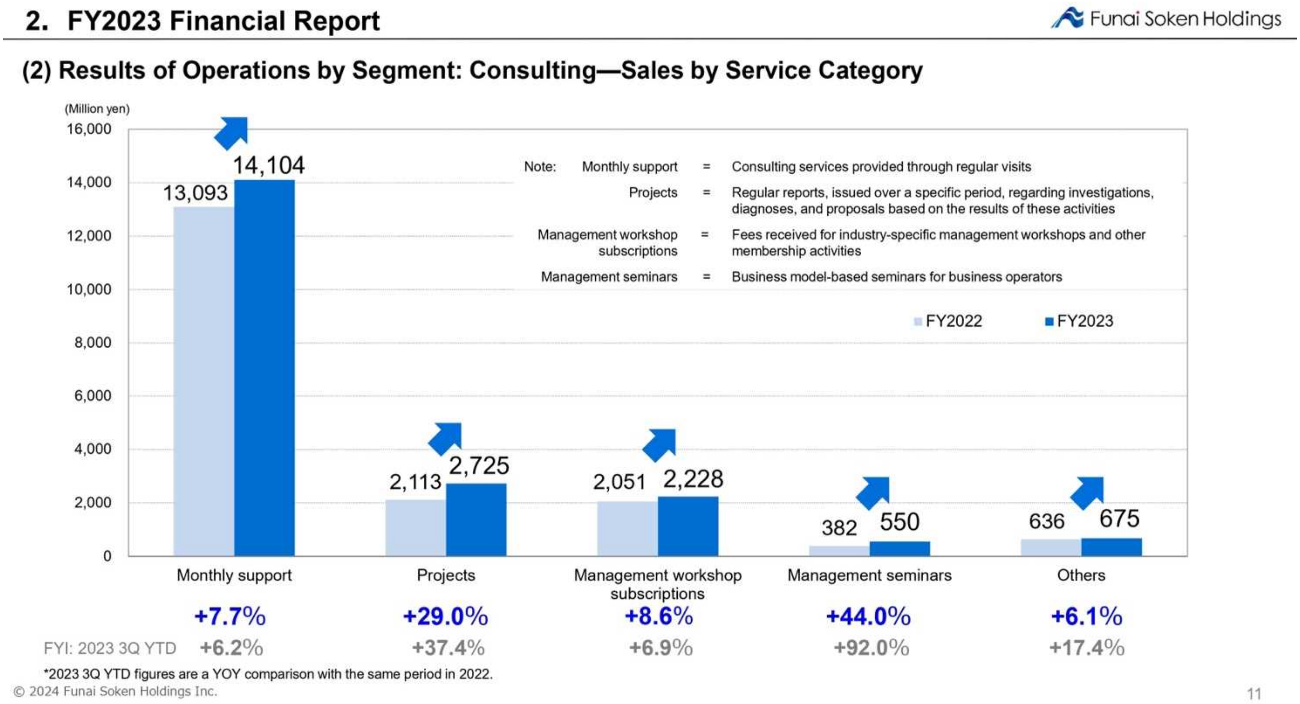


This chart shows the performance trend of each segment broken down by quarter. The blue line shows the results for FY2023, and the gray line shows the results for FY2022.

Looking at the quarterly results, first, in the consulting business, as you can see, sales increased every quarter in H2, with double-digit growth in sales beginning in Q2. While we increased the number of consultants; operating income also increased, especially in Q4.

