Funai Soken Holdings

# Funai Soken Holdings Incorporated

2024 Half-Year Financial Results Briefing

**[Speaker]**

| | |
|---|---|
| Takayuki Nakatani | President and Group CEO |
| Motoki Haruta | Director and Executive Officer, Head of Corporate Business Divisional Headquarters |
| Eijiro Saito | Executive officer, Head of Corporate Strategy Department |

August 9, 2024

# Presentation

**Moderator**: We will now begin the presentation of the financial results of Funai Soken Holdings Incorporated for Q2 of the fiscal year ending December 31, 2024.

Today's financial results presentation will be given by Takayuki Nakatani, President and Group CEO; and Motoki Haruta, Director and Executive Officer, Head of Corporate Business Divisional Headquarters. Afterwards, Mr. Nakatani, Mr. Haruta, and Mr. Saito, Executive Officer, Head of Corporate Strategy Department, will answer questions from the audience during the Q&A session.

Now, President Nakatani, please begin.

**Nakatani**: My name is Nakatani, President of Funai Soken Holdings. Thank you very much for your continued support of our group. Today, I would like to explain the details of the financial results for Q2 of the fiscal year ending December 31, 2024, which were announced yesterday, using the presentation material.

I will begin with a summary of the financial results. Director Haruta will then explain detailed segment results. After that, I will again explain the progress of the medium-term management plan and shareholder returns.

## 1. Executive Summary

### (1) Consolidated Income

**New records were set for sales and income.**
**Sales were solid, with sales of monthly support services up in the consulting segment.**
**Operating income was up sharply, buoyed by the increased revenues generated by the relocation of our Tokyo Headquarters and reduced SG&A expenses.**

| | FY2023 2Q YTD | | FY2024 2Q YTD | | | Comparison with financial result forecast (Issued February 8, 2024) | |
|---|---|---|---|---|---|---|---|
| | Amount (million yen) | % of total | Amount (million yen) | % of total | Change (%) | Amount (million yen) | Difference (%) |
| Net sales | 13,392 | 100.0 | 14,403 | 100.0 | +7.5 | 14,500 | -0.7 |
| Operating income | 3,371 | 25.2 | 4,220 | 29.3 | +25.2 | 4,000 | +5.5 |
| Ordinary income | 3,428 | 25.6 | 4,236 | 29.4 | +23.6 | 4,000 | +5.9 |
| Net income attributable to owners of the parent | 2,271 | 17.0 | 2,941 | 20.4 | +29.5 | 2,700 | +8.9 |

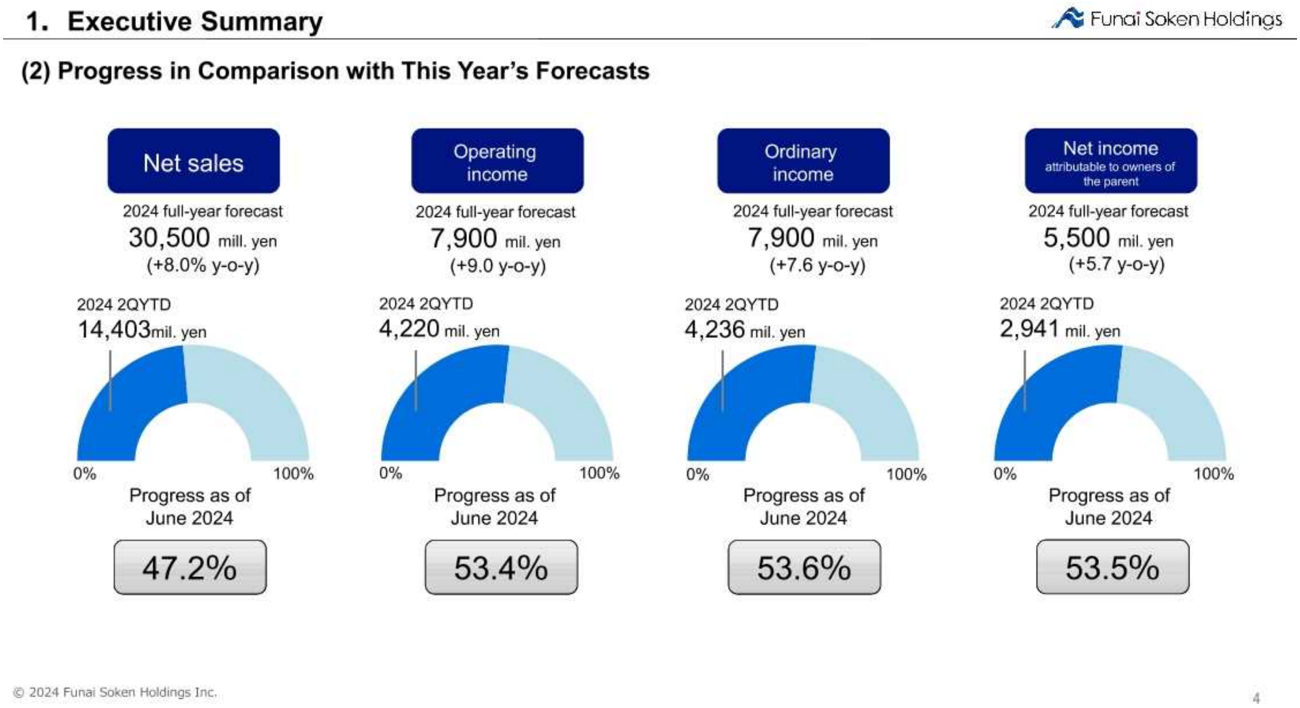
 3

I will now explain the summary of the financial results for Q2 of FY2024. First, let me explain consolidated income.

Net sales were JPY14,403 million, up 7.5% from the previous year; operating income was JPY4,220 million, up 25.2%; ordinary income was JPY4,236 million, up 23.6%; and net income attributable to owners of the parent was JPY2,941 million, up 29.5%. Both sales and profits reached record highs.

Sales were generally in line with the interim plan, and profits exceeded expectations.

Net sales increased due to steady sales of monthly support consulting and other services in the consulting segment. Operating income increased significantly due to the early effects of increased sales from the relocation of the Tokyo head office and cost reductions in selling, general and administrative (SG&A) expenses.

