Funai Soken Holdings Incorporated

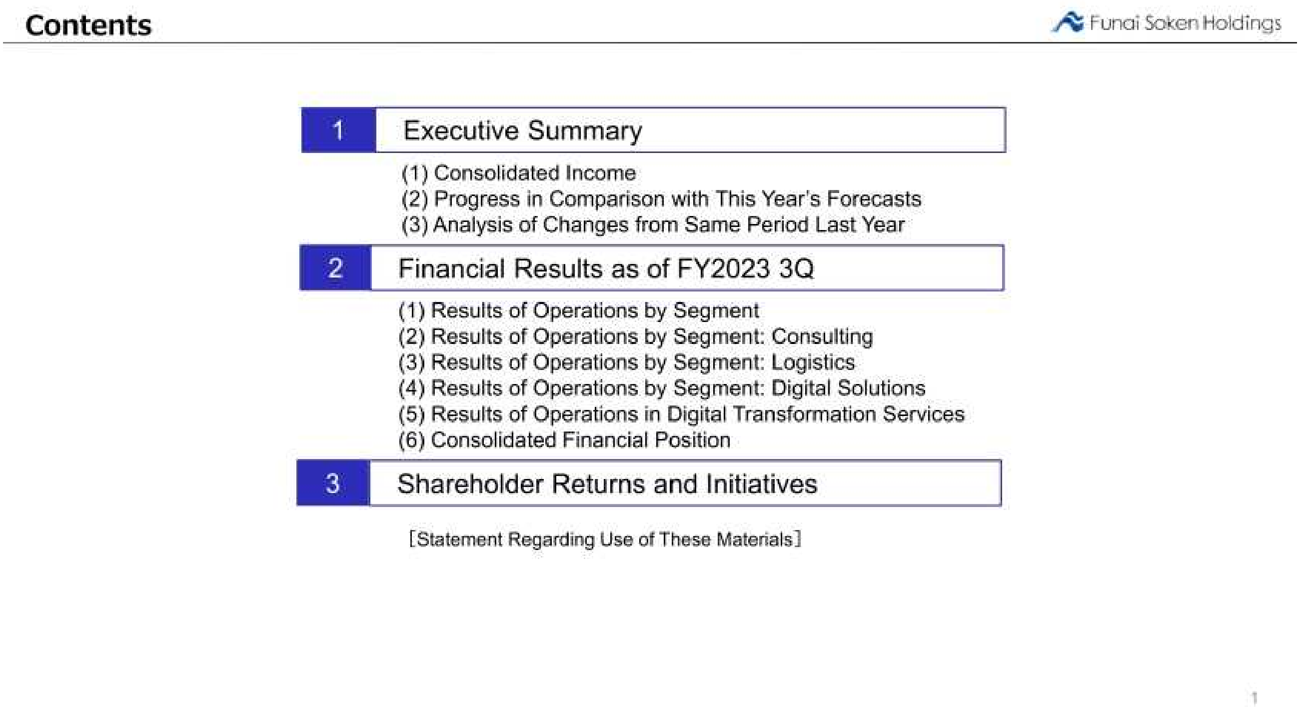
Q3 Financial Results Briefing for the Fiscal Year Ending December 2023

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

November 8, 2023

Presentation

Saito: Thank you for your continuous support. I am Saito from Funai Soken Holdings Incorporated. I will now explain the details of the Q3 financial results that we announced at 3:30 PM today.



Here is the table of contents of the financial summary that we just released. Today, I would like to explain the contents of the summary and the financial results as of Q3.

1. Executive Summary

Funai Soken Holdings

(1) Consolidated Income

- **Sales were solid, with sales of monthly support services and project-based consulting up in the consulting segment.**
- **Profits were down, pressured by increased costs, mainly travel costs relating to consulting activity and aggressive investment in recruiting and hiring.**

	2022 3Q YTD		2023 3Q YTD		
	Amount (million yen)	% of total	Amount (million yen)	% of total	Change (%)
Net sales	18,655	100.0	20,630	100.0	+10.6
Operating income	5,329	28.6	4,951	24.0	- 7.1
Ordinary income	5,382	28.9	5,017	24.3	- 6.8
Net income attributable to owners of the parent	3,680	19.7	3,449	16.7	- 6.3

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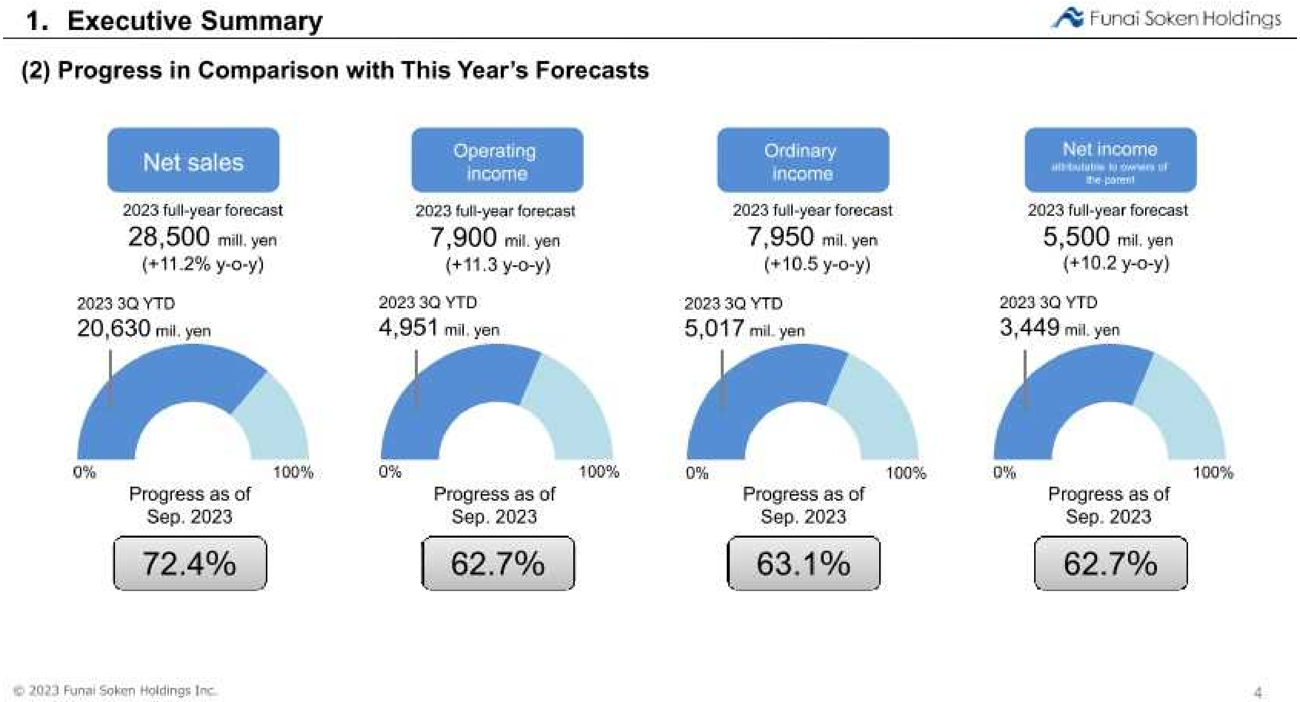
Let me begin with a summary of the financial results. Here are the consolidated results for Q3. Sales were JPY20,630 million, up 10.6% from the previous year, and operating income was JPY4,951 million, down 7.1%, resulting in an increase in sales and a decrease in income.