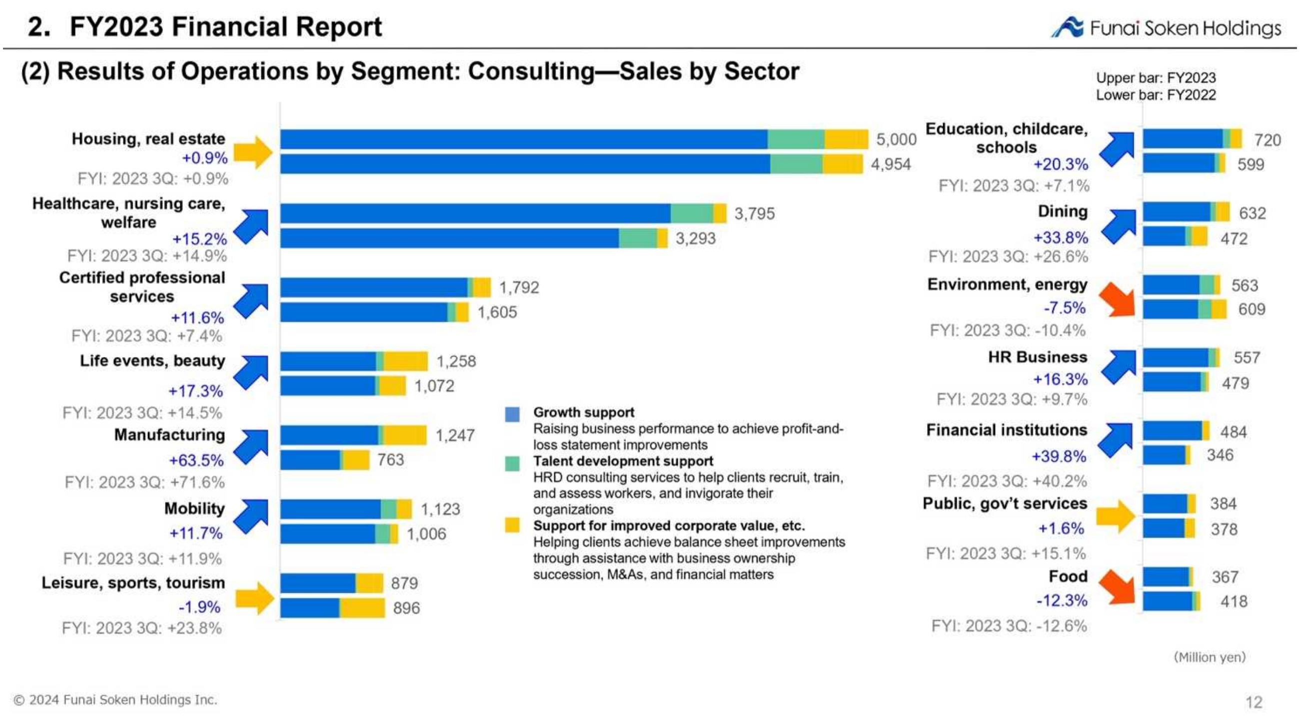
The logistics business for FY2023 was a year of somewhat continued struggles, resulting in lower profits for the full year. Both sales and operating income however exceeded last year's results in Q4. We will once again aim to increase sales and profit this year.

As for the digital solutions business, H1 of FY2023 was marked by a consecutive operating deficit partly because of prioritizing aggressive recruitment of engineers. But since the business improved to an operating income of JPY55 million in Q4, the operating deficit for the full year was reduced to a smaller deficit.

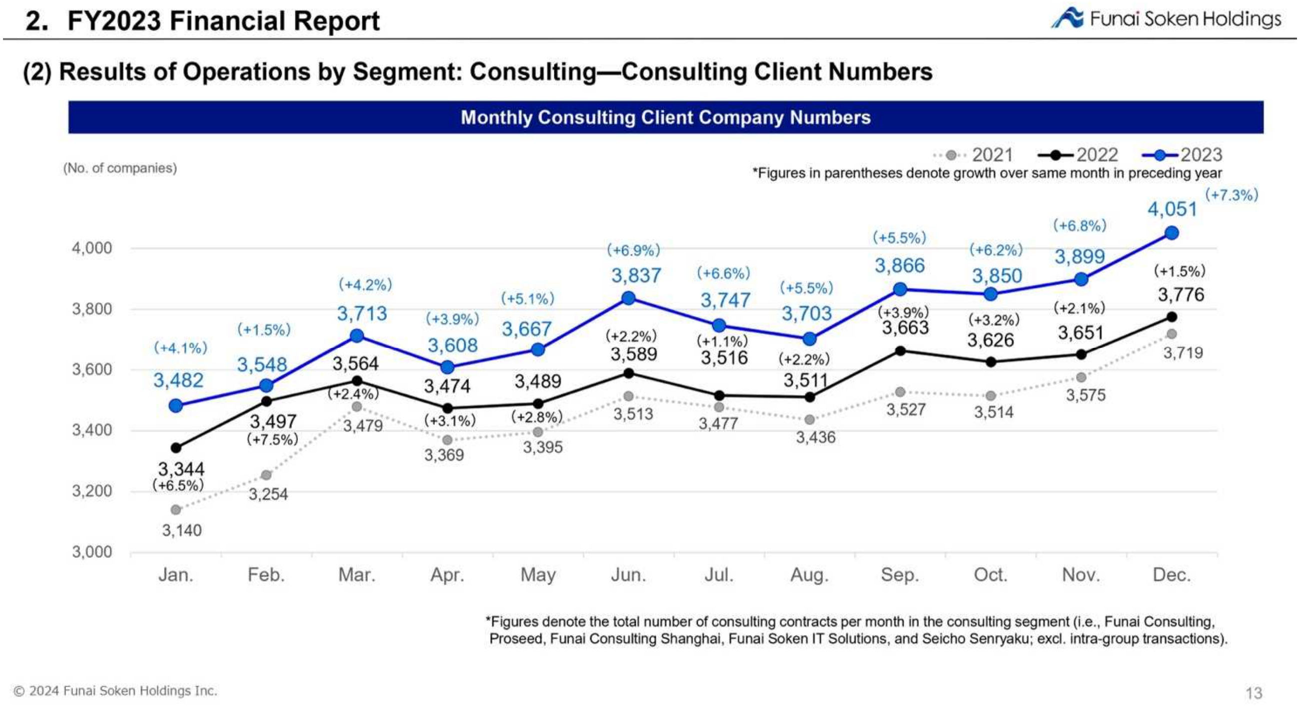


From here, I will share each segment. I will begin with the consulting business.