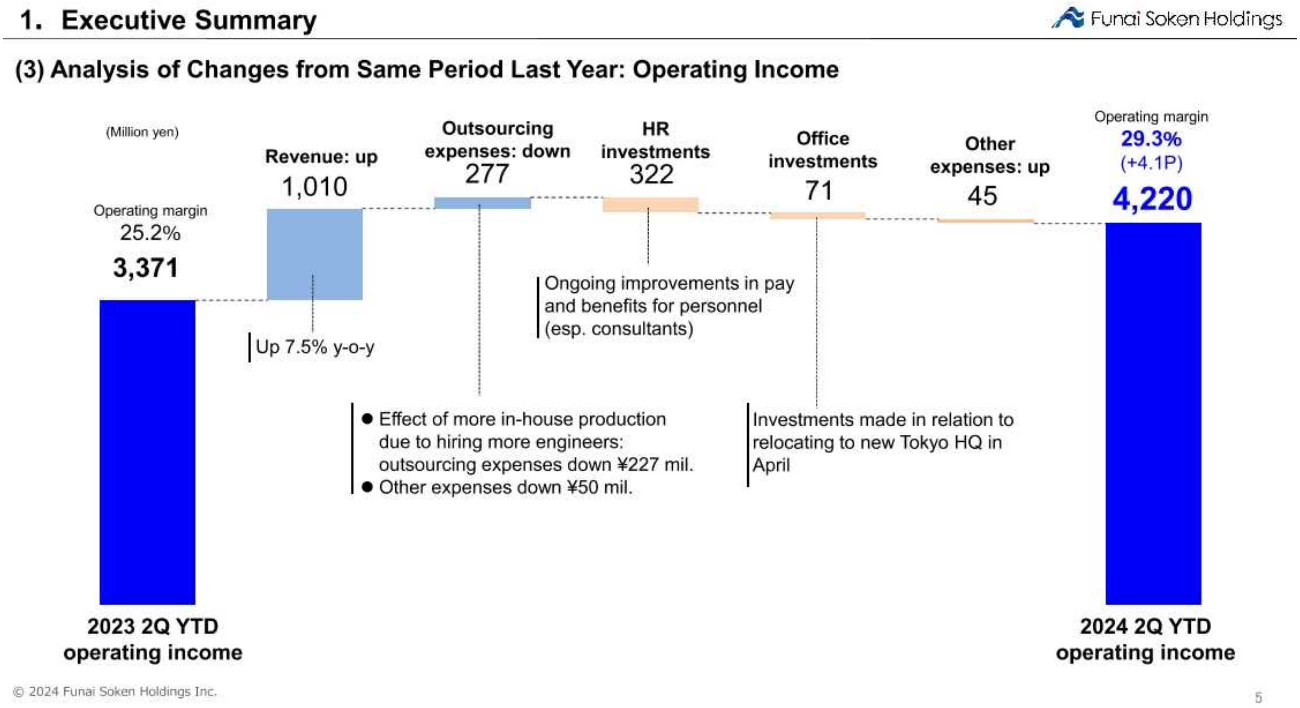



I will now explain our progress toward the full-year forecast.

For the current fiscal year, we are forecasting an 8% increase in net sales to JPY30.5 billion and a 9% increase in operating income to JPY7.9 billion, and the progress rates as of the end of Q2 are as you see.

Since our business model is to build up sales in H2, the 47.2% progress rate of sales is generally in line with our plan.

In terms of profits, the progress has been steady, with more than 50% of the full-year plan as of the end of H1 of the current fiscal year.




I would like to briefly explain the factors that led to the significant increase in operating income in the period under review.

First of all, revenues increased by 7.5% or approximately JPY1 billion compared to last year. Revenues increased in many business fields; among them, monthly support in the mainstay medical, nursing care, and welfare fields, membership fee sales of management study groups, which form the basis of our client base, and consulting services for utilization of subsidies and M&A consulting, which we are working on as new business areas, achieved substantial growth in business performance.

Regarding cost reduction, we were able to realize a decrease in outsourcing expenses. We had previously outsourced some of our system development work, but as a result of hiring engineers last year and increasing our staff, we were able to bring much of the work that had been outsourced in-house.

As for cost increases, they are almost entirely due to strategic investments. The main investments include ongoing improvements in the treatment of our consultants and office expenses associated with the relocation of our Tokyo headquarters, but we feel that these investments are already leading to increased revenues.

As a result, the operating margin improved by 4.1 percentage points, from 25.2% to 29.3%, and profitability increased by one step.

## 1. Executive Summary

Funai Soken Holdings

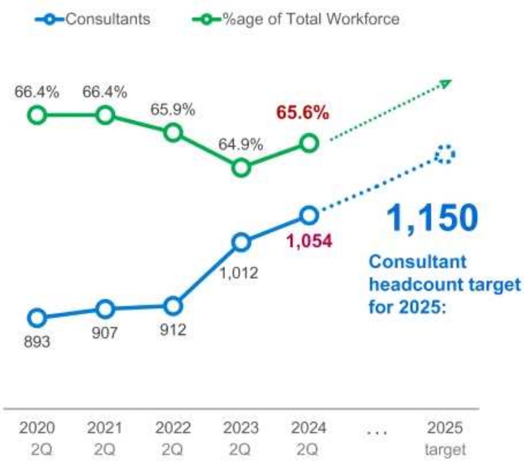
### (4) KPIs: Staffing Levels (by Category)

**Consultant numbers (one of our core KPIs) continue to grow. Our target is 1,150 consultants by 2025.**
**We aim to further improve profitability by making more of our consultants more productive.**

| | FY2023 2Q | FY2024 2Q |
|---|---|---|
| Total headcount | 1,559<br>Up by 176 (+12.7%) y-o-y | 1,607<br>Up by 48 (+3.1%) y-o-y |
| Consultants | 1,012<br>Up by 100 (+11.0%) y-o-y<br>%age of total workforce: 64.9% | 1,054<br>Up by 42 (+4.2%) y-o-y<br>%age of total workforce: 65.6% |
| DX staff incl. in above | 296 | 303<br>Up by 7 (+2.4%) y-o-y |

*DX staff are counted in accordance with Funai Soken Holdings definition of "digital transformation staff."

**Consultant Numbers and %age of Total Workforce**



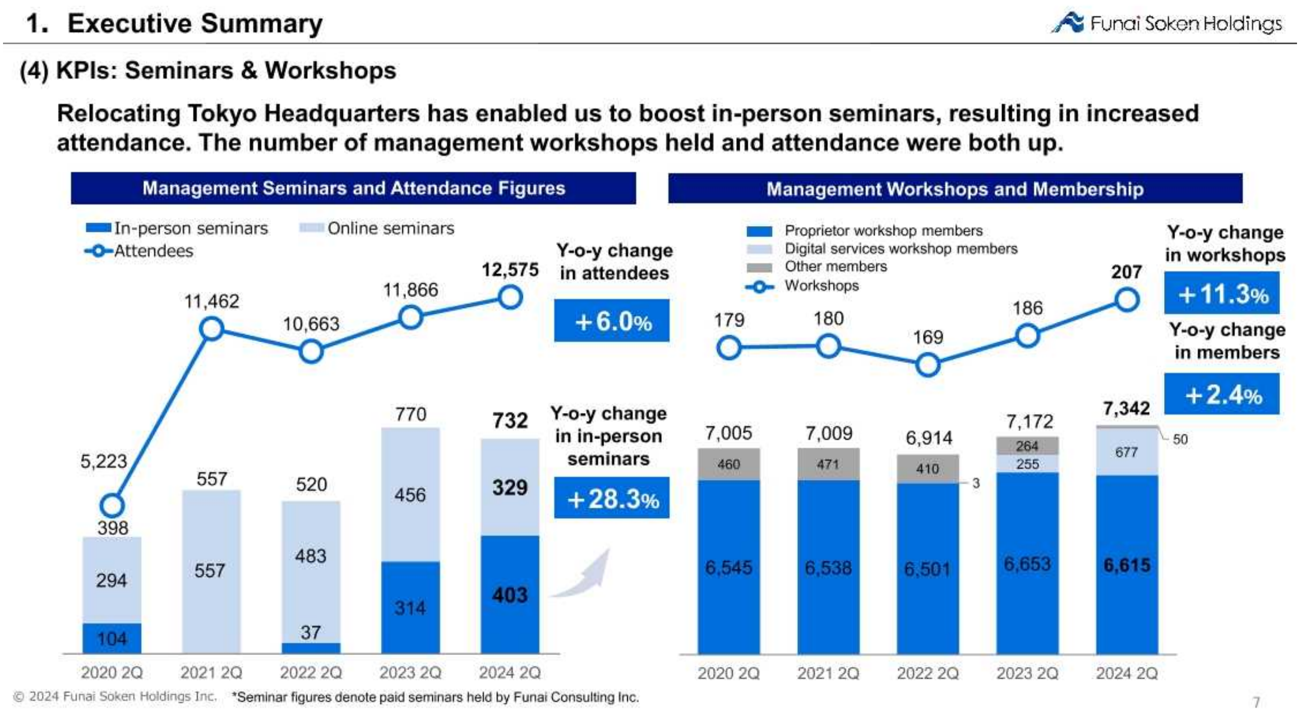



6

Next, I will report on trends in key KPI indicators, which are leading indicators of business performance. First, here is a summary of the number of employees and consultants related to human investment.

