Funai Soken Holdings Incorporated

Q1 Financial Results Briefing for the Fiscal Year Ending December 2023

[Speaker] Eijiro Saito Executive Officer, General Manager of Corporate Strategy Office & Corporate Communication Office

May 11, 2023

Presentation

Moderator: We will now begin the teleconference for Q1 Financial Results Briefing for the Fiscal Year Ending December 2023 of Funai Soken Holdings Incorporated.

Saito: My name is Saito of Funai Soken Holdings Incorporated. I will now explain the contents of the Q1 financial results announced today at 3:30 PM.

1. Executive Summary

Funai Soken Holdings

(1) Consolidated Income

- Sales were solid, with sales of monthly support services and projects up in the consulting segment, sales of logistics BPO operations up in the logistics segment, and sales of operations relating to cloud solutions up in the digital solutions segment.
- Profits were down, pressured by increased costs, mainly travel costs relating to consulting activity and aggressive investment in recruiting and hiring.

	March 2022		March 2023		
	Amount (million yen)	% of total	Amount (million yen)	% of total	Change (%)
Net sales	6,241	100.0	6,770	100.0	+8.5
Operating income	2,081	33.3	1,765	26.1	-15.2
Ordinary income	2,089	33.5	1,811	26.8	-13.3
Net income attributable to owners of the parent	1,443	23.1	1,206	17.8	-16.4

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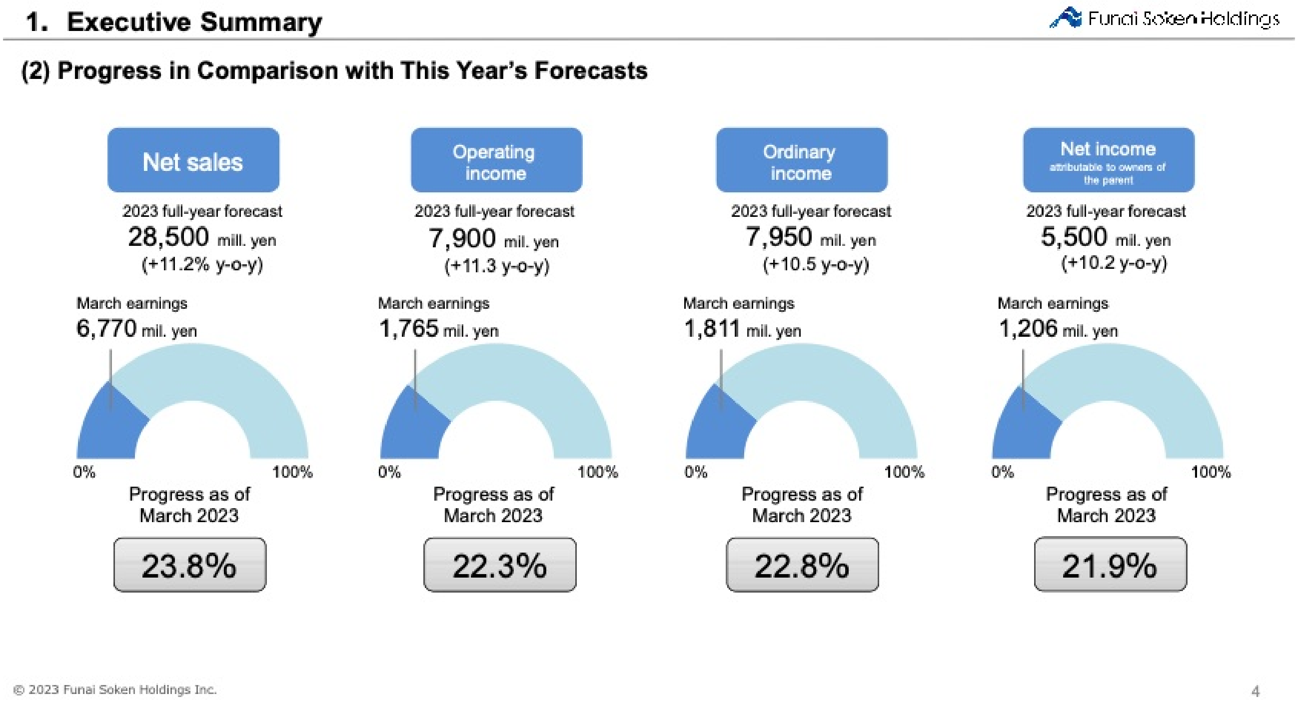
Here are the consolidated results for the first quarter.

Net sales were JPY6.77 billion, up 8.5% from the previous year, and operating income was JPY1.765 billion, down 15.2%, resulting in higher sales and lower profits.

In the first quarter of last year, sales were boosted by highly irregular factors such as M&A and subsidy-related activities, and operating profit margins were high. Sales for the current fiscal year were generally in line with the plan, although there was a somewhat large variance in each business and theme's strong and weak sales.

