Funai Soken Holdings

Integrated Report 2021

(Covering January – December 2020)

FUNAI SOKEN Consulting Group

Funai Soken Holdings Inc.
Funai Consulting Inc.
Funai Soken Corporate Relations Inc.
Funai Consulting Shanghai Inc.
Funai Soken Logistics Inc.
HR Force Inc.
Funai Soken IT Solutions Inc.
Proseed Corporation
Shinwa Computer Service Co., Ltd.

Funai Soken Holdings

The Next Stage

The Funai Way. That's the name of the Funai Soken Consulting Group's core values instituted in March 2021 to coincide with the appointment of Takayuki Nakatani as president of Funai Soken Holdings.

Each of us is bound to deepen our understanding of ESG management and the many issues facing the world, and to use our work as a means of helping client companies grow and increase corporate value. In doing so, we ensure the sustainability of the Funai Soken Consulting Group, create new value, and serve the needs of our stakeholders.

Funai Soken Consulting Group Mission and Vision

Our Mission

We help to build a better future for people, businesses, and society.

We at the Funai Soken Consulting Group will offer solutions for a better future to all the people and businesses we are involved with—and to society as a whole—and will do our best to turn those ideas into reality.

Our Vision for the Future

Trusted and respected by society for bringing joy to people and businesses through our work.

We are determined to work together as a corporate group to bring joy to the people and businesses we are involved with. By earning the trust and respect of the people and businesses we seek to please, we can also earn the trust and respect of society as a whole.

The Funai Way: Our Core Values

Adventureship

Converting change into momentum

以变促势

- Our work is not work unless it's fun.
- We relish the challenges of our ongoing quest for growth.
- We are leaders of change.

Empathy

A reliable partner for business owners

与“领袖”同心同行

- Our focus on outcomes is unwavering.
- We share the mindset of the entrepreneurs we serve.
- We dream farther and act quicker.

Integrity

A force for good

遵循良心

- Our work is a vehicle for the betterment of society.
- We design environments where everyone can be themselves.
- We are good corporate citizens, and we behave like it.

Editorial Policy

This report is designed to provide stakeholders a comprehensive understanding of the Funai Soken Consulting Group's efforts to achieve sustained growth and mid-to-long-term improvements in corporate value. Thus, in addition to financial data, the report contains non-financial information about aspects such as the group's strengths, and the philosophy, business model, sustainability, growth potential, growth strategies, and governance regime that contribute to its earning potential.

This year's report includes information on ESG management, sustainability targets (particularly those relating to climate-related financial disclosures), and outside directors' views on ESG management so as to provide shareholders, investors, and other stakeholders a deeper understanding of our commitment in these areas.

Scope

This report pertains to FY2020 (January 1 through December 31, 2020), with additional comment regarding other adjacent times as necessary.

All data shown herein pertain to the group's consolidated accounts for the aforementioned period unless otherwise stated.

Reference to Guidelines

This report is edited and configured with reference to relevant Japanese and international guidelines.

Disclaimer

This report is published solely for the purpose of providing information relating to the Funai Soken Consulting Group's performance in FY2020 and its strategies for the future. Its purpose is not to induce investment in securities issued by Funai Soken Holdings, and no contents hereof shall constitute a warranty or promise.

Opinions and outlooks contained in this report represent the views of Funai Soken Holdings and the Funai Soken Consulting Group at the time of writing, and we make no guarantee or promise regarding the accuracy or completeness of such contents, and the contents of this report may be changed at any time without notice.

A Comprehensive Communication Structure

Financial Information | Non-Financial Information

Online

General information about our activities: corporate website
https:/ /hd.funaisoken.co.jp/

IR information for shareholders and investors
https://hd.funaisoken.co.jp/ ri/

ESG management and sustainability information
https://hd.funaisoken.co.jp/csr/great/index.html

Documents

Integrated Report 2021
(for shareholders, investors, client companies, employees, students, families, business partners, local communities, etc.)

Shareholders meeting convocation notices (for shareholders, etc.)

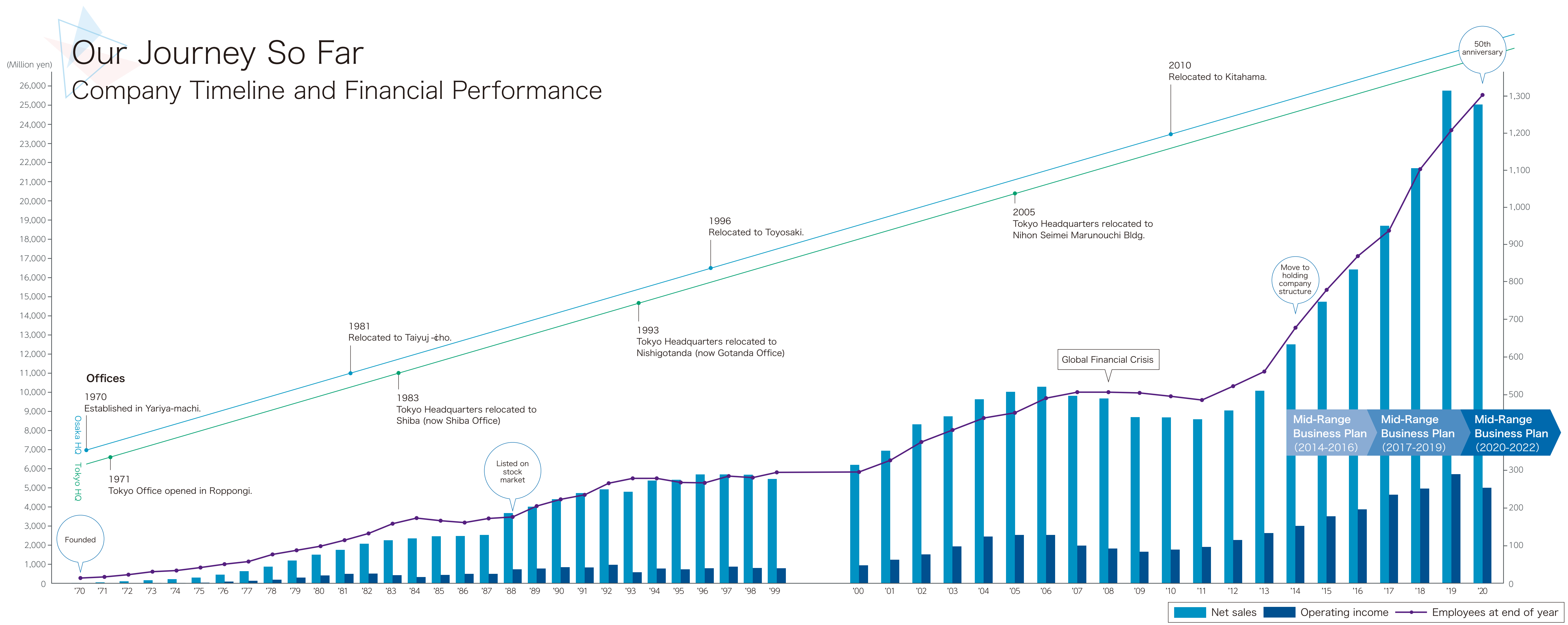
Securities Report (for investors, etc.)

Summary of Financial Results (for investors, etc.)

Operation Reports (for shareholders, etc.)

Contents

Our Journey So Far
Company Timeline and Financial Performance



Inauguration

1970s

March 6, 1970
Yukio Funai starts the Japan Marketing Center (now renamed Funai Soken Holdings).

September 1970
Members-only Cosmo Club established.

1972
Yukio Funai's *Henshin Shoho* (Commerce in Change) becomes a bestseller.

Listing

1980s

1981
Preparing for stock listing.

March 1985
Name changed to Funai Consulting.

September 1988
Listed as a Specially Designated Stock on the 2nd Section of the Osaka Stock Exchange.

Focus on the service industry

1990s

March 1990
Tadashi Moto'ori is appointed the 2nd president, coinciding with a shift from predominantly the distribution industry to the service industry.

June 1993
Stock reclassified on OSE 2nd section.

Expanded operations

2000s

February 2000
Funai Information Systems established (renamed Funai Soken IT Solutions in July 2014).

March 2000
The 3rd President Masahiko Koyama launches the "change of gears" to achieve financial and workforce growth.

December 2004
Stock listed on the Tokyo Stock Exchange 2nd section.

December 2005
Stock reclassified on the TSE and OSE 1st section.

Move to a corporate group structure

2010s

February 2010
Inaugural annual Great Company Awards held.

March 2010
Sakae Takashima is named the company's 4th president, implementing group policy of self-control, autonomy, and teamwork.

January 2012
Funai Consulting Shanghai established.

January 2014
Funai Soken Logistics becomes a wholly owned subsidiary.

July 2014
Transition to holding company structure. Funai Consulting renamed Funai Soken Holdings; consulting arm spun off as the new Funai Consulting; sales support arm spun off as Funai Soken Corporate Relations.

February 2015
Proseed becomes a wholly owned subsidiary.

February 2018
HR Force established.

June 2018
Shinwa Computer Service becomes a wholly owned subsidiary.

March 6, 2020
50th anniversary of the group's founding.

March 2021
Takayuki Nakatani is appointed president, and a new set of core values, the Funai Way, is established for the group's management.

Real Strengths Forged in Experience

Throughout the Funai Soken Consulting Group's steady growth over the past half century, we have amassed a wealth of strengths, and these have enabled us to thrive in good times and bad through prudent application of sensible strategies. We will continue to add to those strengths as a vehicle for creating new group value.

1 Japan's Leading Consultant for SMEs

*All figures are for 2020.

As Japan's foremost specialists in management solutions for SMEs and mid-scale businesses, we have developed a unique capacity for offering proprietors across-the-board support from early strategy planning to final implementation and embedding.

Net sales
25,027 mil. yen

Operating income
4,982 mil. yen

A long-standing, trusted brand
51 years so far
(50th anniversary in 2020)

Management workshops
190

Business models created for clients by Funai Consulting
227

Group companies
9

Funai Soken Holdings
Funai Soken
Funai Soken Corporate Relations
船井咨询
Funai Soken Logistics
HRForce
Funai Soken IT Solutions
PROSEED CORPORATION

2 Wide-Ranging Client Base

*All figures are for 2020.

Our pool of management workshop clients is one of the largest among all consulting firms in Japan. In recent years, we have begun holding workshops in Shanghai, where they are regarded as being unlike those found anywhere else in the world.

Management workshop members
(incl. those from 273 Funai Soken Logistics, 212 Funai Consulting Shanghai)
7,177

Seminars
(in person & online)
1,398

Client companies
(excl. seminar participants)
10,000+

Funai Consulting
Client companies
5,487

Funai Consulting
Contract renewal rate
72.9%

3 A Diverse Workforce

*All figures are current as of Dec. 2020.

A diverse workforce of talented people is vital for sustaining the group's development. We are committed to enhancing our talent management capabilities and maintaining an environment that enables our people—the true drivers of our growth—to make the most of their strengths.

Group employees
1,303

Group consultants
859

Childcare leave uptake
50%
(Men: 4.8%; women: 100%; overall: 50%)

Digital transformation staff
137
*Counted in accordance with Funai Soken Holdings definition of "digital transformation staff."

Non-Japanese employees
6.4 % of group workforce

Female employees
36.3% of group workforce

Women in management
22.0% of group management positions

4 A Solid Financial Foundation

*All figures are for 2020.

Our high ROE and equity ratio provide a solid financial foundation to underpin our ongoing quest for sustained improvements in corporate value through growth investments, as well as shareholder value through steady shareholder returns.

Return-to-shareholders ratio
85.0%

Dividends up
10 years in a row
(Between 2010 and 2020)

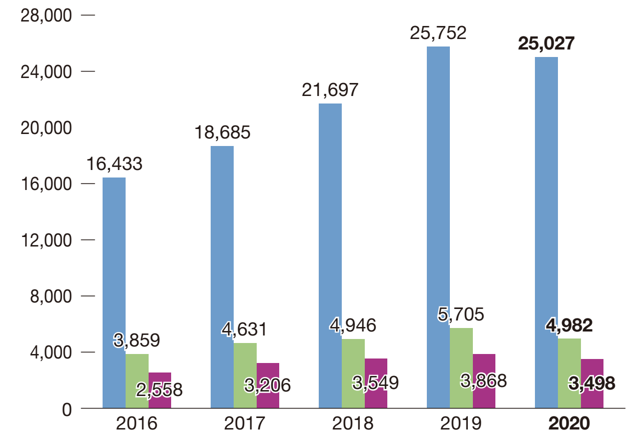
ROE
15.3%

Operating margin
19.9%

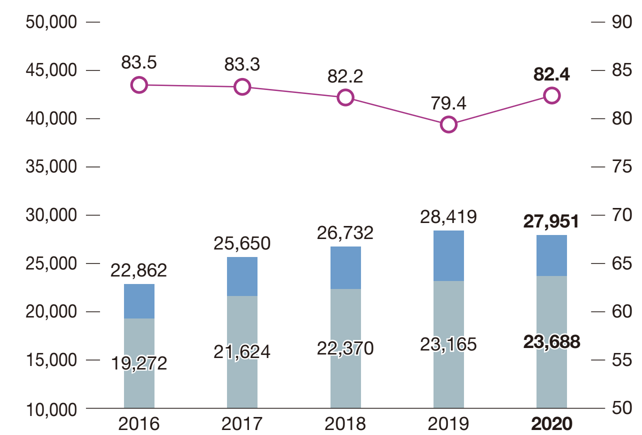
Equity ratio
82.4%

Financial Highlights

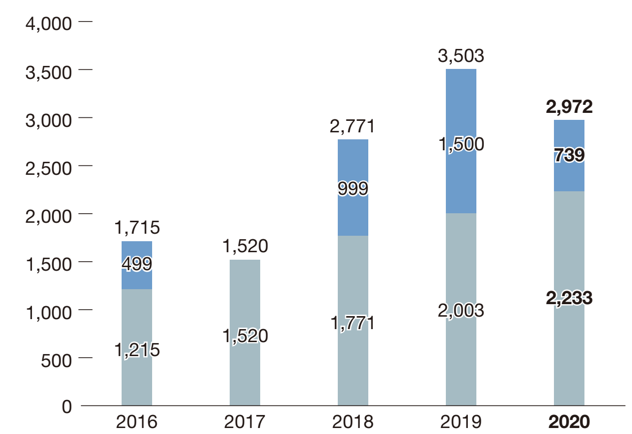
Net Sales, Operating Income, Net Income



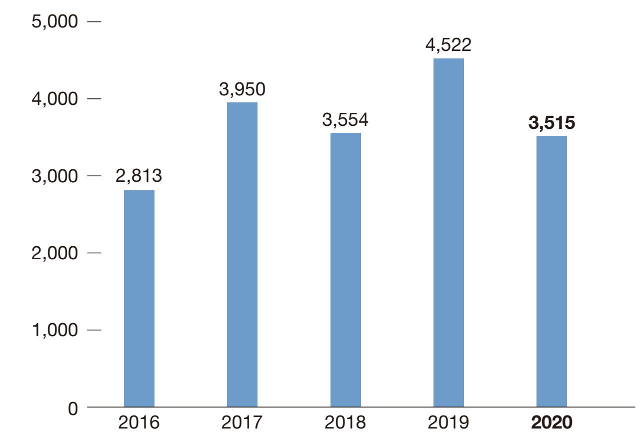
Total Assets, Net Assets, Equity Ratio



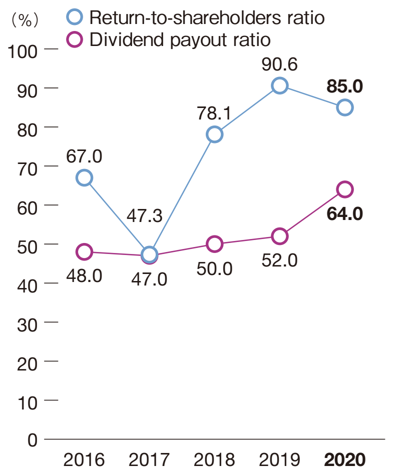
Total Dividends & Purchase of Treasury Shares



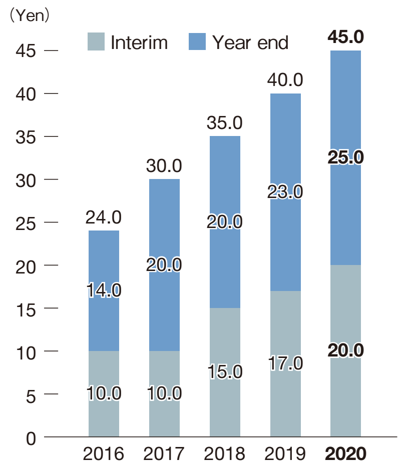
Operating Cash Flow



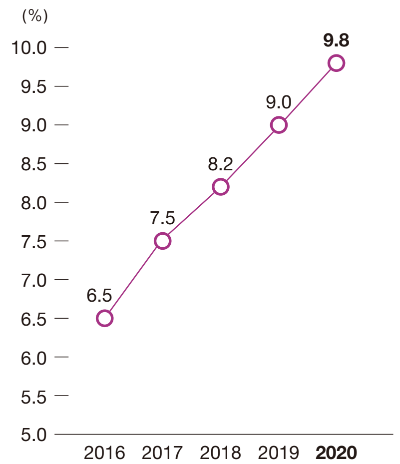
Return-to-Shareholders Ratio & Dividend Payout Ratio



Dividend Per Share*



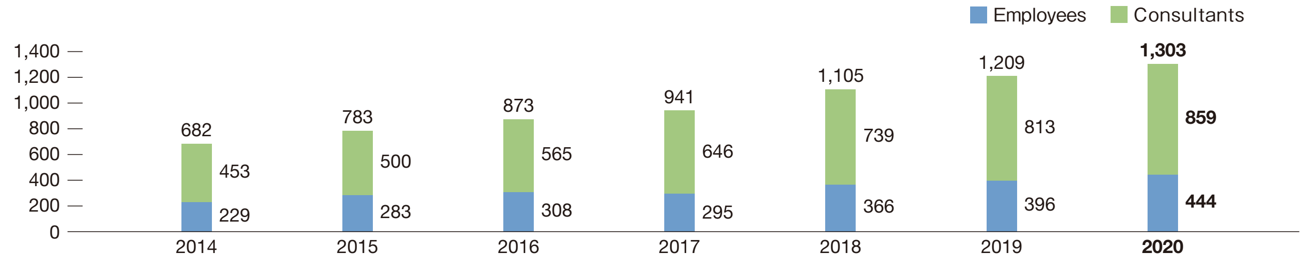
Dividend on Equity



*Common shares in Funai Soken Holdings were split at a ratio of 1.5-for-1 on January 1, 2018. For the purposes hereof, annual dividend per share is calculated as if the stock split had been conducted at the beginning of FY2016.

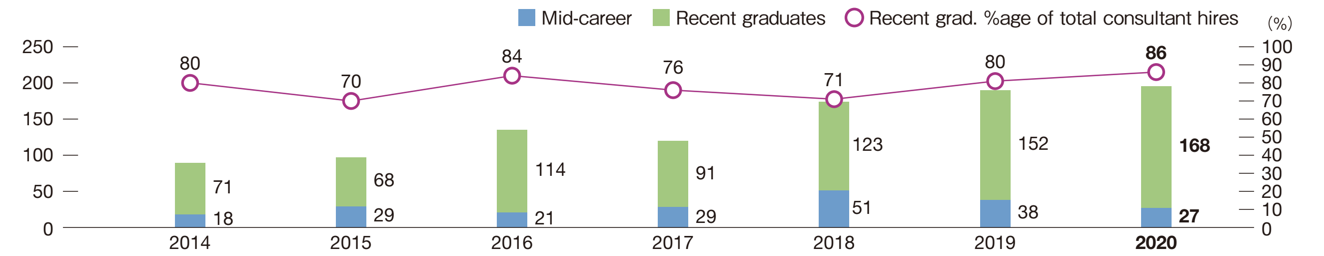
Non-Financial Highlights

Employee & Consultant Numbers for the Entire Funai Soken Consulting Group



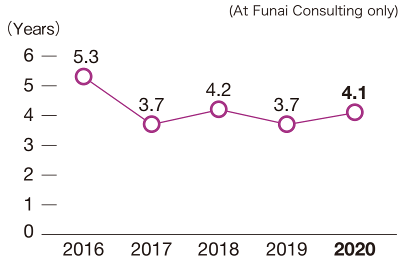
Our people are our most valuable asset and our biggest investment. Our goal is to reach a workforce of 1,500 people across the Funai Soken Consulting Group in 2022.

Consultant Hiring: Recent Graduates & Mid-Career Hires



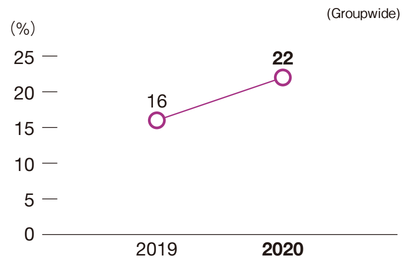
We are recruiting aggressively, and are known for hiring large numbers of recent graduates.

