Funai Soken Holdings Incorporated

Q3 Financial Results Briefing for the Fiscal Year Ending December 2024

November 8, 2024

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	Naoya Yamane	Senior Manager of Group Finance Department

Presentation

Saito: Hello. I am Saito of Funai Soken Holdings Incorporated. I would now like to report on the financial results for Q3 of FY2024, which we announced earlier at 15:30.

Here is the table of contents of the financial summary we just presented. Today, I would like to report mainly on the Executive Summary for the first three quarters of the fiscal year ending December 31, 2024, the progress of the Mid-term Management Plan, and the growth strategy.

1. Executive Summary

Funai Soken Holdings

(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 higher operating margins as a result of increasing workshop and monthly support subscriptions, as well as reduced SG&A expenses.

	FY2023 3Q YTD		FY2024 3Q YTD		
	Amount (million yen)	% of total	Amount (million yen)	% of total	Change (%)
Net sales	20,630	100.0	22,253	100.0	+7.9
Operating income	4,951	24.0	5,945	26.7	+20.1
Ordinary income	5,017	24.3	5,968	26.8	+19.0
Net income attributable to owners of the parent	3,449	16.7	4,043	18.2	+17.2

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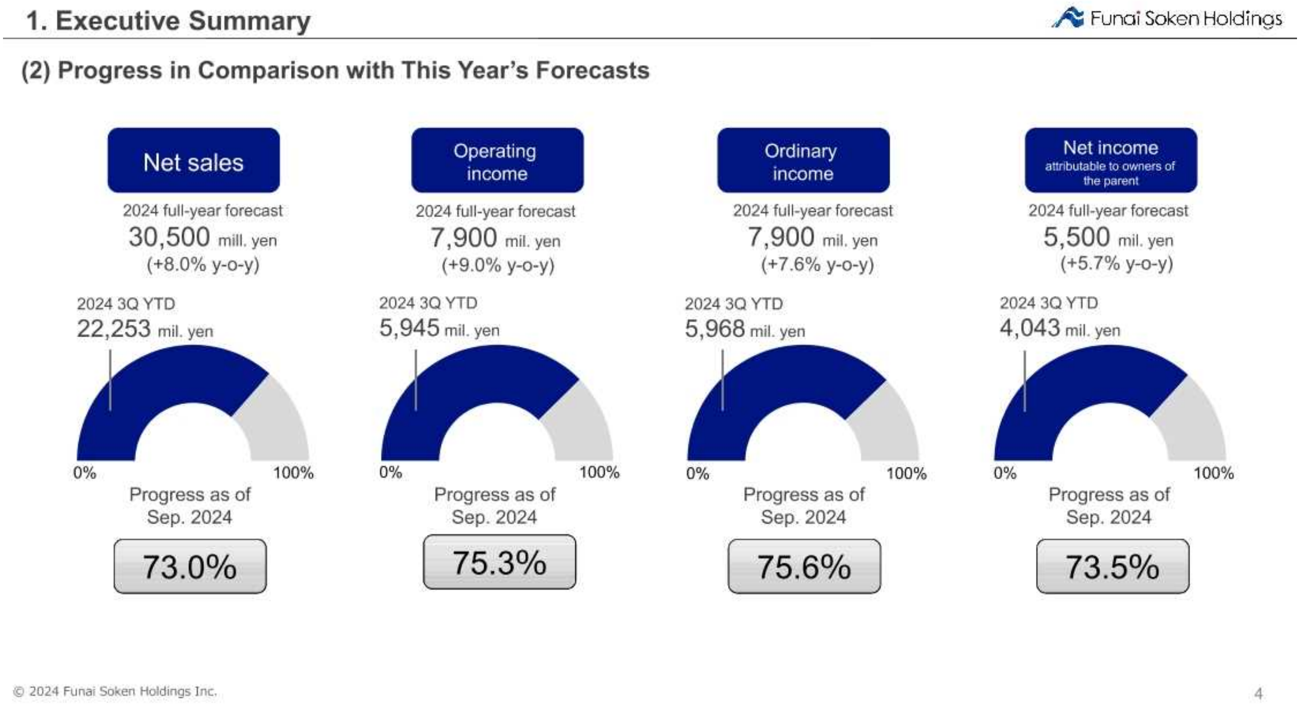
Let me begin with the financial summary.