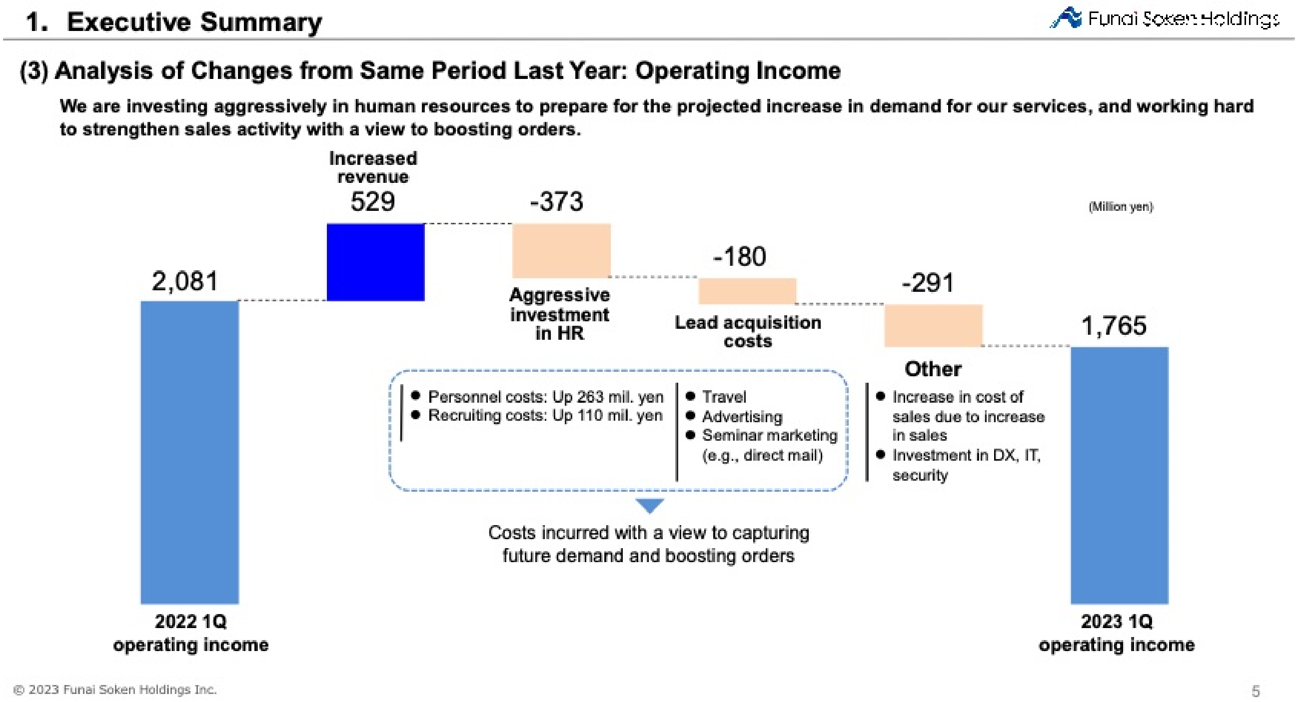
Operating income decreased mainly due to investments in human resources resulting from a large increase in the number of employees, mainly consultants and engineers, and increased costs resulting from aggressive sales activities to win orders. However, the backlog of orders continues to build up positively because of these factors.



Next is the progress against the full-year forecast.

For the current fiscal year, we plan an 11.2% increase in sales of JPY28.5 billion and an 11.3% increase in operating income of JPY7.9 billion, and now that we are over a quarter of the way through, we are making the progress you are seeing. Regarding the 23.8% progress rate of sales, I would say that this rate is within our expectation because our business model is such that sales increase in the latter half of the year.

For your information, the past first quarter sales progress rate was 24.7% in 2022 and 23.8% in 2021, the year before last, which is exactly the same as this quarter. However, there is a slight delay in the rate of progress in terms of operating income, which is mainly because we have been aggressively making upfront investments in human resources since the beginning of the current fiscal year, which I will explain next. In any case, we will continue striving to achieve this plan throughout the year.



This section shows the differences in operating income compared with the same period of the previous year.

Operating income for the first quarter last year was JPY2,081 million. In contrast, first of all, sales increased by JPY529 million this fiscal year. From there, JPY373 million was invested in human resources. Sales costs to acquire leads or prospective customers totaled JPY180 million, an increase from last year.

In addition, there are other costs associated with increased sales and also investments in DX, IT, security, etc. As a result, operating income for the current term is JPY1,765 million. As for the breakdown of investment in human resources, personnel expenses increased by JPY263 million over the same period last year, and costs incurred for recruitment increased by JPY110 million.

As for lead acquisition costs, sales costs such as travel and transportation expenses for consultants, advertising, and seminar direct mail have increased. In any case, the increase in costs is the result of aggressive investment in human resources to prepare for future increases in demand, as well as intensified sales activities to win orders.

1. Executive Summary

Funai Soken Holdings

(3) Analysis of Changes from Same Period Last Year: Staffing Levels (by Category)

We will carry out the HR strategy of our Mid-Range Business Plan through aggressive hiring of people in positions directly linked to future sales: consultants and business staff (e.g., engineers).

	2022 1Q	2023 1Q			(FYI) 2025 Mid-Range Business Plan target
Total headcount	1,246	1,374	Net gain	+128	1,800
Consultants	804	873	Net gain	+69	1,150
Business staff	261	285	Net gain	+24	400
Workforce admin	181	216	Net gain	+35	250
DX staff incl. in above	193	289	Net gain	+96	

*"Business staff" are those that work in consulting departments with a direct bearing on sales but who are not consultants; roles include development engineering, product sales, new business, management workshop operations staff, etc.
*DX staff counted in accordance with Funai Soken Holdings definition of "digital transformation staff."