Avg. Leader Development Period



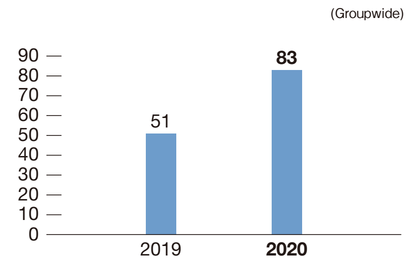
We aim to produce team leaders within five years. To that end, we established a Talent Development Center and have introduced a range of professional development systems.

Women in Management Positions



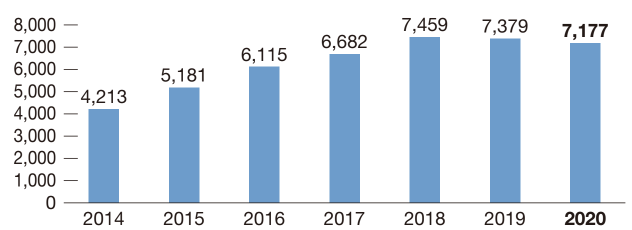
The percentage of management positions held by women at the Funai Soken Consulting Group is increasing, but we need to do more. To that end, we provide management training for women and offer a broad range of working styles.

Non-Japanese Employees



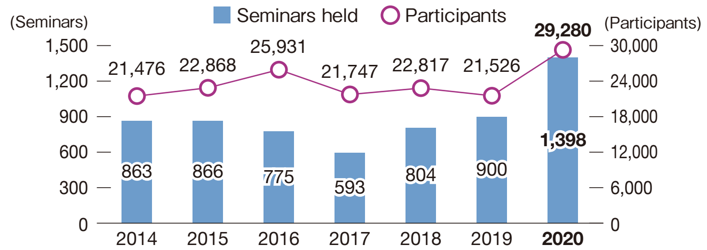
At Funai Consulting Shanghai and throughout the whole group, our workforce is becoming increasingly international.

Management Workshop Members



Management workshops are one of our group's foremost platforms, bringing together business proprietors to study challenges facing specific industries, business types, and solution categories.

Seminars & Participants (incl. in-person, online (free and paid) seminars)



Seminars help proprietors and executives find solutions to business management problems. They are the ideal point of first contact where we can meet prospective clients.

Our Commitment

Thank you for your ongoing support of the Funai Soken Consulting Group.

Commemorating the 50th anniversary of the group's founding in March 2020 was not just an occasion to reflect on our achievements since 1970, such as the successful development of our core consulting business and transition to a holding company structure in 2014. It was also a time to renew our commitment to seeking sustained growth and corporate value, and generating new value by carrying out our mission to be a reliable partner for our SME and mid-scale business proprietor clientele and help them overcome their challenges.

In 2020, the first year of our latest Mid-Range Business Plan (2020–2022), the global Covid-19 pandemic had a severe socioeconomic impact. In keeping with our commitment to convert change into momentum, we continue to offer steadfast support to our clients so that we may seek growth together.

Our 50th anniversary was marked with the establishment of new core values, which we call the Funai Way.

Adventureship
Converting change into momentum
以变促势

Empathy
A reliable partner for business owners
与"领袖"同心同行

Integrity
A force for good
遵循良心

These are the common values that guide our efforts to cement our place as a trusted provider of comprehensive management consulting solutions in line with your expectations, and we look forward to taking that journey with you, our shareholders and investors.

Chairman & Group CEO
高嶋栄

President & CEO
中谷貴之

Our Unwavering Commitment to Helping Clients Navigate Challenging Times

Takayuki Nakatani
President & CEO

Japan’s Only Consulting Firm with Business Models to Help SMEs and Mid-Scale Businesses Grow in the Post-Covid “New Normal”

Amid the widespread havoc caused by Covid-19, early recognition of the impending danger ensured we at the Funai Soken Consulting Group were ready to act swiftly, for instance by implementing measures to minimize the disease’s spread and holding workplace vaccinations. Now, as we continue to pursue our business activities, inspired by our admiration for the frontline responders and saddened by those who have suffered, the safety of our employees and our clients remains foremost in our minds.

A Smooth Transition

I was appointed president of Funai Soken Holdings in March 2021. A smooth transition was important to ensure we could have innovation without disruption, particularly in this period already defined by radical change and disarray, including not only the restrictions on economic activity and day-to-day life resulting from the Covid-19 pandemic, but also the changes in the business landscape brought about by digital transformation.

The group marked its 50th anniversary in March 2020, but here too, Covid-19 ruined our plans for various projects and celebratory events.

Seeking to recover some of that lost celebration, I took my appointment as president as an opportunity to relaunch the Founder’s Spirit and update the Funai Way, the official statement of our core values, for the first time in a decade.

In this way, I hope to provide clarity in a topsy-turvy age, to indicate the things we uphold and those we ought to change, to bring flexibility of thought to our pursuit of innovation, and to further increase corporate value.

Progress toward Achieving the Mid-Range Business Plan

Our latest Mid-Range Business Plan (2020–2022) was unveiled in February 2020, but the severe impact of Covid-19 left us with no alternative but to revise our targets in the plan’s first year. For the most part, we have met the bulk of the revised forecasts—operating income, in particular, has exceeded the plan’s target figures.

By specializing in comprehensive management consulting solutions for SMEs and mid-scale businesses, the Funai Soken Consulting Group is clearly different from the pack, i.e., the various foreign-owned and “strategic” consulting firms. Specifically, we strive to broaden and deepen our presence in three main categories:

- Comprehensive management consulting services for SMEs
- Digital transformation consulting for SMEs
- Comprehensive management consulting services for mid-scale companies

(1) Comprehensive Management Consulting Services for SMEs

This has been our area of greatest strength from the very beginning. When state-of-emergency restrictions were imposed in response to Covid, we swiftly began offering attentive support to help shape the post-Covid “new normal,” for instance by moving management workshops and seminars online, offering consulting services remotely, and allowing employees to work from home.

(2) Digital Transformation Consulting Services for SMEs

Our origins as a marketing consulting firm gave us a solid foothold in the digital transformation consulting space, allowing us to offer marketing-oriented services. Already there has been considerable interest in our solutions for online marketing, AI and robotics, and business models for improved client acquisition, deal closing, and productivity through contact-less, labor-saving solutions. That focus on real outcomes is in keeping with our long-standing commitment to growth support, and catering to the increased demand for digital transformation caused by Covid has in turn enabled us to pick up new expertise and solutions for specific industries.

We are determined to harness the potential of the digital transformation segment by stepping up our development of comprehensive solutions that help clients boost work efficiency and productivity throughout their organizations and overcome challenges such as improving working practices.

(3) Comprehensive Management Consulting Services for Mid-Scale Companies

Funai Consulting’s Account Partner Offices are multi-disciplinary teams specializing in the issues that mid-scale clients face at different stages of their journeys, including business ownership succession, M&A, IPOs, rebranding, holding companies, and launching new ventures. The recent increase in companies looking to restructure or rebuild business models amid the Covid-affected business climate has led to a steady stream of inquiries.

Our strengths in the consulting-for-SMEs segment are illustrated by a track record unrivalled in Japan, and by the increasing number of our SME clients growing into mid-scale companies. Serving clients in the mid-scale category is a step up for us, and we are determined to meet the challenge.

In the logistics segment, we have built up a community of business proprietors throughout the industry. With membership currently at 300 (as of December 2020), it is already one of Japan's largest logistics communities, but we are striving to expand it even further. In addition to releasing a series of digital services, including AI-powered dashboard cameras and robotic process automation, we are broadening our business foundation by partnering with Funai Consulting Shanghai to offer sales channel expansion solutions and export agency services (e.g., for e-commerce businesses).

Our direct recruiting business suffered from a stagnant job market in 2020. Recovering from that blow is our top priority, and Recruiting Cloud, the AI-based cloud service developed in-house at HR Force, is at the core of our endeavors.

Upward Revision of Earnings Forecast & Mid-Range Business Plan

On August 3, we revised our earnings forecast for the year ending December 2021, initially released on February 5. We are now forecasting net sales of 29 billion yen, operating income or 6.4 billion yen, ordinary income of 6.45 billion yen, and net income of 4.3 billion yen. The upward revision follows our swift response to the restrictions imposed in reaction to Covid-19, for instance by moving seminars and management workshops online and building a framework for providing support services remotely. These actions led to a reduction in costs without any deceleration in new orders, thus ensuring that we not only recovered, but improved beyond the previous two years' figures. Thus, with the improvement in operating margin, we decided it was appropriate to revise our earnings forecast upwards.

In addition, we have raised our targets for 2022, the final year of the 2020-2022 Mid-Range Business Plan. Our initial target for operating income in 2022 was 6.3 billion yen but we are on track to reach that target a year early. Our targets for 2022 are: net sales of 33 billion yen (up from 31 billion yen in the original plan) and operating income of 7.1 billion yen (up from 6.3 billion yen). Reaching that would ensure the continuation of our unbroken run of consecutive record operating income. Given our steady progress toward achieving the plan's targets, we have made no adjustments to its basic policies and strategies, but we are eager to get on and tackle the remaining targets, and to generate a new generation of growth drivers so as to further strengthen our business foundation.

Looking to the Future: Key Initiatives and Directions

Becoming the No.1 Digital Consulting Group for SMEs and Mid-Scale Businesses

In addition to pursuing the business strategies stated in the Mid-Range Business Plan, we are also striving to configure our businesses for the "new normal" of a post-Covid world through three main developments.

First, we will reinforce our standing as the comprehensive management consulting group with the highest approval rating among SME and mid-scale business proprietors by offering industry-specific business models and digital transformation consulting that provide the best outcomes. Here, our role is to offer our clients more detailed, more reproducible, more promptly effective solutions to the challenges of running an SME than rival firms, and to partner with them the whole way through to final implementation.

By carrying out that role, and by offering new kinds of business management support our clients need, we can be more than just a partner that clients know will help them overcome whatever challenges they face—we can become a rock-solid platform on which business success is built. Already we are well on the way: management workshop members benefit from belonging to one of Japan's largest communities of its kind, and clients can also take advantage of a huge database of case studies, and digital resources such as Shacho Online and the Sanbō series of data-driven, real-time business diagnostic tools. By enhancing our range of digital contact points, we aim to be the top next-generation consulting platform for business proprietors.

Building a Solid Business Foundation as a Digital Transformation Solutions Provider

A Model for Digital Transformation Solutions

The second way we are preparing the Funai Soken Consulting Group for the post-Covid landscape is by establishing the group as a model for digital transformation solutions. To begin with, we are building up a workforce of expert digital transformation consultants as quickly as possible; as of December 31, 2020, we have 137. Moving forward, we will pursue a two-pronged strategy: bolstering our pool of digital transformation staff and expanding the range of fields in which they can offer digital transformation solutions, while of course pursuing our own digital transformation and adding new value and synergies by acquiring digital transformation businesses. We aim to make digital transformation more accessible to SMEs and mid-scale businesses, and to ensure we can offer them proven solutions that have been tested on and by our own group.

What's more, I believe that leading the search for solutions to SMEs' and mid-scale businesses' digital transformation challenges will propel Japan closer to one of its overriding goals: making the nation's small businesses more productive.

Japan's Foremost Creator of Corporate Value

The third part of our plan for success in the post-Covid era is establishing the Funai Soken Consulting Group as the most prolific creator of corporate value among Japan's listed companies. We recognize the importance of contributing to the nation's digital and green transformations as well as global movements such as ESG management, SDGs, and the fight against climate change. Japan, and in particular the SMEs and mid-scale businesses we serve, have a major role to play in the global effort toward sustainability. It follows, therefore, that the management support we offer those clients has a significant bearing on that effort.

With that in mind, we appointed to our board in 2020 outside directors with broad experience and expertise in ESG management and SDG-oriented activity, and established a Sustainability Committee in 2021. In this way, we are determined to use our business as a vehicle for making a genuine contribution to society in our own unique way. Moreover, doing so will be a vital part of our quest to create corporate value.

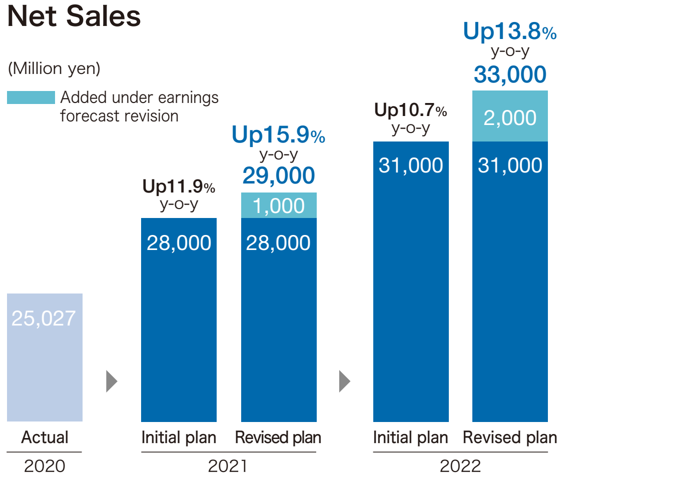
As always, we remain dedicated to transparency and integrity in business, and to good-faith communication with stakeholders. We look forward to your ongoing support as we embark on the next 50 years of our journey toward a better, more sustainable future by helping SMEs and mid-scale businesses.

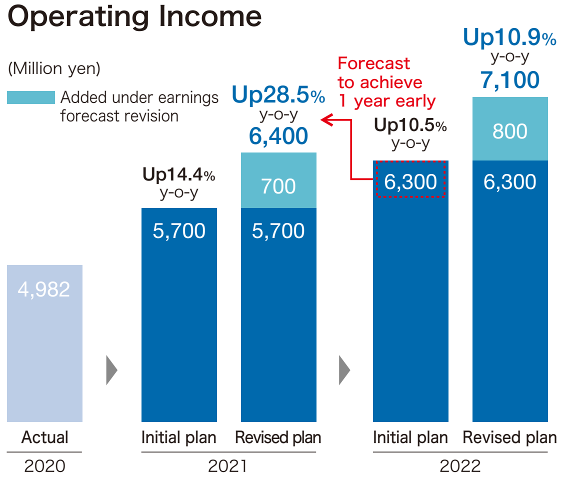
Growth Strategies Mid-Range Business Plan

Targets

Our targets for 2022 reflect the current business climate: consolidated net sales of 33 billion yen and operating income of 7.1 billion yen, while maintaining a high rate of profitability.

Net Sales and Operating Income 2020– 2022Performance & Targets (Revised Aug. 3, 2021)



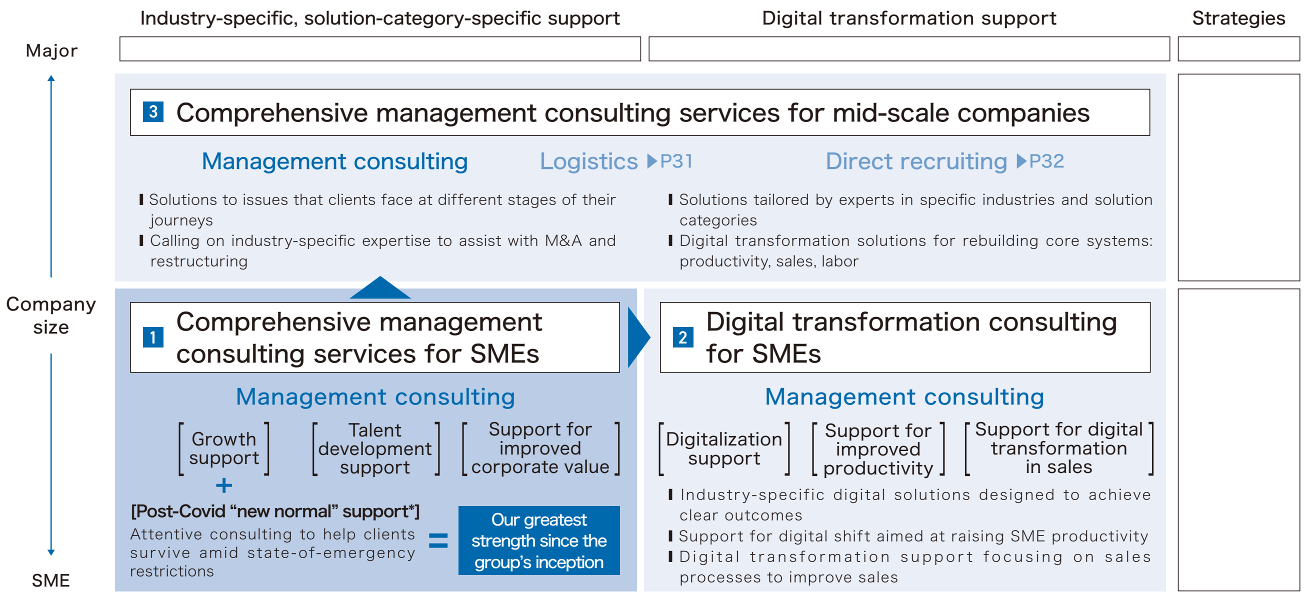


* The company is scheduled to adopt the Accounting Standards Board of Japan's Accounting Standard for Revenue Recognition beginning in FY2022. We predict that the main impact of this will be a decrease in net sales as only the portion of ad listing agency sales comprising the company's fees can be listed as sales. The effects of this change on operating income are minor. The effects (amounts) of the change will be included within the full-year financial results for the year ending December 2021.

Business Strategy Our Vision for the Funai Soken Consulting Group

Attentive support to help existing clients adjust to the "new normal" of the post-Covid era. Step up digital transformation consulting for SMEs and comprehensive management consulting services for mid-scale companies.

■ Ideally Positioned to Capture Consulting Needs



*Aimed at helping clients shape the "new normal" of the post-Covid era from a business management standpoint.

Human Resource Strategy

Create an environment that allows a diverse workforce to harness its individual strengths in the post-Covid era, and start a cycle of hiring, professional development, and empowerment to generate sustained growth.

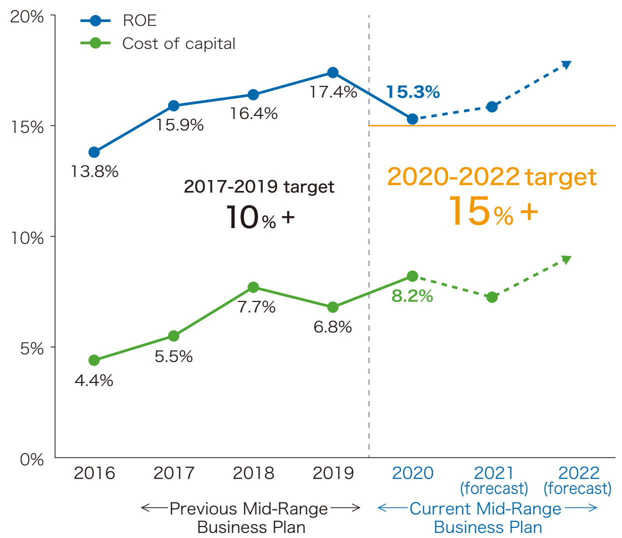
	Human Resource Strategy: Mid-Range Business Plan (2020～2022)	Human Resource Strategy: 2020 Outcomes and Plan Progress	
1 Hiring	**Groupwide workforce of 1,600 by 2022 (increase by approx. 400)** (1) Ongoing aggressive hiring of consultants (200–250 per year) (2) Expand hiring of digital transformation staff (3) Step up hiring of non-Japanese (esp. in Shanghai) (4) Hire more qualified professionals	Revised	· Revised in light of current business climate: Groupwide workforce of 1,500 by 2022 (increase by approx. 300)
		Making progress	· 24 digital transformation staff (as per Funai Soken Holdings definition) hired by Funai Consulting in 2020 · 43 non-Japanese hired throughout the group in 2020
2 Development	**Rebuild accelerated development programs for an expanding workforce** (1) Establish a Talent Development Center Swift development of digital transformation staff, maximize consultants' employee lifetime value (2) Continued accelerated development of team leaders (target: promotion to team leader within 5 years) In 2019: 3 years 8 months	Making progress	· Talent Development Center opened; expanding professional development programs, e.g., digital transformation training
		Target achieved	· In 2020: 4 years 1 months
3 Empowerment	**A rewarding environment for a diverse workforce** (1) Establish and embed a new assessment system based on four major career paths ① Consultant development course ② Business development course ③ Corporate professional course ④ Management course (2) Flexible working arrangements for improved efficiency Expand remote support services to reduce the need for consultants to travel	Making progress	· New assessment system built and implemented at Funai Consulting; currently in 2nd-year embedding phase
		Target achieved	· Brought forward due to Covid: framework for remote support built, implemented, and offered as part of consulting services

Financial Strategy: Capital Policy, Shareholder Returns Policy

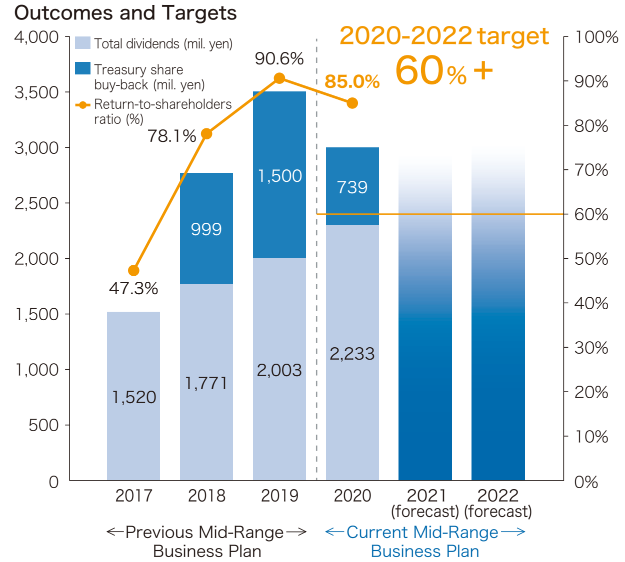
Amid the severe impact of Covid-19 in 2020, we undertook a share buy-back. By acquiring treasury shares, we aimed to improve capital efficiency to a consolidated ROE of at least 15% and raise the return-to-shareholders ratio to at least 60%. Ultimately, we achieved those goals, with a consolidated ROE of 15.3% and a return-to-shareholders ratio of 85.0%.