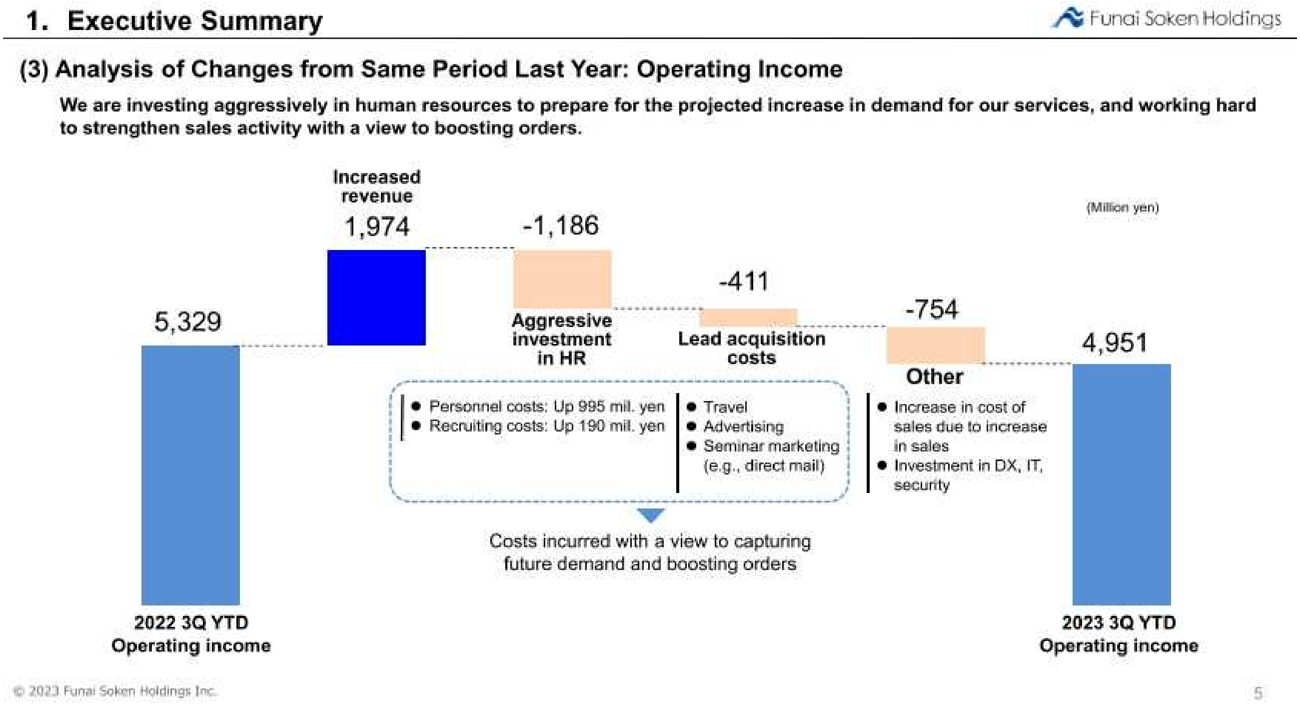
As for sales, monthly support and projects in the management consulting segment performed well, posting double-digit growth. Overall, sales are generally in line with plans.

The main reasons for the decrease in operating income were the investment in human resources due to the large increase in the number of employees this year, mainly consultants and engineers, and the increase in costs due to aggressive sales activities to win orders, but the delay compared to the previous year is gradually shrinking quarter by quarter.



Next is the progress in comparison with the full-year forecast. For the current fiscal year, we plan an 11.2% increase in sales to JPY28,500 million and an 11.3% increase in operating income to JPY7,900 million. Now we have finished three quarters, and the progress rates are as you can see.

Regarding the sales progress rate of 72.4%, I would say that this progress rate is similar to that of previous years. For your information, the Q3 sales progress rate for the past two years was 73.7% in 2022, and 72.3% in 2021. Although there has been a delay in the rates of progress in terms of incomes, the pace of profit growth finally started in Q3, and we hope to accelerate the pace in Q4.