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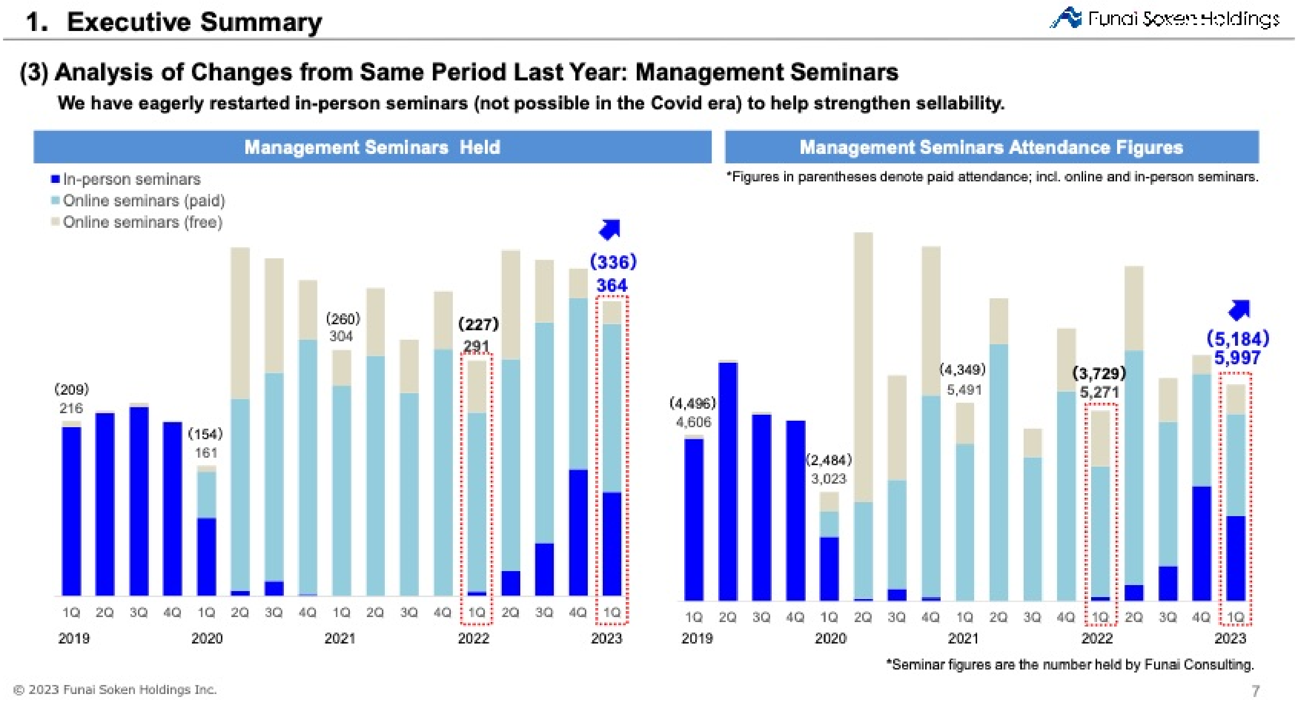
Here is a summary of how the number of employees, consultants, and other personnel by job category has changed in response to the human capital investment I have just described.

Last year was a year in which we were unable to increase the number of consultants. With this in mind, we have been focusing considerably on recruitment and retention from the start of this fiscal year to realize the human capital strategy set forth in our medium-term management plan.

As a result, the number of employees was 1,374 this quarter, compared to 1,246 in the first quarter of last year, an increase of 128. The number of consultants increased by 69, from 804 to 873, and the number of development engineers and other business personnel increased by 24.

The number of DX human resources also increased significantly, from 193 to 289. According to our recently announced medium-term management plan, our target number of employees for 2025 is 1,800, with 1,150 consultants, and we are now focusing on investing in human resources to achieve this goal.

Incidentally, including the employees who joined us in April, we now have over 1,500 employees and over 1,000 consultants, so we believe we are off to a good start in terms of human resources for this fiscal year.



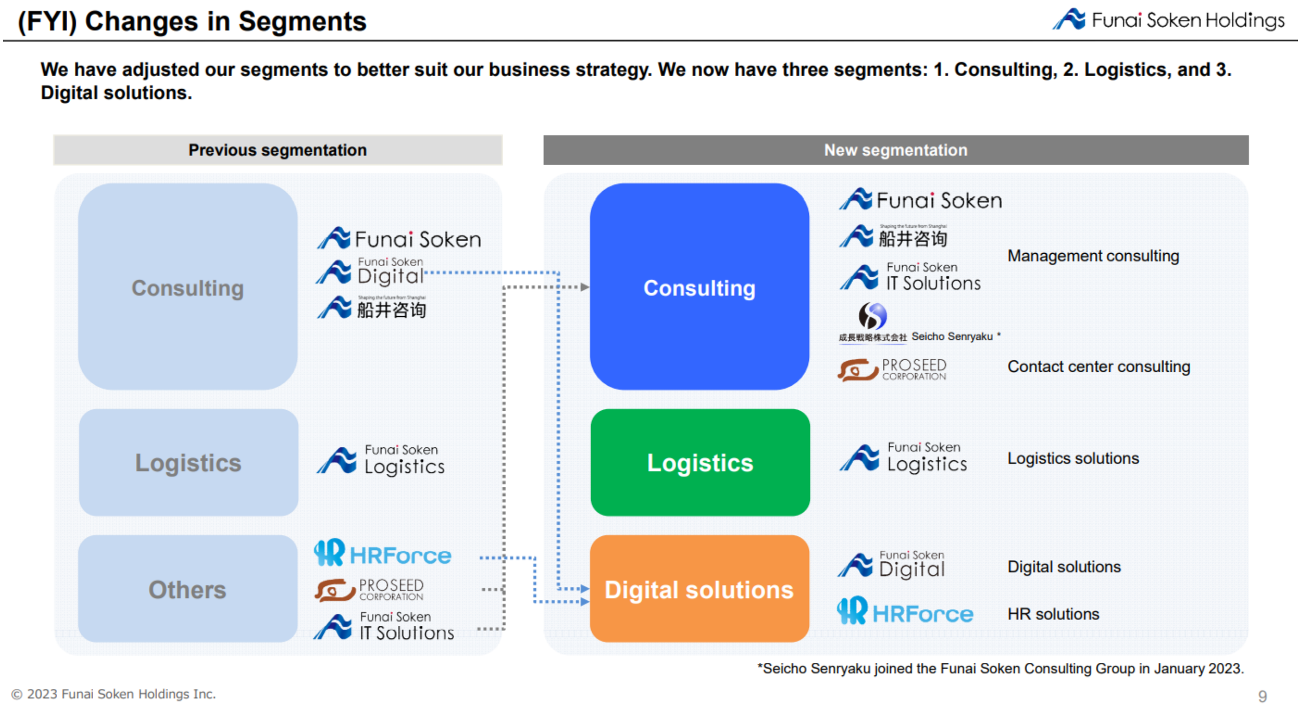
As a result of our sales activities, the number of management seminars held and the number of participants are shown for each quarter.