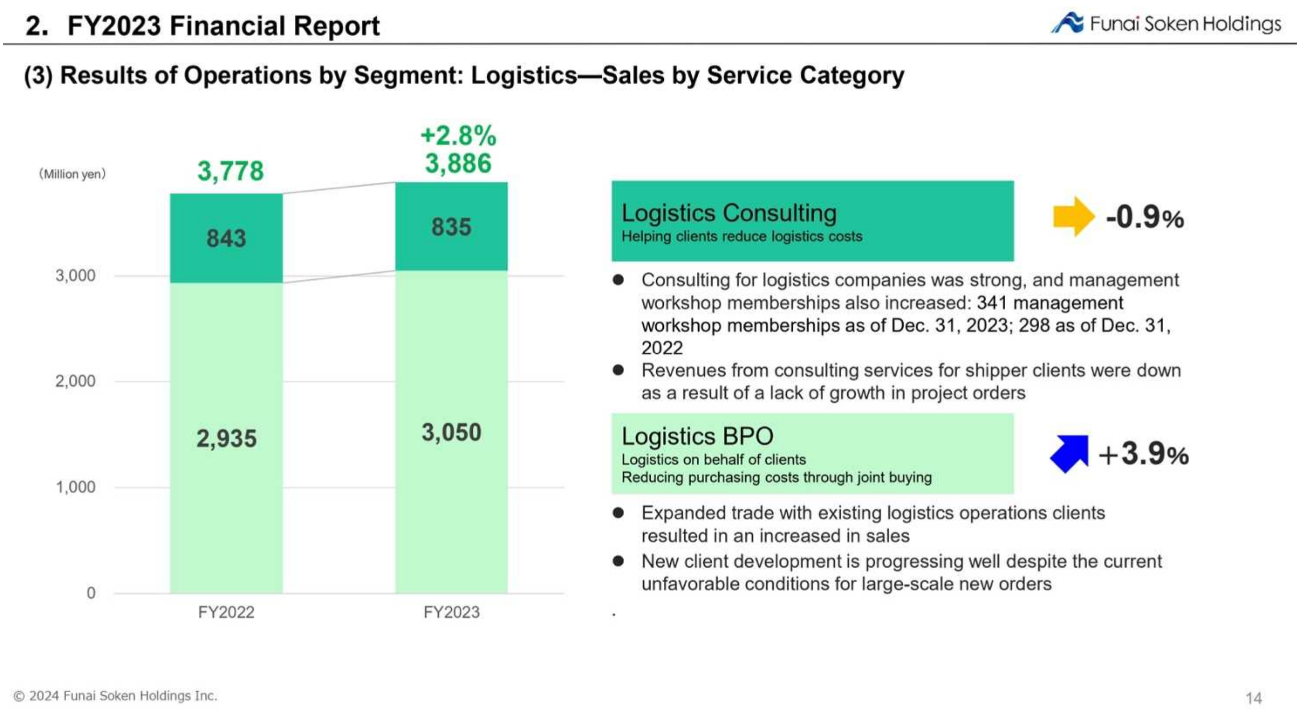
Here is a breakdown of the consulting business sales by service segment. The monthly support service grew by 7.7%; the projects service grew by 29%. Moreover, membership fees from the management workshop subscriptions and fees from management seminars also grew steadily during the year, as explained earlier.



Here are the results of operations by industry sector. We have three main sectors. While housing and real estate results remained flat, our second main sector, health care, nursing care and welfare continued to perform well, up 15.2%. The third main sector, certified professional services, had also remained flat for a while. But it was able to increase its results to double-digit growth in FY2023. In addition, many other sectors were able to increase their performance in the current fiscal year. The manufacturing sector in particular showed sales growth at a rate of 63.5%, close to that of the main sectors partly because we have strategically enhanced the manufacturing sector.



Next page, this slide shows the trend of monthly consulting client company numbers. The trend remained the same, with a few percent increase each month. But as you can see, the YoY growth rate from October to December was 6% to 7%, which is a good trend.

