Funai Soken Holdings Incorporated

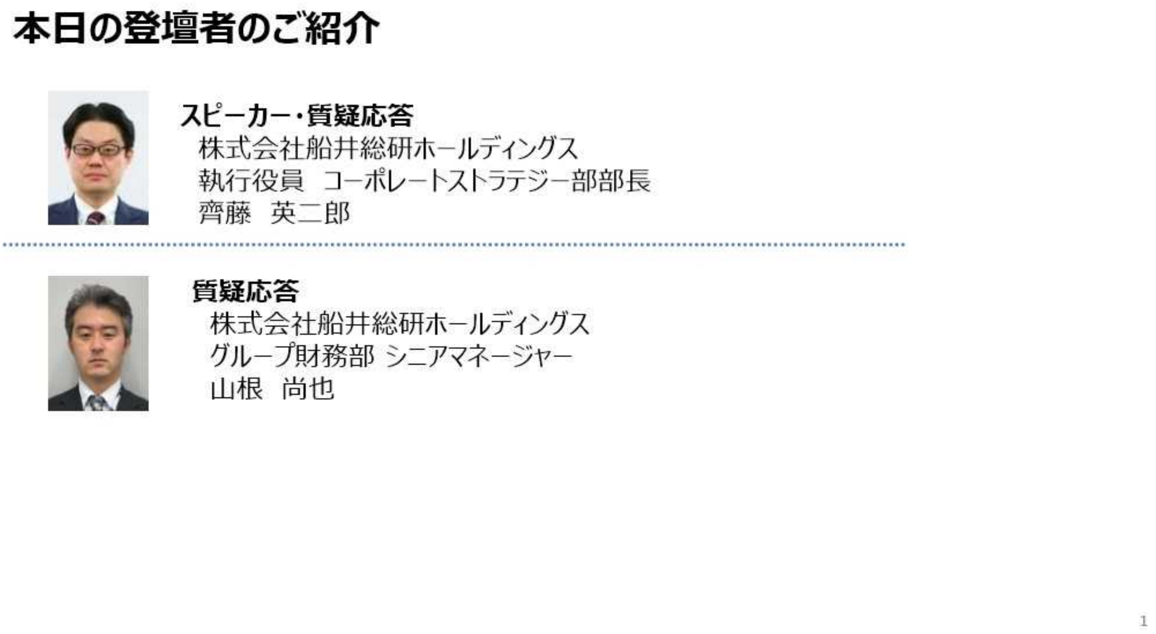
Q1 Financial Results Briefing for the Fiscal Year Ending December 2024

[Speaker]	Eijiro Saito	Executive officer, Head of Corporate Strategy Department
	Naoya Yamane	Senior Manager of Group Finance Department

May 10, 2024

Presentation

Moderator: We would now like to begin the briefing of the financial results for Q1 of the fiscal year ending December 31, 2024 of Funai Soken Holdings Incorporated. Thank you for your attendance.



Eijiro Saito, Executive Officer, Head of Corporate Strategy Department, will explain the contents of today's financial results briefing.

Afterwards, Mr. Saito and Mr. Naoya Yamane, Senior Manager of the Group Finance Department, will answer your questions during the Q&A session. Mr. Saito, please go ahead.

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Funai Soken Holdings

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Saito: Thank you for your continued support. I am Saito of Funai Soken.

I will now explain the details of the financial results for Q1 of FY2024, which we announced earlier at 3:30 PM. Here is the table of contents of the financial summary we just announced. Today, I will walk you through these contents in order.

1. Executive Summary

Funai Soken Holdings

(1) Consolidated Income

Sales were solid, with sales of monthly support services up in the consulting segment.
Operating income was up by double figures, largely in line with targets, as a result of tighter control of hiring costs and other SG&A expenses.

	FY2023 1Q		FY2024 1Q		
	Amount (million yen)	% of total	Amount (million yen)	% of total	Change (%)
Net sales	6,770	100.0	6,970	100.0	+3.0
Operating income	1,765	26.1	2,076	29.8	+17.6
Ordinary income	1,811	26.8	2,069	29.7	+14.2
Net income attributable to owners of the parent	1,206	17.8	1,501	21.5	+24.5

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Let me begin with a summary of the financial results.

Here is the consolidated income for Q1. Net sales increased 3% YoY to JPY6.97 billion, and operating income increased 17.6% to JPY2.076 billion.

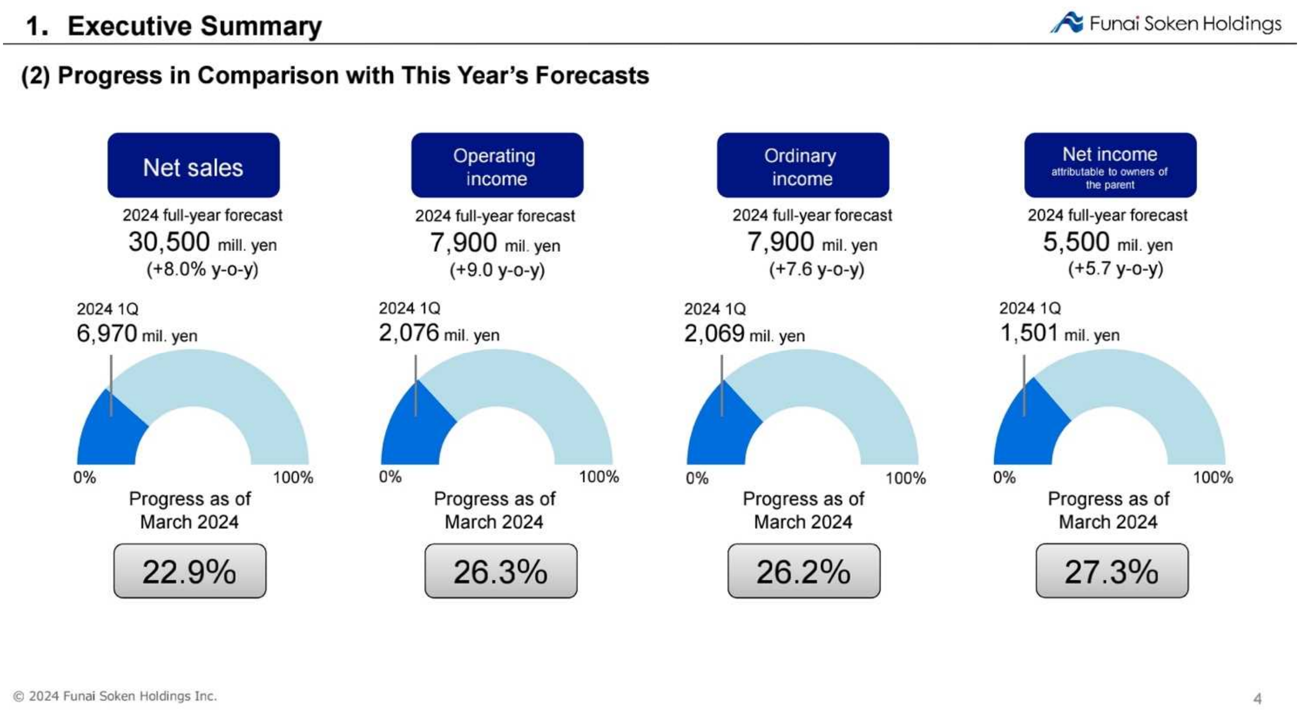
Monthly support and other services in the consulting segment remained steady, resulting in a topline growth. Growth was rather contained in this quarter, mainly because of the absence of a project that had generated relatively large sales last year.