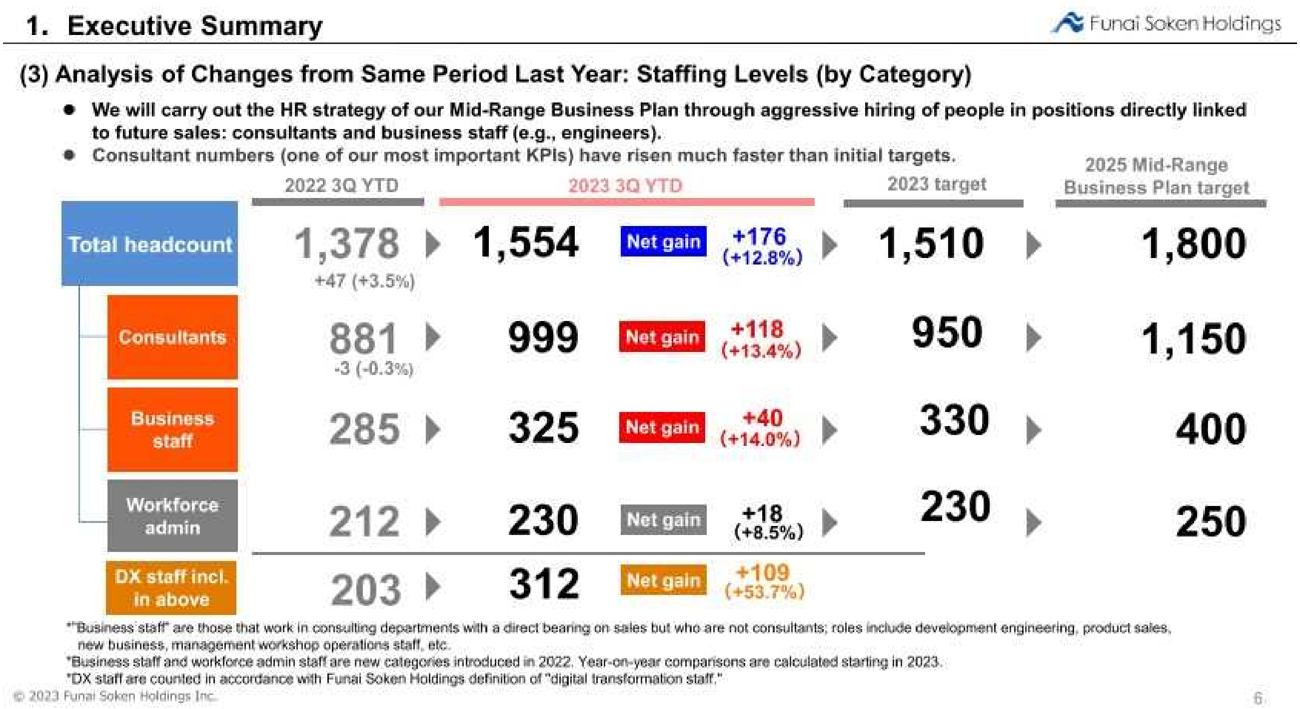
Next, this slide summarizes the differences in operating income from the same period of the previous year. Operating income for Q3 YTD last fiscal year was JPY5,329 million. In contrast, this fiscal year, first of all, sales increased by JPY1,974 million.

From this, there was an increase of JPY1,186 million in investment in human resources, and an increase of JPY411 million in lead acquisition costs, or sales costs to acquire prospective customers, compared to the last fiscal year. In addition, there are other factors such as a cost increase because of sales increases, and investments in DX, IT, and security, resulting in an operating income of JPY4,951 million for Q3 YTD of the current fiscal year.

A slightly more detailed breakdown of the investment in human resources shows that personnel costs increased by approximately JPY1 billion YoY, and recruiting costs increased by JPY190 million. We used this waterfall diagram for explanation of Q2 as well, and at that time, personnel costs increased by JPY519 million and recruiting costs increased by JPY180 million.

Therefore, in Q3 alone, recruiting costs increased by only JPY10 million, and are expected to decrease in Q4, as we have already hired enough people for this year, as I will explain later.

However, personnel costs for the new hires were booked earlier than expected, so there was a cost increase in Q3 for this. In any case, we are looking forward to seeing the hired personnel quickly become a competitive force and play an active role in the future.



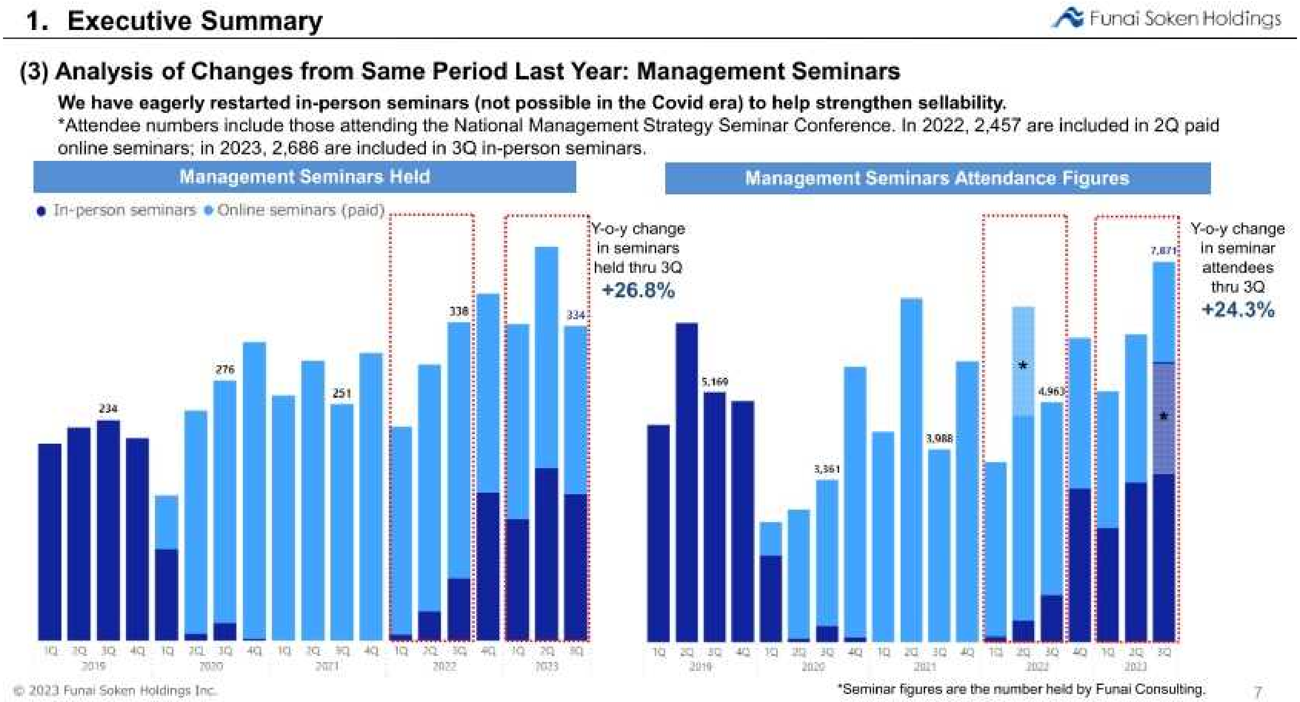
As for the investment in human resources we have just described, here is a summary of how the numbers of employees in consultants and other job categories have changed.