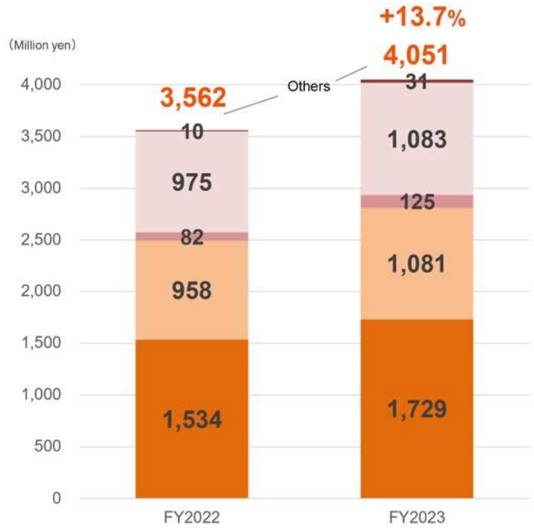


Next is the logistics business. In the logistics business, net sales increased 2.8% in FY2023. In logistics consulting, revenues from consulting services for shipper clients were down 0.9 as a result of a lack of growth in project orders; logistics BPO grew by 3.9%. The number of management workshop members however increased from 298 to 341. So we will once again strive to provide solid logistics consulting solutions.

2. FY2023 Financial Report

Funai Soken Holdings

(4) Results of Operations by Segment: Digital Solutions—Sales by Service Category



HR Solutions +11.0%

- Steady increase in orders from corporate clients
- Sales and income both up; maintained 10+% operating margin

IT Consulting +51.9%

- Solid growth in sales of back-office consulting, from identifying issues to implementing solutions

Cloud-based Solutions +12.8%

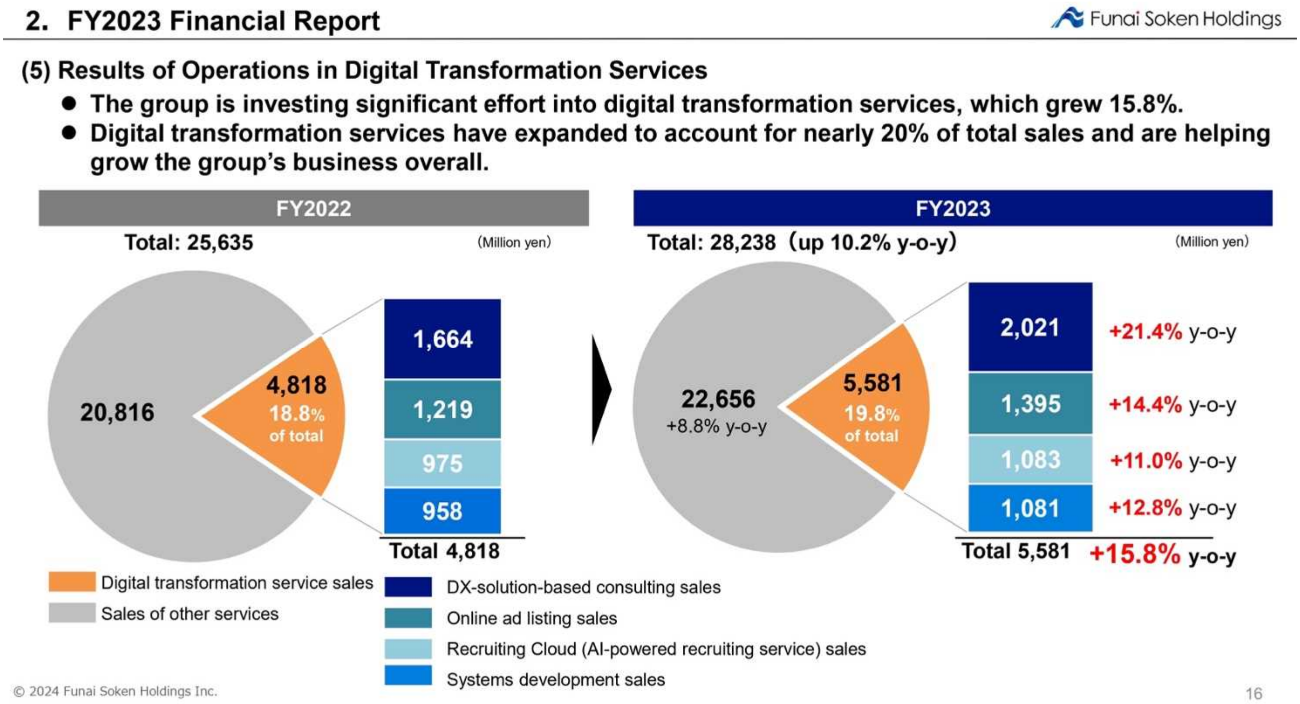
- Increased orders for cloud development and operations
- Invested efforts into securing engineer talent. Engineer headcount as of Dec. 31, 2023: 103 (up from 66 on Dec. 31, 2022)