To some extent, it is easier to understand the trend if we look at the long term, so we show the transition from 2019 pre-COVID-19. To explain, including how to see them, the dark blue areas are face-to-face seminars, the light blue is paid online seminars, and the gray are free online seminars.

During COVID-19, it was difficult to hold face-to-face seminars, so they were mostly online. However, the free online seminars still had a low rate of subsequent consulting orders, so we have been increasing the number of paid seminars in order to target more motivated participants.

Additionally, since the second half of last year, we have been focusing on increasing the number of face-to-face seminars. The number of paid online and face-to-face seminars, which we emphasize, totaled to 336 in the first quarter, a significant increase compared to last year's 227, especially face-to-face seminars. The number of participants has followed a similar upward trend. We will continue to focus on holding seminars to attract such prospective clients.

That is the summary of the current financial results, and I will now explain the situation of each segment.



Before that, we announced a new medium-term management plan in February of this year, and in line with this plan, we have reorganized our business segments starting this fiscal year. The details of the medium-term management plan are described in the latter half of the financial summary we have released this time. Still, for the next three years, we will focus on “sustainable growth” and “high profitability” in the Management Consulting Business, “improving profitability” in the Logistics Business, and aggressive investment and growth rate in the Digital Solutions Business. We will continue to develop our business portfolio with a special emphasis on the following three years.

Beginning with this earnings announcement, each business segment is disclosing last year's figures retroactively in accordance with this reorganized business.

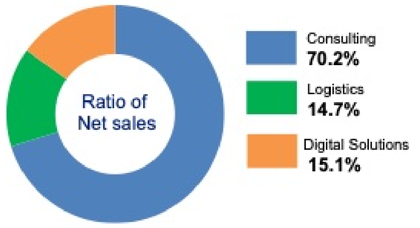
2. FY2023 1st Quarter Financial Results

Funai Soken Holdings

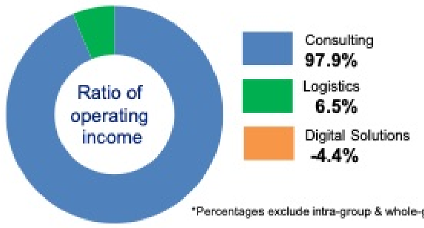
(1) Results of Operations by Segment

- **Orders increased in all segments and sales were up across the board. The stepping up of sales activity and aggressive hiring have put downward pressure on profits.**
- **Personnel costs increased in the digital solutions segment as we invest in hiring to secure engineers and other necessary staff.**

Net sales	March 2022	March 2023	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	4,426	4,750	+7.3
Logistics	910	994	+9.2
Digital Solutions	900	1,020	+13.4
(Intra-group & whole-group transactions)	4	4	–
Total	6,241	6,770	+8.5



Operating income	March 2022	March 2023	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	1,781	1,724	-3.2
Logistics	134	114	-15.0
Digital Solutions	152	-77	–
(Intra-group & whole-group transactions)	12	4	–
Total	2,081	1,765	-15.2



*Percentages exclude intra-group & whole-group transactions

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I will now explain each segment.

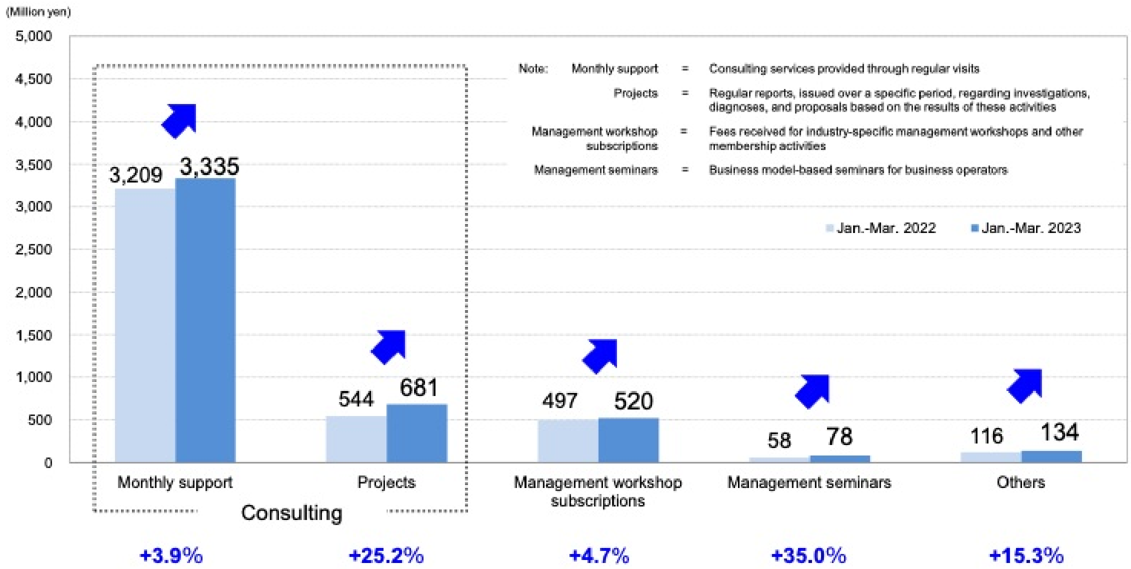
Here are the results of the three businesses.

Each segment will now be explained in detail, but the overall trend for all of them was the same, with an increase in net sales and a decrease in profit.

2. FY2023 1st Quarter Financial Results

Funai Soken Holdings

(2) Results of Operations by Segment: Consulting—Sales by Service Category



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I will begin with a detailed explanation of our Management Consulting Business.

Here are the sales by business category for the management consulting business.

The Management Consulting Business has also changed, so the figures have been retroactively calculated based on the new structure. However, the composition itself has not changed significantly, as the majority of the results are from Funai Consulting.

The results for the first quarter are as shown. Monthly support has grown by about 4%, and projects have grown by about 25%. As for project growth, M&A, which is included in this category, was down compared to last year, and the largest increase in business this fiscal year was in the government sector. We believe that the M&A portion of the business, which has been a little slow to take off, can be recovered in the future. In addition, membership fee income for the Management Study Group, which has been flat for some time now, is finally showing a slightly positive trend, with an increase of 4.7% this season. Net sales increased due to an increase in the number of management seminars held and the number of participants.