First, last year was a year in which we were unable to increase the number of consultants. In light of this, since the beginning of this year, we have been putting considerable effort into recruitment and retention in order to realize the human resources strategy of our Mid-Range Business Plan. As a result, we significantly increased the number of employees to 1,554 this quarter, compared to 1,378 in Q3 of last year, an increase of 176 employees.

The number of consultants increased by 118, from 881 to 999, and the number of development engineers and other business staff increased by 40.

The increase in the number of employees is due in part to steady hiring, but also to an increase in the retention rate. Last year, the group's overall annual retirement rate was 16.8%, but this fiscal year, the retirement rate is currently expected to be reduced to the 13% range.

I think this is one of the reasons why we have been able to expand our headcount. As you can see, last year was a year of difficulties in terms of human resources, but this year we are in a situation where we are steadily strengthening our human resources.



This is a quarterly chart showing the number of management seminars held and the number of attendees, as a result of the strengthening of sales activities. The chart shows the transition from 2019 before COVID-19, with the dark blue bars representing paid in-parson seminars and the light blue bars representing paid online seminars.

Previously, free online seminars were also shown in the chart, but since the rate of subsequent consulting orders after free online seminars has been low, we are now increasing the number of paid seminars in order to target more motivated attendees and managers. Therefore, for the sake of clarity, we have decided to show only paid seminars from now on.

In Q3 YTD, the number of seminars held increased by 26.8% YoY, and the number of attendees increased by 24.3%. We will continue to focus on holding these seminars to attract prospective customers.

This chart shows the number of members of Management Workshops, which is another feature of our business model, and the number of workshops in the same chronological order. The number of members of the Management Workshops had been stagnant for the past three years due to COVID-19, but finally began to show an increasing trend this year, with 7,352 members at the end of Q3.

Our record-high number of Management Workshop members is the pre-COVID-19 figure of 7,459, so I think it is fair to say that we have recovered to the point where we can see a new high.

We believe that the number of consultants, the number of seminar attendees, and the number of members of the Management Workshops are leading indicators that will affect our future performance, so we will continue to focus on improving these indicators.

This is all for a summary of the financial results, and I will now explain the situation in each segment.

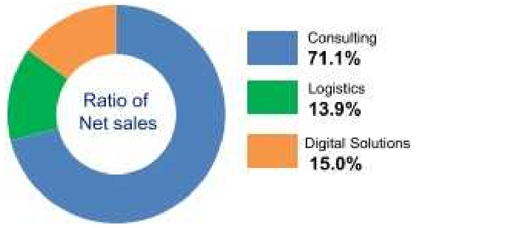
2. Financial Results as of FY2023 3Q

Funai Soken Holdings

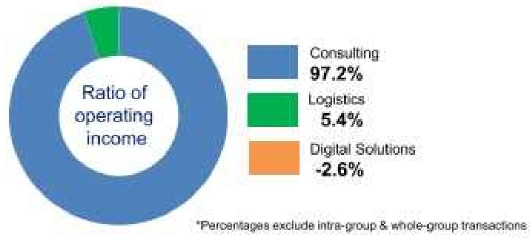
(1) Results of Operations by Segment

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

Net sales	2022 3Q YTD	2023 3Q YTD	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	13,184	14,669	+11.3
Logistics	2,796	2,859	+2.3
Digital Solutions	2,662	3,089	+16.0
(Intra-group & whole-group transactions)	12	12	–
Total	18,655	20,630	+10.6



Operating income	2022 3Q YTD	2023 3Q YTD	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	4,589	4,689	+2.2
Logistics	357	258	-27.7
Digital Solutions	196	-126	–
(Intra-group & whole-group transactions)	186	130	–
Total	5,329	4,951	-7.1



*Percentages exclude intra-group & whole-group transactions

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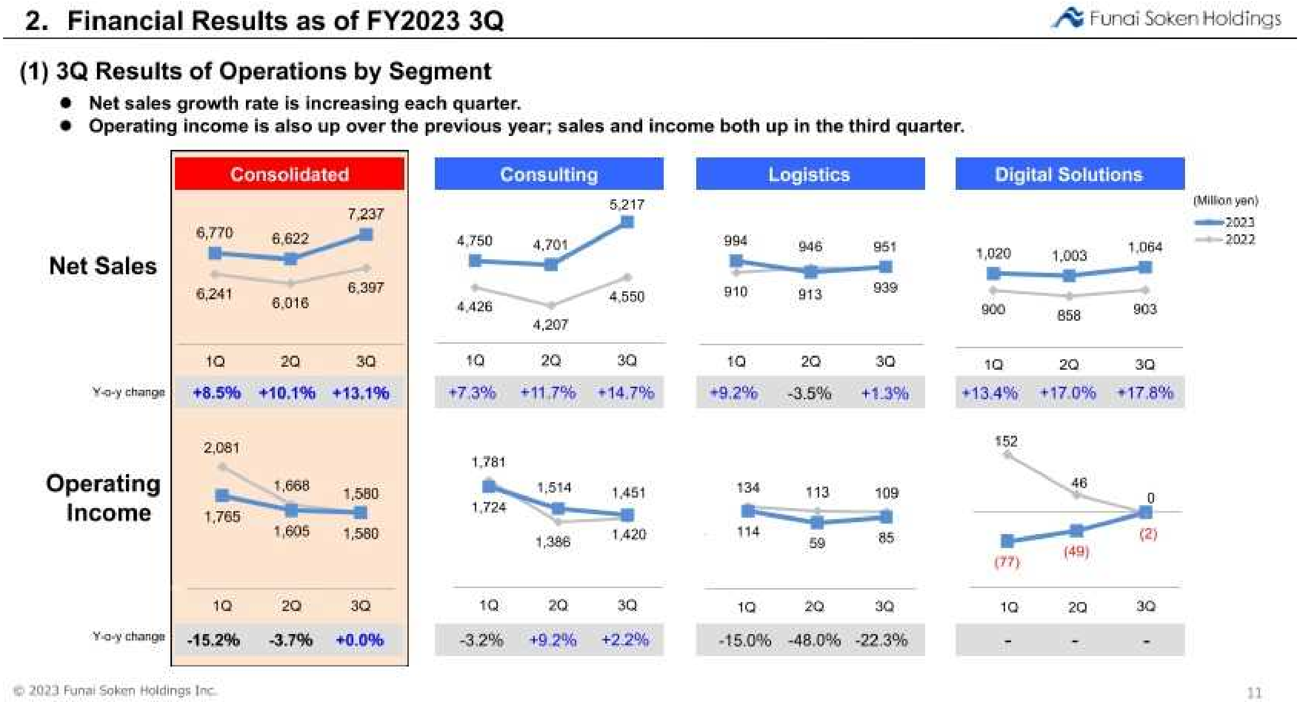
Here are the results of the three segments. I will now explain each segment in detail, but the trend remained unchanged from Q2, with the consulting segment reporting higher sales and income, while the logistics and digital solutions segments reporting higher sales and lower income.