Sales Process Transformation (SPX) +12.7%

- Online ad agency services remain strong

15

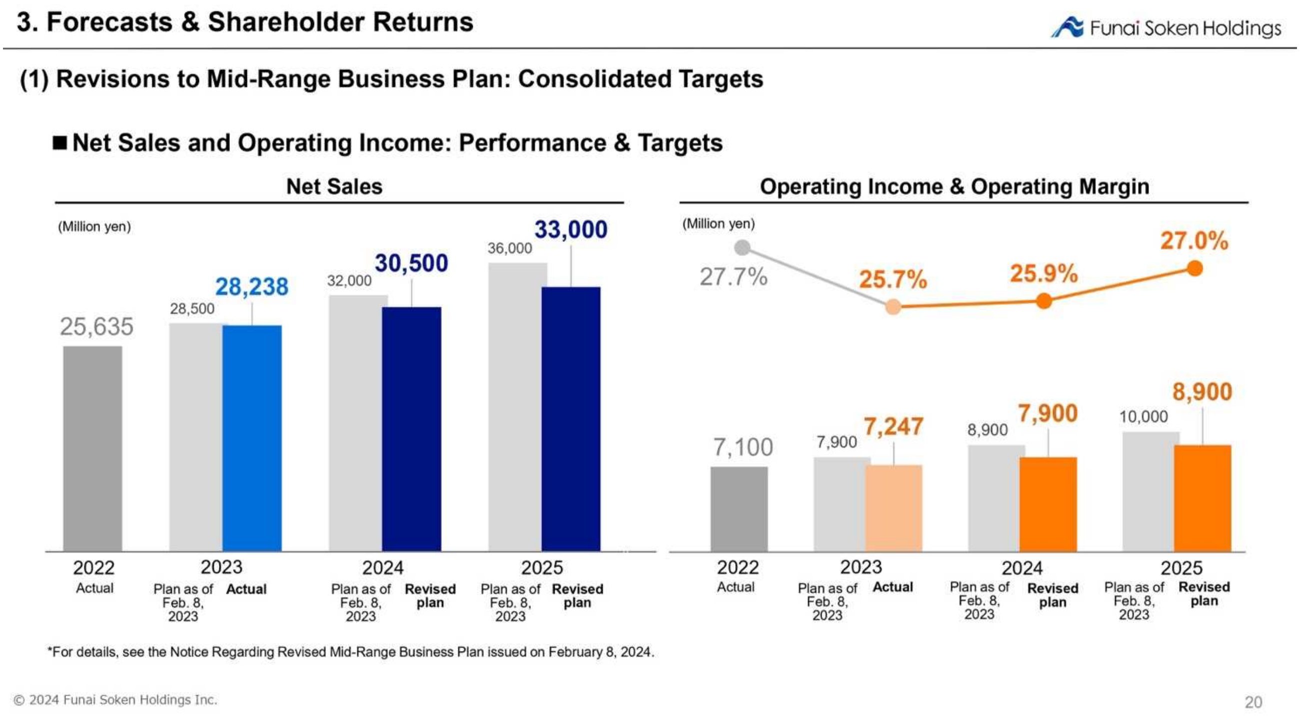
Next is the digital solutions business. The digital solutions business is organized into four service categories and other service category that do not belong to any of the four segments. We share sales growth rates of all of them as you can see. Overall, since the Company's priority in FY2023 was to secure engineers for cloud solutions, we recorded an operating deficit for the full year. But looking only at Q4, we posted an operating income. We will make every effort so that the digital solutions business will contribute to profits from now on.



Next, here are the actual figures taken out for digital transformation services, defined by us. HR Solutions, which offers AI-powered recruitment cloud services and has been recovering a bit slower, also posted double-digit growth, with all of these areas growing by more than 10%. Going forward, we will continue to focus on this area as it is sure to be a growth area.

This concludes the segment explanation.

Nakatani: Now from here, I will explain again.



Yesterday, we released a notice regarding the revision of our medium-term management plan along with the announcement of financial results, and I would like to explain the revision.

We have revised our performance plan for FY2025 from the initial plan of JPY36 billion in net sales and JPY10 billion in operating income to JPY33 billion in net sales and JPY8.9 billion in operating income. This revision is a result of a review of each business segment.

3. Forecasts & Shareholder Returns

Funai Soken Holdings

(1) Revisions to Mid-Range Business Plan: Segment-specific Targets

Net sales	2023 (actual)	2025		Change from initial plan of Feb. 8, 2023	
		Initial target	Revised target		
	(Million yen)	(Million yen)	(Million yen)	(Million yen)	(%)
Consulting	20,284	23,000	24,300	+1,300	+5.7
Logistics	3,886	4,100	4,200	+100	+2.4
Digital solutions	4,051	8,900	4,500	-4,400	-49.4
Total	28,238	36,000	33,000	-3,000	-8.3

Revised upward to reflect our situation (e.g., steady growth in consultant numbers)

Business plan subjected to review as actual figures diverged significantly from initial plan

Operating income	2023 (actual)	2025		Change from initial plan of Feb. 8, 2023	
		Initial target	Revised target		
	(Million yen)	(Million yen)	(Million yen)	(Million yen)	(%)
Consulting	6,757	8,400	8,000	-400	-4.8
Logistics	394	750	600	-150	-20.0
Digital solutions	-70	850	200	-650	-76.5
Total	7,247	10,000	8,900	-1,100	-11.0