Specifically, there was a decrease in large outsourcing contracts in the areas of public sector projects in the consulting segment, BPO in the logistics segment, and cloud-based solutions in the digital solutions segment.

However, since many of them in which sales growth was sluggish were non-consulting, low-margin sectors, profit margins improved as a result. This led to a double-digit growth in operating income, mostly in line with the plan.

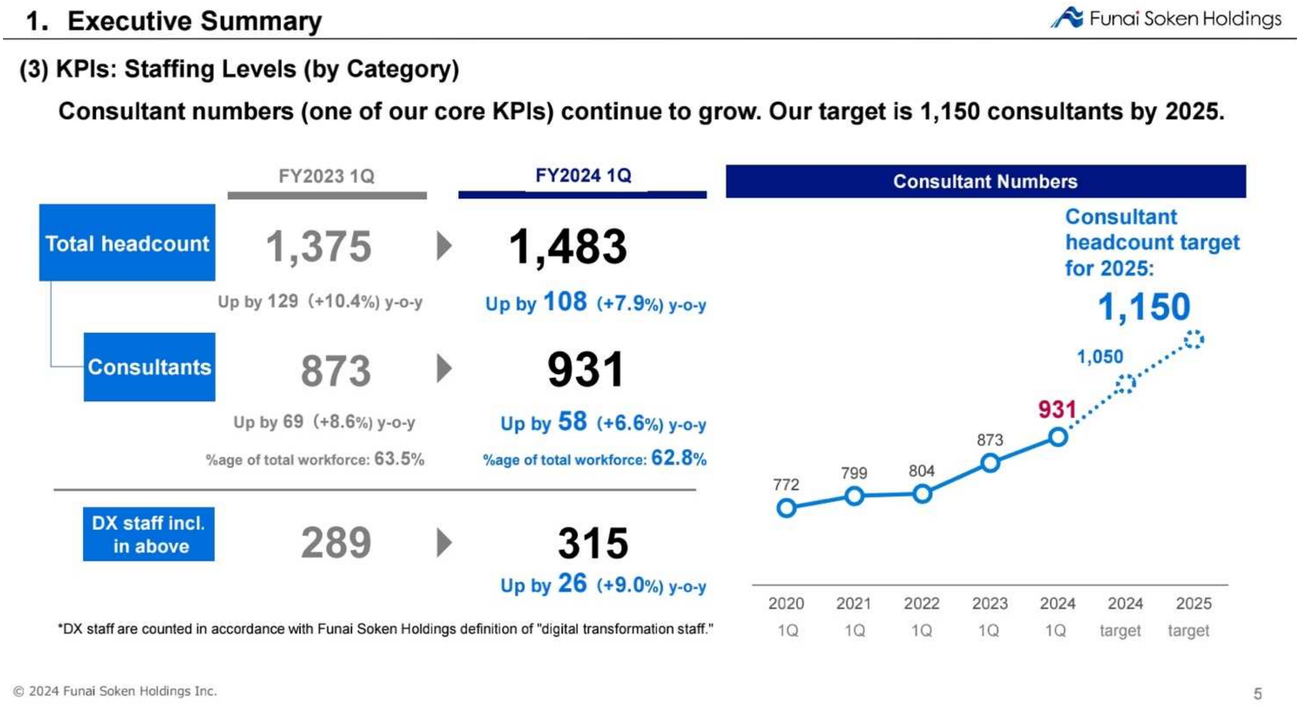
In addition, compared to an aggressive hiring in last year, we were able to control those costs in this year.

As a result, the operating income margin increased from 26.1% last year to 29.8% this year, up 3.7 percentage points.