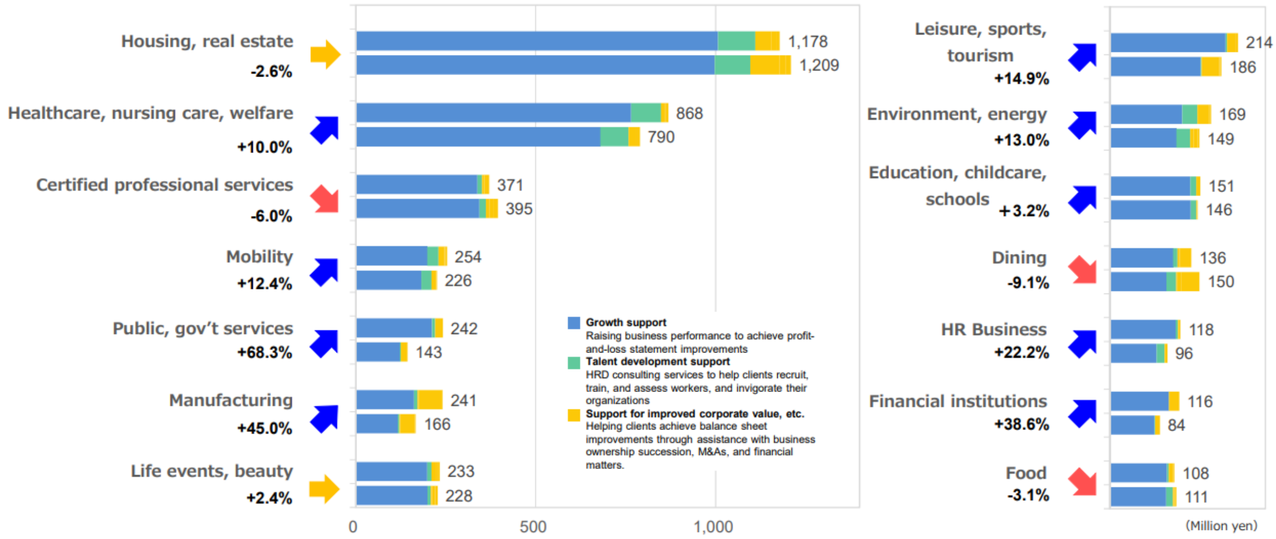
Please note that the online ad listing sales, which were on this page until last year, have been moved to the Digital Solutions segment this fiscal year.

2. FY2023 1st Quarter Financial Results

Funai Soken Holdings

(2) Results of Operations by Segment: Consulting—Sales by Sector

Upper bar: Jan. – Mar. 2023
Lower bar: Jan. – Mar. 2022



*Starting this year, our client categories have been reorganized: the specialist services and the amusement industry category are now the life events and beauty and the leisure, sports, and tourism category.

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Next, here are the performance trends by industry sector.

Housing and real estate, our mainstay business, struggled in the current fiscal year. This graph is categorized into blue for growth execution support, green for talent development support, and yellow for value enhancement and digitalization support.

Incidentally, excluding the M&A portion, the result is a growth of about plus 1%. The struggles of the housing and real estate sectors were offset by the other mainstay, healthcare, nursing care, and welfare sector, as well as other industries. The healthcare, nursing care, and welfare sectors increased by 10% for the quarter.

In other industries, the manufacturing sector continues to do well, and as explained in the previous section on projects, the public government services sector was characterized by a large increase in work. The previous categories of specialist services and the amusement industry have been reorganized into life events and beauty and the leisure, sports, and tourism category in accordance with the characteristics of the client's industry.

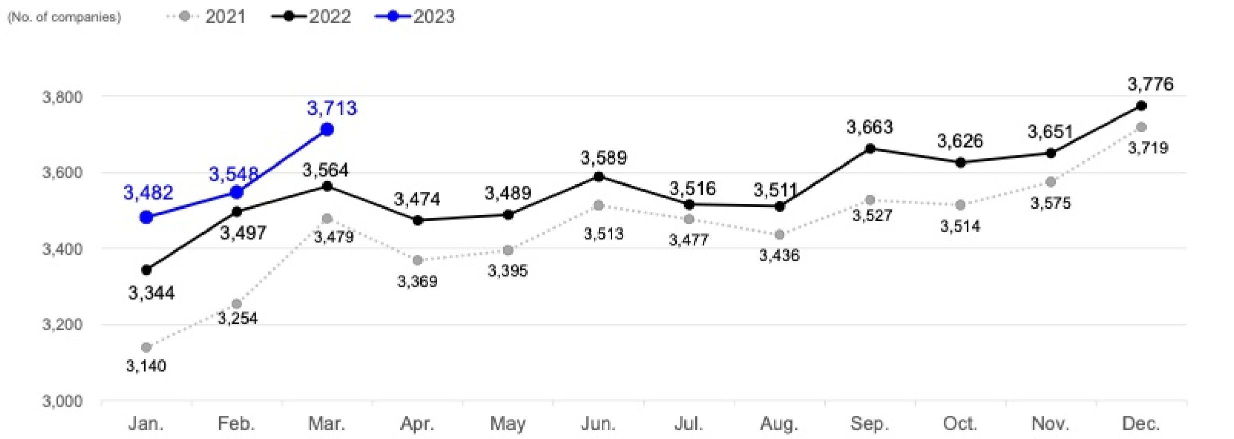
The life events and beauty and the leisure, sports, and tourism segment include weddings, funerals, beauty, leisure, sports, and tourism, and in addition to the existing pachinko parlors, we have expanded into sports such as indoor golf and fitness, and travel, inns, and tourism such as glamping. We have changed the name of the category as follows.