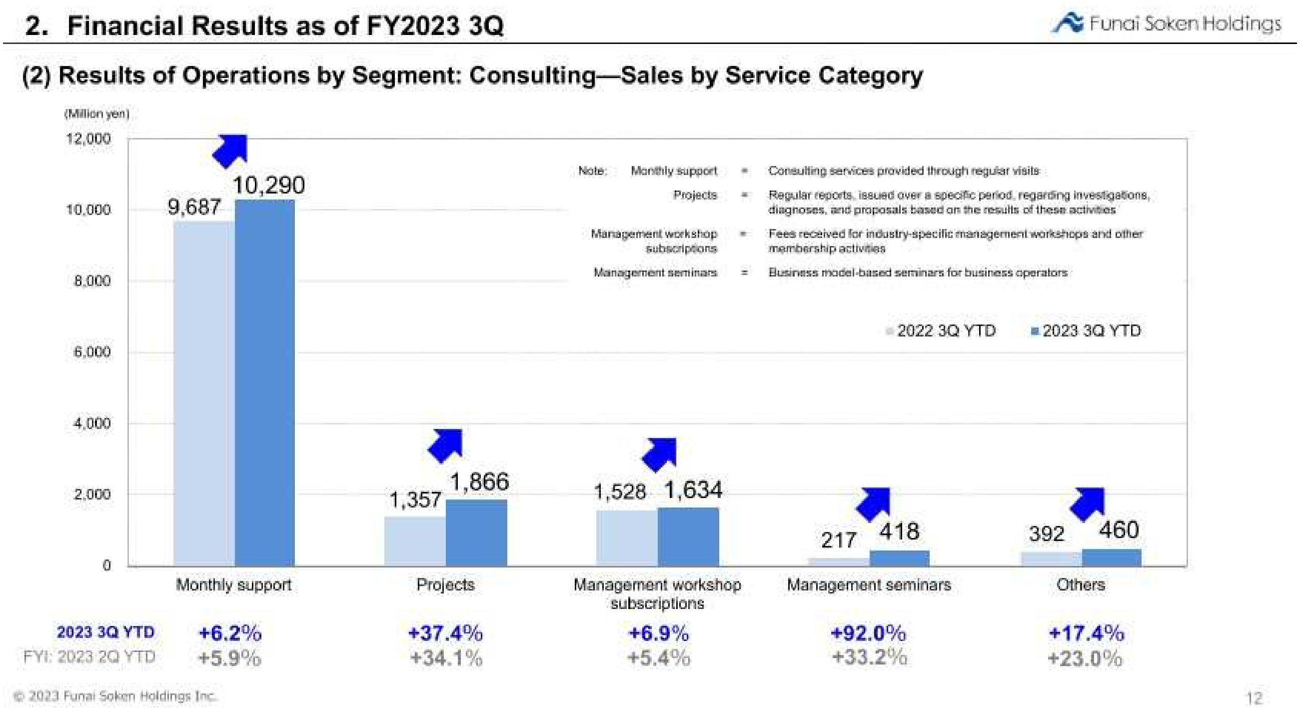
These charts show the performance trend of each segment broken down by quarter. The blue line represents this year's results, and the gray line represents last year's results.

Looking at the quarterly results, in the consulting segment (second from the left), the sales growth rate increased quarter by quarter, and sales have continued to increase at a double-digit rate since Q2.

Operating income is also currently showing an increase, with the number of consultants increasing. The logistics segment has been struggling somewhat in the current fiscal year, but the digital solutions segment has seen an increase in sales growth rate, as well as the consulting segment.

In addition, due in part to the aggressive hiring of engineers, the Company had been in the red for operating income in H1, but income has recovered to almost zero in Q3.

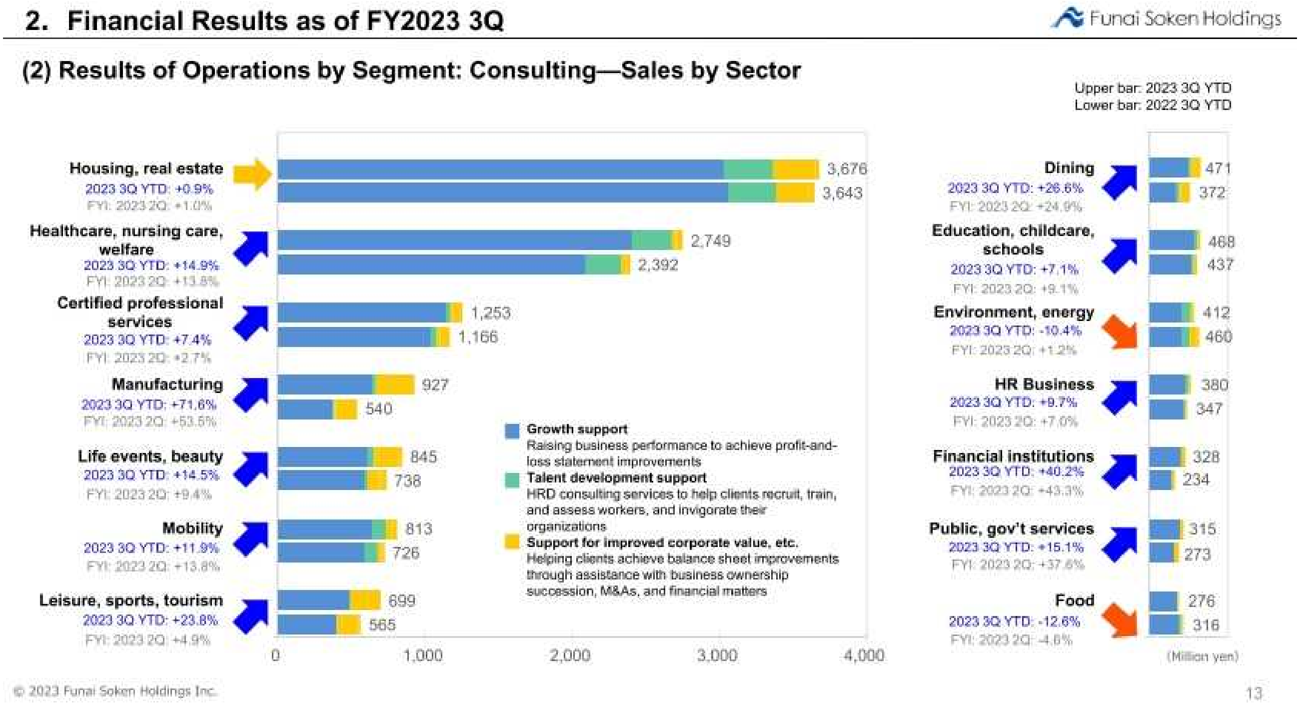
Looking at the left-most consolidated total, operating income also exceeded the previous year's level in Q3, and we are now back to the pace of increased sales and income.