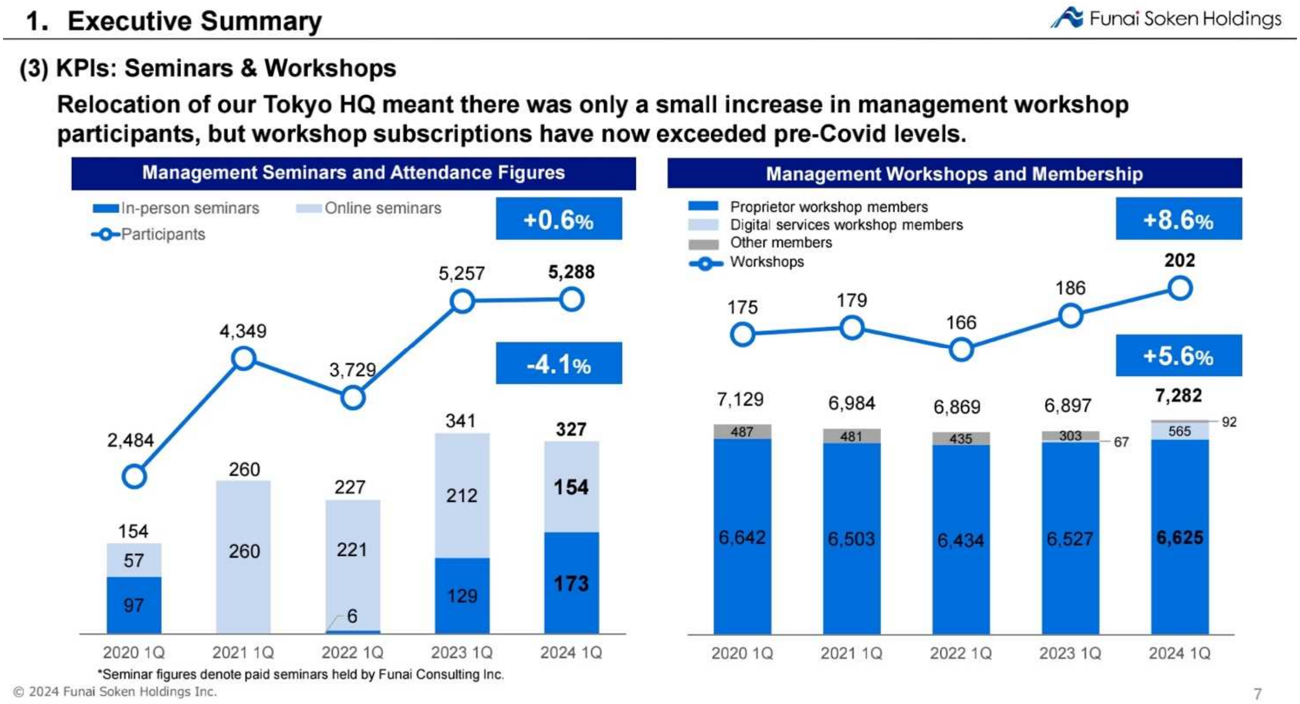
Here is a progress in comparison with this year's forecasts.

For the current fiscal year, we plan an 8% increase in sales to JPY30.5 billion and a 9% increase in operating income to JPY7.9 billion. As of the end of Q1, the progress rate is as shown here. As I explained, progress in net sales have weakened somewhat, but in terms of profits, we are making progress of more than 25%, which is one quarter of the full-year.



I will now explain the status of major KPIs that are essential to the Group's performance.

First, here is a summary of the status of the number of employees and consultants. Since last year, we have been focusing on recruitment and retention in order to realize the human capital strategy set forth in our mid-range business plan. Total headcount and consultants have been steadily increasing this year. In particular, the number of consultants is an important KPI that influences our business performance, and we plan to secure 1,050 consultants this fiscal year and 1,150 in 2025. We are on track toward that target.



Here are the trends in the number of management seminars held and participants, as well as the number of management workshops and membership.

Both show the trend as of the end of Q1 for the past five years. The number of seminar participants slightly increased by 0.6%. Let me explain the reason. As mentioned at the top of the page, we relocated our Tokyo headquarters to Tokyo Midtown Yaesu in April, and the number of seminars held in late March was temporarily reduced due to office relocation. That restriction is the main reason.

As for the membership of the management workshop, which is unique to our business model, it has been on the increase since last year, reaching 7,282 at the end of March, up 5.6% from the previous year.

We have now broken down this membership into new categories. Proprietor workshop is a traditional type of management workshop where business owners gather to exchange information in the same industry and on the same theme. This is the main category in our workshop, shown in dark blue.

Meanwhile, membership for digital services workshop has grown significantly in the past one year. This is the membership service for the client companies who use our GrowthCloud, cloud-based DX sales support tool we are currently promoting to drive their performance. We enjoy significant growth in the membership base for this category.

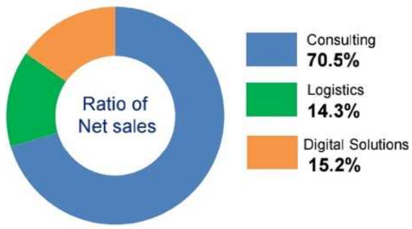
2. Financial Results as of FY2024 1Q

Funai Soken Holdings

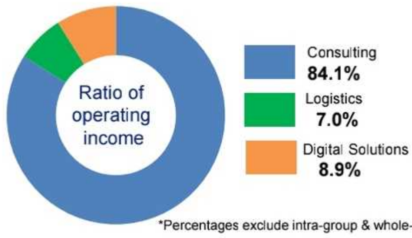
(1) Results of Operations by Segment

Revenues in the consulting segment were up, buoyed by increased sales of monthly support services and management workshops. Operating income decreased slightly as a result of the increase in consultant headcount. Sales and income were up in the logistics and digital solutions segments, driven by higher operating margins.

Net sales	2023 1Q	2024 1Q	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	4,750	4,912	+3.4
Logistics	994	995	+0.0
Digital Solutions	1,020	1,062	+4.1
(Intra-group & whole-group transactions)	4	0	–
Total	6,770	6,970	+3.0



Operating income	2023 1Q	2024 1Q	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	1,724	1,705	-1.1
Logistics	114	142	+24.8
Digital Solutions	-77	180	–
(Intra-group & whole-group transactions)	4	47	–
Total	1,765	2,076	+17.6



*Percentages exclude intra-group & whole-group transactions

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From here, let me review the results of operations by each of the three segments.

In summary, consulting segment saw an increase in revenue with slight decrease in profit; logistics segment resulted in a slight increase in revenue with profit increase; digital solutions segment resulted in topline growth and elimination of the loss.

In the consulting segment, there was a decrease in the number of projects for public sector as I mentioned. In addition, Proseed, which offers consulting services for contact centers, suffered sluggish performance in Q1, which affected the overall results for the segment.