The initial policy remains unchanged, and we will strive to achieve the targets in the plan's remaining years.

Consolidated ROE and Cost of Capital: Outcomes and Targets



Total Dividend and Return-to-Shareholders Ratio: Outcomes and Targets



The Value Creation Process

We improve corporate value by leveraging our hard-won strengths to devise and provide real solutions, shaping the future together with our clients, and helping to make the world more sustainable.

Model for Creating Value Together

We offer services optimized to meet clients' needs based on state-of-the-art business models

Our Mission
Our Vision for the Future

Vision ➡P01
We help to build a better future for people, businesses, and society.

Values ➡P01
The Funai Way

Strengths ➡P05
- Ability to create business models
- Adaptability to change
- Client relationships backed by trust
- Diverse workforce
- Solid financial foundation

We bring joy to people and businesses through solution-focused comprehensive management consulting services for SMEs and mid-scale businesses

Funai Soken — Clients

Consulting
Logistics
Direct recruiting
Other businesses

Value Creation Drivers
➡P21 Our business segments
➡P23 Business model
➡P30 Group synergies

Industries Served
Housing, real estate
Healthcare, nursing care, welfare
Certified professional services
Mobility
Specialist services
HR business
Environment, energy
Education, childcare, schools
Dining, food
Amusement
Manufacturing
Finance

Solution Categories
M&A, IPO
Overseas markets (China)
HRD
Contact center
IT, systems development
AI, robotics
Logistics
BPO

Shaping the future together with our clients

Input

Funding corporate activity through j udicious capital input

Use of Capital

➡P05 Real Strengths Forged in Experience
➡P07 Financial & Non-Financial Highlights
➡P49 Financial Review

Financial Capital

FY2020	Consolidated operating income	Total assets
	4,982 mil. yen	27,951 mil. yen

Non-Financial Capital

Workforce

Employees: 1,303 (groupwide)
Consultants: 859 (groupwide)
Digital transformation staff:137 (groupwide)
Female employees: 36.3% of group workforce
Non-Japanese employees: 6.4% of group workforce
Recent graduate hires: 86% of consultants (groupwide)
Avg. leader development period (at Funai Consulting): 4 years 1 month

Client Base

Client companies: 10,000+ (groupwide)
Seminars held: 1,398
Management workshop members: 7,177
"Shacho Online" platform for business proprietors: 5,040 subscribers
Seminar participants: 29,280

Brand

51-year track record
Strengths lie in marketing (growth support) solutions offered by teams of consultants specializing in specific industries and solution categories

Reinvest

Outcomes

Our Process for Creating Value for Society

Helping to Make the World More Sustainable

Basic Policy Regarding ESG Management ➡P33

SUSTAINABLE DEVELOPMENT GOALS

01 — 9 Industry, Innovation and Infrastructure; 12 Responsible Consumption and Production
We contribute to our communities through consulting services for SMEs and mid-scale businesses

02 — 17 Partnerships for the Goals; 8 Decent Work and Economic Growth
We offer support and solutions to help clients implement ESG management

03 — 5 Gender Equality; 13 Climate Action
ESG and proactive information disclosure consultants (groupwide) at the core of our group company management

Increasing Corporate Value

Mid-Range Business Plan (2020-2022) Targets ➡P15 See the targets

Financial Capital

Consolidated operating income	3-year operating cash flow + cash on hand	ROE
71 bil. yen	12 bil. yen + 5.0 bil. yen=17 bil. yen	15+%

Non-Financial Capital

See P33 for more on high-materiality issues and P8 for KPIs.

Workforce

■Developing work-ready digital solutions staff
(Major positions)
1. Digital marketing consultant
2. DX consultant
3. DX engineer

■A more diverse workforce
1. Helping mid-career hires forge meaningful careers
2. Helping women forge meaningful careers
3. Helping non-Japanese employees forge meaningful careers

■A rewarding environment for a diverse workforce

Client Base

■A broad range of industry-specific and solution-category-specific seminars aimed at providing direct solutions to the challenges clients face

■Management workshops serve as a platform for business proprietors and executives to access information

Brand

■One of Japan's foremost comprehensive consulting groups for SMEs and mid-scale businesses

Business Risks

Risk Management

We have established a Risk Management Committee as a groupwide organization to manage crises including management of the risk of losses.

The Risk Management Committee recognizes the importance of identifying, evaluating, and managing risks that have a significant impact on corporate management and business continuity, and appropriately manages the risks surrounding the group and seeks to prevent risks from arising, for instance by identifying risks that require a priority response and implementing specific measures to deal with them.

It consists mainly of directors, executive officers and employees who manage major departments. It collects information from both inside and outside the company, conducts risk analysis from various perspectives and deliberates on and implements measures in response to risks.

We have also established other advisory organizations as deemed appropriate, including a Sustainability Committee and a Governance Committee, thus helping to bolster group governance with access to advice from broadly experienced outside directors.

	Risks we face in the consulting business
Risk	In an industry already predicted to become even more intensely competitive, the increasing gap between firms that can and cannot keep up with clients' needs, including new demands such as help with digital transformation, raises the possibility of an industry shake-up, including new alliances and splits.
Preventive measure	We strive to ensure a high degree of client satisfaction by collating insights gained during day-to-day operations and using these to formulate new methodologies for analyzing clients' businesses and finding innovations.

	Over-reliance on consultants
Risk	Failure to secure and develop the human resources we need may have an impact on our operations and business performance.
Preventive measure	・We are revising our assessment systems so that compensation reflects individuals' achievements more accurately. ・We strive to help women forge meaningful careers, e.g., by introducing frameworks that make it easier to balance work with needs such as childcare.

	Risks we face in other businesses
Risk	・While our logistics business contributes to clients' improved business performance, this segment is susceptible to demands for prompt roll-out of environmentally-considerate solutions for entire supply chains in the name of ESG management. ・Our direct recruiting business operates in a crowded industry susceptible to sudden declines in competitive strength on price and service quality, and to national economic trends.
Preventive measure	・We will develop a talent pool for our logistics business with the skills to stay abreast of industry trends regarding ESG requirements. ・We will establish a dominant share of the direct recruiting market through marketing and pursue client acquisition in a way that is not susceptible to the whims of the economy.

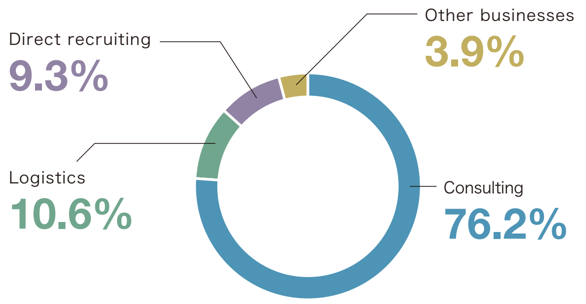
	Information security risks
Risk	Unforeseen circumstances may lead to incidents such as confidential information leaks, violations of law relating to incorrect procedures for acquiring or handling personal information, destruction or falsification of important data, and system disruptions.
Preventive measure	・We have a framework that ensures in-house rules are followed through thorough oversight of information security regulations and their implementation. ・The importance of information management is ingrained in employees and officers through instilling our Five Principles of Information Security, adherence to the Information Security Manual, and e-training.

	Risks of longer, more widespread Covid
Risk	Worsening business performance among our core clientele, Japanese SMEs, may have an adverse effect on our ability to attract new consulting orders, while lost opportunities for new orders caused by restrictions on client acquisition and in-person sales activities may impact the group's business performance.
Preventive measure	In addition to helping stop the spread of infections, both inside and outside the group, we have established a framework that enabled us to continue business operations despite the pandemic, including online seminars, remote consulting services, and working from home. We are also striving to restore clients' business performance by supporting their efforts to ready themselves for the "new normal" of the post-Covid era and stepping up digital transformation consulting services.

What We Do:
Our Four Business Segments at a Glance

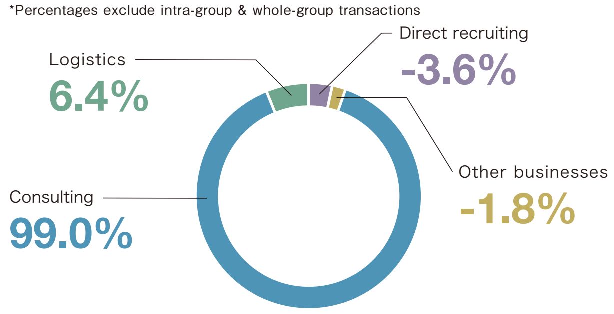
The Funai Soken Consulting Group's business is divided into the four segments outlined below. While focusing on our core consulting business, we also offer solutions incorporating management and support in highly specialized areas so that clients can overcome their business challenges.

%age of Total Sales by Segment



%age of Total Operating Income by Segment

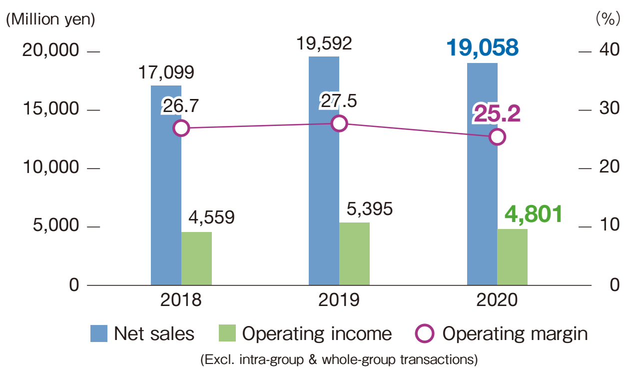
*Percentages exclude intra-group & whole-group transactions



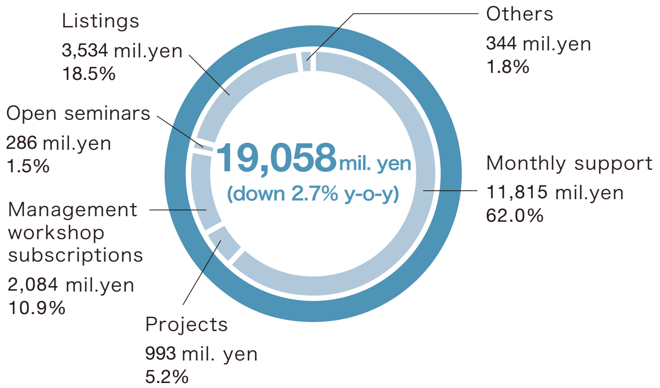
Consulting

Industry-Specific, Category-Specific Solutions

We leverage our unique marketing skills and years of expertise to provide industry-specific and category-specific business solutions. This includes China-based services (by Funai Consulting Shanghai) as well as intragroup synergies and business process outsourcing (by Funai Soken Corporate Relations).



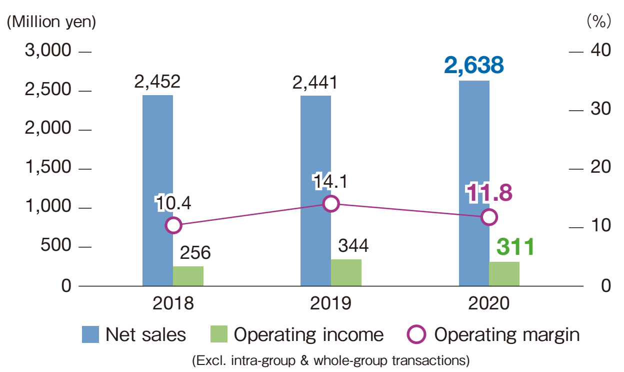
External Sales by Service Category (Amts. & %age of Total) in FY2020



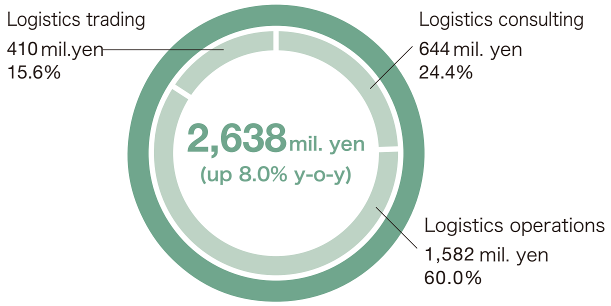
Logistics

One-Stop Logistics Services

We offer a full line-up of logistics services from consulting to outsourced logistics and logistics trading. With a wealth of experience and expertise to call on, we have what it takes to help logistics businesses and their shipper clients keep the cargo flowing.



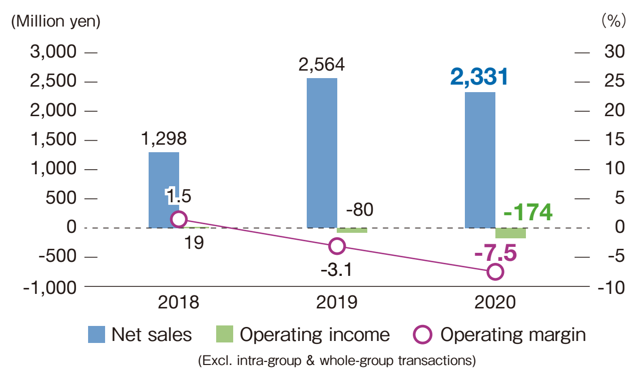
External Sales by Service Category (Amts. & %age of Total) in FY2020



Direct Recruiting

Using the Latest Ad Technologies to Help Growing Companies Alleviate Labor Shortages

Recruiting Cloud is Japan's first data- and AI-powered ad platform dedicated to "help wanted" ads. Contract renewal rates are high, and we continue to add new media for clients' ads to realize even higher recruiting success rates.

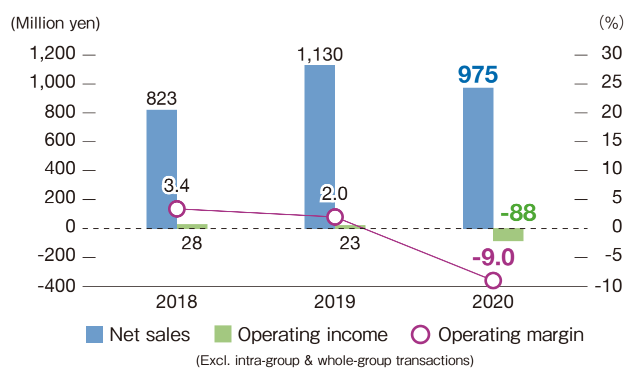


Sales in This Segment in FY2020

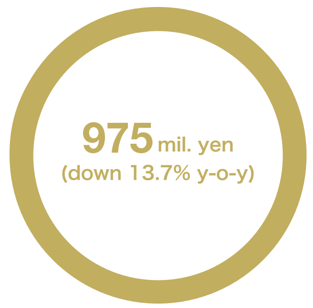
Other Businesses

A Variety of Services Including IT, Contact Center, and Systems Solutions

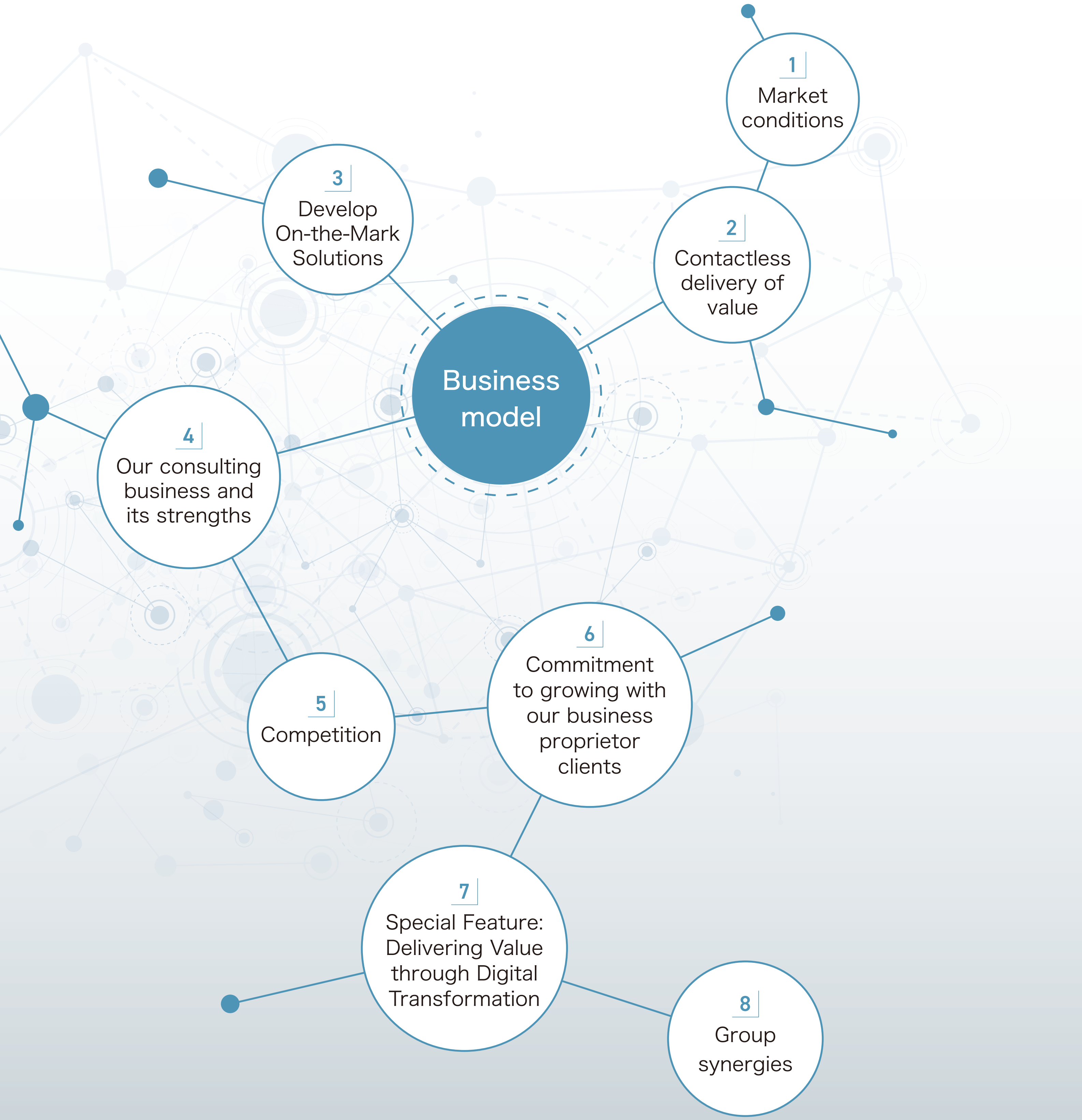
This segment covers a broad range of services. Funai Soken IT Solutions offers optimized solutions for IT system construction, operation, and everything in between; Proseed helps clients in many different industries improve customer service quality through contact center management solutions; and Shinwa Computer Service delivers practical solutions to help optimize processes within clients' systems and networks.



Sales in This Segment in FY2020



Our Consulting Business Model



The Environment in Which We Operate

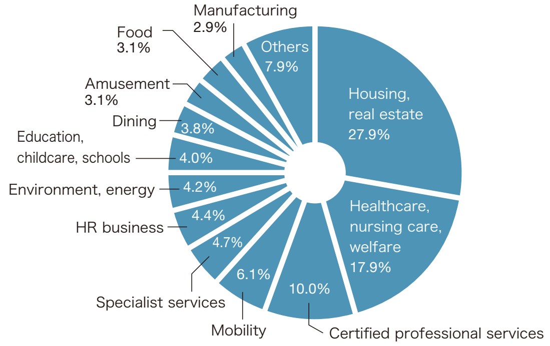
We create real value and drive sustained, profitable growth by keeping a finger on the market pulse and offering the growth support clients truly need.