- Digital solutions plan subjected to review
- In consideration of ongoing increases in personnel costs (esp. consultants) and rising inflation

*Totals include intra-group & whole-group transactions

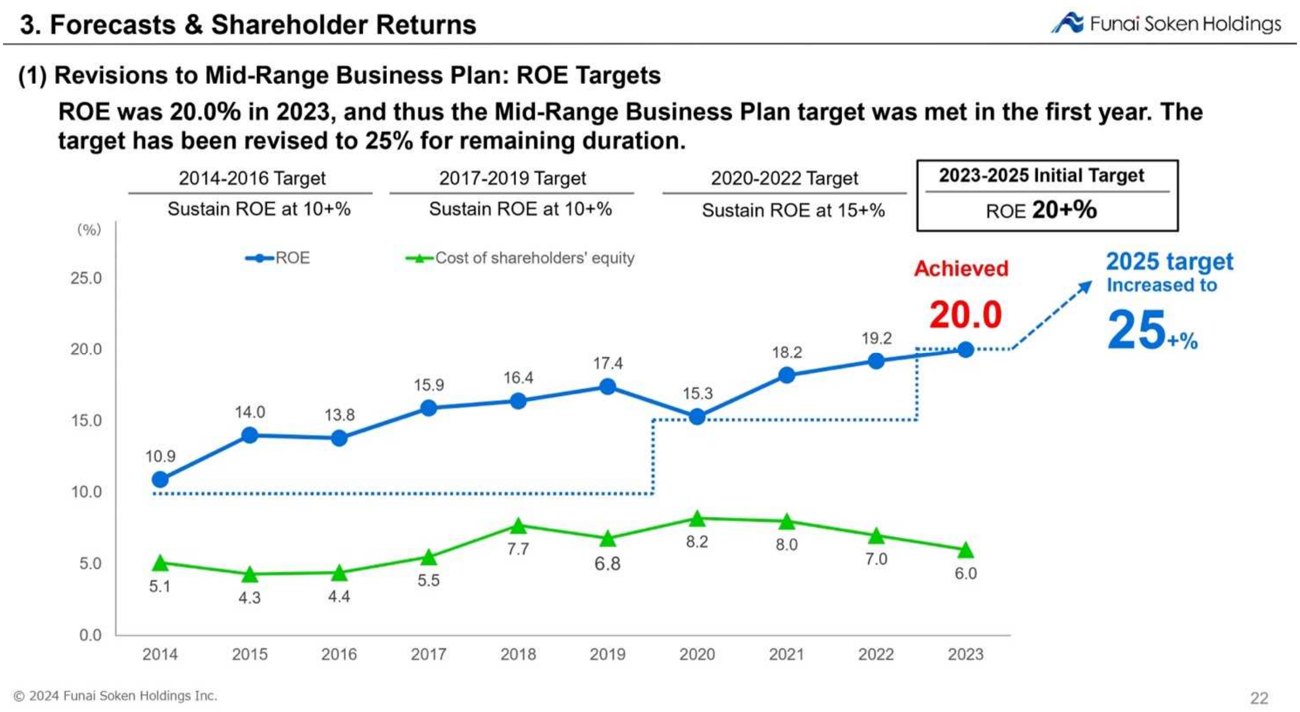
21

First, we have revised upward our sales forecast for the consulting and logistics businesses, because the increase in the number of consultants has advanced well and so net sales are expected to exceed the previous sales plan. The consulting business in particular is finally beginning to demonstrate its true potential as seen in Q4. We have accordingly revised our initial plan upward by JPY1.3 billion.

Meanwhile, net sales of digital solutions grew about 13% in FY2023. but unfortunately, we have determined that the target average sales growth rate of 35%, set in our medium-term management plan, is difficult to forecast at this point. We have revised the target as a result.

The downward revision of income is also largely due to the revision of the plan for the digital solutions business. But other revised areas include the increase in personnel costs associated with the continuous increase in compensation levels, especially for consultants, and the recent rise in prices like the increase in system-related expenses in our case. Considering that, we have revised the business plan.

As a result of this revision, we are now exactly a year behind our original operating income plan. But we hope to achieve JPY10 billion in operating income by FY2026, a year later than originally planned.



In addition, as I explained earlier, capital efficiency has been improving. We have revised upward our capital efficiency target set in our medium-term management plan from ROE of 20% or more in FY2025 to ROE of 25% or more in FY2025.