2. FY2023 1st Quarter Financial Results

Funai Soken Holdings

(2) Results of Operations by Segment: Consulting—Consulting Client Numbers

Monthly Consulting Client Company Numbers



*Figures denote the total number of consulting contracts per month in the consulting segment (i.e., Funai Consulting, Proseed, Funai Consulting Shanghai, Funai Soken IT Solutions, and Seicho Senryaku; excl. intra-group transactions).

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Here is the number of consultants by month.

The trend has remained the same, with an increase of several percent each month.

2. FY2023 1st Quarter Financial Results

Funai Soken Holdings

(3) Results of Operations by Segment: Logistics—Sales by Service Category

Logistics Consulting
Helping clients reduce logistics costs

+2.9%

- Consulting for logistics companies was, despite widespread reticence to invest due to the devalued yen and increased fuel costs, in line with the preceding year: 301 management workshop memberships as of Mar. 31, 2023; 308 as of Mar. 31, 2022.
- Revenues from consulting services for shipper companies increased.

Logistics BPO
Logistics on behalf of clients
Reducing purchasing costs through joint buying

+11.0%

- Deep-mining of existing clients and growth in client orders resulted in an increase in sales.
- Demand for product deliveries was particularly strong among clients.
- Sales were level with the preceding year, affected by stubbornly high fuel prices on our core offering in this segment: joint purchasing of fuel.

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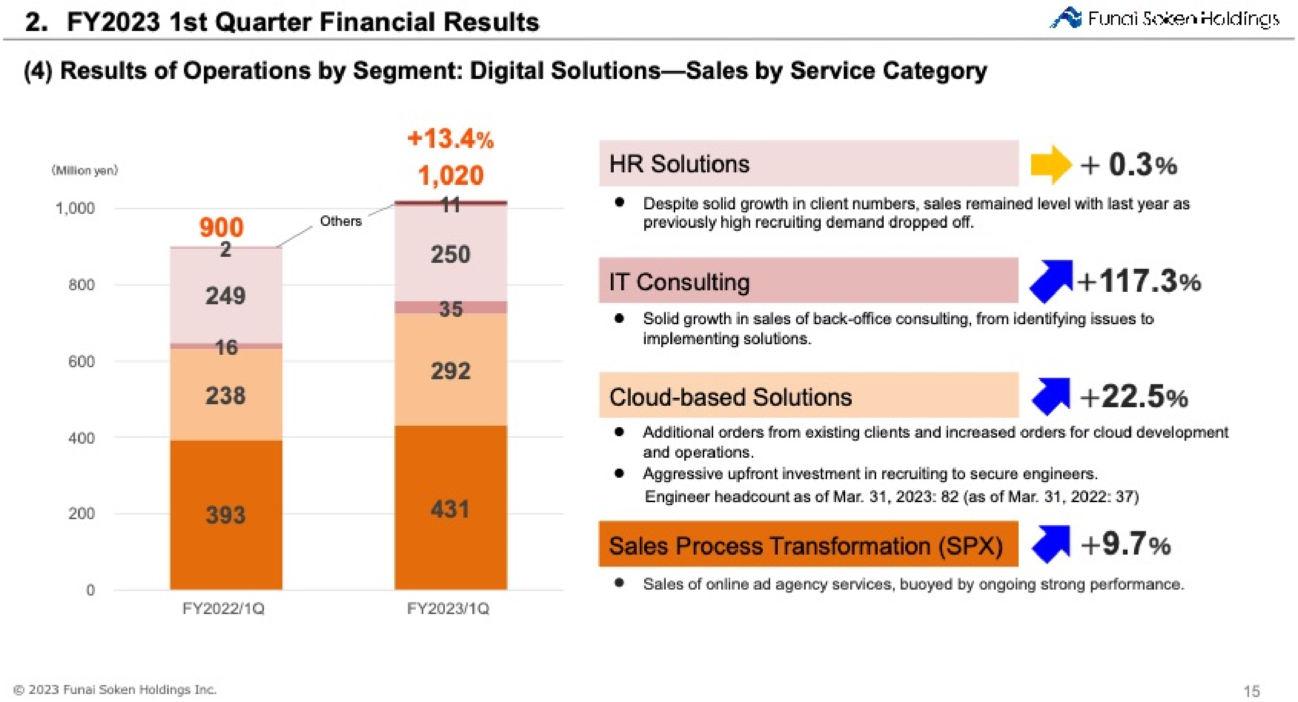
Next is the Logistics Business.

As for the Logistics Business, logistics BPO operations continued to perform well.

In the logistics consulting business, orders for consulting services for shippers were strong. Still, the environment for orders for consulting services for logistics companies was somewhat difficult due to the recent appreciation of the yen and fuel prices, resulting in an increase of only 2.9% in the consulting division and an overall increase of less than 10%.



This page shows sales by business segment for the Digital Solutions Business, a new segment starting this fiscal year.

Since this is our first time providing these figures, we would like to explain a few things.