Daisuke Shingai
President and CEO, Funai Consulting Inc.

1 Market Conditions
(Macroenvironmental Changes, Demand for Industry-Specific Consulting)

Covid-19 continues to muddy the outlook for Japan's SMEs. Multiple states of emergency beginning in April 2020 have decimated demand in the service industry, affecting the tourism and wedding sectors, as well as the staffing and dining industries. Meanwhile, the effects on the amusement industry have been amplified by the maturing of that sector. Covid seriously impacted Funai Consulting's sales activities aimed at acquiring new clients in the company's main markets—housing, real estate, healthcare, nursing care, and welfare—but the final figure was solid over the year as a whole. Other trends included increased demand for digital transformation in the manufacturing industry, leading to higher revenues and a shift to online sales activities.

Industries Served by Our Consulting Business in FY2020
(by Share of Sales)



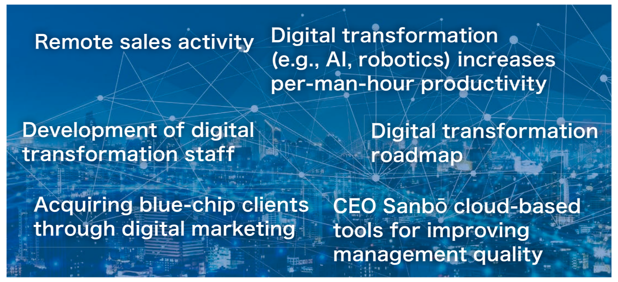
*Figures show sales of consulting contracts, management workshop subscriptions, and open seminar revenues, grouped in accordance with the company's industry classifications, for the January through December 2020.

Trends in Demand in 2020– 2021

Numerous digital transformation support products have been released to market since 2020. SMEs are going beyond regular digitalization (e.g., paperless operations and remote work) to digital transformation, which entails a more fundamental change to the way companies are run.

Various new business models have appeared, further pushing demand for digital transformation and giving rise to an era in which clients demand consulting services that include new IT tools tailored to clients' industries, and the creation and embedding of digital marketing strategies.

Covid-19 Accelerates Demand for Digital Transformation Consulting



Stepping Up Digital Transformation of SMEs and Mid-Scale Businesses in 2021

- Online seminars and consulting sessions account for a larger percentage of total
- More digital transformation solutions and services

2 Contactless Delivery of Value

When times are tough, we are always there for our business proprietor clients, offering peace of mind through actionable ideas for staying ahead of changes.

	Content-based services	Management seminars	Management workshops	Consulting
Before Covid		■ Industry-specific & solution-specific seminars Mostly in-person seminars · 884 in-person seminars held · 16 online seminars held Total 21,526 participants in 2019 ■ In-person sales activity Sales staff visit participants in person after seminars	■ Management workshops 178 workshops held in 2019, in person at our premises Tokyo and Osaka	■ Monthly support Mostly conducted in-person, either visiting or accompanying clients in Japan and overseas
Action taken in response to Covid	■ Industry-specific, solution-category-specific reports Downloadable reports attracted 29,399 prospective clients in 2020 ■ Expansion of platform for business proprietors Shacho Online began streaming video content for business proprietors	■ Industry-specific & solution-specific seminars Switch to online seminars · 125 in-person seminars held · 1,273 online seminars held Total 29,280 participants in 2020 ■ Online consulting Online consulting sessions held after online seminar. From selling to receiving order, everything is conducted online.	■ Online management workshops Complete switch from in-person to online workshops	■ Remote consulting services Consultants meet with and advise clients remotely from purpose-built studios at our premises in Tokyo and Osaka

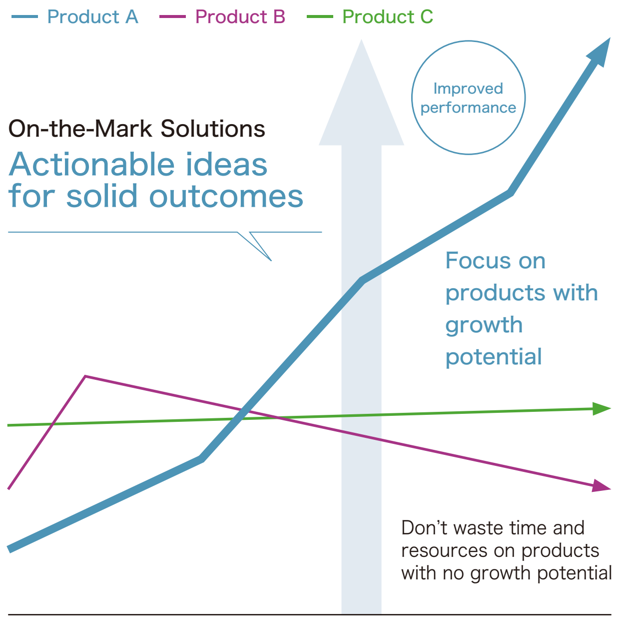
3 The Funai Consulting Business Model
On-the-Mark Solutions

A Business Model Designed to Improve Results Quickly

At Funai Consulting, we offer clients business models that go beyond industry norms and are optimized for the times. We call these On-the-Mark Solutions. They are fresh business models that, if implemented in the intended industries (or adjacent sectors), will enable the client to improve their performance dramatically. As the name suggests, each On-the-Mark Solution is designed to enable the client to ride market trends by delivering the right thing at the right time.

Sample On-the-Mark Solution for the Housing & Real Estate Industry

Super low-cost housing targeting people looking for houses on a budget akin to renting an apartment. Clients can pursue higher-yield products, and their customers will be happy to find affordable houses.



What's New **New Services Launched Since 2020**

CEO Sanbō cloud-based tools for improving management quality

- Cashflow Sanbō
- Soshiki Sanbō
- Business Model Sanbō

Digital Expert Training

An intensive professional development course that produces staff capable of designing and directing the company's digital transformation, and building IT tools either in-house our outsourced.

Sales Switch Academy

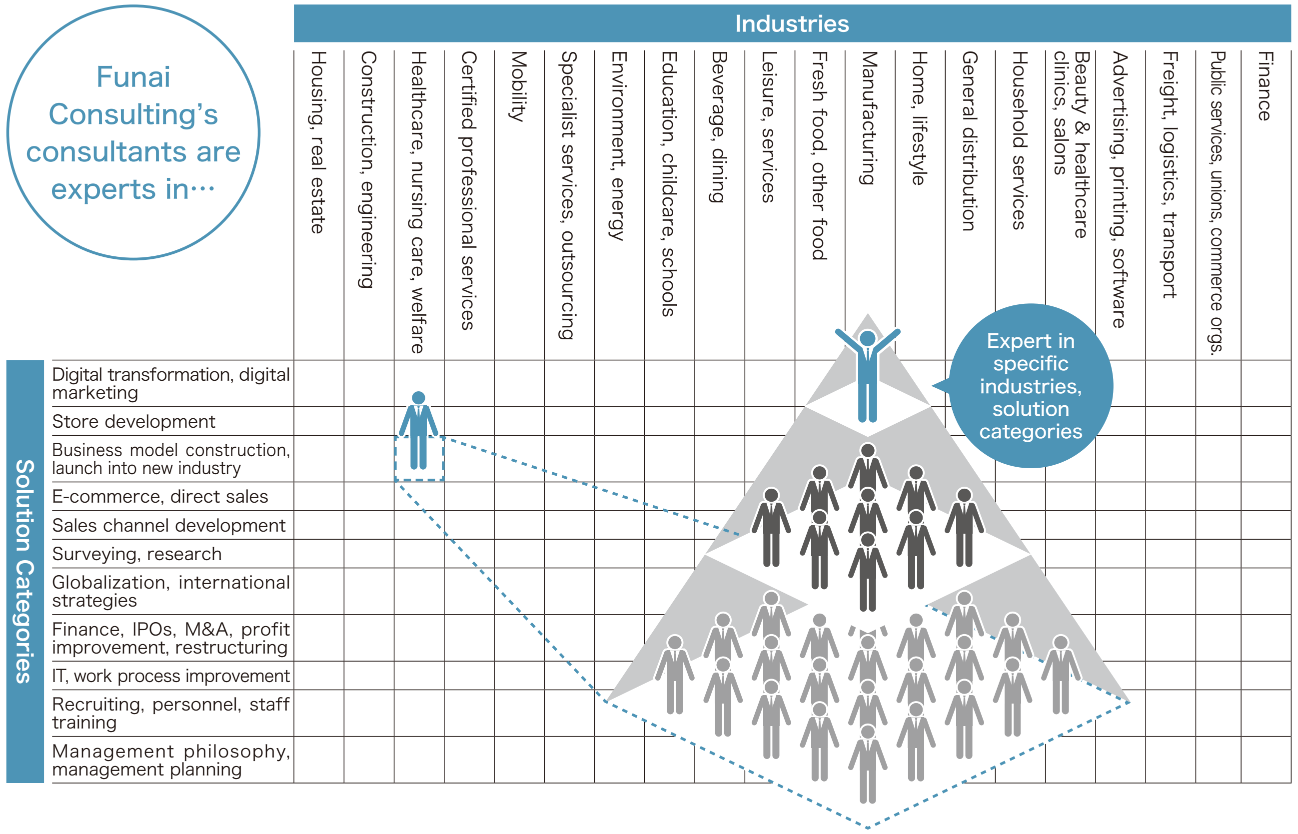
A forum for developing effective salespeople.

- Get-togethers
- Video content platform
- Rankings

4 Our Consulting Business and Its Strengths

Expertise in a Broad Range of Fields

Helping clients achieve growth requires more than just knowledge of business management overall; each client's position in their industry and, indeed, the potential of the industry itself are important. At Funai Consulting, we have specialist consultants for a broad spectrum of industries, so as to offer clients the deep expertise needed to improve corporate value.



Unique Consulting Methods

Our style is to work in close proximity with clients, offering practical support to help them improve performance.

Management Workshops

Groupwide, we hold 190 distinct management workshops for business owners and executives to hone their efforts toward improved performance. Clients value these opportunities to access the latest insights from front lines of their industry.

Monthly Support

Monthly support contracts featuring regular visits to clients by consultants.

Management Seminars

We hold more than 1,000 seminars a year, covering a broad range of industries and solution categories and aiming to provide direct solutions to the challenges clients face.

Projects

Fixed-term projects, where consulting teams provide comprehensive solutions from research and analysis to strategy planning and execution.

Client Network

In addition to the Funai Soken Consulting Group's 7,177 management workshop members (incl. 5,487 at Funai Consulting), our seminars have an annual attendance of some 30,000 people, and we have around 5,000 subscribers to Shacho Online.

We strive daily to nurture deeper relations with proprietors of Japanese SMEs and other businesses, so as to offer stronger assistance when they come to us for help.

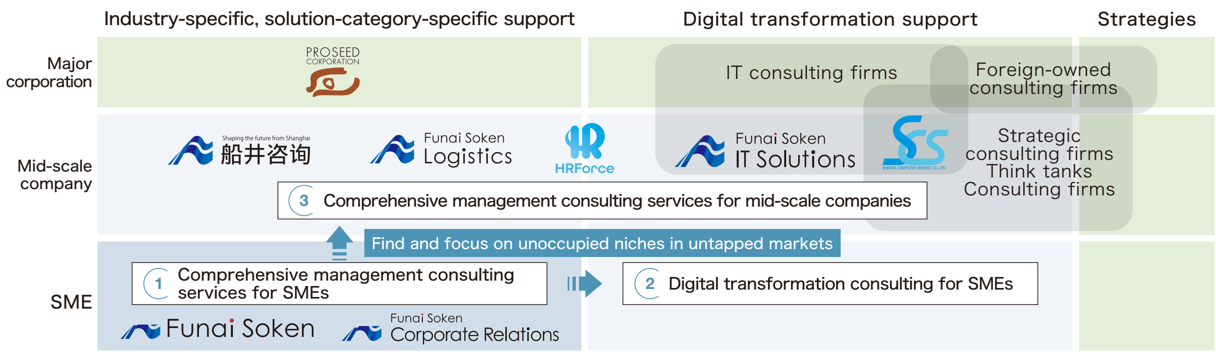
5 Competition

Our consulting style is different from that of the foreign-owned "strategic" consulting firms and think tanks in that we specialize in practical, coalface-ready solutions for SMEs and mid-scale businesses, and in our focus on digital transformation consulting to grow market share.

Ideally Positioned to Capture Consulting Needs

This diagram shows our consulting categories and the kinds of clients we offer them to. Simplified for easy viewing, it is designed to give a general overview rather than a detailed examination.

Client Consulting Needs and Consulting Firm Positioning

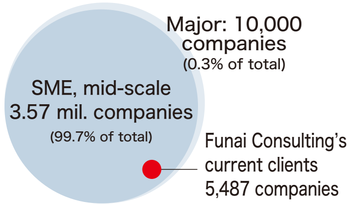


*Consulting businesses: Funai Consulting, Funai Consulting Shanghai, Funai Soken Corporate Relations
*Logistics business: Funai Soken Logistics *Direct recruiting business: HR Force
*Other businesses: Funai Soken IT Solutions, Proseed, Shinwa Computer Service

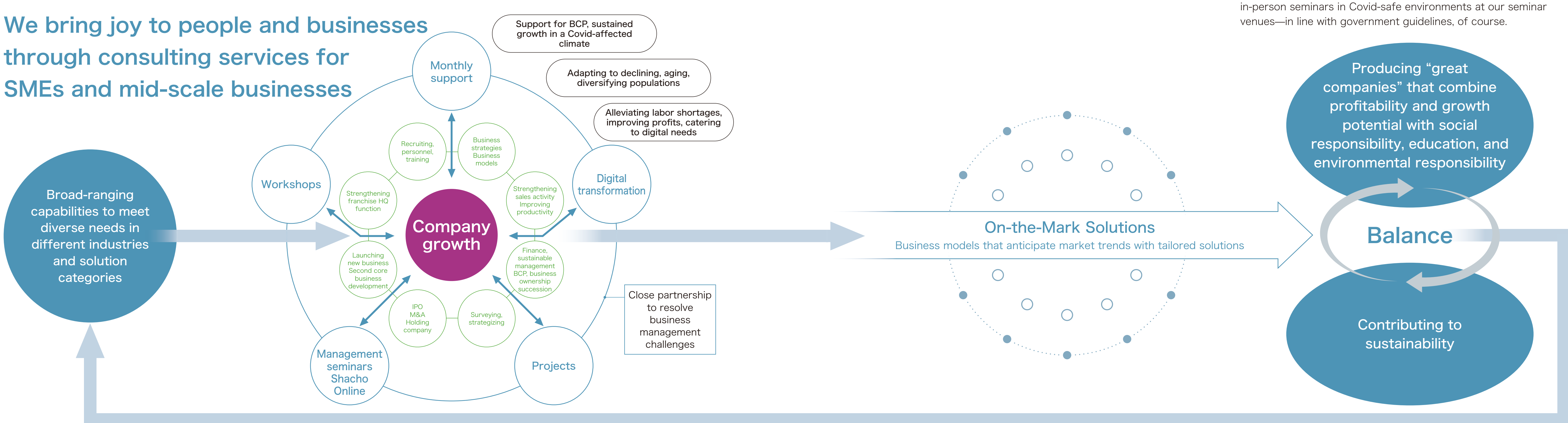
3,580,000 Companies in Japan

(private sector, not primary industry; per 2016 Economic Census)

We offer consulting services tailored to each company's current stage of growth, work closely with business proprietors throughout the process to ensure digital transformation solutions are properly formulated, implemented, and embedded in the quest for improved performance and productivity.



We bring joy to people and businesses through consulting services for SMEs and mid-scale businesses



6 Commitment to Growing with Our Business Proprietor Clients

At Funai Consulting, management workshops are one of our main strengths. Every month, we hold a variety of workshops providing business proprietors with access to a wealth of practical, applicable expertise and relevant information. Workshops are facilitated by experts in the relevant industry or solution category, who know what it's like to walk the participants' shoes.

Similarly, monthly support services are designed to help clients overcome their company's challenges to reach specific goals. Our consultants work closely with clients to implement solutions. In some cases, depending on a client's stage of growth, we form dedicated teams to help propel the company toward growth targets.

Monthly Support

Management Workshops

To safeguard our clients and prevent further spread of Covid-19, we have adopted a range of measures in line with government guidelines, such as switching to online workshops, seminars, and consulting services. Moving forward, we look forward to resuming in-person seminars in Covid-safe environments at our seminar venues—in line with government guidelines, of course.

7 Special Feature: Delivering Digital Transformation Value

Stepping Up Digital Transformation of SMEs and Mid-Scale Businesses in 2021

Digital tools, AI, and robotics enable us to help clients with their digital transformation and provide a variety of support solutions, thus carrying out the group's mission to use our work as a vehicle for contributing to client companies' growth and corporate value.

Our Digital Transformation Support Includes···

Digital shift → Paper▶Digital / Commuting to office▶Remote work

Digital transformation → Industry-specific, category-specific solutions × Cloud computing SaaS System installation → Improved performance / Improved productivity / Improved added value

- In sales activity → Marketing innovation → Website & online marketing + MA + SFA + online sales activity
- In operations & processes → Improvements and innovation in work operations and processes → API integration, RPA, AI & robotics + work process innovation
- In administration → Improvements and innovation in admin work → Core system unification & ERP + BI + admin process innovation

DX Consulting Divisional Headquarters

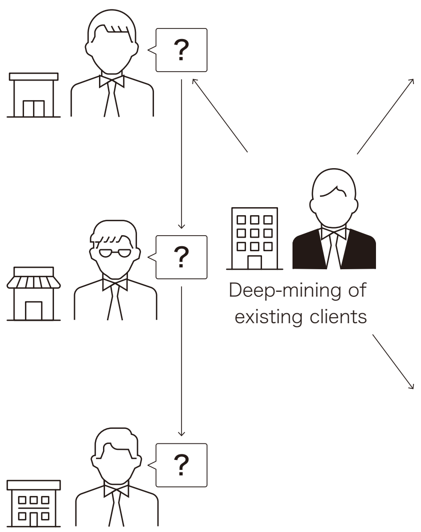
Formed in 2021 to help us meet client needs, this is a team of expert digital transformation consultants, who assist clients with digital transformation and resolving issues. Services include implementing and embedding IT tools to improve productivity, and formulating and implementing digital marketing strategies.

Digital transformation support sales
Approx. 1 bil. yen per year

Target for 2022
2.5 bil. – 3 bil. yen

Online Sales Example: Marketing for Manufacturers with No In-Person Contact

Conventional method



With marketing automation

Get orders
Build website + Marketing automation = Prospect

Switch to no-in-person-contact business model

Strengthen relationships
E-mail newsletter, SNS, Web conf'ing, Phone, Direct mail, Client needs database
Marketing automation + CRM = repeats, upselling

- Build a website that targets key people inside corporate design and developments (i.e., delivers value analysis and value engineering solutions)
- Release content via e-mail newsletters and SNS like YouTube, and harness marketing automation and CRM to develop prospects and, having ascertained their needs, approach high-potential targets.

Online Marketing Solutions that Harness a Potent Blend of Marketing Automation, SFA, and CRM

Companies are limited in their ability to make sales visits in this Covid-affected age. We boost competitive ability by harnessing marketing automation to replace conventional styles (e.g., deep-mining personal networks) with a new, online marketing structure that does not rely on face-to-face contact.

*Marketing automation refers to the integrated management of information regarding prospective clients, and the use of official websites and SNS to automate marketing and make it more visible.

8 Group Synergies

Funai Soken Corporate Relations

Funai Soken Corporate Relations Inc. (consulting)

Leveraging the group's wealth of sales support and back office infrastructure expertise to offer services to intragroup and external clients.

Business Strategy Under the Mid-Range Business Plan

- Back-Office Consulting

PHASE 1
Better visibility of business processes
- Identify target processes
- Formulate work flow
- Quantify output
- Measure per-man-hour productivity

PHASE 2
More efficient work processes
- Review work flow
- Eliminate dependence on specific people's skills
- Robotic process automation of work flow
- Implement digital transformation tools
- Business process outsourcing

Desire for Productivity, Focus on Targets Among Staff
- Implement KPIs
- Quantitative productivity evaluation
- Level-specific staff training
- Vision matching training

PHASE 3
Support for Becoming a Profit Center
- Staff switch to call center operator duties
- Staff switch to sales support duties
- Staff switch to robotic process automation operator duties

Turn Back-Office Depts into Profit Centers
Business process staff | Excess staff / Business process outsourcing / Business process staff

Optimizing Cost Per Acquisition

- Using BPO to convert initial reaction to sales

Acquire list of prospects: Landing page, online ads / SNS ads / Look up company data → More prospects

Immediate appointments: Inbound — Quick, attentive contact while prospects are motivated / Outbound — Focus on eliciting information; approach at the right time → More appointments & meetings

Following up: Attentive follow-ups → More sales

We're "L-Star" Certified as a Proactive Provider of Career Opportunities for Women

At Funai Soken Corporate Relations, we're proud to have attained level three in October 2020 under the government's "L-Star" system of rating employers on their performance in five areas under the relevant law: hiring, continued employment, working hours and other practices, percentage of management positions held by women, and variety of career paths.