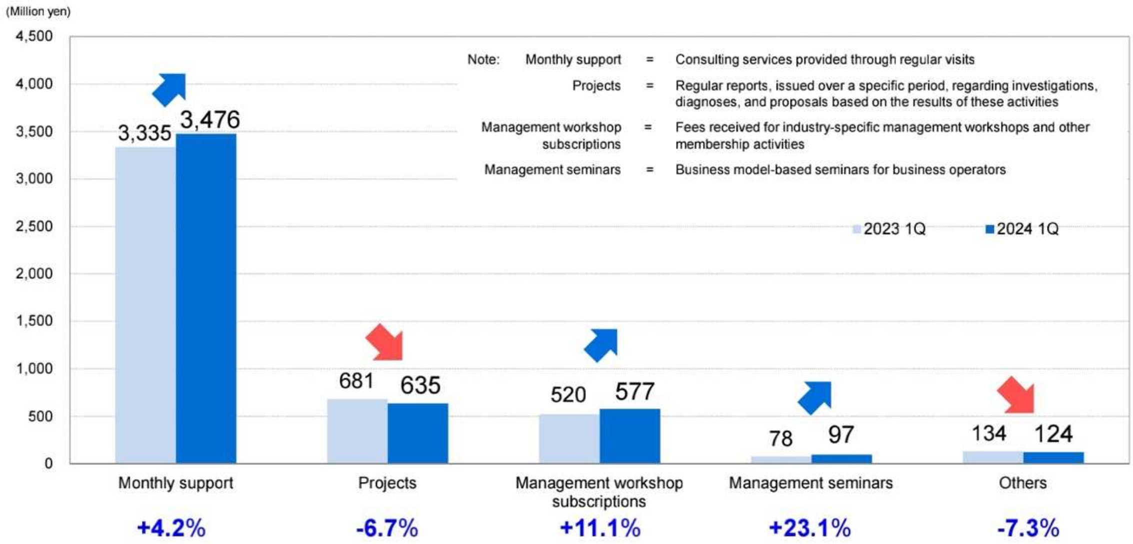
In the logistics segment, sales remained flat, but the logistics consulting division made up for the decrease in logistics BPO, and as a result, the profit margin improved which led to an increase in profits.

In the digital solutions segment, we aggressively hired engineers in Q1 of last year at great cost, but we were able to exceed the breakeven point from Q4 of last year. We have been controlling the costs to ensure profitability this year. As a result, we are able to turn to the black compared to the loss in Q1 of last year.

2. Financial Results as of FY2024 1Q

Funai Soken Holdings

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



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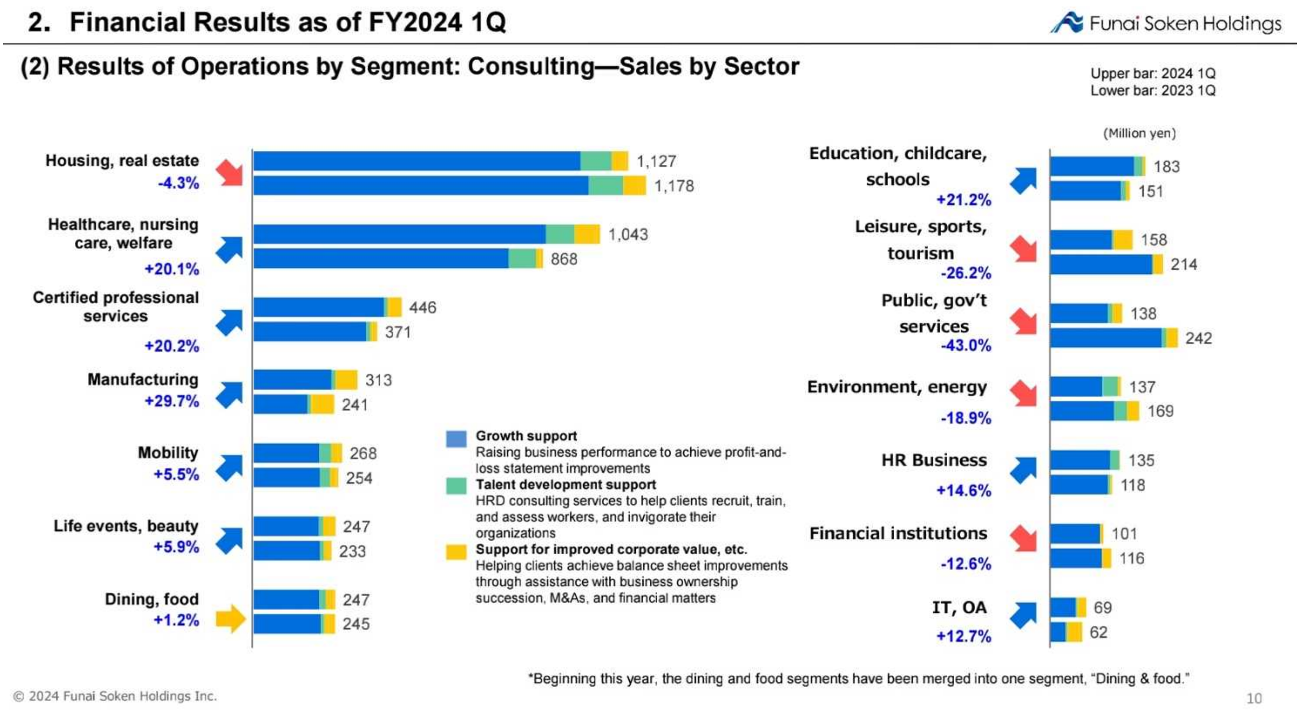
I will now look at each segment separately, starting from the consulting segment.

Here is a breakdown of sales by service category. Monthly support, which represent the biggest proportion, resulted in a 4.2% increase, while projects resulted in a 6.7% decrease. The decline in projects category was largely due to a decrease in projects for public sector this fiscal year.

Management workshop subscriptions and management seminars grew at double-digit rates. In terms of the seminars, the reason for revenue increase despite the flat growth in participants is partly due to the increase in the face-to-face seminars. This has driven the increase of unit price.



This is the breakdown of sales by industry sector.

Consulting for the housing and real estate industries, one of our core sectors, suffered some difficulties in Q1. However, for the second biggest sector, healthcare, nursing care and welfare industry, revenue grew by 20.1%. Growth of certified professional service industry was 20.2%, while manufacturing industry grew by 29.7%. Each of these three sectors enjoyed more than 20% revenue growth.