We will now look at each segment individually. Let me begin by explaining our consulting segment.

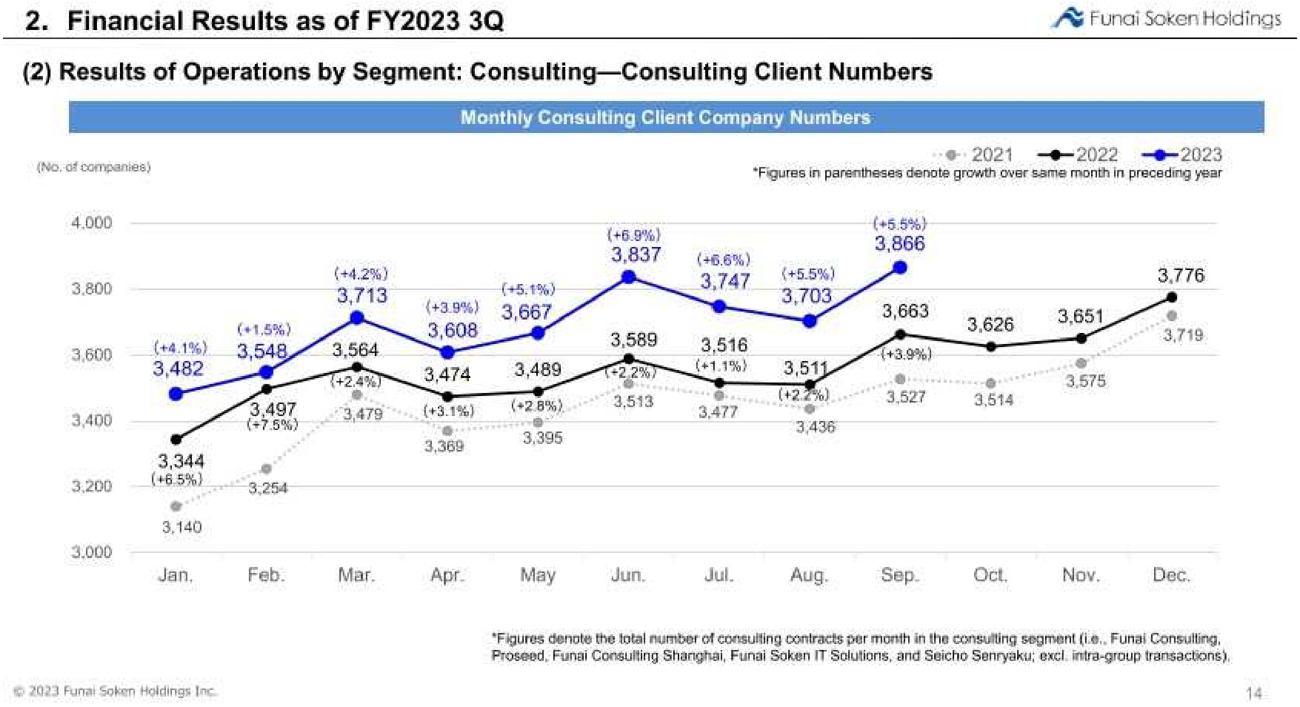
Here are the sales by service category for the consulting segment. Monthly support has grown by about 6%, and projects have grown by about 37%. Management workshop subscriptions and management seminars also exceeded the Q2 YTD growth rates shown in gray.

In other words, the growth rates were even higher in Q3, resulting in an even increase in sales in each category.



Next are the results of operations by sector. We have three main sectors. The first one is housing and real estate, which has remained flat. The second one is medical, nursing care, and welfare, which continued to do well, posting an increase of 14.9%. The third one is certified professional services, which had been flat for a while but has now turned to an upward trend again.

In addition, as you can see, we have been able to increase our performance in a number of other sectors. In the manufacturing sector in particular, we have been strategically strengthening our operations, and sales have increased at a rate of 71.6%, coming close to our main sectors.

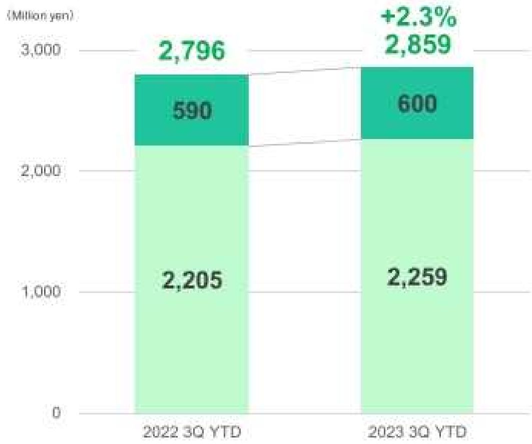


Here is the number of consulting client companies by month. The trend remained unchanged with a few percent increase each month, but as you can see, the growth rate has expanded compared to July, August, and September of last year, which we view as a good trend.