3. Forecasts & Shareholder Returns

Funai Soken Holdings

(2) FY2024 Earnings Forecast

	Consolidated mid-year forecast for FY2024			Consolidated full-year forecast for FY2024		
	2023 (actual) (million yen)	2024 forecast (million yen)	Change (%)	2023(actual) (million yen)	2024 forecast (million yen)	Change (%)
Net sales	13,392	14,500	+8.3	28,238	30,500	+8.0
Operating income	3,371	4,000	+18.7	7,247	7,900	+9.0
Ordinary income	3,428	4,000	+16.7	7,343	7,900	+7.6
Net income	2,271	2,700	+18.8	5,201	5,500	+5.7

Sales Forecasts by Segment

Consulting	22,100 mil. yen
Logistics	4,100 mil. yen
Digital solutions	4,300 mil. yen

Operating Income Forecasts by Segment

Consulting	7,200 mil. yen
Logistics	500 mil. yen
Digital solutions	150 mil. yen

23

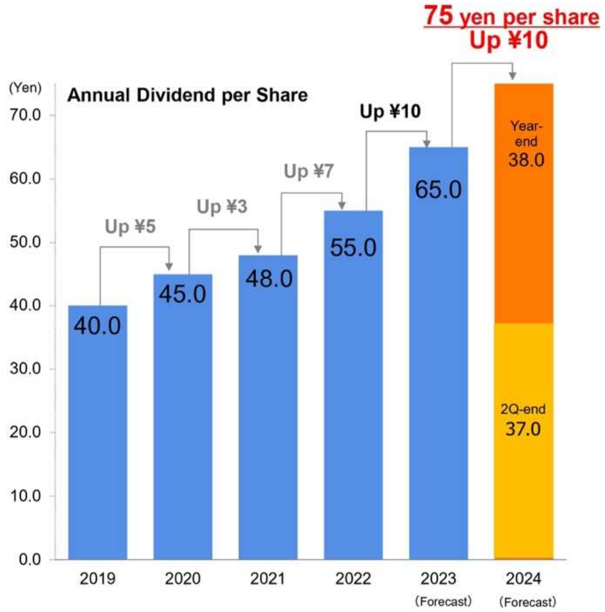
Please move on to forecasts for the present fiscal year. For the present fiscal year, we project net sales of JPY30.5 billion, both operating and ordinary incomes of JPY7.9 billion, and net income of JPY5.5 billion. In any case, we will continue to aim for a record-high performance in the present fiscal year.

3. Forecasts & Shareholder Returns

Funai Soken Holdings

(3) Annual Dividends

Record date	Initial forecast		Actual dividend	
	Dividend (per share)	Details	Dividend (per sharer)	Details
FY2019	40.0	2Q-end 17.0 Year end 23.0	40.0	2Q-end 17.0 Year end 23.0 *Incl. 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	46.0	2Q-end 21.0 Year end 25.0	48.0	2Q-end 21.0 Year end 27.0
FY2022	53.0	2Q-end 25.0 Year end 28.0	55.0	2Q-end 25.0 Year end 30.0 *Incl. a commemorative dividend of 2.0
FY2023 (Forecast)	65.0	2Q-end 32.0 Year end 33.0	65.0	2Q-end 32.0 Year end 33.0
FY2024 (Forecast)	75.0	**2Q-end 37.0 Year end 38.0**		



 24

Next, I would like to report on the dividend payment. First, for FY2023, we plan to pay a year-end dividend of JPY33, in addition to an interim dividend of JPY32, with an annual dividend of JPY65.

Furthermore, we plan to increase the dividend for FY2024 by JPY10 to JPY37 for the interim and JPY38 for the year-end, with an annual dividend of JPY75 per share, which, if achieved, will be the 14th consecutive year of dividend increase.

3. Forecasts & Shareholder Returns

Funai Soken Holdings

(4) Purchase and Retirement of Treasury Shares

We have decided to undertake a buyback of shares and to retire those treasury shares as outlined below to help improve capital efficiency and boost shareholder returns by allowing for more dynamic implementation of capital policies in response to changes in the business environment.

Purchase of Treasury Shares	
Number of shares to be purchased	Max. 1.2 mil.
% of total outstanding shares (excl. treasury shares)	2.5%
Price of buy-back	Max. ¥3 bil.
Class of shares subject to buy-back	Common shares
Buy-back period	Feb. 9 – Dec. 31, 2024

Retirement of Treasury Shares	
Number of shares to be retired	2 mil.
%age of total shares issued by the company prior to retirement	3.8%
Total number of shares outstanding after retirement	50 mil.
Class of shares to be retired	Common shares
Scheduled date of retirement	Feb. 29, 2024

The share buyback approved by the Board of Directors on Aug. 23, 2023, was completed as outlined below.

Date of board resolution	Buy-back period	Acquisition price	Number of shares purchased
Aug. 23, 2023	Aug. 24, 2023 – Feb. 5, 2024	¥2,999 bil.	1,172,800

In addition, we are pleased to report that yesterday we passed a new resolution for the acquisition and retirement of treasury shares. As you can see, the Company will buy back up to 1.2 million treasury shares for a maximum of JPY3 billion from today and will retire 2.0 million treasury shares at the end of February. The Company will continue its efforts to improve capital efficiency and enhance shareholder returns.