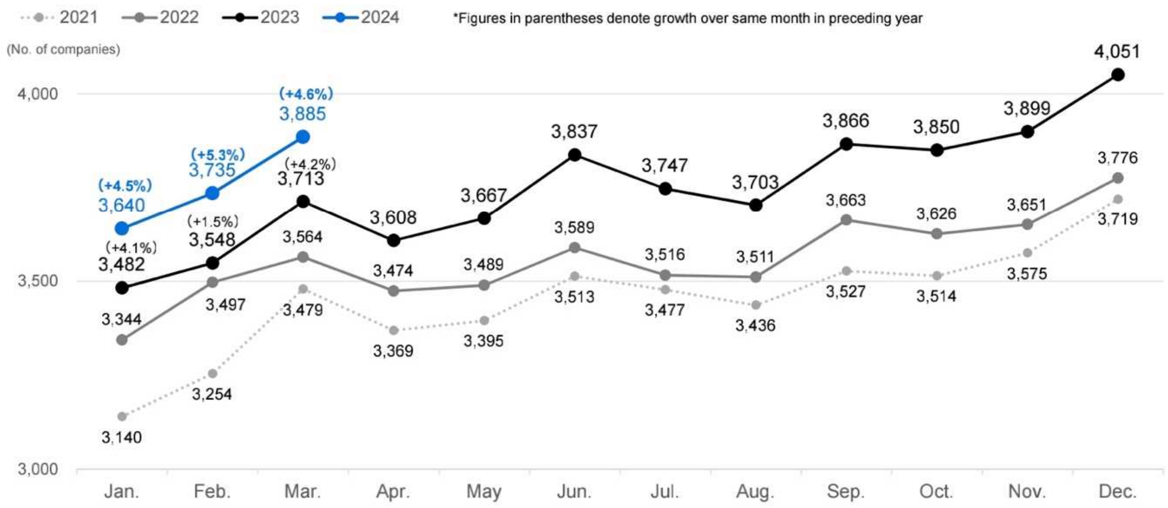
You might be concerned about the consulting business performance for the housing and real estate industries, in which our order momentum has been weak due to the recent macro-economic sentiment. Since around H2 of last year through this January, we suffered YoY decrease but in February and March, order trend turned positive compared to last year. We expect it to recover from Q2.

2. Financial Results as of FY2024 1Q

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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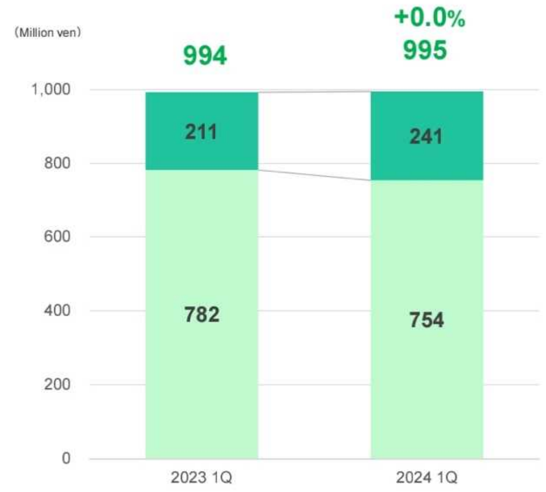
This is the monthly trend of the number of consulting clients, as part of our regular disclosure.

Underlying trend remains unchanged, with a few % growth every month. As you can see, compared to the past three years, it is showing steady increase, indicating a positive trend.

2. Financial Results as of FY2024 1Q

Funai Soken Holdings

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



Logistics Consulting +13.9%
Helping clients reduce logistics costs

- **Consulting for logistics companies was strong, and management workshop memberships also increased:**
  340 management workshop memberships as of Mar. 31, 2024; 301 as of Mar. 31, 2023
- **Launched a new workshop for cargo shipper clients so as to offer business management support as soon as they sign up for management workshops.**

Logistics BPO -3.7%
Logistics on behalf of clients
Reducing purchasing costs through joint buying

- **New client development is progressing well despite the current unfavorable conditions for large-scale new orders, but sales were down slightly due to a decrease in work for existing clients.**

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Next is the logistics segment.

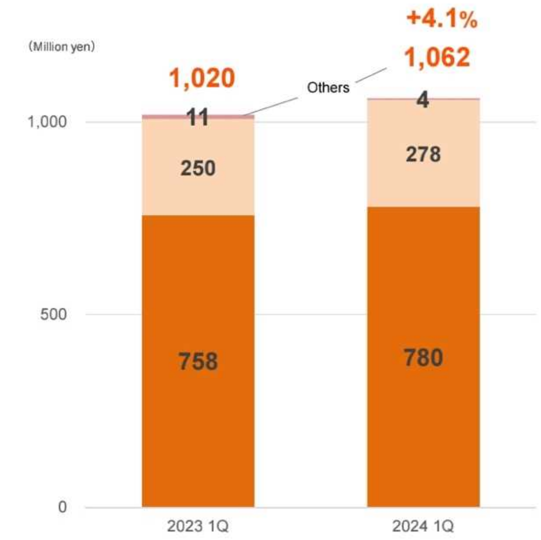
Net sales remained pretty much flat. In the current quarter, we struggled in logistics BPO due to a slight decrease in transaction volume with existing large customers, but this was offset by the strong performance of our logistics consulting services.

In this fiscal year, we started a new management workshop for shippers called the Logistics Leadership Salon so that we ensure steady order pipelines for consulting services from cargo shipper clients through the workshop.