2. Financial Results as of FY2023 3Q

Funai Soken Holdings

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



Logistics Consulting +1.7%
Helping clients reduce logistics costs

- Consulting for logistics companies was strong in 3Q, and management workshop memberships also increased: 331 management workshop memberships as of Sep. 30, 2023; 307 as of Sep. 30, 2022.
- Revenues from consulting services for shipper clients recovered from the preceding quarter, but were down overall as a result of a lack of growth in project orders.

Logistics BPO +2.4%
Logistics on behalf of clients
Reducing purchasing costs through joint buying

- Steady renewal of contracts by existing logistics operations clients resulted in an increased in sales.
- Sales of joint purchasing services were slightly down, affected by stubbornly high prices for our core offering in this segment: fuel.

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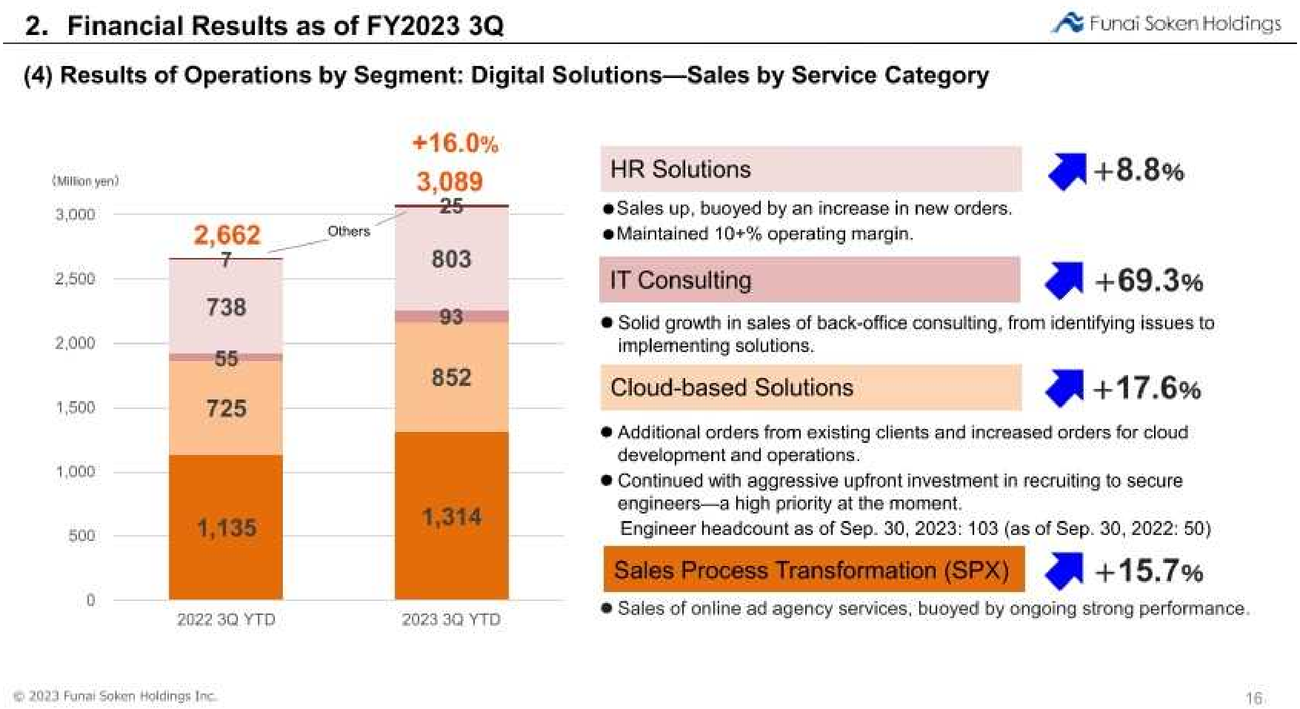
Next is the logistics segment. As for the logistics segment, sales in the current fiscal year continued to remain flat.

In logistics consulting, project orders for consulting services for shippers did not grow, resulting in an increase of only 1.7%, while logistics BPO services grew by 2.4%. Therefore, the overall segment grew by 2.3%.

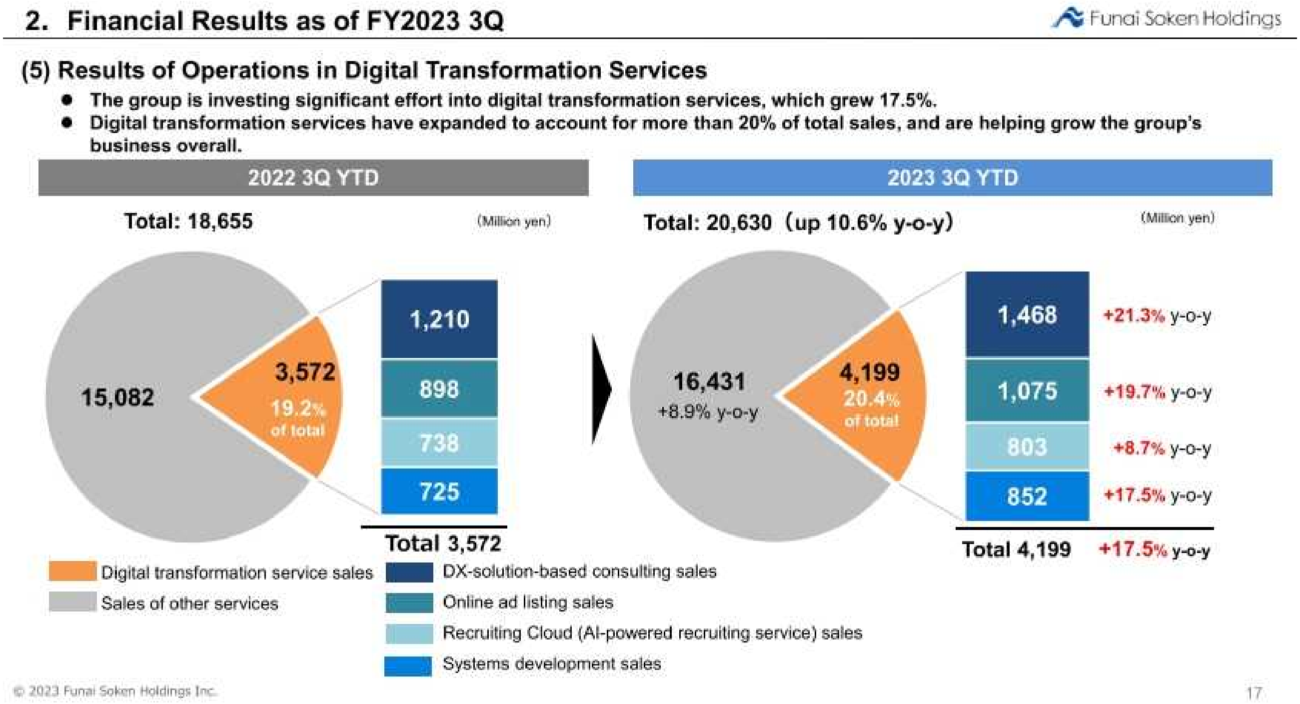
However, the number of Management Workshop members has increased from 307 to 331, and we will once again strive to provide solid logistics consulting solutions.