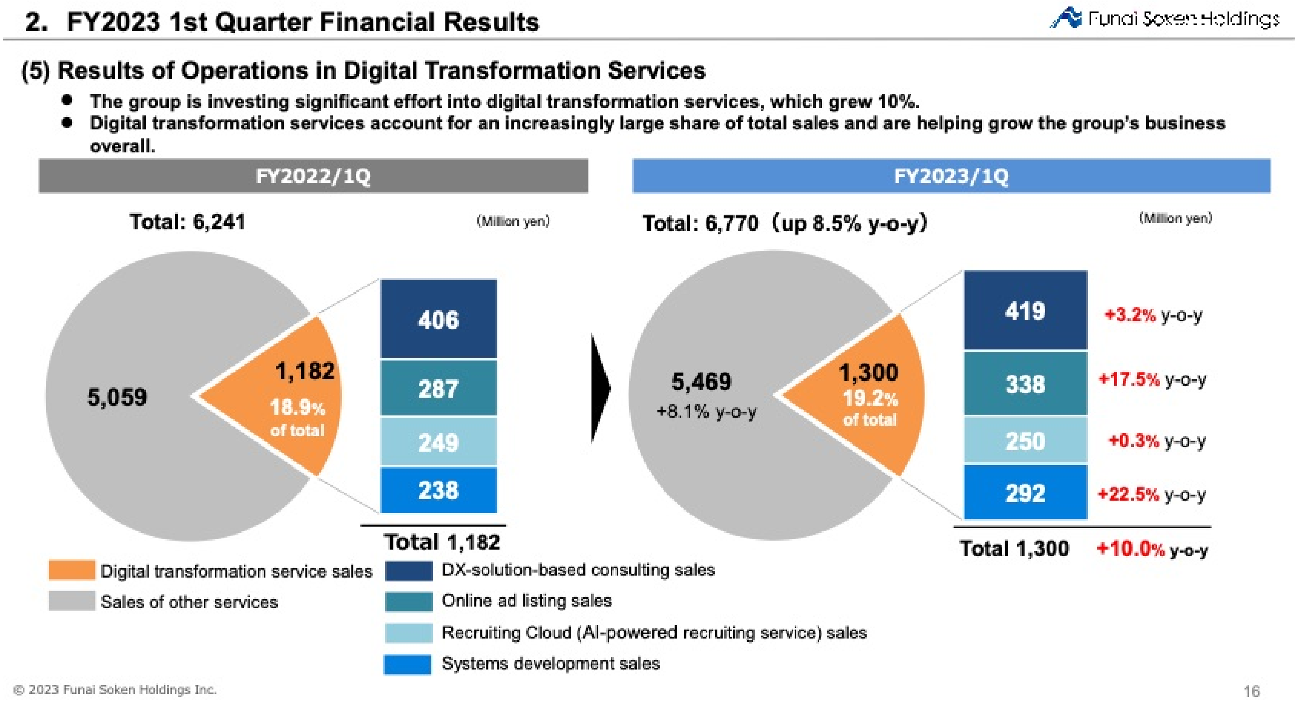
This business is organized into four major business categories and other categories that do not belong to these categories.

Starting from the bottom of the table, SPX stands for Sales Process Transformation, a BPO business area for digital marketing. The mainstay among these is the web advertising management agency business, known as the online ad listing sales, which has grown by approximately 10%.

The cloud-based solution business is the area of system construction and solution development using cloud technology, which is currently the focus of our group's efforts. This area has been growing at over 20% for a long time, and we are currently working hard to secure engineering personnel.

IT consulting, one more up, is in the back-office consulting area. While Funai Consulting is a marketing-centered consulting firm, this practice is a consulting service that provides digital solutions for back-office transformation. Although still small in scale, this will be the next area of consulting where we expect growth. Finally, the HR Solution at the top is the business that we have been operating as a direct recruiting business until last year. In the current fiscal year, the hiring trend has calmed down somewhat, landing at about the same level as the previous year.

These are the digital solutions business.



These are actual figures that we have cut out of our definition of DX-related services.

This quarter, DX Solution Consulting and Recruiting Cloud sales are not growing well. Still, online ad listing sales and system development sales, which are included in the Digital Solutions business, continue to grow steadily this quarter.

This is the description of each segment so far.

2. FY2023 1st Quarter Financial Results

Funai Soken Holdings

(6) Consolidated Financial Position: Balance Sheet

(Million yen)

		As of Dec. 31, 2022	As of Mar. 31, 2023	Change	Major factors behind changes
Current assets		22,283	21,477	-806	Decrease in current assets: Major factors include decreases in cash and deposits; increases in other accounts receivable (listed under "others").
Noncurrent assets	Property, plant, and equipment	5,813	5,798	-15	
	Intangible assets	830	1,241	+410	Increase in noncurrent assets: Major factors include increases in goodwill, investment securities, and guarantee deposits (listed under "other investments and other assets")
	Investments and other assets	4,082	4,771	+688	
Total assets		**33,010**	**33,288**	+278	
Current liabilities		5,067	5,625	+558	Increase in current liabilities: Major factors include increases in other accounts payable, provision for bonuses, and deposits received (listed under "others"); decreases in income taxes payable.
Noncurrent liabilities		242	260	+17	Increase in noncurrent liabilities: Major factors include increase in long-term lease obligations (listed under "others").
Total liabilities		**5,309**	**5,886**	+576	
Total net assets		**27,700**	**27,402**	**-298**	Financial position remains sound with a high equity ratio of 80.4%.
Total liabilities & net assets		**33,010**	**33,288**	**+278**	

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Next, I would like to explain a little about our financial situation, which continues to be positive.

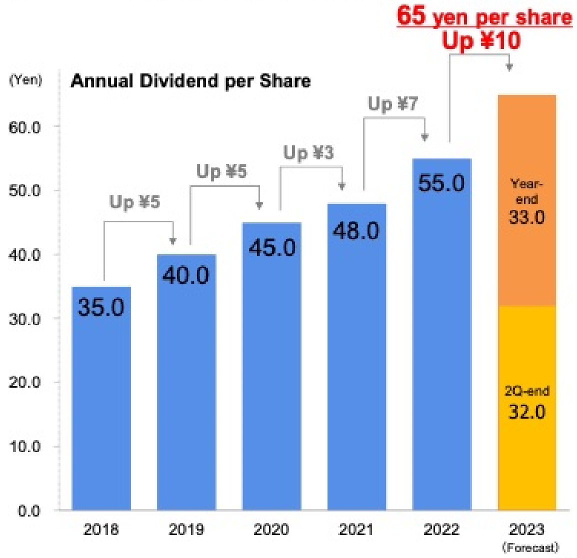
3. Shareholder Returns

Funai Soken Holdings

(1) Annual Dividends

We plan to pay a total dividend of 65 yen per share for FY2023, comprising an interim dividend of 32 yen and a year-end dividend of 33 yen.