Here are the consolidated results for Q3. Sales were JPY22.253 billion, up 7.9% from the previous year, and operating income was JPY5.945 billion, up 20.1%, marking a record high in both sales and income.

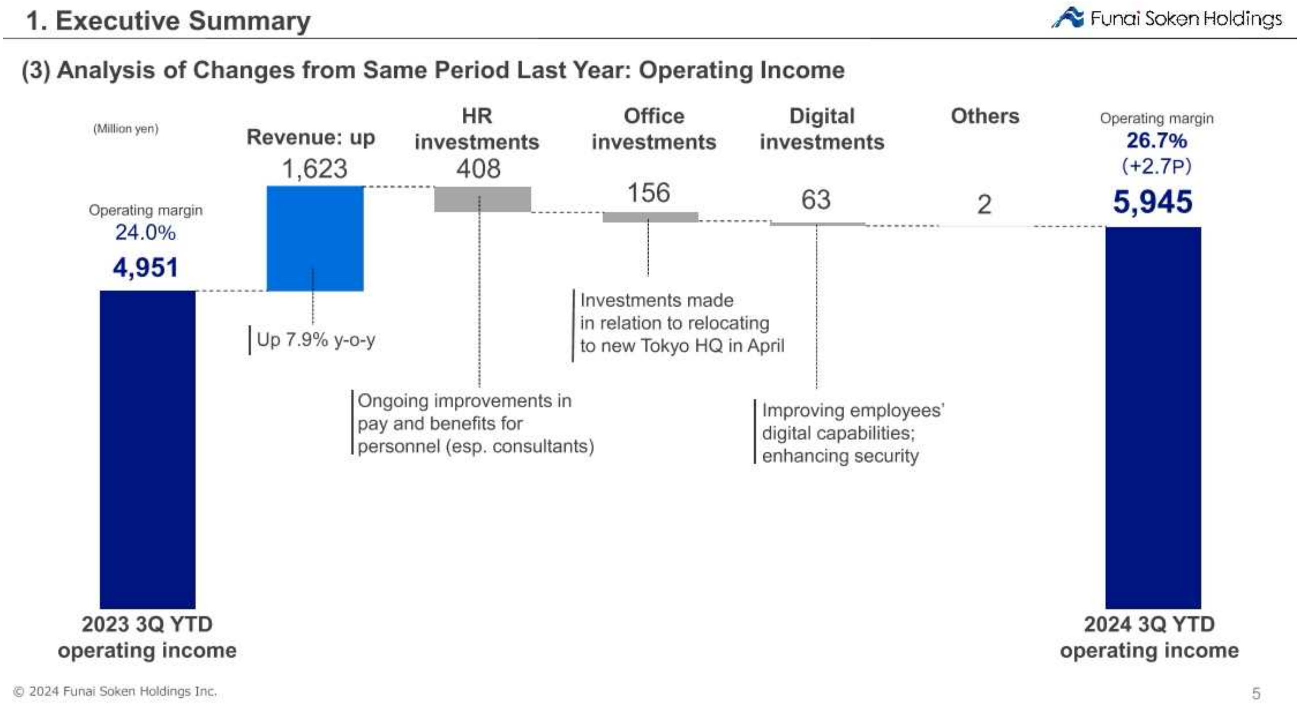
As for sales, monthly support consulting and other services in the management consulting business remained strong, resulting in an increase in revenue.

Both operating income and operating income ratio have increased significantly. This was due to an increase in membership fee income from the price increase of the management workshop implemented in April, an improvement in the profit margin from an increase in the unit price of monthly support consulting contracts, and the effect of cost reductions in SG&A expenses.



Next is the progress against the full-year forecast. For the current fiscal year, we plan to increase sales by 8% to JPY30.5 billion and operating income by 9% to JPY7.9 billion, and our current progress rate is 73% for sales and 75.3% for operating income.

As our business model is one in which sales increase with each passing quarter, we consider this rate of progress to be favorable as of the end of Q3.



I will then briefly explain the factors behind the significant increase in operating income for this fiscal year. First, revenues increased by 7.9% compared to last year, or approximately JPY1.62 billion in terms of value.

Revenue increased in many areas, but the main areas of growth were monthly support in the mainstay medical, nursing care, and welfare fields, membership fee sales from management workshops, consulting on the use of subsidies, and M&A consulting.