2. Financial Results as of FY2024 1Q

Funai Soken Holdings

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



HR Solutions +11.3%

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

Digital Solutions +2.8%

- **Aggressive investment in hiring engineers last year resulted in a net loss; restored focus on profit this year has resulted in a net gain.**

SPX (Sales Process Transformation)
- Online ad agency services remain strong
- Robust sales of call center BPO services drove a major increase in net sales

IT Consulting
- Sales were down slightly due to the conclusion of major projects from last year

Cloud-based Solutions
- Sales were down due to last year's decrease in outsourcing contracts
- Income was up because outsourcing costs were cut in excess of the dip in sales

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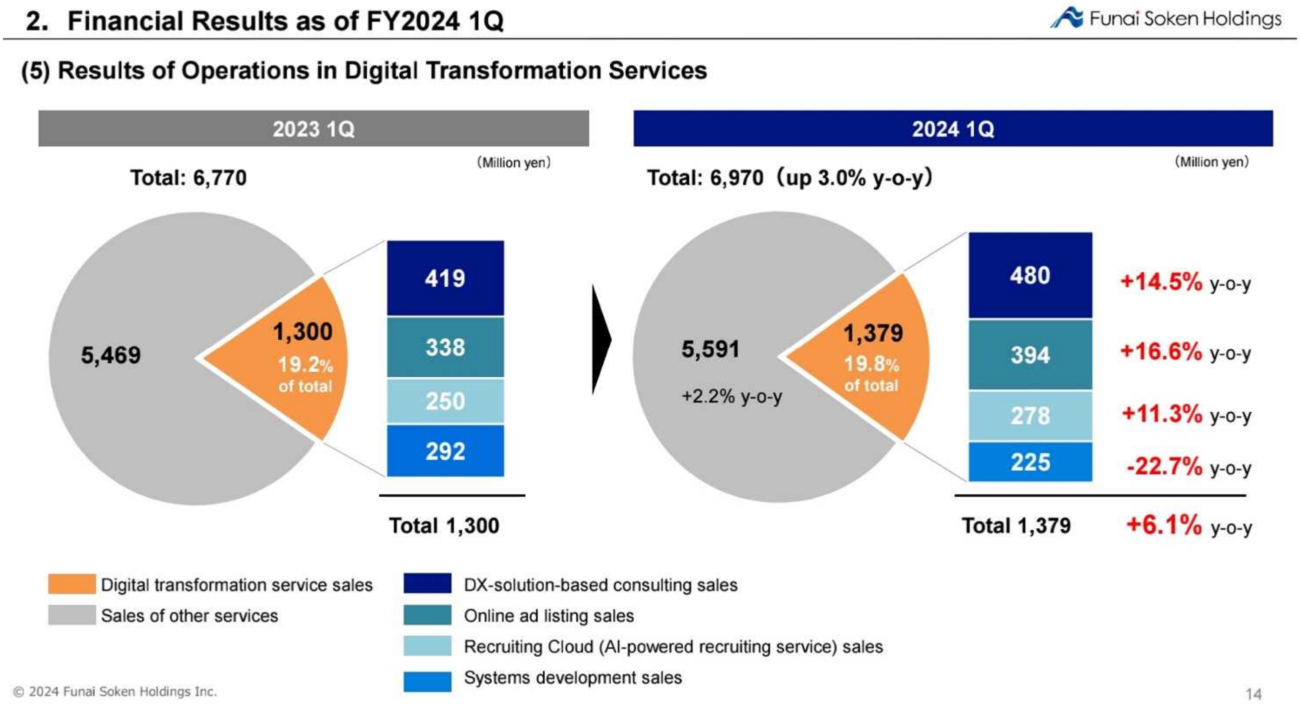
Next is the digital solutions segment.

In this segment, we focus on profitability this fiscal year and have curbed hiring to some extent. This resulted in a 4.1% increase in sales, but the business turned around from an operating loss in Q1 last year to a JPY180 million profit in Q1 this year.

In particular, HR solutions continues to perform well. In digital solutions, the struggling cloud-based solutions business is being compensated for by the strong performance of the SPX business.



To give you a fresh perspective, here is a status in digital transformation services, based on our definition. Orange color represents its composition in total sales, with YoY comparison described on the right.

All of the services in this category except for systems development continued to grow by more than 10% in the past. As mentioned, systems development, at the bottom of the page, suffered a revenue decrease due to the drop in large contracts. Systems development falls under the cloud-based solutions of digital solutions segment.

Because of this, overall digital transformation services only grew by 6.1%. However, sales increased by double-digit for all three services excluding the systems development. We will continue to focus on these areas, as digital transformation is a big driver for our performance.

This concludes the segment explanation.

2. Financial Results as of FY2024 1Q

Funai Soken Holdings

(6) Consolidated Financial Position: Balance Sheet

(Million yen)

		As of Dec. 31, 2023	As of Mar. 31, 2024	Change	Major factors behind changes
Current assets		18,657	17,361	-1,296	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	6,146	6,602	+456	Increase in noncurrent assets: Major factors include increases in construction in progress and decreases in leasehold rights (listed under "other intangible assets").
	Intangible assets	1,124	791	-333	
	Investments and other assets	5,702	5,849	+146	
Total assets		**31,631**	**30,604**	**-1,026**	
Current liabilities		5,666	6,600	+934	Increase in current liabilities: Major factors include increases in other accounts payable and provision for bonuses.
Noncurrent liabilities		238	215	-22	Decrease in noncurrent liabilities: Major factors include decrease in retirement benefit liabilities and guarantee deposits received (listed under "others").
Total liabilities		**5,904**	**6,816**	**+911**	
Total net assets		**25,726**	**23,788**	**-1,938**	Financial position remains sound with a high equity ratio of 75.6%.
Total liabilities & net assets		**31,631**	**30,604**	**-1,026**	