During the past year, we have focused on recruiting and retaining employees in order to realize our human capital strategy based on our medium-term management plan. As a result, we have succeeded in significantly increasing the number of consultants in the last fiscal year. On top of that, this year we are making good progress toward our 2025 goal of 1,150 employees, while keeping the consultants hired last year up and running strong.

In order to further increase profitability, we will work to sustainably increase the consultant ratio.




The graph shows the number of management seminars held and the number of participants, as well as the number of management workshops and the number of members, which are leading indicators in terms of orders received.

The graph shows the changes in the figures at the end of Q2 for the past five years. The number of seminar participants increased 6% over the previous year. Although the overall number of seminars held is slightly decreasing, we are focusing on in-person seminars, which have a high order rate this fiscal year.

In particular, the Group's Tokyo headquarters, which moved to a new location in April, has become a major sales base, and the Group has a policy of strengthening in-person seminars, and the number of in-person seminars held has already greatly exceeded that of the same period last year.

The number of management workshops, which is one of the Company's unique features, is also on the rise, with 7,342 members as of the end of June, an increase of 2.4% over the previous year.

A breakdown of membership shows a slight decrease in membership in proprietor workshops, but this is due to price increases implemented in April for about half of the workshops. As a result, membership growth slowed. On the other hand, however, unit prices increased by more than 10% compared to last year, resulting in a significant increase in sales for the proprietor workshops.

Segment results will be explained by Director Haruta.

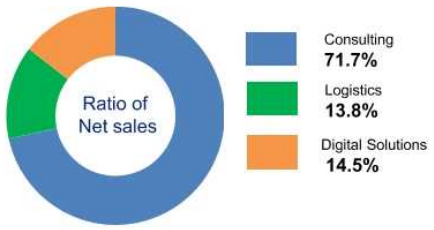
## 2. Financial Results as of FY2024 2Q

Funai Soken Holdings

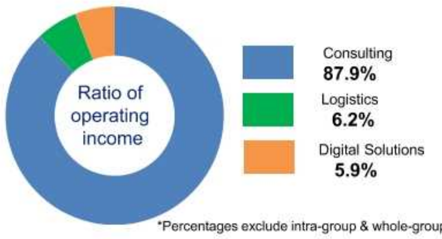
### (1) Results of Operations by Segment

**The consulting business saw growth across the board in monthly support, projects, management workshops, and management seminars. Profitability was up in the logistics business, and income increased sharply as all segments (incl. digital solutions) ended in a net profit.**

| Net sales | 2023 2Q YTD | 2024 2Q YTD | |
|---|---|---|---|
| | Amount (million yen) | Amount (million yen) | Change (%) |
| Consulting | 9,452 | 10,319 | +9.2 |
| Logistics | 1,907 | 1,988 | +4.2 |
| Digital Solutions | 2,024 | 2,094 | +3.5 |
| (Intra-group & whole-group transactions) | 8 | 0 | – |
| Total | 13,392 | 14,403 | +7.5 |




| Operating income | 2023 2Q YTD | 2024 2Q YTD | |
|---|---|---|---|
| | Amount (million yen) | Amount (million yen) | Change (%) |
| Consulting | 3,238 | 3,566 | +10.1 |
| Logistics | 173 | 250 | +44.1 |
| Digital Solutions | -126 | 238 | – |
| (Intra-group & whole-group transactions) | 86 | 165 | – |
| Total | 3,371 | 4,220 | +25.2 |




*Percentages exclude intra-group & whole-group transactions



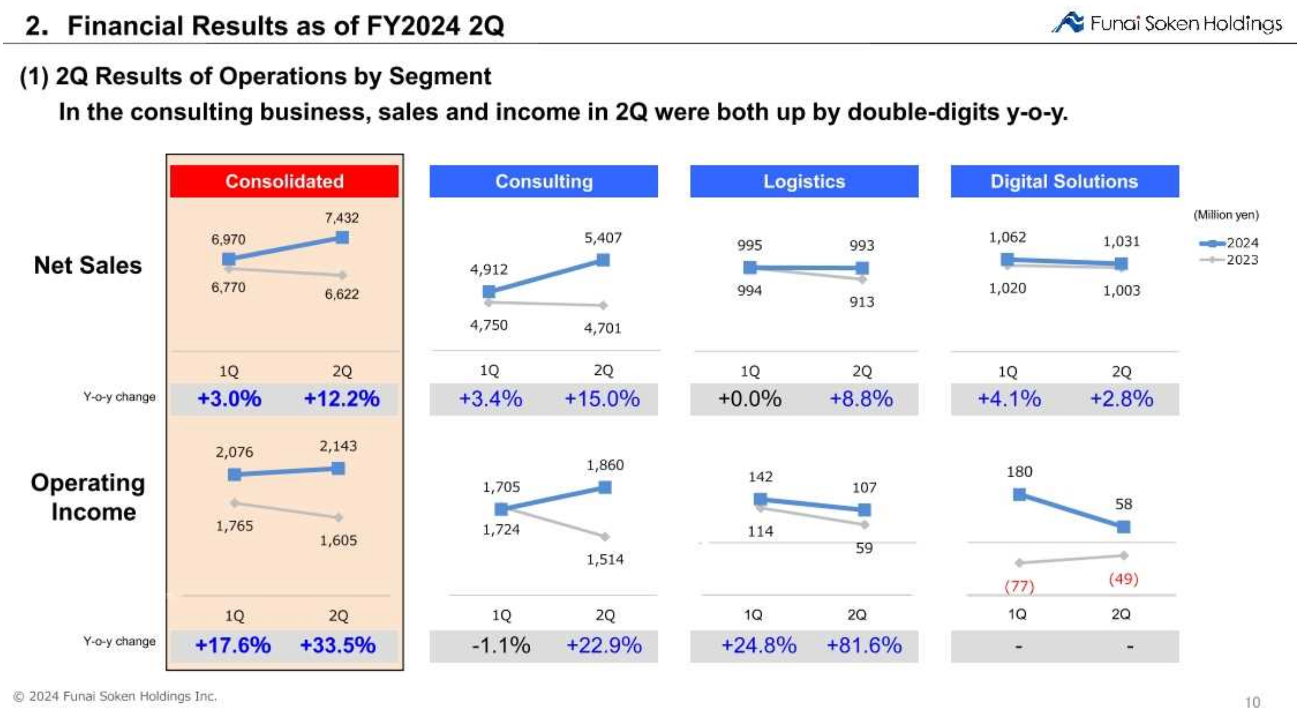
9

**Haruta**: Thank you very much for all your help. I am Haruta of Funai Soken Holdings. I will now report on the details by segment.

These are the results of each of the three segments. All segments reported increases in both net sales and operating income.