4. News

Funai Soken Holdings

(1) Consolidated Subsidiaries to Merge

Funai Soken Digital and Funai Soken IT Solutions will be absorbed into Funai Consulting as part of the group's effort to speed up growth by filling out its business line-up and delivering a full range of services and solutions for mid-scale companies and SMEs.
Date of merger: April 1, 2024

Strengths		Strengths
DX consulting Tailoring solutions	+	Digital solutions Delivering quality services Systems development

Funai Soken
Funai Consulting Inc.
Management consulting

Funai Soken Digital
Funai Soken Digital Inc.
System integration, digital marketing, BPO & consulting, systems development

Funai Soken IT Solutions
Funai Soken IT Solutions, Inc.
IT consulting

(2) Tokyo Office to Relocate

Consolidating our various Tokyo operations into a single location in Tokyo Midtown Yaesu will boost group synergies and enhance sales capabilities.

New Tokyo Office opens: April 1, 2024

New Tokyo Office address: 35th floor, Yaesu Central Tower, Tokyo Midtown Yaesu, 2-2-1 Yaesu, Chuo-ku, Tokyo, Japan

26

Lastly, I have two topics. As we have already announced, we will consolidate our subsidiaries to merge and relocate our Tokyo office to Tokyo Midtown Yaesu on April 1. The purpose of both of these initiatives is to leverage group synergies and further strengthen our sales force. We look forward to your continued support.

This concludes our explanation. Thank you.

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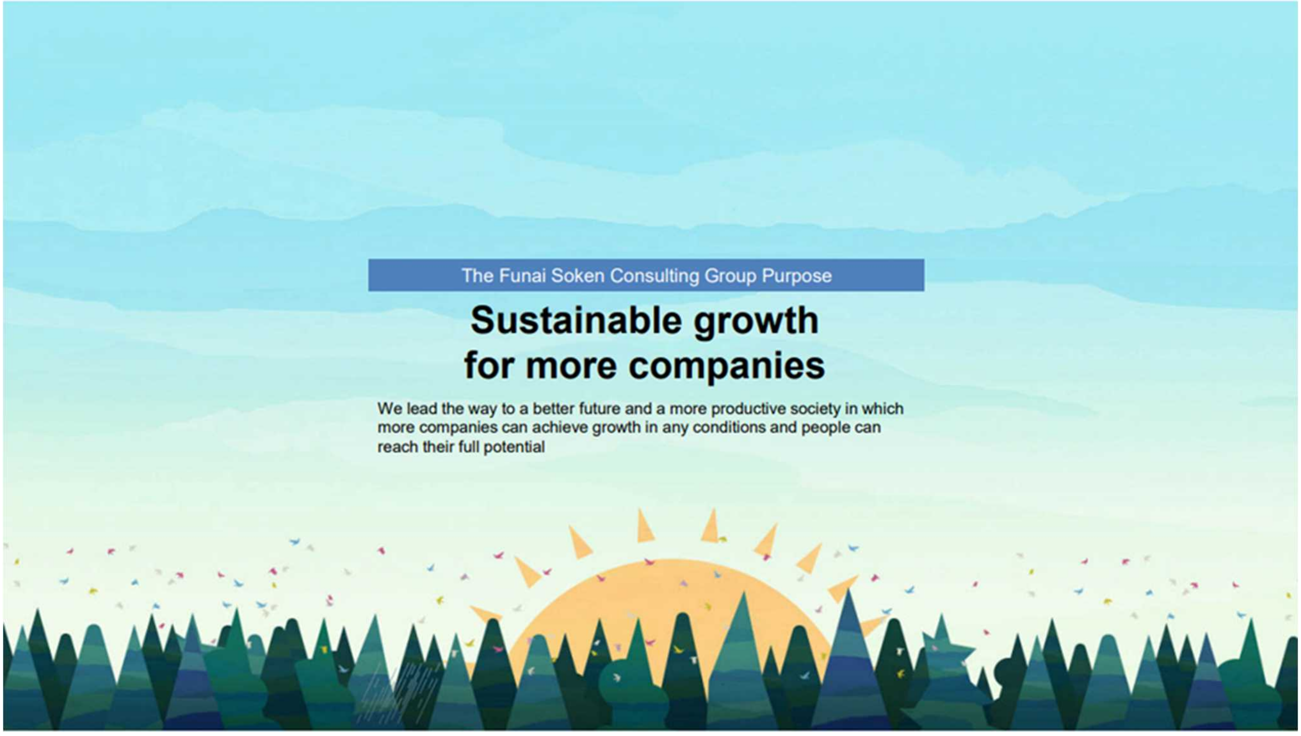

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