The cost increase is mostly a strategic investment. First, human investment through continuous improvement of treatment, especially for consultants. Also, office investment costs associated with the relocation of the Tokyo headquarters this year. As for digital investment expenses, in addition to strengthening security, we are aggressively upgrading the digital equipment of our employees.

In addition to Zoho, which we are currently focusing on in our DX solution consulting, we have recently rolled out Gemini for Google Workspace, Google's latest AI, for all group employees.

The Funai Soken Consulting Group hopes to use Gemini not only to improve the operational efficiency of its consultants, but also to help improve the business performance of its clients, small and medium-sized enterprises, and will continue to make digital investments that will lead to such performance improvements.

We feel that these investments, such as office investments, have already led to an increase in revenues.

As a result, the operating margin improved 2.7 percentage points from 24% last year to 26.7% resulting in an increase in profitability.

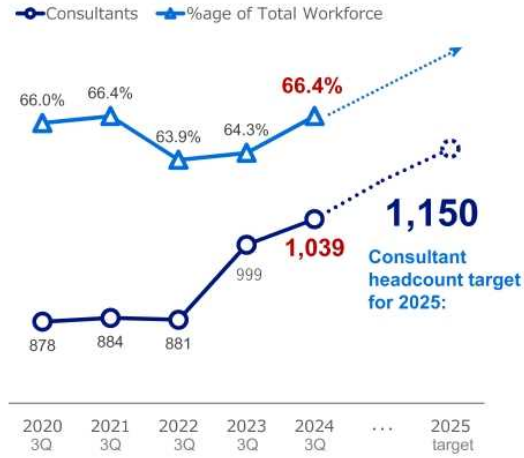
(4) KPIs: Staffing Levels (by Category)

Consultant numbers (one of our core KPIs) continue to grow.
We aim to further improve profitability by making more of our consultants more productive.

	FY2023 3Q	FY2024 3Q
Total headcount	1,554 Up by 176 (+12.8%) y-o-y	1,564 Up by 10 (+0.6%) y-o-y
Consultants	999 Up by 118 (+13.4%) y-o-y %age of total workforce: 64.3%	1,039 Up by 40 (+4.0%) y-o-y %age of total workforce: 66.4%
DX staff incl. in above	312	275 Down by 37 (-11.9%) 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



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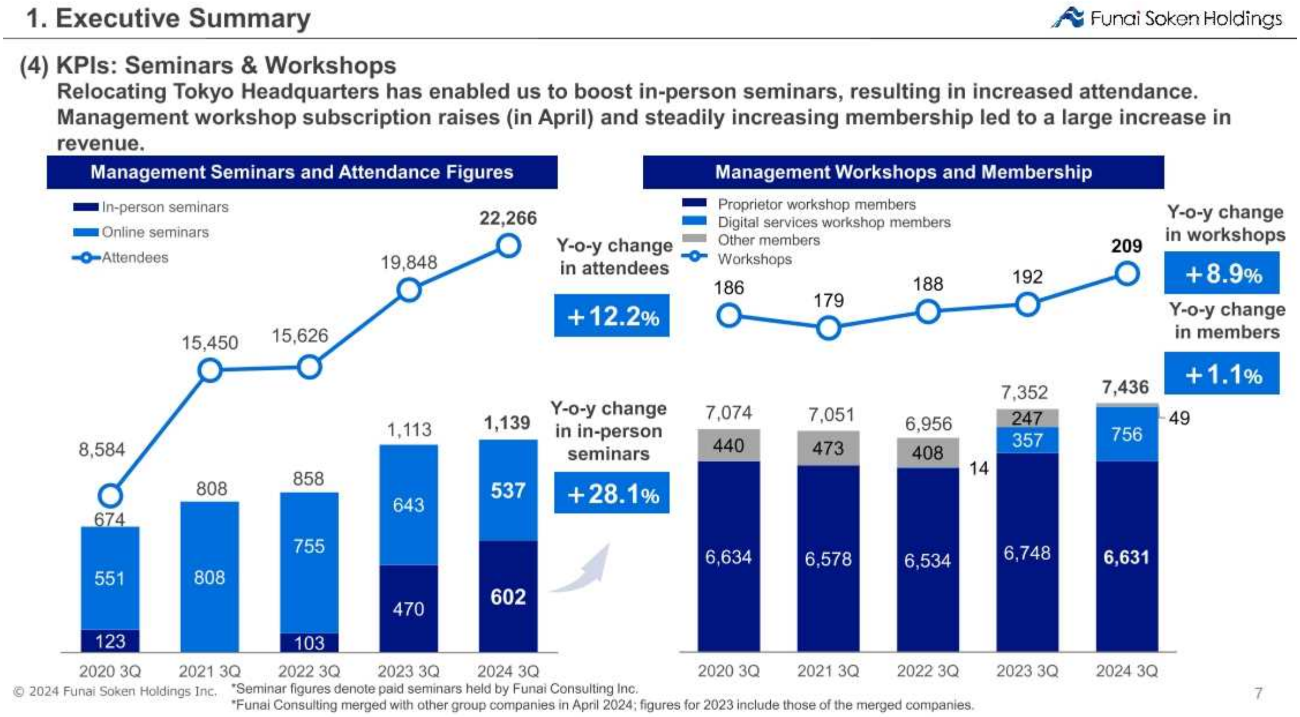
Next, I will explain the status of the Group's key KPI indicators. First, here is a summary of the number of employees and consultants related to human investment. After Q3, the number of consultants is 1,039, an increase of 40 over last year.