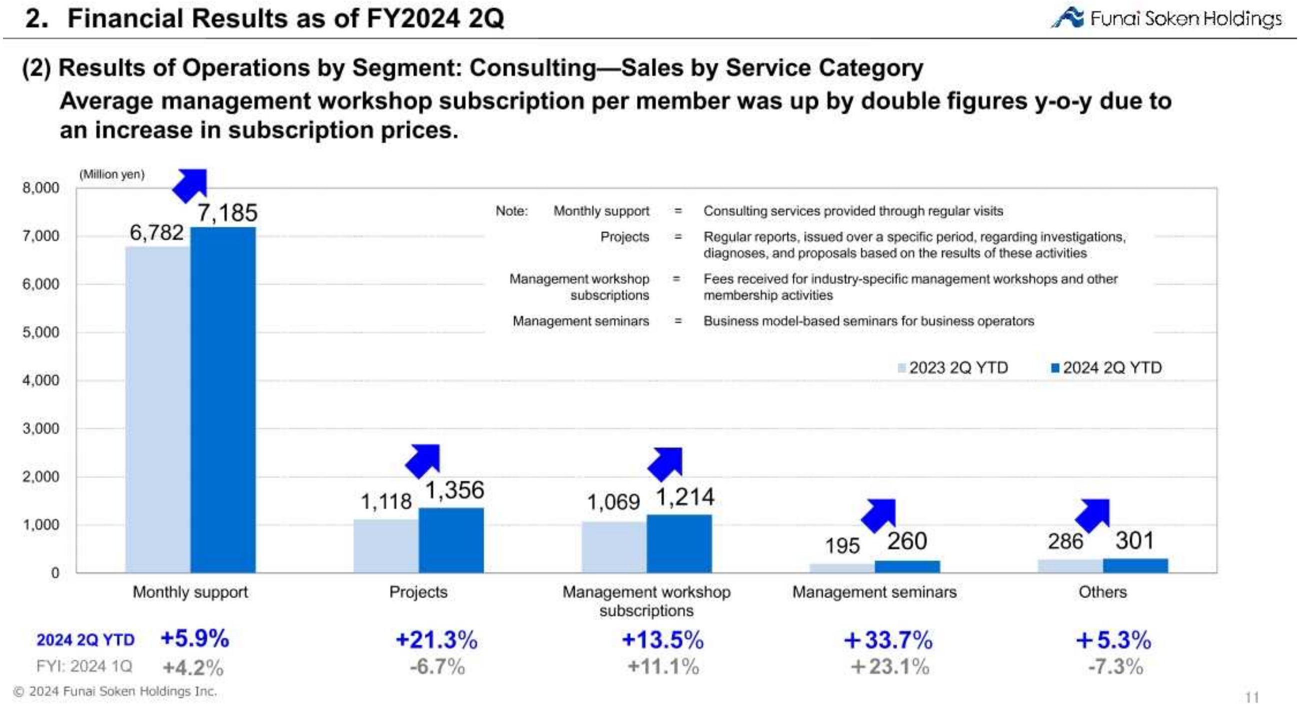
In the consulting business, as I will explain later, all business areas of monthly support, projects, management workshops, and management seminars are growing. The logistics business achieved an increase in profit margin due to growth in the logistics consulting division.

The digital solutions business has also been profitable since Q4 of last year, although it incurred significant costs last year due to aggressive hiring of engineering positions. This year, we are already firmly in control of our profitable operations and have achieved a steady turnaround.




Here is the performance trend of each segment from Q1 to Q2. The blue line shows results for 2024 and the gray line for 2023.

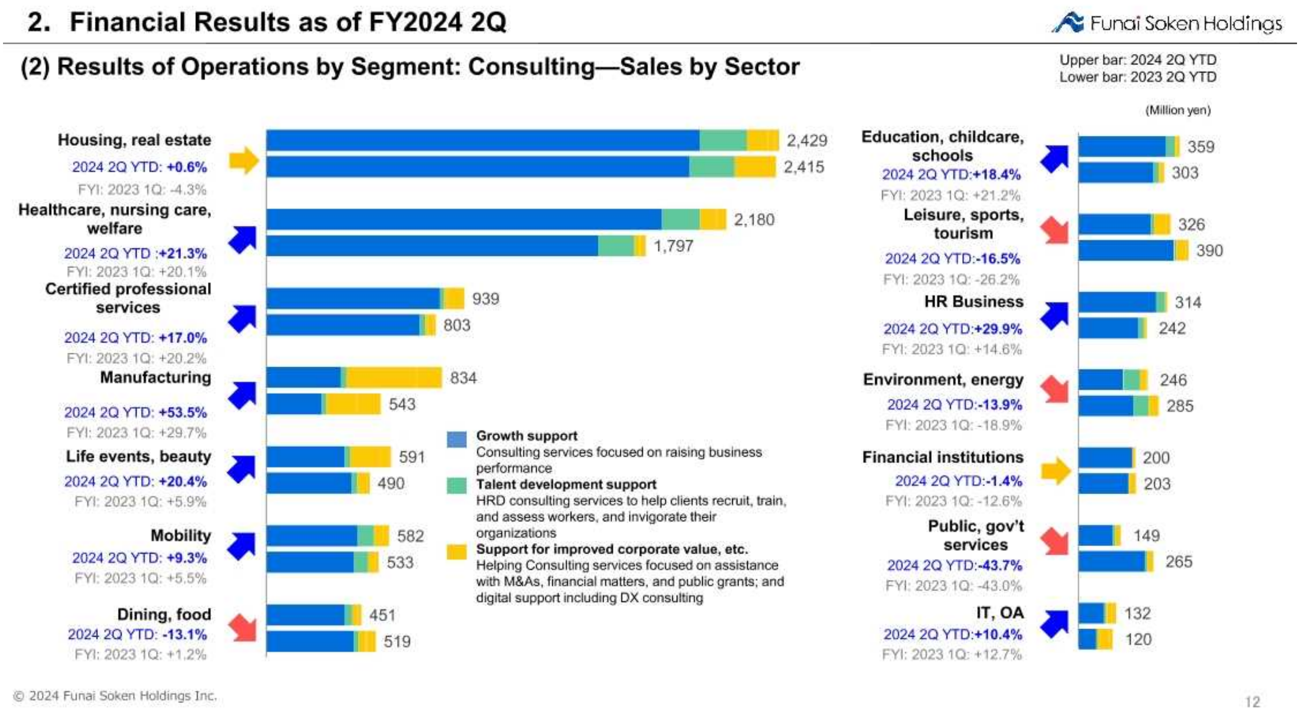
Both sales and operating income grew significantly in Q2, with sales up 12.2% and operating income up 33.5%. In particular, the consulting business achieved double-digit growth in both sales and operating income compared to the previous year.




From here, we will look at each segment individually. First, let me explain our consulting business.

This is sales by service category. Sales grew 5.9% in monthly support and 21.3% in projects. Growth rates for Q1 are shown in gray text. The fact that Q2 year-to-date figures in both business areas exceeded Q1 figures indicates that Q2 was even better than these year-to-date figures.

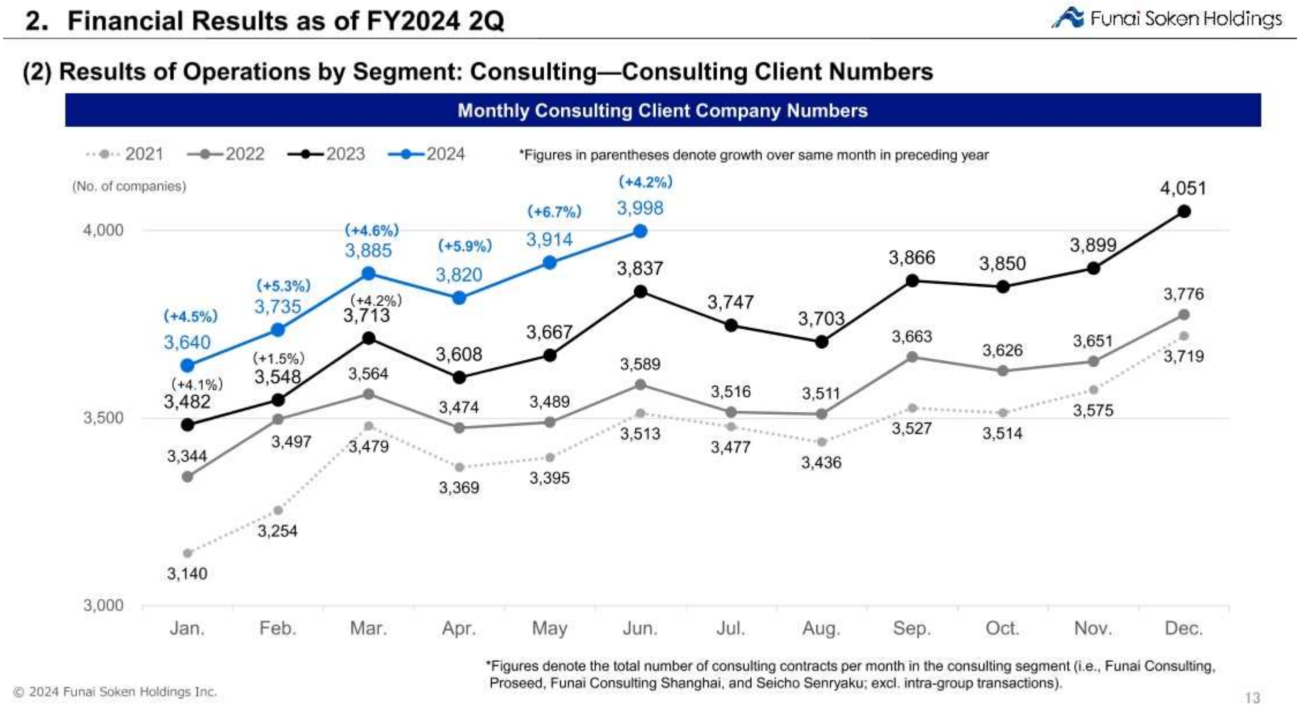
In addition, regarding membership fee income from management workshops, as explained earlier by Mr. Nakatani, sales have increased more than the growth in the number of members, indicating that the increase in unit price has boosted sales. In fact, a comparison of dues per member, calculated by dividing this year's and last year's sales by the number of members, shows an increase of more than 10%.