	Initial forecast		Actual dividend	
Record date	Dividend (per share)	Details	Dividend (per sharer)	Details
FY2018 1.5-for-1 share split	33.0	2Q-end 15.0 Year end 18.0	35.0	2Q-end 15.0 Year end 20.0 *incl. special dividend of 2.0
FY2019	40.0	2Q-end 17.0 Year end 23.0	40.0	2Q-end 17.0 Year end 23.0 *Incl. a commemorative dividend of 3.0
FY2020	45.0	2Q-end 20.0 Year end 25.0	45.0	2Q-end 20.0 Year end 25.0
FY2021	46.0	2Q-end 21.0 Year end 25.0	48.0	2Q-end 21.0 Year end 27.0
FY2022	53.0	2Q-end 25.0 Year end 28.0	55.0	2Q-end 25.0 Year end 30.0 *Incl. a commemorative dividend of 2.0
FY2023 (Forecast)	65.0	2Q-end 32.0 Year end 33.0		



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Before I conclude my explanation, I would like to explain shareholder returns and the share repurchase system, which was released today in conjunction with the earnings announcement. Then I would like to take questions from the audience.

We are pleased to report our dividend forecast for the current fiscal year. For the current fiscal year, we plan to pay a dividend of JPY65, an increase of JPY10 from the actual dividend of JPY55 in 2022. If this is achieved, it will be the 13th consecutive fiscal year of dividend increase.

3. Shareholder Returns

Funai Soken Holdings

(2) Purchase of Treasury Shares

- **The Board of Directors voted on May 11, 2023, to undertake a 2-billion-yen buyback of shares.**

The buyback of shares is designed to help improve capital efficiency and boost shareholder returns by allowing for more dynamic implementation of capital policies in response to changes in the business environment.

Dec. 2022

■ As of December 31, 2022
Total outstanding shares (excl. treasury shares): 49,337,034
Treasury shares: 3,162,966

May. 2023

Max. 2 bil. yen

May. 2024

Plan for Share Buyback as per Board Resolution on May 11, 2023

Buy-back period:	May 12, 2023 – April 30, 2024
Number of shares to be purchased:	Max. 850,000 (NB: 1.7% of total outstanding shares (excl. treasury shares))
Price of buy-back:	Max. 2 bil. yen
Class of shares:	Common shares

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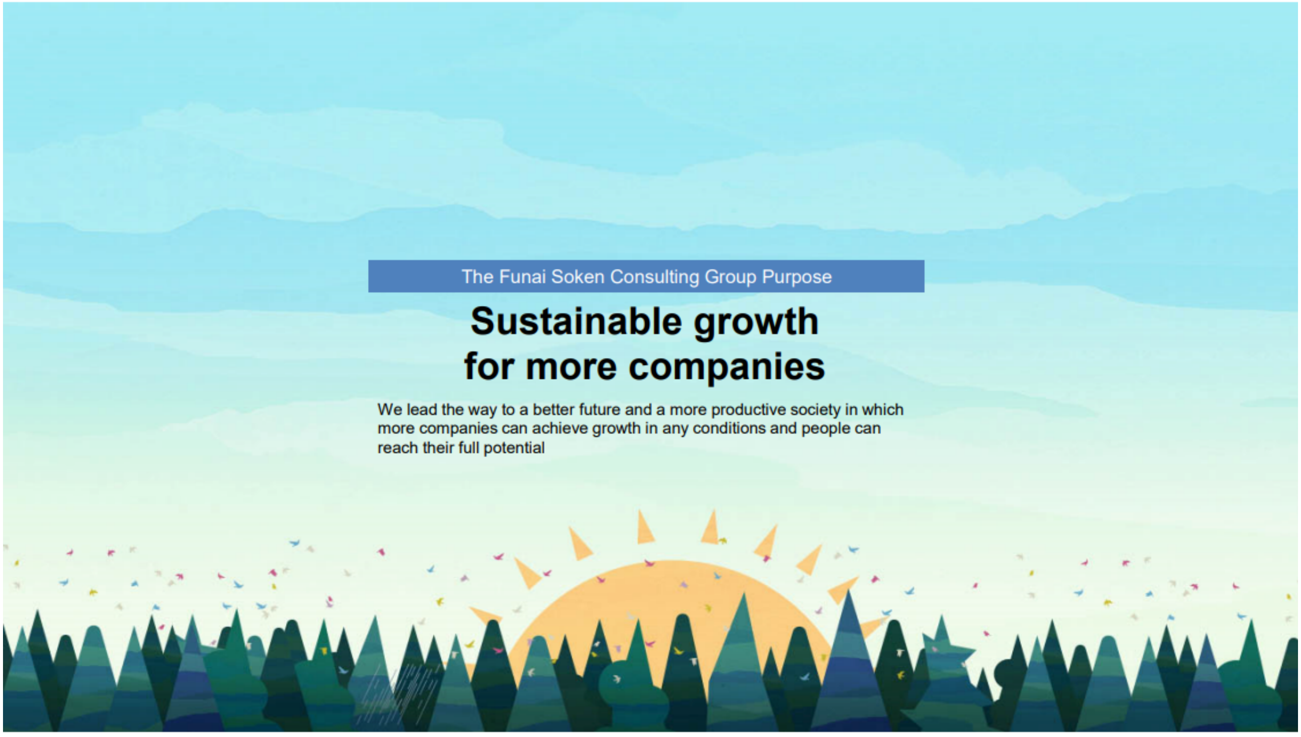
Lastly, I would like to explain the acquisition of treasury shares.

At the Board of Directors meeting held today, the Company resolved to repurchase up to 850,000 shares of its own shares at a cost of JPY2 billion.

The Company will continue to strive to improve capital efficiency and enhance shareholder returns, as our medium-term management plan through 2025 also calls for a dividend payout ratio of at least 55% and a total return ratio of at least 60%. We appreciate your continued understanding and support of our business.

This concludes my explanation. Thank you all very much.



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Funai Soken Holdings

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Actual results may differ greatly from these forecasts for a number of factors.

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