We have been focusing on recruitment and retention in order to realize our human resource strategy based on our mid-term management plan from last year, and have succeeded in significantly increasing the number of consultants last year. In addition, this year we are working to continuously increase the ratio of consultants while having the consultants we hired last year contribute to our business performance and further increase our profitability in the future.



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

The number of seminar participants increased by a positive 12.2% over last year, as shown in the following chart, which shows the change in figures at the end of Q3 of the past five years.

In the current fiscal year, we are particularly focusing on face-to-face seminars, which have a high order rate. We have a policy of strengthening face-to-face seminars using the Group's Tokyo headquarters, which moved to a new location in April, as a major sales base. The number of face-to-face seminars was up significantly from the same period last year, and the number of participants in the management workshop was 7,436 at the end of September, up 1.1% from the previous year.

In terms of membership, there was a slight decrease in the number of members of the management workshop, but this was due to price increases implemented in April for about half of the workshops. As a result, growth in the number of members has slowed, but on the other hand, the unit price has increased by more than 10% compared to last year, resulting in a significant increase in sales for the management workshop.

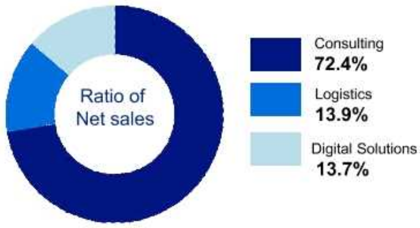
2. Financial Results as of FY2024 3Q

Funai Soken Holdings

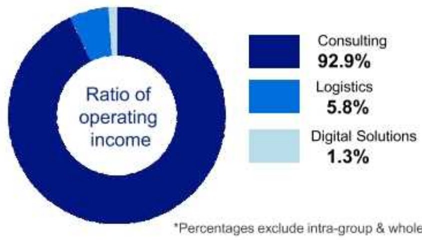
(1) Results of Operations by Segment

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 3Q YTD Amount (million yen)	2024 3Q YTD Amount (million yen)	2024 3Q YTD Change (%)
Consulting	14,669	16,119	+9.9
Logistics	2,859	3,084	+7.9
Digital Solutions	3,089	3,049	-1.3
(Intra-group & whole-group transactions)	12	0	–
Total	20,630	22,253	+7.9



Operating income	2023 3Q YTD Amount (million yen)	2024 3Q YTD Amount (million yen)	2024 3Q YTD Change (%)
Consulting	4,689	5,332	+13.7
Logistics	258	332	+28.6
Digital Solutions	-126	73	–
(Intra-group & whole-group transactions)	130	206	–
Total	4,951	5,945	+20.1