These are sales trends by sector.

Again, sales to many sectors showed more growth in Q2 than in Q1. In particular, the housing and real estate sector, which had been growing at a slower rate in Q1, is now recovering and is expected to grow faster than last year. Another mainstay field, medical care, nursing case, and welfare, is also performing well, with sales approaching those from housing and real estate at a growth rate of 21.3%.

Sales to the manufacturing industry increased significantly by 53.5% due to the recording of a large project in the area of subsidy consulting in Q2, in addition to the usual consulting services.

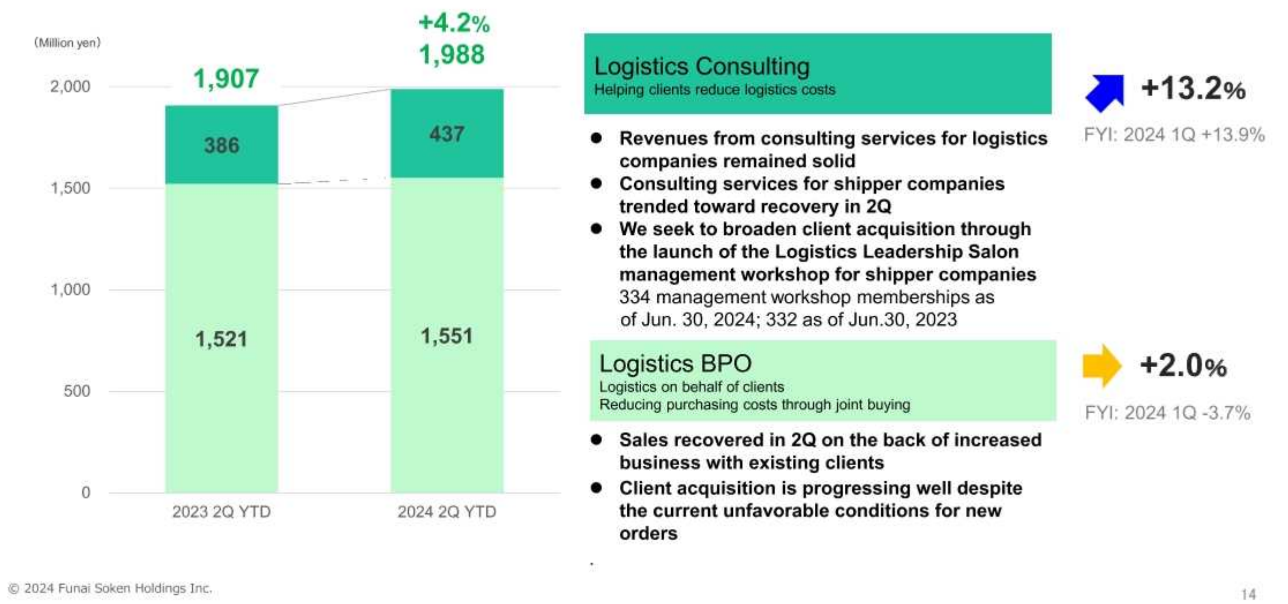



This is the number of consulting companies by month.

The trend has remained the same, with an increase of several percent each month, but as you can see, the YoY growth rate has increased compared to the January-March period, indicating a positive trend.

## 2. Financial Results as of FY2024 2Q

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

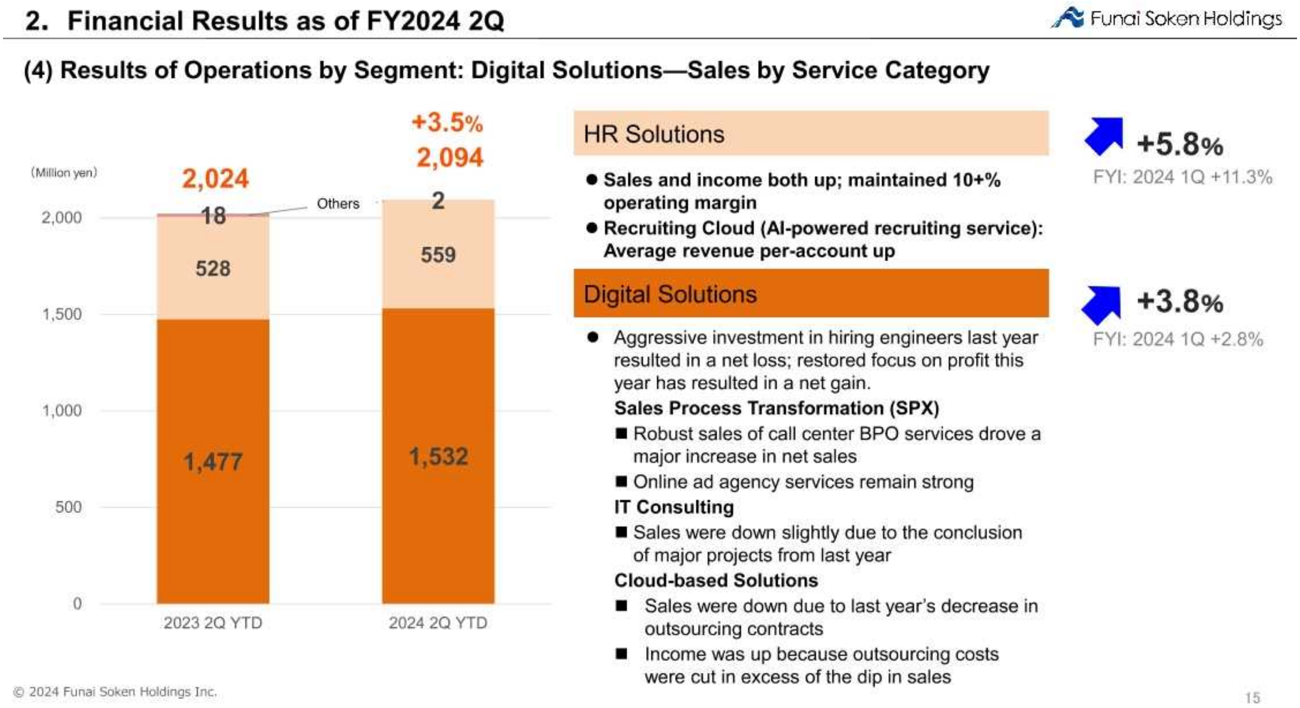



 14

Next, we will look at the logistics business.

In the logistics business, logistics BPO sales were essentially flat, while logistics consulting sales grew by double digits.