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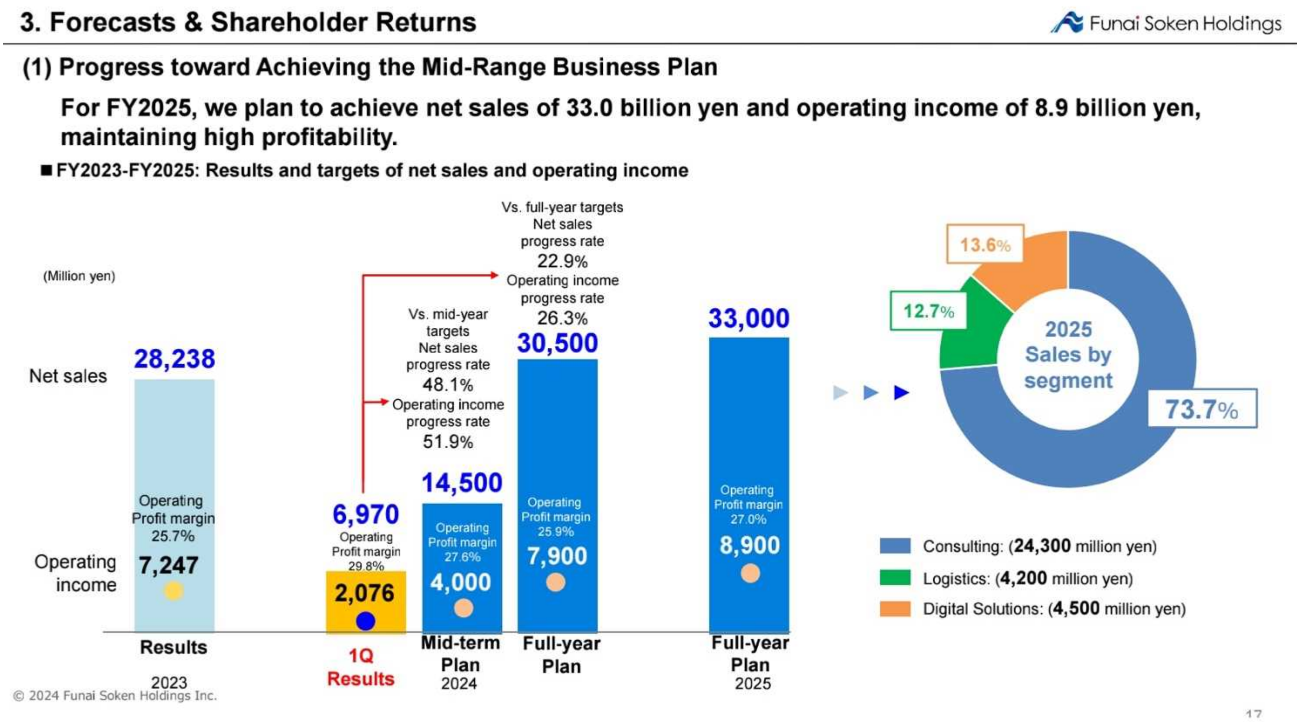
Here is our balance sheet summary. As shown, we maintain financial soundness.



Finally, I would like to explain our earnings forecast, shareholder returns, and one topic.

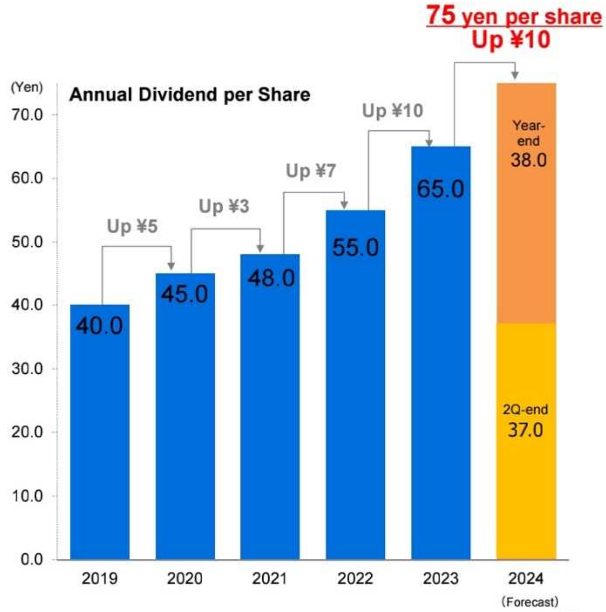
This chart shows the progress of the medium-range business plan. Progress for this quarter was already explained at the beginning. In terms of the comparison against mid-year target through June, we are half-way through, and the progress is 48.1% for sales and 51.9% for operating income. The final year of the mid-range plan is 2025, and we are aiming for sales of JPY33 billion and operating income of JPY8.9 billion.

3. Forecasts & Shareholder Returns

Funai Soken Holdings

(2) Annual Dividends

Record date	Initial forecast: Dividend (per share)	Initial forecast: Details	Actual dividend: Dividend (per sharer)	Actual dividend: Details
FY2019	40.0	2Q-end 17.0 Year end 23.0	40.0	2Q-end 17.0 Year end 23.0 *Incl. a commemorative dividend of 3.0
FY2020	45.0	2Q-end 20.0 Year end 25.0	45.0	2Q-end 20.0 Year end 25.0
FY2021	46.0	2Q-end 21.0 Year end 25.0	48.0	2Q-end 21.0 Year end 27.0
FY2022	53.0	2Q-end 25.0 Year end 28.0	55.0	2Q-end 25.0 Year end 30.0 *Incl. a commemorative dividend of 2.0
FY2023	65.0	2Q-end 32.0 Year end 33.0	65.0	2Q-end 32.0 Year end 33.0
FY2024 (Forecast)	**75.0**	**2Q-end 37.0 Year end 38.0**		



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Let me report on the dividend status.

For FY2024, we plan to increase the dividend by JPY10, with the interim dividend of JPY37 and the year-end dividend of JPY38, for an annual dividend of JPY75. Assuming this is achieved, it would be the 14th consecutive fiscal year of dividend increases. We are often listed in magazines and other publications ranking companies that have increased dividends in consecutive years, and we intend to continue our efforts to increase dividends in the future.

3. Forecasts & Shareholder Returns

Funai Soken Holdings

(3) Share Buyback (Progress thru March 31, 2024)

We are undertaking a buyback of shares as outlined below to help improve capital efficiency and boost shareholder returns by allowing for more dynamic implementation of capital policies in response to changes in the business environment.