*Percentages exclude intra-group & whole-group transactions

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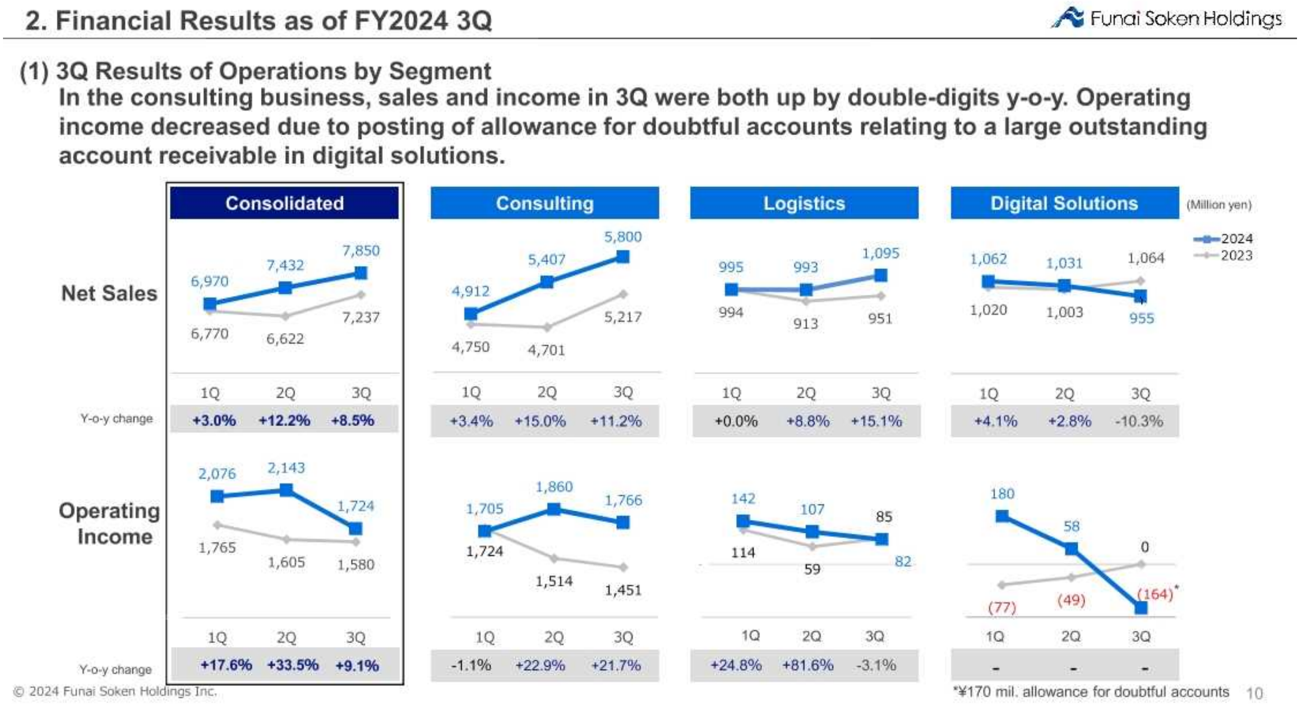
We will now report on the details by segment. Here are the results of the three segments.

In the mainstay management consulting business, monthly support, projects, management workshops, and management seminars all saw increased performance, resulting in higher revenues and profits.

Profitability of the logistics business has improved, and profits, in particular, have increased significantly.

The digital solutions business was in the red last year, but has remained profitable year-to-date in the current fiscal year.



Here is a breakdown of each segment by quarter. The blue line shows results for 2024 and the gray line for 2023.

In Q3, consolidated sales were up 8.5% and operating income was up 9.1%. The reason why operating income did not reach a slight double-digit increase is that the digital solutions business recorded an allowance for doubtful accounts for one large receivable resulting in a decrease in operating income.