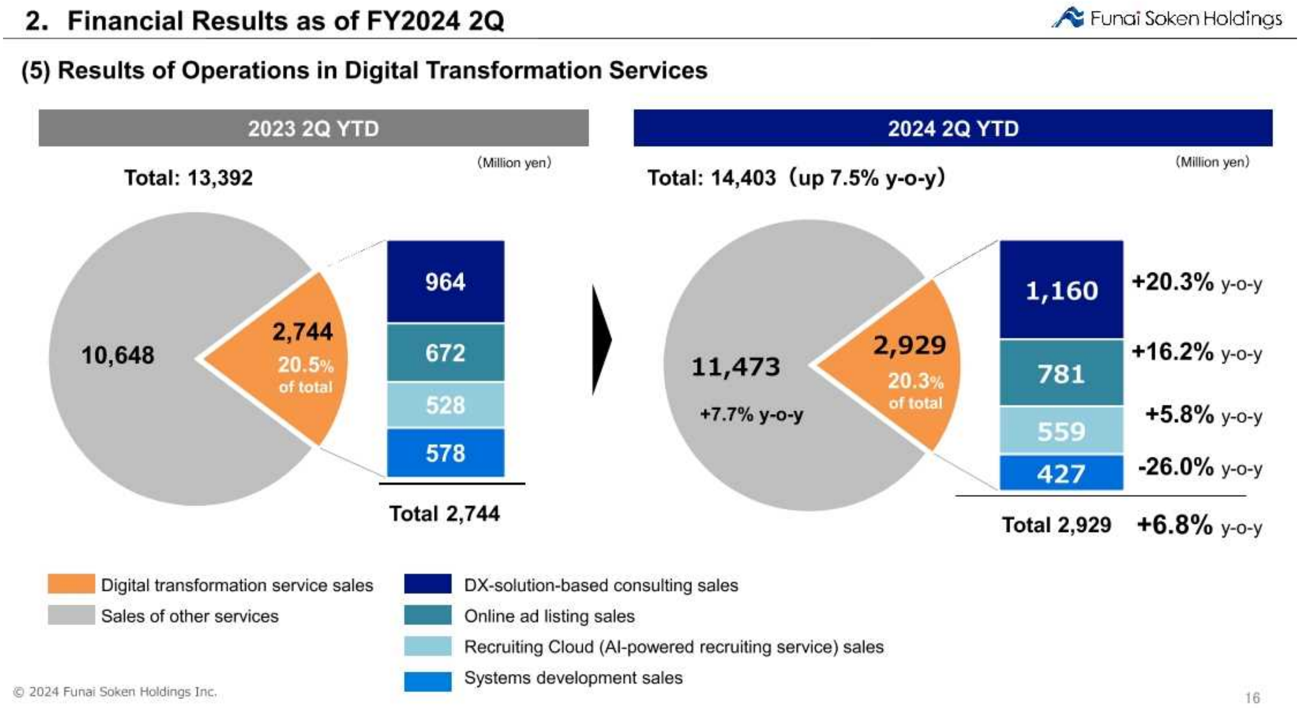
In the current fiscal year, consulting services for logistics companies are performing well, and consulting services for shipper companies, which struggled last year, are on a recovery trend. For shipper companies, we have started a new workshop called the Logistics Leadership Salon this fiscal year, and we are striving to expand stable order leads for consulting for shipper companies in the future.




Next is the digital solutions business.

In the digital solutions business, sales increased by 3.5% this quarter, and the Company was able to move from an operating loss last year to a profit of JPY230 million this fiscal year, partly because the Company focused on profitability and curbed hiring.

The HR solutions business continues to perform well, and in the digital solutions business, the SPX business is performing particularly well.




These are actual figures for businesses that we define as DX-related services.

All businesses in this area continued to grow by 10% or more, but this fiscal year the overall growth was only 6.8% due to the strategic downsizing of the system development area in the digital solutions business and a shift to more profitable operations.

However, DX solution consulting sales and online ad listing sales have been growing significantly, and there is no doubt that these fields will continue to be the driving forces in the future, and we will continue to focus on them. These are the descriptions of each segment.

## 2. Financial Results as of FY2024 2Q

Funai Soken Holdings

### (6) Consolidated Financial Position: Balance Sheet

(Million yen)

| | | As of Dec. 31, 2023 | As of Jun. 30, 2024 | Change | Major factors behind changes |
|---|---|---|---|---|---|
| Current assets | | 18,657 | 17,413 | -1,244 | Decrease in current assets: Major factors include decreases in cash and deposits |
| Noncurrent assets | Property, plant, and equipment | 6,146 | 6,655 | +509 | Increase in noncurrent assets: Major factors include increase in buildings and structures and decrease in construction in progress listed under “other property, plant, and equipment.” |
| | Intangible assets | 1,124 | 760 | -364 | |
| | Investments and other assets | 5,702 | 5,847 | +145 | |
| **Total assets** | | **31,631** | **30,677** | **-953** | |
| Current liabilities | | 5,666 | 5,873 | +207 | Increase in current liabilities: Major factors include increases in provision for bonuses and decreases in deposits received (listed under “others”). |
| Noncurrent liabilities | | 238 | 265 | +27 | Increase in noncurrent liabilities: Major factors include increase in deferred tax liabilities and decrease in retirement benefit liabilities. |
| **Total liabilities** | | **5,904** | **6,139** | **+234** | |
| **Total net assets** | | **25,726** | **24,537** | **-1,188** | Financial position remains sound with a high equity ratio of 77.9%. |
| **Total liabilities & net assets** | | **31,631** | **30,677** | **-953** | |



17

Here you see a summary of balance sheets. The Company continues to maintain a sound financial position.

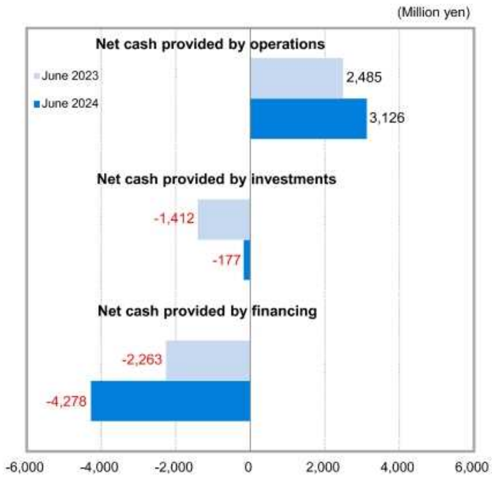
## 2. Financial Results as of FY2024 2Q

Funai Soken Holdings

### (7) Consolidated Financial Position: Cash Flow Statement

(Million yen)

| | June 2023 | June 2024 | Change |
|---|---|---|---|
| Net cash provided by (used in) operations | | | |
| Net income before income taxes and other adjustments | 3,403 | 4,151 | 748 |
| Depreciation | 141 | 174 | 33 |
| Other | (415) | (802) | (387) |
| Subtotal | 3,129 | 3,524 | 395 |
| Income taxes paid | (1,257) | (1,117) | 140 |
| Income tax refunds | 602 | 715 | 112 |
| Other | 11 | 4 | (6) |
| Net cash provided by (used in) operations | 2,485 | 3,126 | 641 |
| Net cash provided by (used in) investments | | | |
| Purchase of property, plant and equipment and intangible assets ※1 | (95) | (895) | (800) |
| Proceeds from sale of property, plant, and equipment, and intangible assets ※2 | 0 | 604 | 604 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | (617) | – | 617 |
| Other | (699) | 114 | 813 |
| Net cash provided by (used in) investments | (1,412) | (177) | 1,235 |
| Net cash provided by (used in) financing | | | |
| Purchase of treasury shares | (776) | (2,691) | (1,915) |
| Dividends paid | (1,476) | (1,575) | (98) |
| Other | (10) | (11) | (1) |
| Net cash provided by (used in) financing | (2,263) | (4,278) | (2,015) |
| Change in cash and cash equivalents | (1,186) | (1,317) | (130) |
| Cash and cash equivalents at start of fiscal year | 17,031 | 12,894 | (4,137) |
| Cash and cash equivalents at end of quarter | 15,844 | 11,577 | (4,267) |