Next is the digital solutions segment. The digital solutions segment is organized into four major service categories plus the other category that does not belong to any of these categories. As you can see, all of these categories are growing in terms of sales.

Although we are still in an operating deficit at this point partly because we have made recruiting engineers for cloud solutions a priority for this fiscal year and have significantly increased hiring, as I explained earlier, operating income for Q3 alone is now at an even level. We will make efforts to contribute to profits in the future.

In any case, this segment is positioned as a growth area in our Mid-Range Business Plan, so we are looking at it from a medium- to long-term perspective.



Next, here are the results of the DX-related services that we offer. The immediate target of 20% of total sales has been exceeded since Q2.

We will continue to focus on this area in the future as it is sure to be a growth area. That's all for the explanation of each segment.

2. Financial Results as of FY2023 3Q

Funai Soken Holdings

(6) Consolidated Financial Position: Balance Sheet

(Million yen)

		As of Dec. 31, 2022	As of Sep. 30, 2023	Change	Major factors behind changes
Current assets		22,283	19,552	-2,730	Decrease in current assets: Major factors include decrease in cash and deposits.
Noncurrent assets	Property, plant, and equipment	5,813	5,733	-80	
	Intangible assets	830	1,206	+375	
	Investments and other assets	4,082	5,892	+1,809	Increase in noncurrent assets: Major factors include increases in goodwill, guarantee deposits and time deposits (listed under "other investments and other assets").
Total assets		**33,010**	**32,385**	**-625**	
Current liabilities		5,067	6,245	+1,178	Increase in current liabilities: Major factors include increases in provision for bonuses and decreases in deposits received (listed under "others").
Noncurrent liabilities		242	239	-3	Decrease in noncurrent liabilities: Mainly decrease in retirement benefit liabilities.
Total liabilities		**5,309**	**6,484**	**+1,175**	
Total net assets		**27,700**	**25,900**	**-1,800**	Financial position remains sound with a high equity ratio of 77.9%.
Total liabilities & net assets		**33,010**	**32,385**	**-625**	

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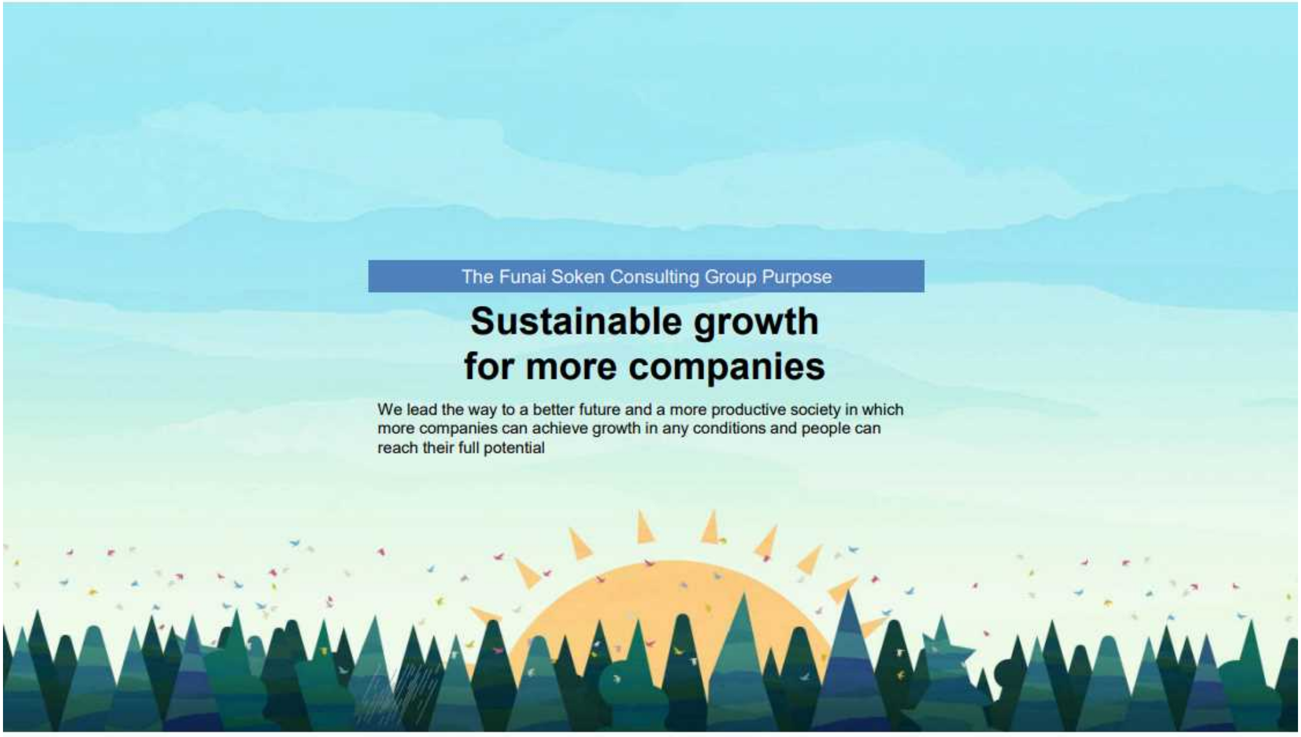
At the end of the financial report, as for the financial situation, I am pleased to report that we continue to be in a healthy situation.

This is a brief explanation of the Q3 financial results announced at 3:30 PM today. Thank you very much.

[END]



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