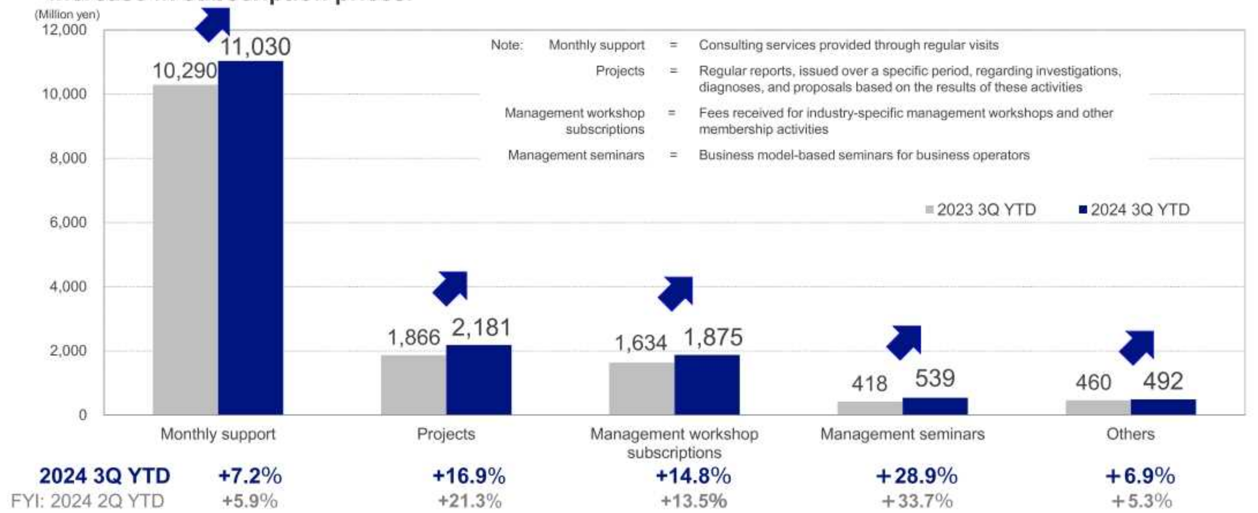
However, the mainstay management consulting business continued to maintain double-digit YoY growth in both sales and operating income in Q3, following Q2.

2. Financial Results as of FY2024 3Q

Funai Soken Holdings

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

The monthly support growth rate is increasing – in 3Q, +9.6%.
Average management workshop subscription per member was up by double figures y-o-y due to an increase in subscription prices.



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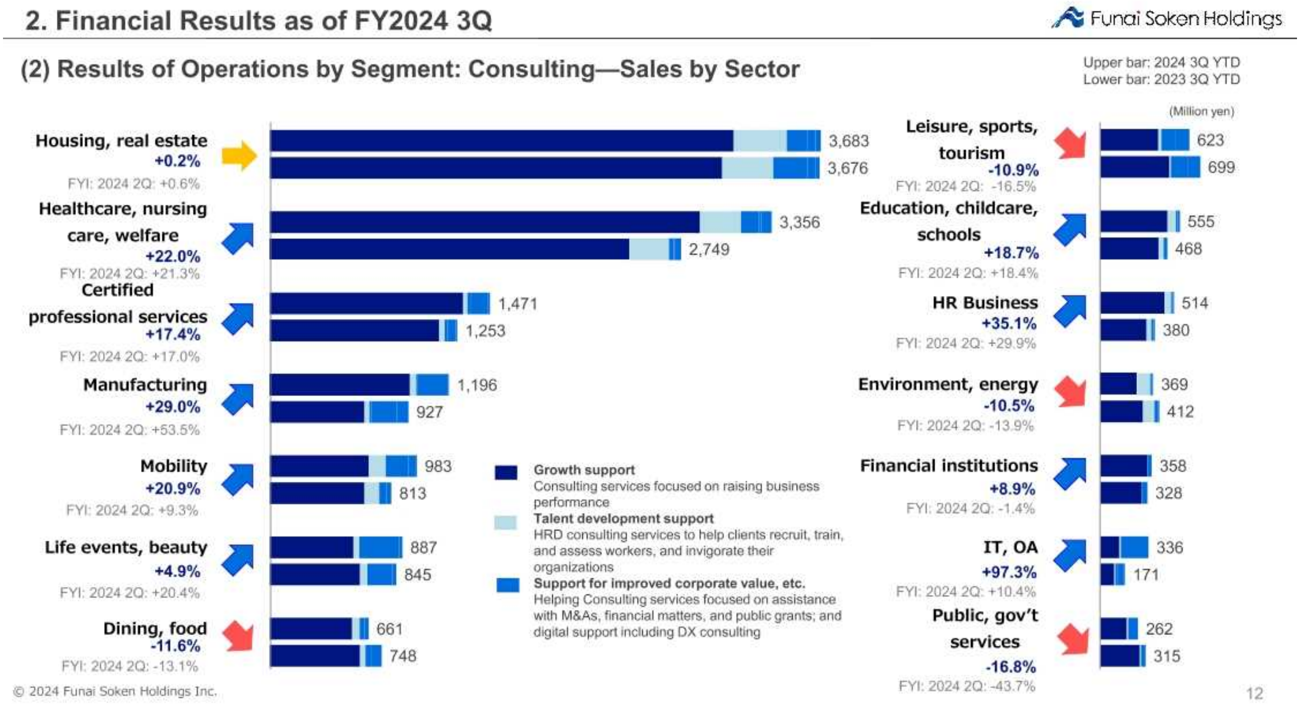
From here, we will look at each segment individually. We will begin with our management consulting business. Here are sales by business category. Monthly support grew by 7.2% and projects grew by 16.9%.