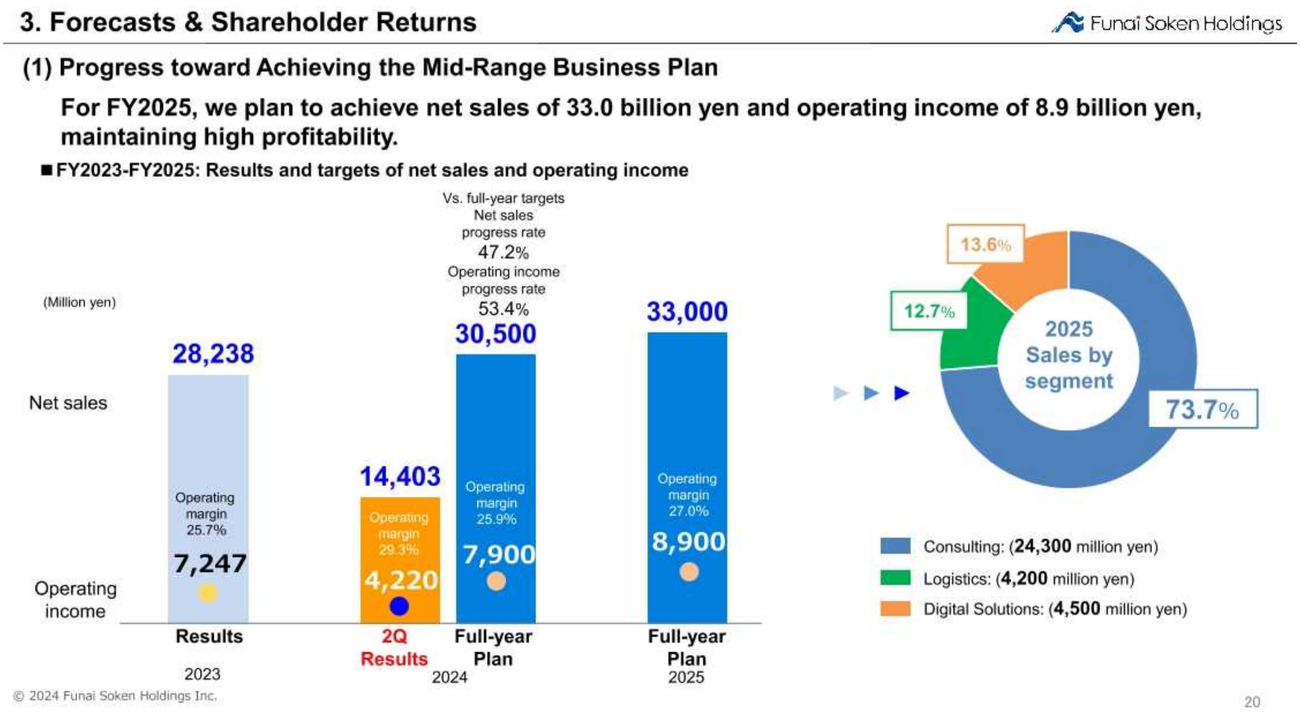

1. Purchase of property, plant, and equipment associated with the relocation of Tokyo Headquarters.
2. Mainly proceeds from sale of leasehold resulting from integration of physical locations in Tokyo.



18

Cash flows. Items with larger increases or decreases in numbers than in previous years were acquisitions and sales of fixed assets.

Specifically, there was an expenditure of JPY800 million for construction work related to the relocation of the Tokyo head office and proceeds of JPY600 million from the sale of the Shiba office in connection with the consolidation of offices in Tokyo. Cash flows from financing activities consisted of cash dividends and purchases of treasury stock.




**Nakatani**: From here I will explain again.

This graph shows the progress of the medium-term management plan.

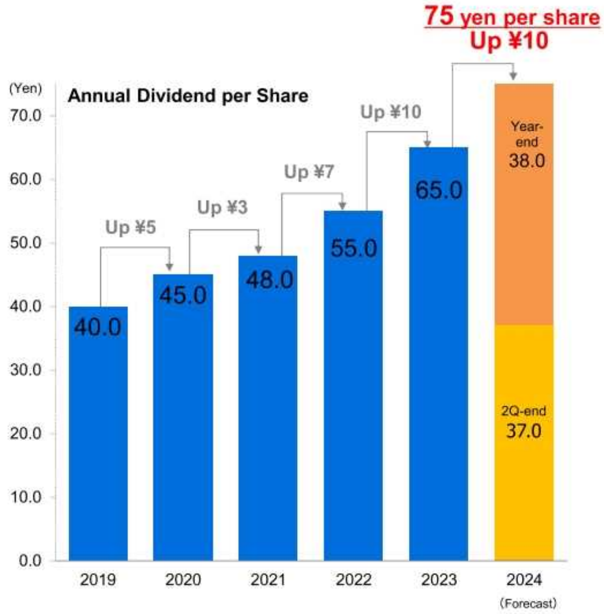
As I reported earlier, the progress rate for this fiscal year against the annual plan is 47.2% for sales and 53.4% for operating income. By 2025, we aim to achieve net sales of JPY33 billion and operating income of JPY8.9 billion.

## 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<br>Year end 23.0 | 40.0 | 2Q-end 17.0<br>Year end 23.0<br>*Incl. a commemorative dividend of 3.0 |
| FY2020 | 45.0 | 2Q-end 20.0<br>Year end 25.0 | 45.0 | 2Q-end 20.0<br>Year end 25.0 |
| FY2021 | 46.0 | 2Q-end 21.0<br>Year end 25.0 | 48.0 | 2Q-end 21.0<br>Year end 27.0 |
| FY2022 | 53.0 | 2Q-end 25.0<br>Year end 28.0 | 55.0 | 2Q-end 25.0<br>Year end 30.0<br>*Incl. a commemorative dividend of 2.0 |
| FY2023 | 65.0 | 2Q-end 32.0<br>Year end 33.0 | 65.0 | 2Q-end 32.0<br>Year end 33.0 |
| **FY2024 (Forecast)** | **75.0** | **2Q-end 37.0<br>Year end 38.0** | | |






21

Next, I will report on dividends.

For FY2024, we plan to pay an interim dividend of JPY37 and a year-end dividend of JPY38, for an annual dividend of JPY75, an increase of JPY10. If the annual dividend of JPY75 per share is realized, the dividend payout ratio will be 65%. If this dividend is achieved, it will be the Company's fourteenth consecutive fiscal year of dividend increases. We will continue to aim to increase dividends on an ongoing basis.

## 3. Forecasts & Shareholder Returns

Funai Soken Holdings

### (3) Share Buyback (Progress thru June 30, 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. | - | ¥1,899 mil. | ¥1,899 mil. | 63.3% (buyback ongoing) | 769,900 |

**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 |





I will now report on the repurchase and cancellation of treasury stock to improve capital efficiency and enhance shareholder returns.

The Company is currently in the process of repurchasing up to JPY3 billion of its own shares. In addition, 2 million shares of treasury stock were retired at the end of February. The Company will continue its efforts to improve capital efficiency and enhance shareholder returns.


This graph shows our ROE results and target.

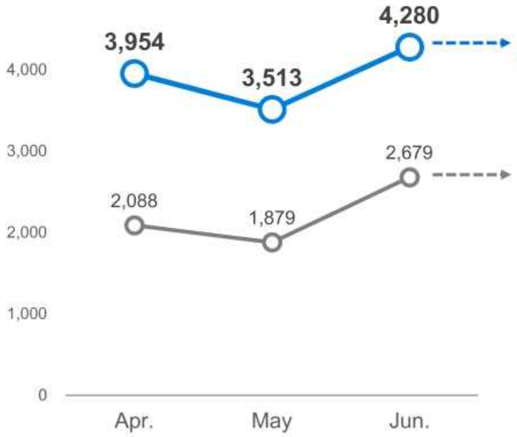
The consolidated ROE for FY2023 was a record high 20%, having achieved the initial target of 20% in the first year of the initial mid-term management plan, and we are currently aiming for a new target of 25% or higher ROE in 2025.