Share Buyback

Date of board resolution	Buy-back period	Acquisition price					Number of shares purchased
		Max. amount approved	2023	2024	Total price paid	%age of approved amount used	
Aug. 23, 2023	Aug. 24, 2023 – May 31, 2024	¥3,000 mil.	¥2,209 mil.	¥790 mil.	¥2,999 mil.	99.9% (buyback complete)	1,172,800
Feb. 8, 2024	Feb 9, 2024 – Dec.31, 2024	¥3,000 mil.	-	¥1,141 mil.	¥1,141 mil.	38.0% (buyback ongoing)	447,200

Retirement of Treasury Shares

Date of board resolution	Date of retirement	Number of shares retired		
		Total number of shares outstanding prior to retirement	Number of shares retired	Total number of shares outstanding after retirement
Feb. 8, 2024	Feb. 29, 2024	52,000,000	2,000,000	50,000,000

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Let me also report on the status of capital efficiency as well as share repurchases and cancellations to enhance shareholder returns.

As you can see, we are currently in the process of executing a share buyback of up to JPY3 billion. In addition, at the end of February, during Q1 of 2024, the Company also retired 2 million shares of treasury stock. We intend to continue our efforts to improve capital efficiency and enhance shareholder returns.

3. Forecasts & Shareholder Returns

Funai Soken Holdings

(4) ROE Targets

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This chart shows actual and target ROE.

Last year, our consolidated ROE reached a record high of 20%. In the current mid-range business plan, we initially had set a target of 20+% by 2025, but since this was achieved in 2023, the first year, we have revised it upwardly to a new target of 25+% ROE in 2025.

4. News

Funai Soken Holdings

■ **Operations Begin at New Tokyo HQ, "Sustainable Growth Square Tokyo"**

Consolidating the Funai Soken Consulting Group's Tokyo presence into a single location on the 35th floor of the Yaesu Central Tower in Tokyo Midtown Yaesu opened for business on April 1. With visitor numbers already double those of the same time last year, Sustainable Growth Square Tokyo has quickly proven valuable to our efforts to open up new client segments and further mine our existing client base.

The seminar for business proprietors held on April 11 to commemorate the opening of the new Tokyo HQ was a lively affair.

Visitors to new Tokyo HQ, Apr. 2024

3,892 (up 91.3%)

Visitors to old Tokyo HQ, Apr. 2023

2,035

Avg. Visitors to old Tokyo HQ, Jan.–Mar. 2024

1,921

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Lastly, let me share with you some topic. As I mentioned, our Tokyo Head Office relocated to Tokyo Midtown Yaesu on April 1. The new Tokyo headquarters is named Sustainable Growth Square Tokyo.

We are not merely relocating offices and corporate functions but taking advantage of the newly-opened space to maximize our group synergy and to further strengthen our sales capabilities.

Although this is only our first month of operation in the new office, we have received about twice as many visits by business owners in April compared to the same time last year. We are off to a good start, such as winning new businesses from clients we did not have contact before, or reactivation of relationship with old clients.

We would like to invite institutional investors to visit our new office for one-on-one meetings etc.

We also provide opportunities for investors to observe the management seminars and workshops that are held almost every day at our new office so that you can get a feel for how our consultants communicate with our clients and how they make proposals to business owners.

This concludes my explanation. Thank you.

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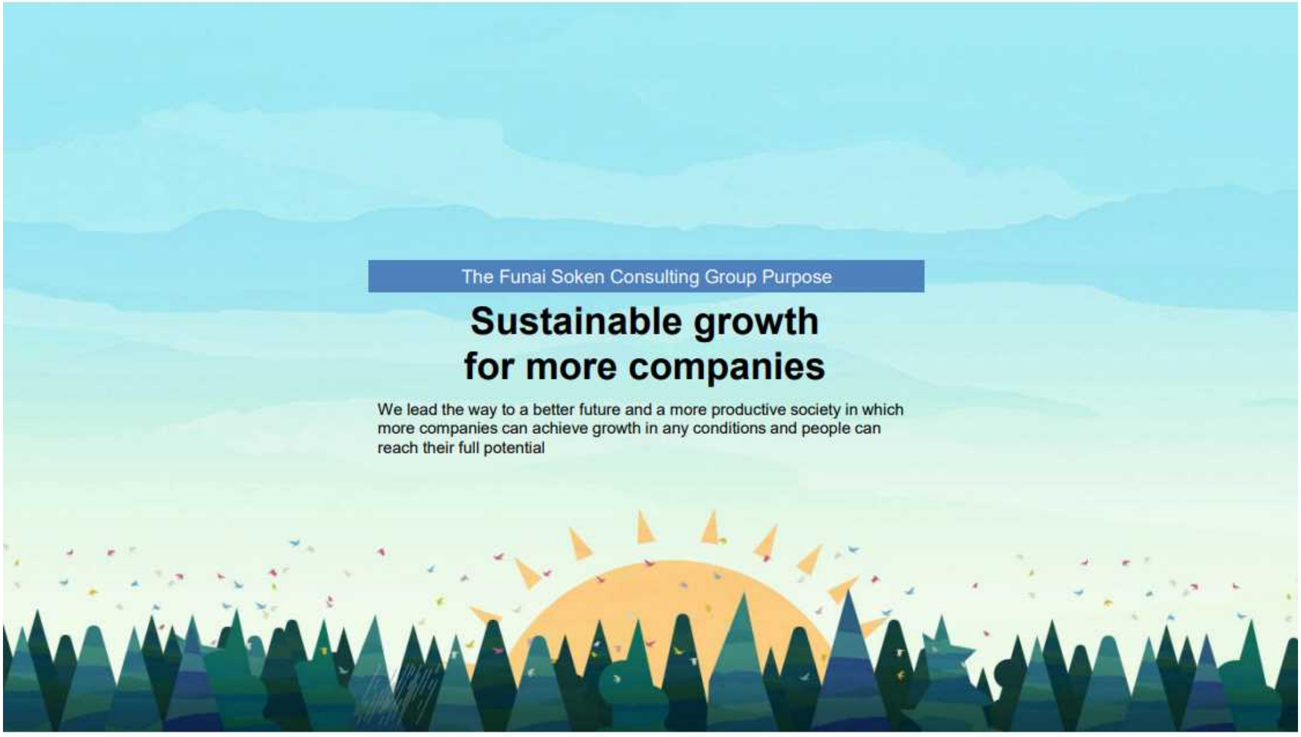

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Actual results may differ greatly from these forecasts for a number of factors.

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