Annual sales of online ad listings
Up 42.0%

Shaping the future from Shanghai
船井咨询

Funai Consulting Shanghai Inc. (consulting)

Adapting the Funai Soken Group's expertise to provide consulting services in the growing Chinese market.

Business Strategy Under the Mid-Range Business Plan

Areas of Particular Strength

- Specialized support aimed at boosting growth
  Opening new restaurants, turning around unprofitable restaurants, seeking growth, improving productivity, management, talent development
- Category-specific management workshops and QSC improvement

- Funai Consulting Shanghai's management workshops are tailored to specific categories

Dining industry workshops → Restaurants / Fast food


An online dining industry management workshop held in 2021.

We are working to establish Funai Consulting Shanghai as one of China's foremost management consulting firms in the near future by expanding a business model already proven in the dining industry to incorporate other sectors.

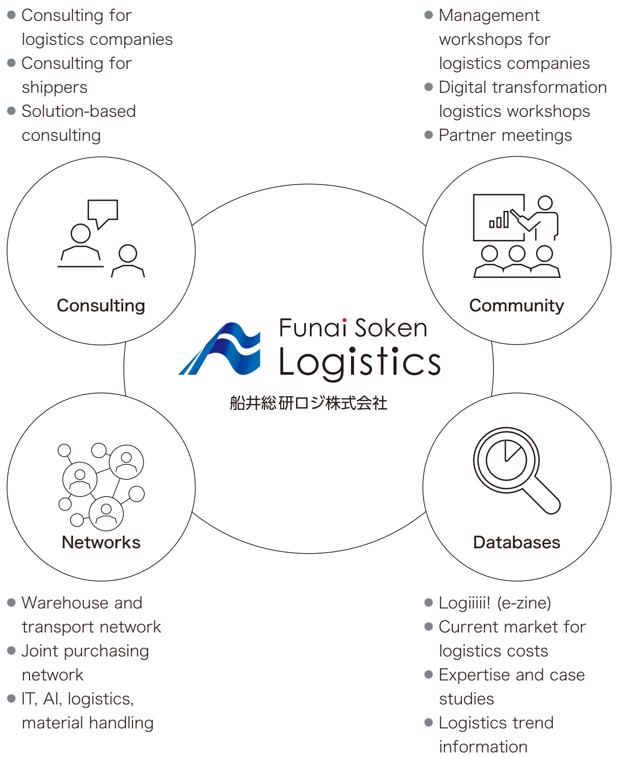
Logistics

To Be Japan's Best Logistics Consulting and BPO Solutions Provider

The movement of goods is a vital social infrastructure, and we strive to eliminate waste and bring improvements through ESG management and digital transformation. From comprehensive logistics consulting solutions to practical, effective outsourcing of back-end processes, we help clients identify and remove the roadblocks to smooth business operation.

Business Strategy Under the Mid-Range Business Plan

Consulting, community, networks, and databases:
Building Japan's most extensive logistics foundation



1 Platforms

Japan's largest—and still expanding—logistics community bringing together shipper clients (2,000 so far) and logistics companies (300)

2 AI & Digital

Currently expanding our services, including digital transformation logistics workshops, AI-powered dashboard cameras, robotic process automation services for logistics, and AI-powered document OCR

3 Global Supply Chain Management

Currently expanding our services, including international e-commerce and sales channel expansion support, and export agency (e.g., international third party logistics)

Strengths

- Serving both sides of the logistics equation: shippers and logistics companies
- Comprehensive services, from consulting to support and outsourcing of back-end processes
- Network of 300 logistics partners nationwide
- Insights from databases and up-to-date case studies

Risks and Opportunities

- Changes to lifestyles, working styles, and economic activity caused by Covid-19
- Lack of stability in transportation and other logistics processes due to shortage of drivers and workers in Japan
- Shorter working hours due to stricter compliance
- Fluctuating fuel and material prices, instability in world affairs

Further Reading

Butsuryu Kaikaku Taizen ("innovation in logistics") is a compendium of ideas on how to quickly adapt to the profound changes wrought on the logistics industry by the effects of Covid-19 on lifestyles, work styles, and economic activity.

It contains information on the latest industry trends that readers can use to enact sustainable policies swiftly and seek to thrive amid a fast-changing landscape.

Direct Recruiting

Using Technology to Change the Way We Work

As society becomes more diverse, so are the ways we work changing. Innovation is imperative. We seek to harness the latest technology, data, and AI to help employers and jobseekers overcome obstacles and find ways of making the most of talent.

Business Strategy Under the Mid-Range Business Plan

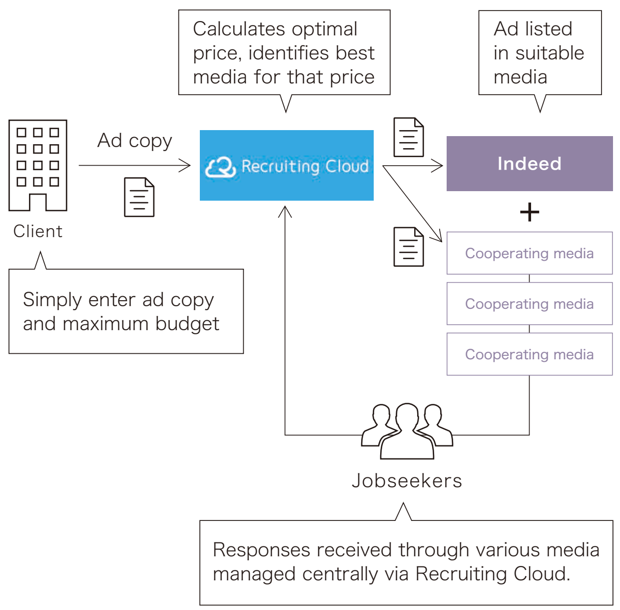
Keep a watchful eye on the recruiting market in the wake of its 2020 slump, improve profit margins, and boost marketing of new services.

Recruiting Cloud

Increasing profitability through optimized media mix centered on our very own AI-based staff recruiting cloud service

Recruiting Cloud Avg. renewal rate	89.0%
Recruiting Cloud Cumulative no. of client companies	5,000+

Recruiting Cloud Ad Placement Diagram



Strengths

- Recruiting Cloud is Japan's first data- and AI-powered ad platform dedicated to "help wanted" ads

Risks and Opportunities

- Stagnation of the recruiting market caused by Covid-19
- Increased corporate productivity, changing working practices, digitalization needs
- Increased consulting demand due to declining and aging population, labor shortages
- Expansion of direct sales by Indeed agencies, competition from other companies (esp. major corporations)

Other Businesses

Funai Soken IT Solutions Inc.

Harnessing information technology to bolster sales capabilities and offer optimized solutions.

Proseed Corporation

Consulting, training, and diagnostic services aimed at improving contact center functions.

Shinwa Computer Service Co., Ltd.

Comprehensive support services, including systems design and analysis, program creation and systems operation and management.

Dedicated to ESG in Management

In recent years, our business has been affected by a range of social and environmental challenges. If the world is to become sustainable and achieve the UN's Sustainable Development Goals, then we must focus on environmental, social, and governance (ESG) matters in management.

That's why ESG management is prominent in the strategies laid out in our Mid-Range Business Plan for 2020-2022. Our philosophy of helping to build a better future for people, businesses, and society impels us to use our comprehensive management consulting services for SMEs and mid-scale companies to solve real problems and help society achieve sustainability.

Basic Policy Regarding ESG Management

Our policy for pursuing ESG management is based on three main facets: contributing to local communities, encouraging clients to make ESG a focus of their company management, and making ESG a focus of our own company management.

1

We contribute to our communities through consulting services for SMEs and mid-scale businesses

Our consultants and other staff are deeply aware of the importance of ESG issues and the challenges faced by societies in Japan and around the world, and seek to find a balance between sustained growth and solutions to these.

2

We offer support and solutions to help clients implement ESG management

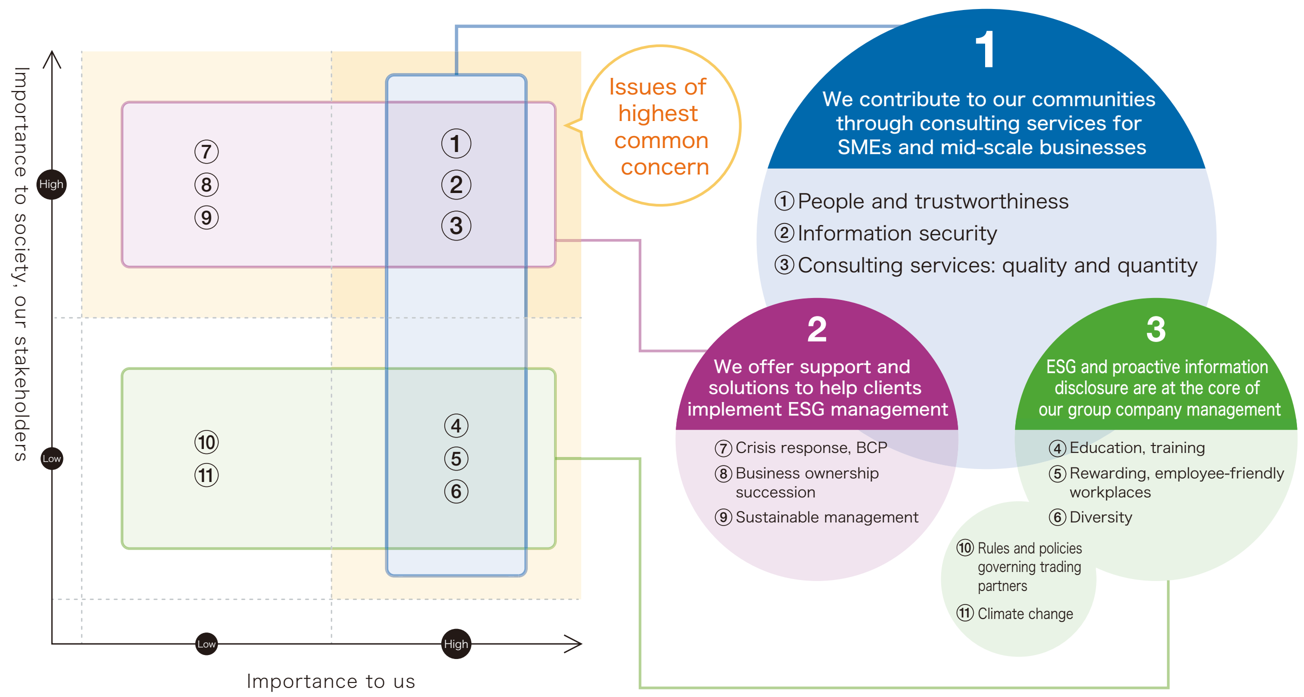
By assisting clients who want to make ESG a focus of their business management, we are helping to establish ESG management among Japan's SME and mid-scale business community.

3

ESG and proactive information disclosure are at the core of our group company management

We are conscious of information security, diversity, and environmental problems such as climate change, and endeavor to make ESG and proactive information disclosure a core part of our business management methodology.

High-Materiality Issues



How We Identified Our High-Materiality Issues

STEP 1

List up relevant themes

Find relevant themes from the Sustainability Accounting Standards Board's Materiality Map, UN's SDGs, Global Reporting Initiative's Standards, and other frameworks.

STEP 2

Extract candidate issues and evaluate materiality

Survey group officers, departmental heads, and group company executives about the candidate issues, discuss them with outside directors, and identify issues of high materiality.

STEP 3

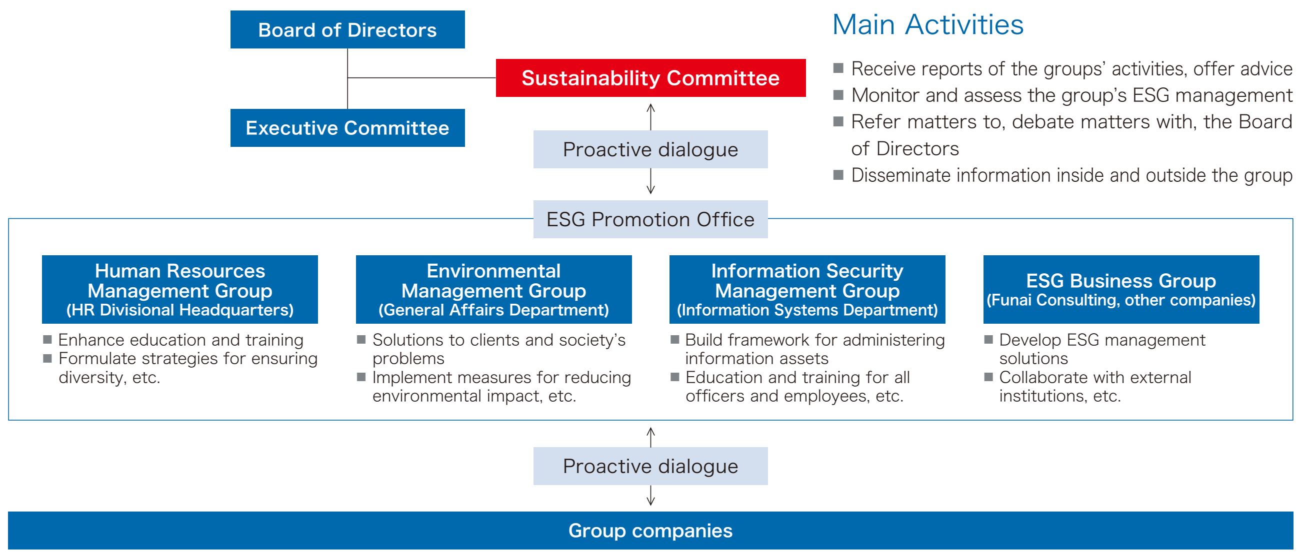
Decide on the group's high-materiality issues

Seek the Board of Directors' approval regarding basic ESG policy and high-materiality issues. (Approval received in Oct. 2020)

Sustainability Framework

We established a new advisory committee, the Sustainability Committee, headed by an outside director, to promote a pan-organizational approach to sustainability in the group's management.

We also have an ESG Promotion Office, which works with in-house divisions on ESG matters to ensure consistent application of the group's policies.



Information Security

We work closely with SMEs and mid-scale businesses as they seek to negotiate the “new normal” of the post-Covid era, helping them seek growth, improved productivity, and development. The data we receive from clients as part of these efforts to bring joy to people and businesses is part of our huge wealth of information assets, which must be safeguarded from leaks and falsification. As such, information security is a high-materiality issue, and a vital element of our ESG management.

Basic Policy on Information Security

All of the group’s officers and employees are bound to understand and comply with the Basic Policy on Information Security, and we all strive to uphold and improve the security of our information assets.

What’s in the Basic Policy on Information Security?

1 Internal Management Framework and Security Measures

- The group will establish an information security management organization to maintain and improve information security, and will include information security measures as official in-house rules.
- The group will establish an information management framework and undertake appropriate measures to protect information assets under its control.

2 Groupwide Involvement

- Officers and employees whose work involves information assets (i.e., information obtained or obtainable in the course of the group’s corporate activity and information held in the course of work) will acquire knowledge and skills needed for information security so as to ensure the integrity of the group’s information security efforts.
- The group will provide ongoing training and education to maintain its ability to stay abreast of ever-changing environments.

3 Compliance with Legal and Contractual Requirements

- The group will not simply perform its legal, regulatory, and contractual obligations regarding information security, but will endeavor to meet the level of security expected by clients.

4 Internal Guidelines and Incident Response

- The group will establish internal guidelines and written procedures, and clarify all aspects of handling personal information and other information assets.
- The group will not only respond appropriately to any breach of law or contract, or other information security incident, and endeavor to prevent a recurrence, but will also ensure that all relevant people inside and outside the group are aware of the need to be vigilant and stand resolutely against information security breaches.

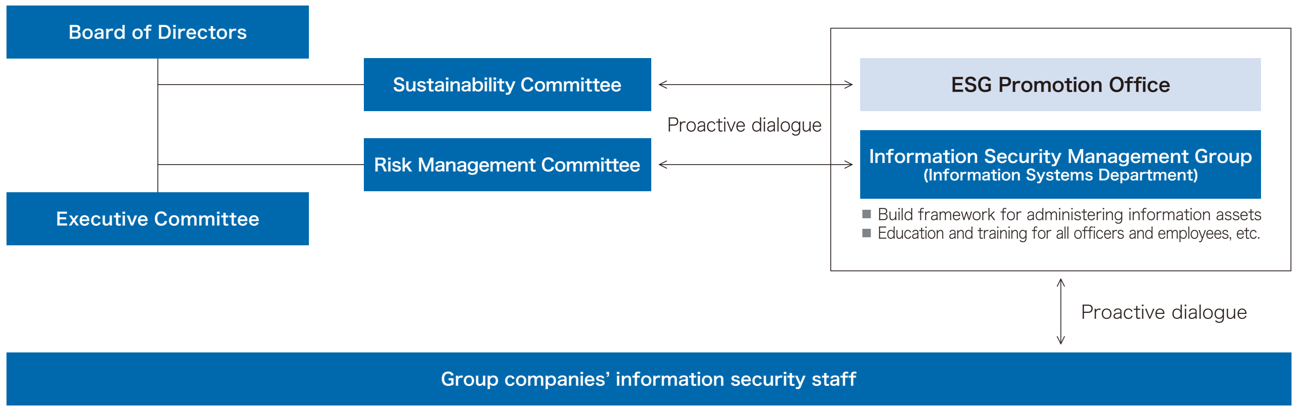
5 Robust Monitoring

- The group will establish, and continually strive to improve, a framework for internal auditing of compliance with this Basic Policy on Information Security, as well as pertinent guidelines and procedures.
- In doing so, the group seeks to demonstrate that all of its officers and employees comply with this policy and all other relevant rules.

6 Ongoing Improvements

- The group will seek ongoing improvements in information security by reviewing this policy and related regulations and procedures, and periodically assessing the performance of information security measures.

Organizational Structure



Information Security Initiatives in 2020

1 Established Basic Policy on Information Security

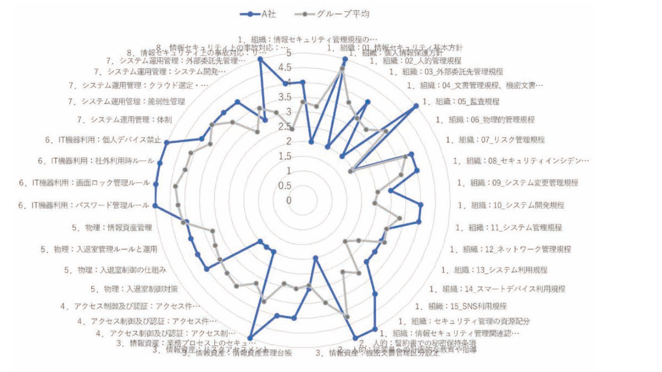
We established a Basic Policy on Information Security to govern the whole group.

2 Strengthened Information Security Framework

Surveying the level of information security of all Funai Soken Consulting Group companies and analyzing the results has allowed us to identify specific areas for improvement, and we meet regularly with each company’s information security staff to work on resolving those issues.

調査項目一覧	A社	B社	C社	D社	E社	F社	G社	H社	I社	グループ平均
1．組織：情報セキュリティ管理規程の整備	4	3	3	3	3	4	2	3	5	3.33
1．組織：01_情報セキュリティ基本方針	2	4	2	3	4	4	2	3	5	3.22
1．組織：個人情報保護方針	5	3	4	5	5	5	5	5	5	4.67
1．組織：02_人的管理規程	2	3	4	5	5	3	1	5	5	3.67
1．組織：03_外部委託先管理規程	4	1	4	4	4	3	1	4	5	3.33
1．組織：04_文書管理規程、機密文書管理規定	2	1	2	5	5	3	1	5	5	3.22
1．組織：05_監査規程	5	1	2	5	5	4	1	5	5	3.67
1．組織：06_物理的管理規程	2	1	2	2	2	0	1	2	5	1.89
1．組織：07_リスク管理規程	4	1	5	5	4	4	1	5	5	3.78
1．組織：08_セキュリティインシデント報告・対応規程	4	3	3	3	4	4	2	3	5	3.44
1．組織：09_システム変更管理規程	3	1	2	3	4	1	1	3	5	2.56
1．組織：10_システム開発規程	4	1	2	4	4	1	2	4	0	2.44
1．組織：11_システム管理規程	4	1	2	4	4	4	2	4	5	3.33
1．組織：12_ネットワーク管理規程	3	1	3	3	3	4	2	3	5	3.00
1．組織：13_システム利用規程	3	1	3	3	4	4	2	3	5	3.11
1．組織：14_スマートデバイス利用規程	3	1	3	3	3	4	1	3	0	2.33
1．組織：15_SNS利用規程	3	1	2	3	5	0	1	3	0	2.00
1．組織：セキュリティ管理の資源配分	4	2	1	4	3	4	1	4	5	3.11
1．組織：情報セキュリティ管理関連認証取得	5	1	1	2	1	2	4	4	5	2.78
2．人的：誓約書での秘密保持条項	5	2	4	4	4	5	4	5	5	4.22
2．人的：従業員への計画的な教育や指導	2	2	4	4	3	4	4	4	5	3.56

Some of the information security survey questions.