## 4. News

Funai Soken Holdings

### (1) Total Visitors to New Tokyo Headquarters

**The Funai Soken Consulting Group's Tokyo presence has been consolidated into a single location on the 35th floor of the Yaesu Central Tower in Tokyo Midtown Yaesu. The new Tokyo Headquarters opened for business on April 1. The strategy of creating a single office has paid off with visits by business proprietors up significantly year-on-year even now, three months after the official opening.**




**Total visitors to new Tokyo HQ, Apr.–Jun. 2024**

**11,747** (+76.8%)

Total visitors to old Tokyo HQ, Apr.–Jun. 2024

**6,646**

A management workshop underway at New Tokyo HQ, "Sustainable Growth Square TOKYO."



24

Finally, I would like to reiterate my explanation of the aims and strategies behind the relocation and consolidation of the Group's Tokyo headquarters.

On April 1, the Group's Tokyo headquarters was relocated and consolidated at Tokyo Midtown Yaesu. Business companies that had been dispersed in various locations are now combined on a single floor of 1,300 tsubo. This is not just an office investment, but is positioned as a strategic investment to enhance non-financial capital, such as sales force strength, human capital, and brand power.

The new Tokyo headquarters has been named Sustainable Growth Square TOKYO. Here, we aim to enhance not only office functions but also management seminars, management workshops, and management consultation by leveraging group synergies.

Although it has only been a little over three months since we opened the location, we have had 1.7 times as many business owners visit our office compared to the same period last year.

Another goal is to improve both the physical and digital consulting environment to enhance the way we work and the quality of our work, as well as to consolidate our indirect departments to increase efficiency, and, as a result, to increase productivity.

Furthermore, our location in front of Tokyo Station, the most accessible location in Japan, the latest digital equipment, and enhanced digital content enables us to provide our clients with the best learning environment and seamless management support environment.

For the benefit of our clients, we aim to further enhance one of our greatest assets, our top-class Japanese management community, both in quality and quantity.

This has led to requests for consulting services from some clients with whom we have had no previous contact, as well as to the discovery of past clients, and we are off to a good start.

Furthermore, it has been more effective than expected not only in terms of sales, but also in recruiting students and other talented people, contributing to the hiring of excellent students. We are also beginning to see results, such as an increase in the rate of job offers accepted.

We feel a great response to our efforts to acquire human resources in the future, and we hope you will look forward to this as well.

The Japanese stock market was in turmoil from the end of last week through this week, and we apologize for any concern you may have had about our company's stock price. However, as I explained, our performance has been solid and we believe that you can look forward to the end of the year or in the future.

That concludes my explanation. Thank you very much.

## Question & Answer

**Moderator**: We will now move on to the question-and-answer session. I will read out the questions we have received.

**Participant**: Has the recruitment of consultants progressed as planned at the beginning of the term? Since there was a net decrease in consultants in H2 of the previous year, I got the impression that you should have hired more consultants by H1.

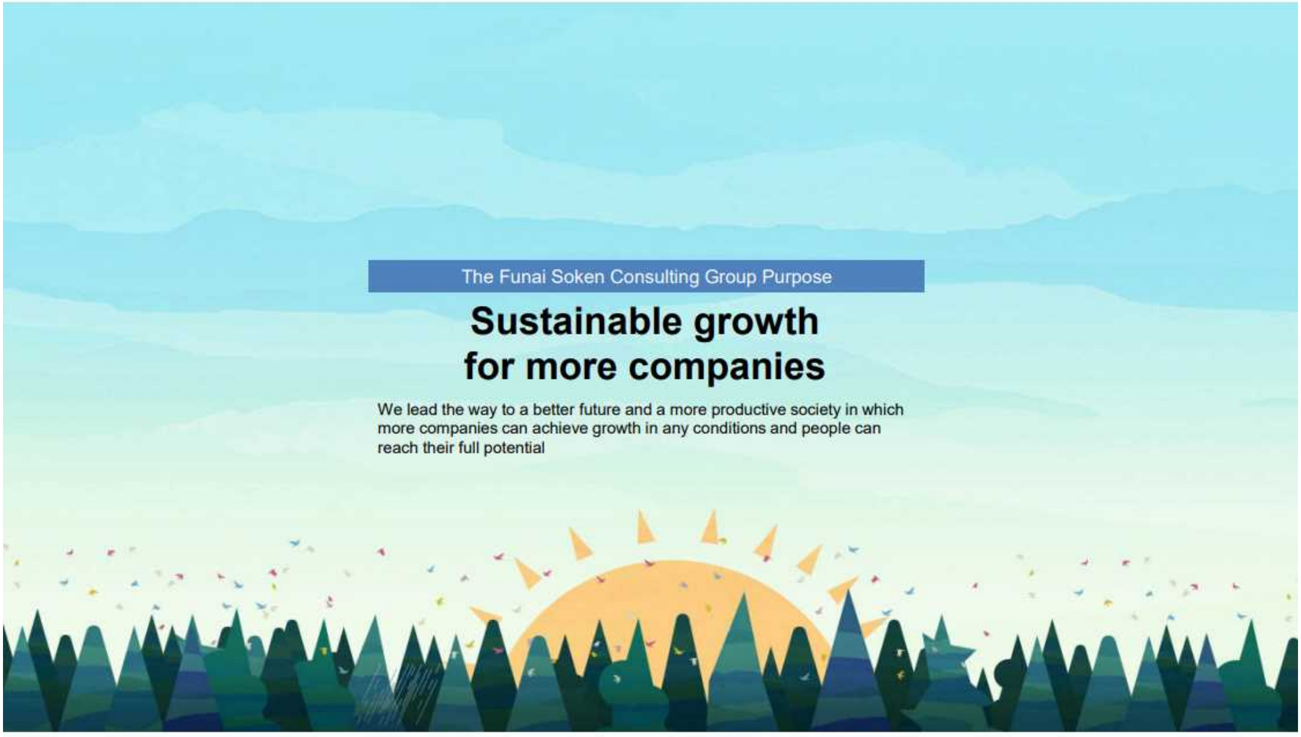
**Nakatani**: Thank you. As you mentioned, the consulting business has been strong, and we have honestly been thinking about hiring more consultants. On the other hand, we made you worry about profits last year, so this year, we have been somewhat restrained in our hiring practices, especially in order to produce results that will reassure you in terms of profitability.

As we expect to see some steady performance in the future, we would like to accelerate the hiring of consultants again.

**Moderator**: Thank you very much. If you have any other questions, please do not hesitate to ask. These are all the questions we received. If you have any questions at a later date, we would be happy to discuss one-on-one or other opportunities with you.

This concludes the presentation of financial results for Q2 of the fiscal year ending December 31, 2024. Thank you very much for watching.

[END]




## Statement Regarding Use of These Materials

Funai Soken Holdings

Plans, outlooks, strategies and other information contained herein are based on reasonable judgments made in accordance with information currently available.

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

All possible care has been exercised in preparing these materials, but the Funai Consulting Group assumes no responsibility for losses or other damages resulting from errors concerning any information.

These materials are not intended to encourage any kind of investment. Investment decisions are the sole responsibility of the individual investor.

**Please direct enquiries regarding IR to:**

Funai Soken Holdings, Inc. IR＆PR Team
TEL: +81-(0)6-6232-2010
Mail: ir@funaisoken.co.jp URL: https://hd.funaisoken.co.jp/en/