The survey results plotted on a radar chart.

3 Conducted Information Security Training

Funai Soken Holdings established the Five Principles of Information Security, distributed the Information Security Manual, and provided easy-to-understand training via-e-learning to ensure these became well ingrained among all group officers and employees.

Information Security Training Overview

Training for new recruits and mid-career hires (95+% attendance): Focus on general theory covering the following elements

1 Information Security
- ID and password handling
- SNS risks, etc.

2 Privacy Protection
- Basic rules of using personal information
- Rules of providing personal information to third parties
- Security management measures and anonymizing data
- Preventing personal information leaks, etc.

3 Cyber Attacks
- The risks of cyber attacks
- Typical methods used to get users to open malicious files
- Malware, ransomware, etc.

4 Potential compliance violations
- Working hours
- “Anti-social forces”
- Copyright violations, etc.

5 Compliance training for interns, part-time employees
- The right mindset
- Personal information
- Confidential information
- Copyright
- The basic rules of performing work, etc.

Training for existing employees: These are opportunities for those who have already learned the general theory to undergo more in-depth training relevant to their duties based on the Information Security Manual.

4 Preventing Information Leaks

The group’s main companies have sought a balance between enabling employees to work anywhere and the need for information security. The flexibility of cloud-based systems is complemented with robust security measures including encryption, access restrictions, multifactor authentication, and updated systems for handling client information. As a result, we have been able to maintain health and information security as employees have work remotely during the Covid-19 pandemic.

Ongoing Initiatives

As a provider of digital transformation solutions among other services, we will continue to ensure our officers and employees are well trained in accordance with our Basic Policy on Information Security, including all relevant rules and security systems.

Our People

Workforce Development

We are committed to maintaining an extensive, robust training regime, not only to arm our workforce with the skills to drive the innovation the times demand, but also to help make a better society by generating more opportunities for sustainable growth.

Better Management Training Programs

We recognize that managers' ability to train their staff and lead their organizations directly affects KGI performance and corporate growth, which is why we are building new, improved management training programs.

- **Career enhancement program**
  Employees who seek promotion to higher ranks can undergo training to learn about the required roles, skills, and mindset. These programs are provided through lectures, e-learning, and assignments.
- **Upper management training**
  Middle management employees can deepen their knowledge and skills through a variety of training, including workshops, executive reviews, subject-specific committees, and "vision meetings."

Ingraining Core Values and the Founder's Spirit

- **Talks on relevant topics at groupwide all-in morning meetings**
- **Funai Way and Founder's Spirit reflected in HR assessment criteria and linked with awards**
- **Opportunities for back office staff to "shadow" executives**
  (via workshop participation; approx. 80% participation rate among eligible Funai Soken Holdings staff)
- **"Town meetings," dialogue with top executives**

50th Anniversary Project

ともに、次の50年へ

Beginning in 2020, employees formed more than 170 teams across departmental lines and ranks to identify the inimitable "something" that has defined Funai Soken Consulting Group since its foundation. The result was a new set of core values. Moving forward, we will endeavor to see those core values and the Founder's Spirit become fully ingrained throughout our workforce.

Individual Skill Enhancement

We seek to raise the overall skill level of our workforce by holding programs tailored to individuals' needs, career paths, and staffing requirements.

- **Digital transformation training**
  We have programs in place at group companies to develop work-ready digital solutions staff, e.g., digital transformation training (and a definition of what constitutes "digital transformation staff"), workshops, e-learning, and seminars (includes some external content).
- **Business skill training**
  We have training programs tailored to different skills and career paths to help acquire the skills and knowledge that directly affect consulting capabilities and improve performance. Examples include:
  - Consultant enablement (a systematic approach that helps trainees better visualize and improve skills)
  - Workshops (aimed at keeping abreast of industry trends, enhancing consulting skills, etc.) and self-study support
- **Department-specific training**
  Departments have training programs to help staff acquire the required skills and knowledge.

	New recruits	Mid-career hires	Mid-level employee	Upper management
By rank	New employee training Follow-up training Training by senior colleagues Department-specific training Digital marketing class	Initial training Follow-up training Systems training	New leader training New manager training Career enhancement program	Upper management training
By career path	Digital transformation staff training Digital consultant meetings			
Other	Compliance training (e-learning)			

Healthy Management

Not only are we striving to make the Funai working experience more flexible and diverse, but we also offer steadfast support for a better quality working environment so that employees can pursue the rewarding work of improving client satisfaction and creating value for society.

Aiming for 100%: Regular Health Checks

Although we are obliged by law to have our employees undergo a health check-up once a year, 100% compliance remains elusive. Inspired by our conviction that a physically and mentally rewarding work experience leads to the creation of value, we continue to strive to have each and every employee undergo the annual check-up.

- **Spreading the word about check-up obligations**
  Check-ups booked for all employees by April–May → All employees' check-ups completed by December

Mental Health Leave and other Support

Only when employees are in good physical and mental health can they make the most of their talents. To that end, we maintain measures and environments to help prevent mental health problems before they arise and, if they do arise, to allow employees to concentrate on getting better, knowing we will assist them back into the workplace when the time comes.

- **Our process for assisting employees struggling with mental health issues**
  Issue detected → Employee consults industrial physician or public health nurse
  → Continue working while undergoing treatment
  → Take leave → Follow-up care → Return to work → Follow-up care
- **Self-care training employees; training for leaders on how to care for staff**

Diversity & Inclusion

To maintain the diverse workforce needed to consistently deliver value to an increasingly diverse world, we are committed to welcoming people of all nationalities, genders, and ages to our workforce, and encouraging mutual respect for different ways of thinking.

Helping Women Forge Meaningful Careers

We will continue to provide meaningful career paths for women as a core part of our workforce so as to harness the many strengths offered by diversity.

- **Evening up the gender balance**
  We work hard to make women a bigger part of our overall talent pool, such as by striving to make women a larger percentage of new hires.
- **Retaining female employees**
  We offer a range of support, including in-house community activities and various systems, to help retain female employees and enable them to make full use of their talents.
  Examples include:
  - Diversity & Lady Go Project
  - Career Navi Café (workshops and forums for female employees)
  - Support program, flexible reassignment for those returning to work after childcare leave
  - "L-Star" certified: 3 stars out of 3 as a proactive provider of career opportunities for women
  - We encourage flexible working arrangements to suit different lifestyles, e.g., remote work, flex-time
- **More women in management**
  Our new HR systems and career enhancement programs are geared toward evening out the gender balance in management positions.

Remote work

女性が活躍しています！

"L-Star" certified (see p. 30)

Helping Non-Japanese Employees Forge Meaningful Careers

The more diverse our workforce, the more strengths and characteristics we can call on, thus making us collectively more competitive. That's why we welcome employees of all nationalities.

- **Communities for non-Japanese employees**
  Examples include:
  - Global workshops for non-Japanese employees (workshops, forums, get-togethers)
- **Training and education**
  Examples include:
  - Diversity training for managers (covering the basics of diversity and points to be aware of when hiring foreign employees)
- **Support for non-Japanese new hires**
  Examples include:
  - Translations of documents and written procedures required upon hiring

Helping Mid-Career Hires Forge Meaningful Careers

Ensuring variety in our core talent is vital to building a diverse organization, and we are constantly monitoring management positions to ensure a relatively high presence of mid-career hires.

- **Target: 50% of management positions held by mid-career hires by 2030 (currently 49.6%)**
- **Career-building support for mid-career hires**
  Examples include:
  - F-CIBA (workshops and forums for mid-career hires, featuring talks by executives and model employees, instruction in Funai philosophies, mission, etc.)
  - Career 1-on-1 (private discussions with HD department executive, 1–3 months after hiring)
  - Career discussion (between mid-career hires and executives)
  - Values training (covering company history, philosophy, mission, vision, etc.)

Human Rights

The safety of our people is paramount to everything we do. Beyond that, we endeavor to maintain workplaces that enable each employee to apply their individuality and creativity. To that end, we constantly strive to improve our hiring and employment practices to promote respect for all people and eliminate discrimination based on race, creed, gender, religion, nationality, age, or physical ability.

Due Diligence

To ensure consideration and respect for human rights in an age when people and working styles are diversifying, we have established a framework of due diligence to ensure we comply with the UN's Guiding Principles on Business and Human Rights.

Human rights are a key element of our operational audits, and our directors receive reports on human rights risks and recommendations for improvements. The establishment of a Sustainability Committee has further bolstered the group's human rights due diligence.

Education

Through education programs covering issues such as legal compliance and preventing harassment, we seek not only to instill an understanding of the basics and highlight the signs that might help prevent harassment and human rights violations, but also to develop a mindset conducive to maintaining a workplace in which these are unlikely to occur.

- **Groupwide human rights training scheduled for 2021 (via e-learning)**
- **Whistleblower and human rights help desk established at Funai Soken Holdings**

Employee Help Desk

To complement our existing internal whistleblower mechanism for cases of suspected harassment and dishonesty, we established a help desk (at Funai Soken Holdings) for employees to seek advice about whatever concerns they may have. We intend to expand this to other group companies in future.

Environment

Tackling Environmental Challenges

Our Basic Policy on the Environment communicates to stakeholders our stance toward tackling environmental challenges, including climate change, which we have identified as a high-materiality issue.

Funai Soken Consulting Group Basic Policy on the Environment

The Thinking Behind the Policy

The world needs to tackle environmental issues like climate change urgently, and we at the Funai Soken Consulting Group are eager to be part of the effort to achieve sustainability. Inspired by our mission, "We help to build a better future for people, businesses, and society," we see all facets of our business as a means of reducing environmental impact.

Basic Policy

1 Our Business as a Vehicle for Reducing Environmental Impact
Our aim is to work alongside clients to reduce their, and our, environmental footprint. We offer consulting for environmental conservation matters, and offer eco-conscious solutions, advice, and support as part of our industry-specific consulting services.

2 Reducing Environmental Impact in Business Processes
Keenly aware of the environmental cost of resources and energy used in our business processes, we strive to reduce our footprint wherever possible.

3 Disclosure and Dialogue
We will strive for continual progress in our environmental initiatives through information disclosure and dialogue with stakeholders.

4 Education on Environmental Matters
We will endeavor to ensure full understanding among officers and employees of our Basic Policy on the Environment and awareness of the ecological issues we seek to tackle.

5 Compliance with Relevant Laws
We will comply with all laws and regulations relating to environmental conservation.

Environmental Impact Reduction Initiatives

Funai Consulting

Management Workshops on Net-Zero, High-Efficiency Housing, etc.

Net-Zero Energy Houses (ZEH) are a key policy goal of the Japanese government's Strategic Energy Plan. For our part, we help popularize ZEH by offering attractive business models to clients in that segment, and by providing material aimed at further refining their operations through regular meetings and study. Moreover, we hold a variety of workshops themes around environmental business.

Funai Soken Logistics

ESG Management Seminars for the Logistics Industry

These seminars address real concerns held by logistics businesses, including examples of how ESG management affected a variety of industry challenges, the advantages of ESG management, the methods and effects of different approaches to implementing ESG management such as joint operations and modal shift, and strategies for dealing with upcoming legal changes.

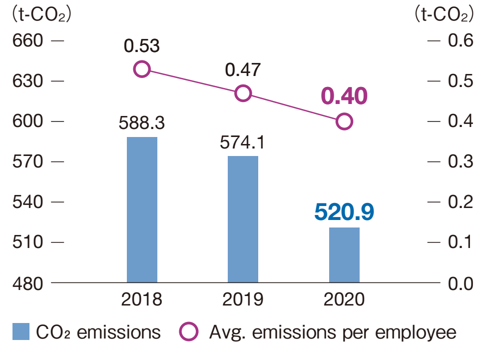
Reducing Environmental Impact in Business Processes

By the Numbers: Our Environmental Initiatives

The table and graph below show electricity consumption, carbon dioxide emitted as a result of that electricity consumption, and waste emitted across the whole group over the past three years. Moving forward, we intend to establish specific targets for reducing our footprint.

	2018	2019	2020
(1) Electricity used (kWh)	1,220,000	1,204,000	1,099,000
(2) CO_2 emitted through use of electricity (tons)	588.3	574.1	520.9
(3) Avg. CO_2 emitted per employee through use of electricity (tons)	0.53	0.47	0.40
(4) Office paper purchased (converted to sheets of A4)	10,098,000	8,871,000	2,622,000
(5) General waste emissions (tons)	65.4	59.0	27.8
(6) Industrial waste emissions (tons)	4.3	4.5	3.1

Business sites incl. in calculations:
(1)(2)(3) All group sites; (4) Osaka HQ, Tokyo HQ, Gotanda Office, Fushimi Office, Shiba Office; (5)(6) Osaka HQ, Tokyo HQ, Gotanda Office, Shiba Office



Efforts So Far to Reduce Our Environmental Impact

Reducing avg. CO_2 emitted per employee through use of electricity
LEDs installed at Osaka Headquarters
Nighttime automatic shut-off of lights at Osaka and Tokyo Headquarters

Purchasing less office paper
Seminar and workshop materials are increasingly paperless
Remote work
Fewer photocopiers

Reducing waste
Remote work
Increasingly paperless operations

Disclosure and Dialogue in Accordance with the TCFD

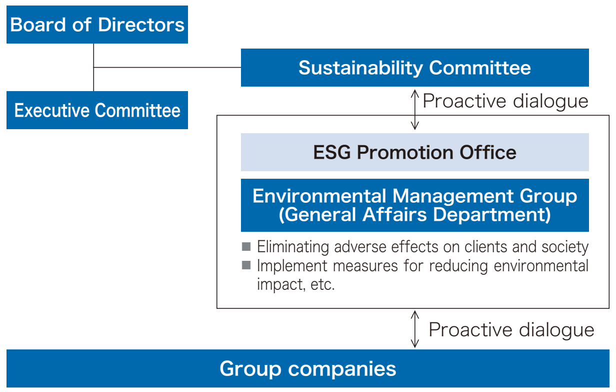
We disclose information relating to the environmental impact of climate change on our business and our efforts to tackle environmental challenges in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board of Japan.

Climate Change Initiatives, Risk Management Structure

Funai Soken Holdings' ESG Promotion Office leads a working group to facilitate efforts to reduce our footprint through dialogue with the group's various companies.

Receiving regular data from group companies on key indicators for environmental impact, we evaluate and analyze the effects on our business activities, and keep abreast of the risks and opportunities relating to climate change.

Disclosure and Dialogue Structure

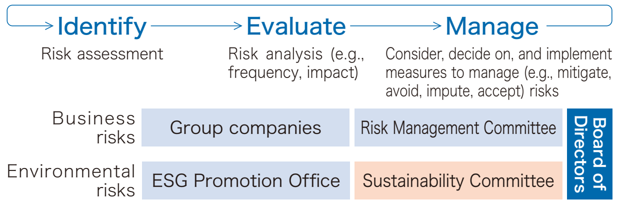


Governance

The Sustainability Committee is an advisory organ of the Board of Directors. Its role is to oversee the ongoing implementation of policies groupwide. Based on reports from the ESG Promotion Office, the committee sets targets, monitors progress, and evaluates achievements, and advises the board and the ESG Promotion Office as necessary.

Risk Management

The Sustainability Committee receives reports regarding the results of environmental risk assessments and other risk analyses carried out by working groups led by the ESG Promotion Office, and makes recommendations to the Board of Directors regarding those risks requiring action. The board then decides on action to be taken regarding these and other risks.



Funai Soken Holdings Inc. Officers

Directors

Sakae Takashima
Chairman & group CEO
Born: May 29, 1957

Takayuki Nakatani
President & CEO
Born: August 16, 1968

Tatsuro Ono
Director & executive vice president
Born: May 8, 1963

Takahisa Okumura
Director & senior vice president
Born: July 13, 1959

Nobuyuki Isagawa
Outside director
Born: December 8, 1966

Concurrent position

Professor, Graduate School of Management, Kyoto University

Miki Mitsunari
Outside director
Born: February 29, 1972

Concurrent position

President, Finev, Inc.

Audit and Supervisory Committee Members

Masahiro Hyakumura
Director and member of the Audit and Supervisory Committee
Born: February 27, 1965

Concurrent position

Auditor, Funai Consulting Inc.

Atsushi Nakao
Outside director and member of the Audit and Supervisory Committee
Born: December 21, 1969

Concurrent position

President, CS Accounting Co., Ltd.

Akihiro Kobayashi
Outside director and member of the Audit and Supervisory Committee
Born: December 19, 1970

Concurrent position

Partner, Kyoto Office, Chuo Sogo Law Office P.C.

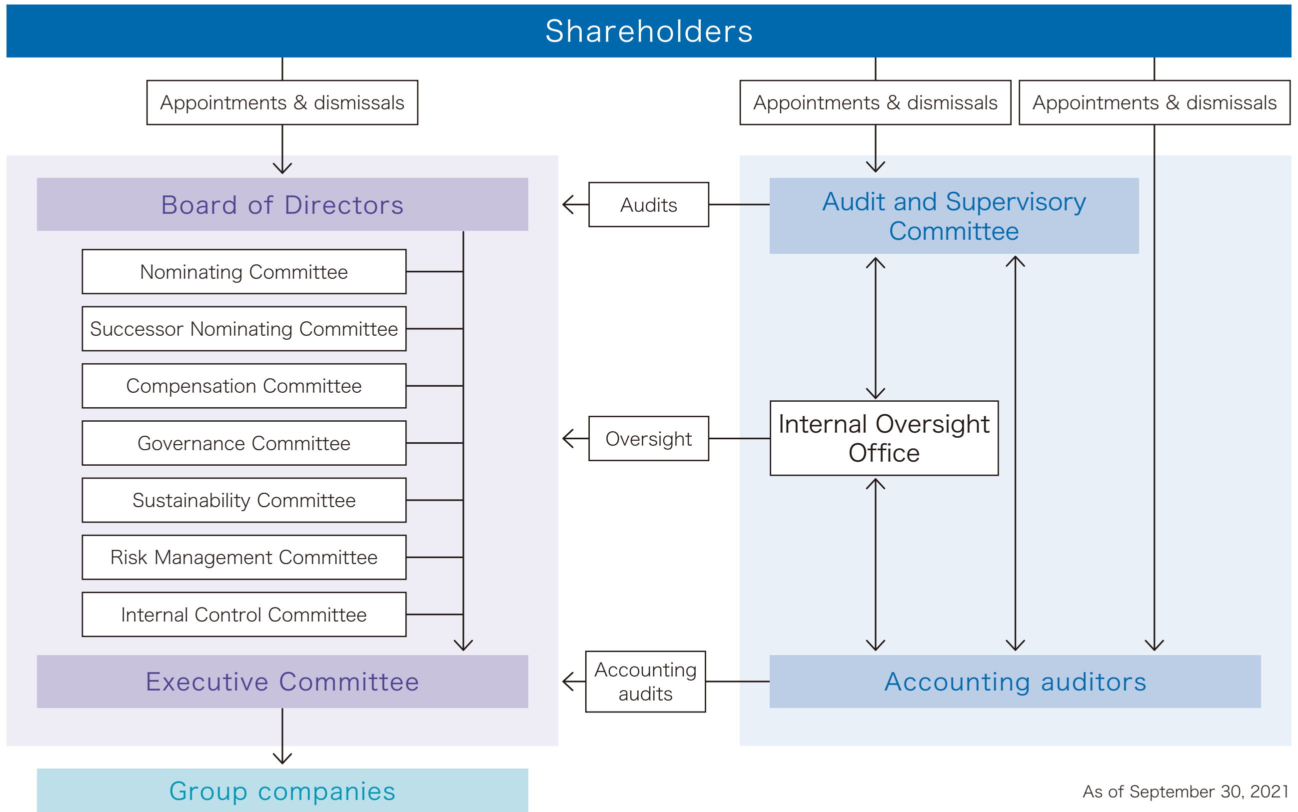
Corporate Governance

Board of Directors Basic View on Corporate Governance Relating to Sustainability

At Funai Soken Holdings, we strive to strengthen our corporate governance with a focus on ensuring effective legal compliance and maximizing shareholder returns.

In order to enhance corporate governance, at least one third of the directors of the company are outside directors, thus ensuring the board's objectivity and validity. The company audits the legality and validity of the Board of Directors by means of the Audit and Supervisory Committee (comprising three members, including two outside directors).

Funai Soken Holdings Corporate Governance Structure



As of September 30, 2021

Major Corporate Governance Initiatives

Basic Approach to Capital Policy

We recognize that our approach to capital policy is extremely important for enhancing shareholder value over the mid- to long-term. Our basic approach is to seek profit growth driven by proactive investment in the business, while building shareholders' equity to an appropriate level and increasing returns to shareholders.

- Steady increase in ROE above cost of capital (consolidated ROE 15+%)
- Aim for return-to-shareholders ratio of 60+% with a focus on methods such as acquisitions of treasury shares and increasing total dividend (dividend per share)

Approach to Cross-Shareholdings

In light of changes in the environment relating to the Corporate Governance Code and the risk that the company's financial situation could be significantly impacted by share price fluctuations, the company's basic policy on cross-shareholdings is to reduce cross-holdings and to not acquire new shares unless the holding is deemed to be strategically significant. Each year, the company's stockholdings are reviewed on an individual basis, and the economic rationale of these holdings is assessed. The medium- to long-term objectives for the holdings are examined and returns, such as dividends, are taken into account. As a result of this review, those stockholdings that are deemed to have limited strategic significance or economic rationale are sold, while taking the impact of the disposal on the market and other considerations into account. On the other hand, those stocks that are acknowledged to be of strategic significance to the company are retained.

We exercise voting rights to approve or reject the share-issuing company's proposals, taking account of whether there is an appropriate governance system in place, and whether the share-issuing company makes appropriate decisions that will enhance corporate value over the medium- to long-term, based on whether it enhances the corporate value of the group. With regard to proposals that could have an impact on corporate value and shareholder returns (such as takeover defense initiatives or business restructuring measures), we engage in dialogue with the stockholding company to assess its aims and objectives for the improvement of corporate value. Based on this, we evaluate the merits and disadvantages of the proposals concerned.

Cross-holdings

Company A
Company B
Company C
⋮

Review criteria

Review of each company's shares

・Check the holding's significance to our group
・Consider returns, e.g., dividends

Final decision criteria

Comprehensive decision

・Does the company have a proper governance structure?
・Is the company's decision-making conducive to mid-to-long-term growth in corporate value
・Is the holding conducive to our group's corporate value?
・With regard to proposals that could have an impact on corporate value and shareholder returns (such as takeover defense initiatives or business restructuring measures), we engage in dialogue with the share-issuing company to assess its aims and objectives for the improvement of corporate value. Based on this, the company evaluates the merits and disadvantages of the proposals concerned.

Diversity in Management

The Funai Soken Consulting Group is led by officers with diverse backgrounds in terms of expertise and experience, including directors with an in-depth knowledge of the group's business and outside directors whose role is to audit the group from an independent and objective standpoint.

Currently, four of the nine directors are independent outside directors.

- We have one female independent outside director, a highly skilled expert, to strengthen the group's ESG management.
- The group's independent outside directors bring broad experience and expertise in corporate value assessment, governance, and ESG management.
- The Audit and Supervisory Committee also has independent outside members specializing in legal, accounting, and tax affairs.

Strategic Decision Making

Advisory Committees

- **Nominating Committee**
  Ensures the transparency and objectivity of the process for selecting candidates for director positions. Three of the four committee members are outside directors, and the chairperson is an outside director.
- **Successor Nominating Committee**
  Ensures the transparency and objectivity of the process for appointing and dismissing the president. Three of the four committee members are outside directors, and the chairperson is an outside director.
- **Compensation Committee**
  Seeks to improve the group's corporate value by ensuring the transparency and objectivity of the process for determining executive compensation. Three of the four committee members are outside directors, and the chairperson is an outside director.
- **Governance Committee**
  Reviews various issues related to the corporate governance of the group from a mid-to-long-term perspective, improves fairness and transparency of management, and strengthens corporate governance. All four committee members are outside directors.
- **Sustainability Committee**
  Ensures sustainability is incorporated into management throughout the whole group, monitors and evaluates KPIs, ensures governance functions properly, and oversees consistent implementation of policies. Two of the four committee members are outside directors, and the chairperson is an outside director.

Advisory Committee Roles

◎ Chairperson ○ Member

		Name	Nominating	Successor Nominating	Compensation	Sustainability	Governance	Risk Management	Internal Control	Executive
Directors (not members of the Audit and Supervisory Committee)	Director	Sakae Takashima							○	○
		Takayuki Nakatani				○			◎	◎
		Tatsuro Ono	○	○	○			◎	○	○
		Takahisa Okumura				○			○	○
	External director	Nobuyuki Isagawa	◎	◎	○	○	○			
		Miki Mitsunari			○	◎	○			
Directors (members of the Audit and Supervisory Committee)	Director	Masahiro Hyakumura						○	○	○
	External director	Atsushi Nakao	○	○	◎		○			
		Akihiro Kobayashi	○	○			◎			

Policy Regarding Distribution of Earnings

We recognize the vital importance of prudent capital policy for mid-to-long-term increases in shareholder value. To that end, we strive to sustain ROE at 15+% and return-to-shareholders ratio at 60+%, while keeping a watchful eye on cost of capital.

Executive Compensation System: Design and Outcomes

The System

We recognize that executive compensation is a vital part of corporate governance as relates to the group's pursuit of sustainable growth and mid-to-long-term growth in corporate value, as well as sharing value with shareholders. The system is configured to allow compensation to function as a healthy incentive for officers to strive to achieve those objectives. It is intended to help us secure, retain, educate, and reward talented people, and holds that the process of determining compensation should be highly transparent and objective.

How Executive Compensation Is Determined

The compensation of directors who are not members of the Audit and Supervisory Committee is discussed by the Compensation Committee, after which the CEO submits the matter to the Board of Directors, which makes a final decision. The compensation of directors who are members of the Audit and Supervisory Committee is determined through discussions by the Audit and Supervisory Committee. Final authority for decisions regarding executive compensation policy rests with the Board of Directors, while the details of that authority and the extent of the board's discretion to use it are governed by the Compensation Committee, whose role is to deliberate on the compensation packages of each of the company's directors (excluding those who are members of the Audit and Supervisory Committee). Compensation is determined based on factors such as each directors' duties, responsibilities, performance, and degree of contribution, and bound by the maximum amounts approved at a shareholders' meeting. Based on the committee's decisions, the CEO makes submissions to the board of directors, which deliberates on each individual case and makes a final decision. The amount of compensation paid to directors who are members of the Audit and Supervisory Committee is determined through discussions by the Audit and Supervisory Committee.

Compensation Paid to Directors (Excluding Those Who Are Members of the Audit and Supervisory Committee)

Fixed Compensation		Performance-linked floating compensation
Basic remuneration	Performance-based remuneration	Stock options as compensation
Monetary compensation, which is not linked to performance, and the amount of which is determined in accordance with rank and duties. *Calculated with reference to executive compensation packages paid by other companies in the industry.	Monetary compensation linked to consolidated sales, operating income, and ordinary income in the most recently completed business year. A five-level personal assessment score based on each individual's degree of achievement of the criteria listed above and personal KPIs.	Stock options are offered by shareholders in accordance with rank, roles, and achievements with the aim of increasing motivation and morale relating to the sharing of value with shareholders and achieving mid-to-long-term improvements in business performance, on the condition that the options can only be exercised upon resignation.
8		2

Compensation Paid to Outside Directors and Members of the Audit and Supervisory Committee

Fixed Compensation
Basic remuneration (fixed monthly payment)
Compensation for outside directors comprises only fixed remuneration in light of their independence from execution of operations; compensation for directors who are members of the Audit and Supervisory Committee comprises only fixed remuneration in light of their independent status as auditors.

Evaluation Process and Identifying Areas for Improvement

The effectiveness of the Board of Directors is evaluated once a year, covering all directors, including Audit and Supervisory Committee members, through a self-assessment questionnaire. The Board of Directors deliberates the results of this evaluation to improve the effectiveness of the Board of Directors.

2020 in Review

1. Robust debate regarding ESG in business management and diversity reflected a broad range of opinions.
2. A new system was implemented for regular reviewing and reporting regarding new business projects.
3. Although debate has become much more substantial, there is now a need for further revision of reference materials and better organization of matters up for deliberation.
4. There is a need for further strengthening of the structure for identifying underlying risks, but a system is now in place for swift, appropriate response to risks that become manifest.

2021 Action Plan

1. Continue to review which items get tabled at board meetings and which do not in order to secure time for deliberating important matters.
2. Strengthen progress monitoring and analysis to enable more in-depth debate regarding the Mid-Range Business Plan with consideration of the business strategies pursued by the group's various companies.
3. Assess and clarify the range of skills needed for the Board of Directors and those held by board members.
4. Identify sustainability challenges and debate (by the Board of Directors) ways to overcome them.
5. Monitor progress in dealing with issues identified as having high materiality.
6. Increase involvement of outside directors to boost the functional abilities of the Board of Directors' advisory committees.

Protecting Rights and Ensuring Equality for Shareholders and Stakeholders

Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

- **Early Notification of General Shareholder Meetings**
  Notices are sent out three weeks earlier than the legal requirement (two weeks before the meeting), and the meeting date is made available on the company website prior to the distribution of notices.
- **Allowing Electronic Exercise of Voting Rights**
  Shareholders can exercise their voting rights using an online voting platform (via PC and smartphone).
- **E-voting Platform**
  Shareholders can exercise their voting rights using an e-voting platforms for institutional investors.
- **Convocations Notice in English**
  The company prepares an English language version of the Notice of Convocation for overseas shareholders. This is also posted on the company's website at the same time as the Japanese version.

Investor Relations Initiatives

- Compilation and publication of disclosure policy
- Regular briefings for analysts and institutional investors
- Regular briefings for individual investors (2020's briefing cancelled due to Covid-19)
- Posting of IR materials on website

Contributing to Society by Rewarding Outstanding Businesses

Improving Ourselves, Our Companies, and Our Communities

The Great Company Awards are just one of the ways we at Funai Soken Holdings endeavor to contribute to the greater good. Since 2010, the Great Company Awards have functioned not only to reward companies that combine profitability and growth potential with social responsibility, education, and environmental responsibility, but also to boost those companies' visibility and recognition. We hope that the awards serve as a means of enriching society by bringing broad attention to worthy companies and proprietors.

What Is a Great Company?

A "great company" is founded on a philosophy of high value to the community, perfects its own unique business model and, through these, achieves sustainable growth. It is an organization whose unique culture earns it recognition from employees and customers alike as a great company.

What Makes a Great Company Great?

1. Sustainable growth.
2. Ardent, fiercely loyal fans.
3. High employee satisfaction; employees and their families are proud to be a part of it.
4. Pride in its unique company character.
5. Generous contribution to the community, which sees the company as indispensable.

Regardless of current shortcomings, a great company is forward-looking and wants to be Number One in Japan and in the world.

Recipients of the 2020 Great Company Awards

For the 2020 awards, 19 companies from a variety of industries were nominated from around 9,000 potential candidates. From these, the following six companies were recognized for their achievements.

	Company	Industry; region
Great Company Award	Yushokai Medical Corporation	Orthopedic and nursing care clinics promoting in-home treatment; Tokyo
Customer Appreciation Award	i-plug, Inc.	Recruiting site focusing on recent graduates; Osaka
Employee Pride Award	Musashi-Sakai Driving School	Driving school; Tokyo
Unique Business Model Award	Lemonade, Ltd.	Ladies fashion retail, store design; Tokyo
Philanthropy Award	Serio Holdings Co., Ltd	Employment support, after-school services, preschool; Osaka
Better Performance Award	Chatwork Co., Ltd.	Development, operation of chat softweare for business use; Osaka

Outside Director's Message

Funai's Quest for Sustainability

Miki Mitsunari
Outside director

Through the consulting services for SMEs and mid-scale businesses offered by Funai Consulting, as well as the logistics, IT, direct recruiting, and other solutions provided by other group companies, the Funai Soken Consulting Group helps SMEs—the very bedrock of Japan's economy—expand their business management and improve efficiency.

The group's journey began with its namesake founder, the late Yukio Funai, a pioneer of consulting for SMEs in Japan. Funai focused his efforts on locating and maximizing clients' authenticity, empowering them to play to their strengths, and preaching a gospel of harmony with people and nature.

Today, we are faced with daunting challenges on a global scale; if we are to stop climate change and correct the imbalance of resources and economic inequality, the corporate community must embrace ESG management. At a time when more and more Japanese companies join the effort to help achieve the UN's Sustainable Development Goals by 2030, we must also get on board with initiatives to address climate change, including for instance Japan's goal of reaching net-zero carbon by 2050.

Management styles that value employees and local communities as much as financial profit have been a part of the Japanese business practice since time immemorial, as illustrated by the sampo yoshi ("three-way good") philosophy of the traders in ancient Omi province, in which a deal should benefit not just the vendor and buyer, but also the community as a whole.

With its focus on SMEs and mid-scale businesses, the Funai Soken Consulting Group incorporates that philosophy into its basic approach to business, and even today that attitude permeates the very foundations of the group's operations. Expanding and adapting that philosophy for today's business landscape, the group established ESG as a core facet of its management policy in October 2020, and starting this year, has broadened the range of environmental, personnel, and other information included in the Integrated Report.

Already, the group provides solid support for Japan's efforts to address the challenges facing the country, for instance by advising clients on renewable energy, housing, nursing care, and welfare as part of its consulting services. I hope that more of these solutions will appear as awareness of these issues becomes firmly ingrained among the group's consultants, officers, and employees.

In this age when listed companies are subject to an ever-expanding range of obligations, such as those relating to disclosure, the Funai Soken Consulting Group is committed to pursuing greater diversity and transparency, and to being the ideal organization to which its client SMEs and mid-scale businesses can aspire.

Financial Review

Consolidated Results of Operations

Although the group's business progressed according to plan in the first (March-May) quarter of 2020, performance was subsequently affected severely by Covid-19 as SMEs—our core clients—felt the impact of the pandemic, leaving us with no alternative but to revise our forecasts downwards. In addition to helping stop the spread of infections, both inside and outside the group, we gradually built up an operational framework designed for the "new normal" of the post-Covid era, including online seminars, remote consulting services, and working from home.

In 2020, net sales were 25,027 million yen (down 2.8% year-on-year), operating income was 4,982 million yen (down 12.7%), ordinary income was 5,091 million yen (down 11.5%), and net income attributable to owners of the parent was 3,498 million yen (down 9.6%). We achieved our ROE target of at least 15%, finishing the year on 15.3%.

Revenues and Profits

Although sales were stagnant under the weight of restrictions introduced in response to Covid-19, which curbed sales activity and stunted growth in new orders, sales of online advertisement agency services, part of our consulting business, increased markedly over the previous year. Sales began to pick up as orders recovered somewhat in the third quarter (July through September), but not enough to absorb the decreases in orders and revenue in the second quarter (April through June) caused by Covid-19. Consequently, net sales decreased 2.8% year-on-year to 25,027 million yen.

Operating income was also improved by the large drop in transport, venue, and supplies costs afforded by the switch to online operations such as remote work, but these were offset by an increase in staff numbers and costs related to online advertisement agency services incurred in the process of increasing agency service revenues and online client acquisition. Cost of sales was 17,027 million yen, compared with 16,972 million yen in the preceding year, and SG&A expenses were 3,018 million yen, compared with 3,075 million yen in the preceding year. Consequently, operating income decreased 12.7% year-on-year to 4,982 million yen.

Non-operating income was 147 million yen, compared with 134 million yen in the preceding year, due to factors such as gains on sales of investment securities acquired by investing surplus funds, while non-operating expenses were 38 million yen, compared with 84 million yen in the preceding year. Consequently, ordinary income decreased 11.5% year-on-year to 5,091 million yen.

Income taxes totaled 1,677 million yen this year, compared with 1,880 million yen in the preceding year, resulting in a decrease in net income attributable to owners of the parent of 9.6% year-on-year to 3,498 million yen.

Performance by Segment

I. Consulting

In the consulting segment, sales of online advertisement agency services increased sharply, but this was offset by stagnant growth in orders for monthly support services (which account for at least 60 percent of sales in this segment) as the initial voluntary suspension of management workshops and in-person seminars and their subsequent shift to online formats curbed our sales activities. Revenues from consulting for clients in our core housing and real estate industries were up, as were sales to clients in the production goods manufacturing and IT industries. However, sales in other industries were severely lacking. By solution category, sales of recruiting, education, and other workforce development consulting services were stagnant, but there were major increases in consulting sales for online marketing, digital transformation, and financial solutions.

Profit ratio decreased, as significant cost savings in travel expenses (realized through restrictions on commuting and business trips) and venue hire costs were exceeded by increases in labor costs and a change in the make-up of sales overall.

In sum, the second quarter of 2020 was a struggle, and although an upward trend began in the third quarter, that uptick has not yet been enough to cover the second-quarter lag in progress toward reaching the goals of our Mid-Range Business Plan, and sales and income finished the year down in comparison with the preceding year. Consequently, net sales decreased 2.7% year-on-year to 19,058 million yen, and operating income decreased 11.0% year-on-year to 4,801 million yen.

II. Logistics

In the logistics segment, deep-mining of existing clients and ongoing business with last year's new clients resulted in a 20 percent year-on-year increase in logistics operations sales. Logistics consulting sales increased to plan in the first quarter (January to March), but suffered subsequently as Covid-19 began to spread, finishing the year with workshop member numbers and sales down slightly in comparison with the preceding year. Logistics trading sales were down in comparison with the preceding year, subdued by a slowdown in fuel sales caused by restrictions on corporate and personal movement. 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 increased 8.0% year-on-year to 2,638 million yen, and operating income decreased 9.6% year-on-year to 311 million yen.

III. Direct Recruiting

In the direct recruiting segment, sales increased to plan in the first quarter, but suffered subsequently as Covid-19 began to spread, finishing the year with sales down in comparison with the preceding year as the cancellation of seminars severely curbed our ability to seek new orders and a decline in personnel hiring by companies led to a decrease in recruitment ad placements. This segment ended the year on a net loss due to an increase in operating expenses, chiefly personnel and systems development costs. Consequently, net sales decreased 9.1% year-on-year to 2,331 million yen, and operating losses were 174 million yen, compared with an operating loss of 80 million yen in the preceding year.

IV. Other Businesses

In the IT consulting segment, the cancellation and postponement of training services in the second quarter in response to the spread of Covid-19 resulted in a temporary dip in sales and income, but our prompt switch to online formats starting in the third quarter drove a recovery in sales, and allowed this segment to end the year with an increase in profit. In the systems development segment, although the decrease in sales was only slight, this segment ended the year with a decrease in profits due to increases in in-house development costs and outsourcing fees.

Consequently, net sales decreased 13.7% year-on-year to 975 million yen, and operating losses were 88 million yen, compared with an operating income of 23 million yen in the preceding year.

Assets, Liabilities, Capital

Assets

Total assets decreased 467 million yen year-on-year to 27,951 million yen at the end of FY2020.

Current assets decreased 390 million yen from the end of FY2019 to 16,304 million yen. Major factors included an increase in cash and deposits, and decreases in trade notes and accounts receivable, and short-term investment securities.

Noncurrent assets decreased 77 million yen from the end of FY2019 to 11,647 million yen. Major factors included an increase in investment securities and decreases in property, plant, equipment, and intangible assets.

Liabilities

Total liabilities decreased 990 million yen year-on-year to 4,263 million yen at the end of FY2020.

Current liabilities decreased 934 million yen from the end of FY2019 to 3,997 million yen. Major factors included a decrease in current portion of bonds and income taxes payable.

Noncurrent liabilities decreased 56 million yen from the end of FY2019 to 265 million yen. Major factors included a decrease in deferred tax liabilities.

Net Assets

Total net assets increased 523 million yen year-on-year to 23,688 million yen at the end of FY2020. Major factors included an increase in net income attributable to owners of the parent, a decrease in net assets due to purchase of treasury shares, and a decrease in retained earnings as these were appropriated.

As a result, the shareholders' equity ratio increased 3 points to 82.4%.

Cash Flow

Cash and cash equivalents increased 585 million year-on-year to 12,216 million yen at the end of FY2020.

Trends in cash flow by activity are described below.

Cash Flows from Operating Activities

Cash flows from operating activities ended on a net gain of 3,515 million yen this year compared to a net gain of 4,522 million yen in the preceding year. Major factors included net income before income taxes and other adjustments of 5,176 million yen; 1,958 million yen in income taxes paid, and 454 million yen in income tax refunds.

Cash Flows from Investing Activities

Cash flows from investing activities ended on a net gain of 263 million yen this year compared to a net loss of 500 million yen in the preceding year. Major factors included 486 million yen in income from the purchase and sale of short-term investment securities and investment securities, and 223 million yen in purchases of property, plant, and equipment, and intangible assets.

Cash Flows from Financing Activities

Cash flows from financing activities ended on a net loss of 3,194 million yen this year compared to a net loss of 3,411 million yen in the preceding year. Major factors included a net expenditure of 500 million yen on redemption of bonds, a net expenditure of 749 million yen on sale and purchase of treasury shares, and 2,135 million yen distributed as dividends.

Capital Policy and Shareholder Returns

We recognize the vital importance of prudent capital policy for mid-to-long-term increases in shareholder value. Our basic approach is to seek higher capital efficiency through profit growth driven by proactive investment in the business, while building shareholders' equity to an appropriate level and increasing returns to shareholders.

- **Basic approach to capital efficiency:**
  Strive for ROE of 15+%
- **Basic approach to shareholder returns:**
  Strive for a return-to-shareholders ratio of 60+%

Consolidated Financial KPIs 2010–2020

Key Performance Indicators

(Million yen)

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
For the fiscal year	Net sales	8,663	8,567	9,038	10,065	12,485	14,717	16,433	18,685	21,697	25,752	**25,027**
	Gross profit	3,082	3,010	3,290	3,630	4,340	5,092	5,743	6,888	7,654	8,780	**8,000**
	SG&A expenses	1,324	1,110	1,035	1,004	1,348	1,595	1,883	2,256	2,708	3,075	**3,018**
	Operating income	1,758	1,900	2,255	2,625	2,992	3,497	3,859	4,631	4,946	5,705	**4,982**
	Net income attributable to owners of the parent*	583	1,196	1,325	1,984	1,766	2,426	2,558	3,206	3,549	3,868	**3,498**

*Net income figures are used for 2015 and before.

(Million yen)

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
At end of fiscal year	Total assets	15,853	16,549	17,347	18,602	20,437	22,260	22,862	25,650	26,732	28,419	**27,951**
	Net assets	13,273	13,770	14,456	15,912	16,653	18,217	19,272	21,624	22,370	23,165	**23,688**

(Million yen)

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cash flow	Net cash provided by (used in) operations	1,787	2,240	1,753	1,975	2,889	2,008	2,813	3,950	3,554	4,522	**3,515**
	Net cash provided by (used in) investments	(1,393)	(317)	(1,631)	(1,136)	(142)	671	412	(982)	(222)	(500)	**263**
	Net cash provided by (used in) financing	(638)	(736)	(690)	(698)	(1,058)	(1,181)	(1,689)	(1,176)	(2,762)	(3,411)	**(3,194)**
	Cash and cash equivalents at end of fiscal year	3,171	4,357	3,790	3,936	5,626	7,125	8,663	10,455	11,022	11,630	**12,216**

(Yen)

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Per-share Information	Earnings per share	11.52	23.64	26.18	39.13	34.77	47.83	50.41	63.37	69.95	76.67	**70.32**
	Dividend per share	12.2	13.3	14.4	16.1	17.8	20.0	24.0	30.0	35.0	40.0	**45.0**
	Net assets per share	261.27	271.43	285.17	312.41	325.25	356.05	378.44	421.29	435.56	453.48	**465.60**

*Common shares in Funai Soken Holdings were split twice in recent years: at a ratio of 1.2-for-one on January 1, 2016, and at a ratio of 1.5-for-one on January 1, 2018. For the purposes of this section, per-share information is calculated as if the stock splits had been conducted at the beginning of FY2010.

(%)

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Financial KPIs	Operating margin	20.3	22.2	24.9	26.1	24.0	23.8	23.5	24.8	22.8	22.2	**19.9**
	Return on equity (ROE)	4.4	8.9	9.4	13.1	10.9	14.0	13.8	15.9	16.4	17.4	**15.3**
	Ratio of ordinary income to total assets (ROA)	11.1	11.8	13.1	15.0	15.5	17.3	17.1	19.3	19.1	21.3	**18.1**
	Equity ratio	83.5	83.1	83.2	85.3	81.1	81.3	83.5	83.3	82.2	79.4	**82.4**
	Dividend payout ratio	106.1	56.4	55.2	41.2	51.1	41.8	47.6	47.3	50.0	52.2	**64.0**

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Stock information	Closing share price at end of fiscal year* (yen)	286	292	298	467	549	1,152	1,224	2,524	1,642	2,481	**2,521**
	Price earnings ratio (PER)	24.9	12.7	11.4	11.9	15.8	24.1	24.3	39.8	23.5	32.4	**35.9**

*Common shares in Funai Soken Holdings were split twice in recent years: at a ratio of 1.2-for-one on January 1, 2016, and at a ratio of 1.5-for-one on January 1, 2018. For the purposes of this section, closing share price at end of fiscal year is calculated as if the stock splits had been conducted at the beginning of FY2010.

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Other information	Employees	499	489	526	565	682	783	873	941	1,105	1,209	**1,303**
	Avg. no. of temporary employees	61	64	44	49	56	41	31	37	41	37	**68**

Consolidated Financial Statements

Consolidated Balance Sheet

(Thousand yen)

	2019	2020
Assets		
Current assets		
Cash and deposits	11,630,554	12,216,419
Trade notes and accounts receivable	2,870,051	2,741,126
Short-term investment securities	1,001,132	304,771
Work in process	155,685	130,721
Raw materials and supplies	5,759	9,908
Other current assets	1,071,147	951,571
Allowance for doubtful accounts	(39,543)	(49,817)
Total current assets	16,694,787	16,304,701
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures, net	1,311,009	1,234,799
Land	4,602,643	4,602,643
Other property, plant, and equipment, net	196,280	149,994
Total property, plant, and equipment	6,109,933	5,987,438
Intangible assets		
Leasehold rights	322,400	322,400
Software	274,379	256,251
Other intangible assets	177,210	96,735
Total intangible assets	773,990	675,386
Investments & other assets		
Investment securities	3,907,279	4,053,809
Assets related to retirement benefits	473,196	463,062
Other investments and other assets	468,046	475,851
Allowance for doubtful accounts	(8,006)	(8,258)
Total investments and other assets	4,840,516	4,984,465
Total noncurrent assets	11,724,440	11,647,290
Total assets	28,419,227	27,951,991

	2019	2020
Liabilities		
Current liabilities		
Trade notes and accounts payable	347,821	406,535
Short-term loans payable	—	200,000
Current portion of bonds	500,000	—
Income taxes payable	1,159,020	841,931
Other current liabilities	2,925,055	2,549,217
Total current liabilities	4,931,897	3,997,683
Noncurrent liabilities		
Long-term loans payable	100,000	100,000
Retirement benefit liabilities	60,876	68,088
Deferred tax liabilities	109,949	56,128
Other noncurrent liabilities	51,377	41,673
Total noncurrent liabilities	322,203	265,891
Total liabilities	5,254,101	4,263,574
Net Assets		
Shareholders' equity		
Capital	3,125,231	3,125,231
Capital surplus	2,947,675	2,946,634
Retained earnings	19,731,165	20,565,065
Treasury stock	(3,342,957)	(3,560,378)
Total shareholders' equity	22,461,115	23,076,553
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	211,575	75,241
Foreign currency translation adjustments	16,146	17,074
Accumulated adjustments for retirement benefits	(114,954)	(127,122)
Total accumulated other comprehensive income	112,766	(34,806)
Subscription rights for shares	591,243	646,669
Total net assets	23,165,126	23,688,416
Total liabilities and net assets	28,419,227	27,951,991

Consolidated Statement of Income

(Thousand yen)

	2019	2020
Net sales	25,752,886	25,027,840
Cost of sales	16,972,135	17,027,136
Gross profit	8,780,751	8,000,704
SG&A expenses	3,075,273	3,018,249
Operating income	5,705,477	4,982,455
Non-operating income		
Interest income	17,105	18,577
Dividend income	9,135	8,816
Gain on sales of investment securities	23,468	55,245
Gain on valuation of investment securities	1,865	3,122
Insurance bonus income	30,434	33,455
Refunded consumption taxes	37,674	—
Other non-operating income	14,609	28,002
Total non-operating income	134,292	147,219
Non-operating expenses		
Interest expenses	5,231	4,740
Investment partnership management expenses	3,847	3,272
Commission for purchase of treasury shares	23,358	—
Contributions	42,000	12,000
Other non-operating expenses	10,304	18,072
Total non-operating expenses	84,742	38,084
Ordinary Income	5,755,027	5,091,590
Extraordinary income		
Gain on sales of noncurrent assets	624	176
Gain on sales of investment securities	665	159,912
Total extraordinary income	1,289	160,089
Extraordinary losses		
Impairment losses	—	70,000
Loss on retirement of noncurrent assets	582	5,135
Loss on sales of investment securities	6,807	—
Total extraordinary losses	7,390	75,135
Net income before income taxes and other adjustments	5,748,927	5,176,543
Current income taxes	1,927,567	1,640,018
Deferred income taxes	(47,121)	37,850
Total income taxes	1,880,446	1,677,868
Net income	3,868,481	3,498,675
Net income attributable to owners of the parent	3,868,481	3,498,675

Consolidated Statement of Comprehensive Income

(Thousand yen)

	2019	2020
Net income	3,868,481	3,498,675
Other comprehensive income		
Valuation difference on available-for-sale securities	89,788	(136,333)
Foreign currency translation adjustments	(138)	928
Adjustments for retirement benefits	(5,729)	(12,167)
Total other comprehensive income	83,920	(147,573)
Comprehensive income	3,952,401	3,351,101
Details		
Comprehensive income attributable to owners of the parent	3,952,401	3,351,101

Consolidated Statement of Changes in Net Assets

(Thousand yen)

FY12/19 (Jan. 1 – Dec. 31, 2019)	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at start of fiscal year	3,125,231	2,946,634	17,729,542	(1,861,703)	21,939,705
Change					
Dividends from surplus			(1,866,857)		(1,866,857)
Net income attributable to owners of the parent			3,868,481		3,868,481
Purchase of treasury shares				(1,512,084)	(1,512,084)
Disposal of treasury shares		1,040		30,830	31,870
Retirement of treasury shares					—
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	—	1,040	2,001,623	(1,481,253)	521,410
Balance at end of fiscal year	3,125,231	2,947,675	19,731,165	(3,342,957)	22,461,115

FY12/19 (Jan. 1 – Dec. 31, 2019)	Accumulated other comprehensive income				Subscription rights for shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income		
Balance at start of fiscal year	121,786	16,284	(109,225)	28,845	402,278	22,370,829
Change						
Dividends from surplus						(1,866,857)
Net income attributable to owners of the parent						3,868,481
Purchase of treasury shares						(1,512,084)
Disposal of treasury shares						31,870
Retirement of treasury shares						—
Net changes of items other than shareholders' equity	89,788	(138)	(5,729)	83,920	188,965	272,886
Total changes of items during the fiscal year	89,788	(138)	(5,729)	83,920	188,965	794,296
Balance at end of fiscal year	211,575	16,146	(114,954)	112,766	591,243	23,165,126

FY12/20 (Jan. 1 – Dec. 31, 2020)	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at start of fiscal year	3,125,231	2,947,675	19,731,165	(3,342,957)	22,461,115
Change					
Dividends from surplus			(2,140,514)		(2,140,514)
Net income attributable to owners of the parent			3,498,675		3,498,675
Purchase of treasury shares				(749,582)	(749,582)
Disposal of treasury shares		(1,040)	4,793	3,105	6,859
Retirement of treasury shares			(529,055)	529,055	—
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	—	(1,040)	833,899	(217,421)	615,437
Balance at end of fiscal year	3,125,231	2,946,634	20,565,065	(3,560,378)	23,076,553

FY12/20 (Jan. 1 – Dec. 31, 2020)	Accumulated other comprehensive income				Subscription rights for shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income		
Balance at start of fiscal year	211,575	16,146	(114,954)	112,766	591,243	23,165,126
Change						
Dividends from surplus						(2,140,514)
Net income attributable to owners of the parent						3,498,675
Purchase of treasury shares						(749,582)
Disposal of treasury shares						6,859
Retirement of treasury shares						—
Net changes of items other than shareholders' equity	(136,333)	928	(12,167)	(147,573)	55,425	(92,147)
Total changes of items during the fiscal year	(136,333)	928	(12,167)	(147,573)	55,425	523,290
Balance at end of fiscal year	75,241	17,074	(127,122)	(34,806)	646,669	23,688,416

Consolidated Cash Flow Statement

(Thousand yen)

	2019	2020
Net cash provided by (used in) operations		
Net income before income taxes and other adjustments	5,748,927	5,176,543
Depreciation	278,992	280,839
Impairment losses	—	70,000
Amortization of goodwill	66,835	34,290
Share-based compensation expenses	220,581	62,026
Increase (decrease) in allowance for doubtful accounts	3,696	10,526
Decrease (increase) in assets related to retirement benefits	1,204	(2,033)
Increase (decrease) in retirement benefit liabilities	6,216	7,212
Loss (gain) on valuation of investment securities	650	4,315
Loss (gain) on sales of investment securities	(17,326)	(215,158)
Interest and dividend income	(26,240)	(27,393)
Interest expenses	5,231	4,740
Commission for purchase of treasury shares	23,358	—
Loss (gain) on exchange	63	511
Contributions	42,000	12,000
Loss (gain) on sales of property, plant, and equipment	(624)	(176)
Loss on retirement of property, plant, and equipment	582	2,427
Loss on retirement of intangible assets	—	2,708
Decrease (increase) in trade notes and accounts receivable	(476,417)	128,977
Decrease (increase) in other assets	(634,473)	(270,965)
Increase (decrease) in other liabilities	728,424	(296,173)
Other cash provided by (used in) operations	9,311	10,072
Subtotal	5,980,997	4,995,293
Interest and dividends received	47,015	41,475
Interest paid	(5,236)	(4,615)
Income taxes paid	(1,801,859)	(1,958,765)
Income tax refunds	343,175	454,299
Contributions paid	(42,000)	(12,000)
Net cash provided by (used in) operations	4,522,092	3,515,687
Net cash provided by (used in) investments		
Purchase of short-term investment securities	(100,067)	—
Proceeds from sale and redemption of short-term investment securities	400,000	1,000,000
Purchase of investment securities	(416,596)	(705,550)
Proceeds from sale and redemption of investment securities	20,596	192,231
Purchase of property, plant, and equipment	(249,063)	(48,277)
Purchase of intangible assets	(164,891)	(175,138)
Proceeds from cancellation of insurance funds	8,938	—
Other cash provided by (used in) investments	644	176
Net cash provided by (used in) investments	(500,438)	263,441
Net cash provided by (used in) financing		
Proceeds from short-term loans payable	—	200,000
Redemption of bonds	—	(500,000)
Repayment of lease obligations	(13,691)	(9,653)
Purchase of treasury shares	(1,535,442)	(749,988)
Proceeds from sale of treasury shares	254	258
Dividends paid	(1,862,890)	(2,135,581)
Net cash provided by (used in) financing	(3,411,770)	(3,194,965)
Effect of exchange rate changes on cash and cash equivalents	(1,914)	1,702
Increase (decrease) in cash and cash equivalents	607,969	585,864
Cash and cash equivalents at start of fiscal year	11,022,585	11,630,554
Cash and cash equivalents at end of fiscal year	11,630,554	12,216,419

The Funai Soken Consulting Group Network

Consulting

Funai Consulting Inc.

President and CEO: Daisuke Shingai
Management consulting
Incorporated: Nov. 28, 2013 (founded Mar. 6, 1970)
Capital: 3,000 million yen
Osaka HQ: 4-4-10 Kitahama, Chuo-ku, Osaka
Tokyo HQ: 21st floor, Nihon Seimei Marunouchi Bldg., 1-6-6 Marunouchi, Chiyoda-ku, Tokyo
Gotanda Office
6-12-1 Nishigotanda, Shinagawa-ku, Tokyo
Shiba Seminar Place
Shiba City Bldg., 3-4-11 Shiba, Minato-ku, Tokyo

Funai Soken Corporate Relations Inc.

President: Hitoshi Nagira
Sales development
Back-office consulting
Monitoring and research
Incorporated: Nov. 28, 2013
Capital: 50 million yen
Address: 6th floor, Shinfushimimachi Bldg., 4-4-10 Fushimi-machi, Chuo-ku, Osaka
Tokyo Office
9th floor, Shiba City Bldg., 3-4-11 Shiba, Minato-ku, Tokyo

Funai Consulting Shanghai Inc.

President: Kyohei Deguchi
Representative Director: Lang Luyuan
China-based consulting
Incorporated: Jan. 13, 2012
Capital invested: 50 million yen
Address: Suite 18H, Zhaofeng Trade Building, 369 Jiangsu Road, ChangNing District, Shanghai, China

Logistics

Funai Soken Logistics Inc.

President: Shigehiro Kan
Logistics
Incorporated: May. 10, 2000
Capital: 98 million yen
Osaka HQ: 4-4-10 Kitahama, Chuo-ku, Osaka
Tokyo HQ: 22nd floor, Nihon Seimei Marunouchi Bldg., 1-6-6 Marunouchi, Chiyoda-ku, Tokyo

Direct Recruiting

HR Force Inc.

President: Shoji Takayama
Direct recruiting
Incorporated: Feb. 1, 2018
Capital: 64 million yen
Address: 21st floor, Nihon Seimei Marunouchi Bldg., 1-6-6 Marunouchi, Chiyoda-ku, Tokyo
Hamamatsu Office
9th floor, PMO Hamamatsu-cho, 2-5-5 Hamamatsu-cho, Minato-ku, Tokyo

Other Businesses

Funai Soken IT Solutions Inc.

President: Naoki Nishiyama
IT consulting
Incorporated: Feb. 1, 2000
Capital: 60 million yen
Address: 22nd floor, Nihon Seimei Marunouchi Bldg., 1-6-6 Marunouchi, Chiyoda-ku, Tokyo

Proseed Corporation

President: Naoki Nemoto
Contact center consulting
Incorporated: Jun. 24, 1991
Capital: 100 million yen
Address: 22nd floor, Nihon Seimei Marunouchi Bldg., 1-6-6 Marunouchi, Chiyoda-ku, Tokyo
Taiwan Branch: Suite 1, 7th floor, No. 128 Section 3, Minsheng East Road, Songshan District, Taipei

Shinwa Computer Service Co., Ltd.

President: Akihide Goto
Systems development
Incorporated: Jun. 12, 1980
Capital: 13 million yen
Address: 3rd floor, Nippo Hacchobori Bldg., 2-19-8 Hacchobori, Chuo-ku, Tokyo

Corporate Overview & Stock Information

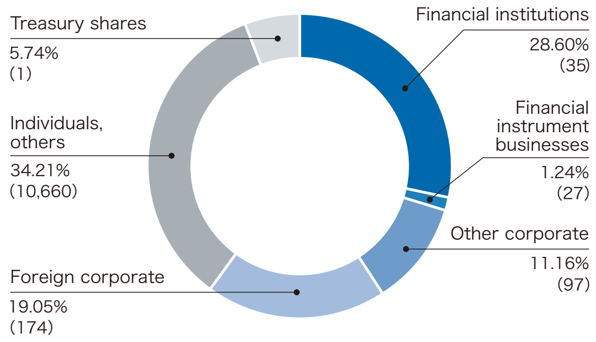
Corporate Overview

Name	Funai Soken Holdings, Inc.
Representatives	Sakae Takashima, Chairman and Group CEO Takayuki Nakatani, President & CEO
Major roles	To serve as the group holding company, compile group strategies, and handle group management
Incorporated	March 6, 1970
Capital	3,125 mil. yen
Address	Osaka HQ: 4-4-10 Kitahama, Chuo-ku, Osaka Tokyo HQ: 21st floor, Nihon Seimei Marunouchi Bldg., 1-6-6 Marunouchi, Chiyoda-ku, Tokyo
Consolidated subsidiaries	8
Group employees	1,303 (as of Dec. 31, 2020)

Stock Information

Stock exchange listing	Tokyo Stock Exchange 1st Section
Stock code	9757
Business year	January 1 to December 31
AGM	March
Share unit	100 shares
Number of shares authorized for issue	130,000,000
Total number of shares outstanding	49,488,228 (excl. 3,011,772 treasury shares)
Shareholders holding full share units	10,994
Record date for dividends	June 30, December 31

Shareholder Categories



Top 10 Shareholders

Name	Number of Shares Owned	Percentage (%)
Funai Honsha Inc.	5,026,000	10.16
Custody Bank of Japan, Ltd. (Trust account)	2,985,000	6.03
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,733,000	5.52
Sumitomo Mitsui Banking Corporation	1,952,000	3.94
Kazuko Funai	1,557,000	3.15
TAIYO FUND, L.P.	1,511,000	3.05
GOLDMAN SACHS & CO. REG	1,260,000	2.55
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	1,253,000	2.53
Nippon Life Insurance Company	1,062,000	2.15
Katsuhito Funai	1,056,000	2.14

Treasury shares (3,011,000) are excluded when calculating holding percentages.

Funai Soken Holdings