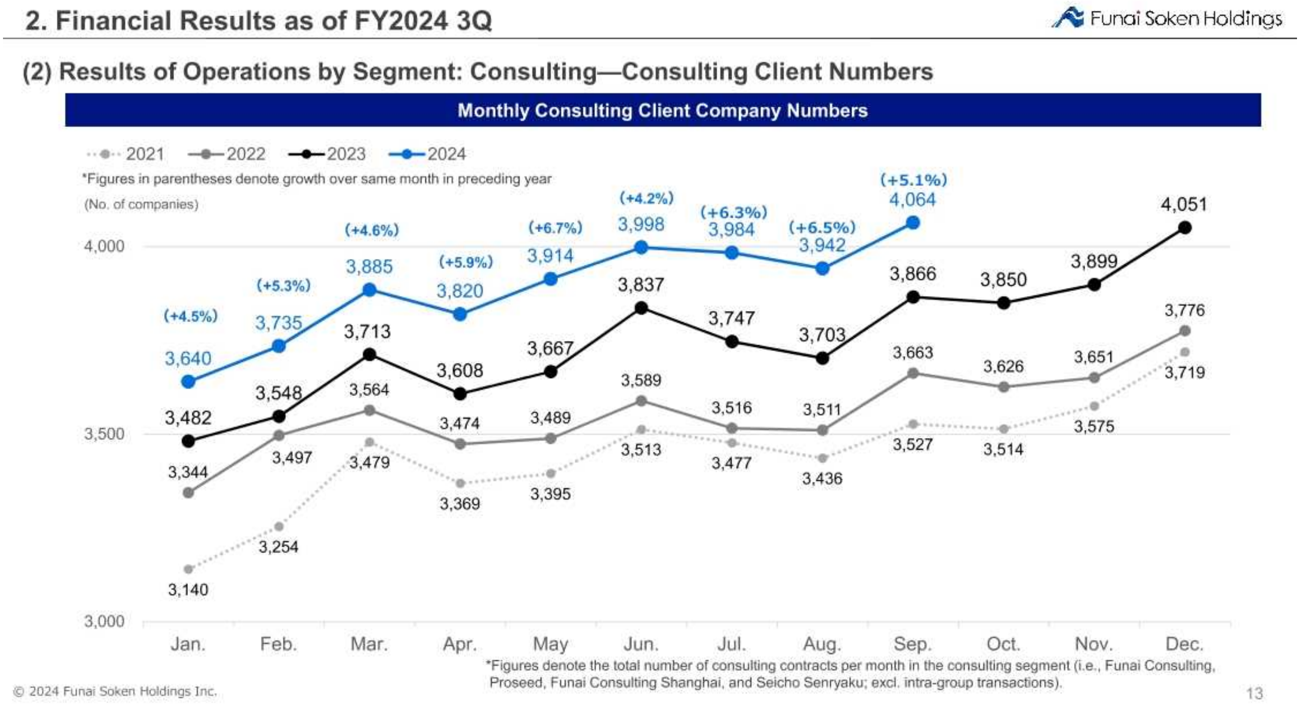
The monthly support is written in gray letters in the cumulative total, which means that it exceeded the Q2 figure, and if we cut out only Q3, the growth rate was a positive 9.6%. This monthly support, which has the highest percentage of sales, also achieved an increase of nearly 10%.

In addition, with regard to membership fee income from management workshops, which I explained earlier, sales have increased more than the growth in the number of members, which indicates that the increase in unit price, as I mentioned earlier, has boosted sales.

In fact, a comparison of this year's and last year's per-member dues, calculated by dividing the management workshop's sales by the number of members, shows an increase of more than 10% and is currently trending upward.

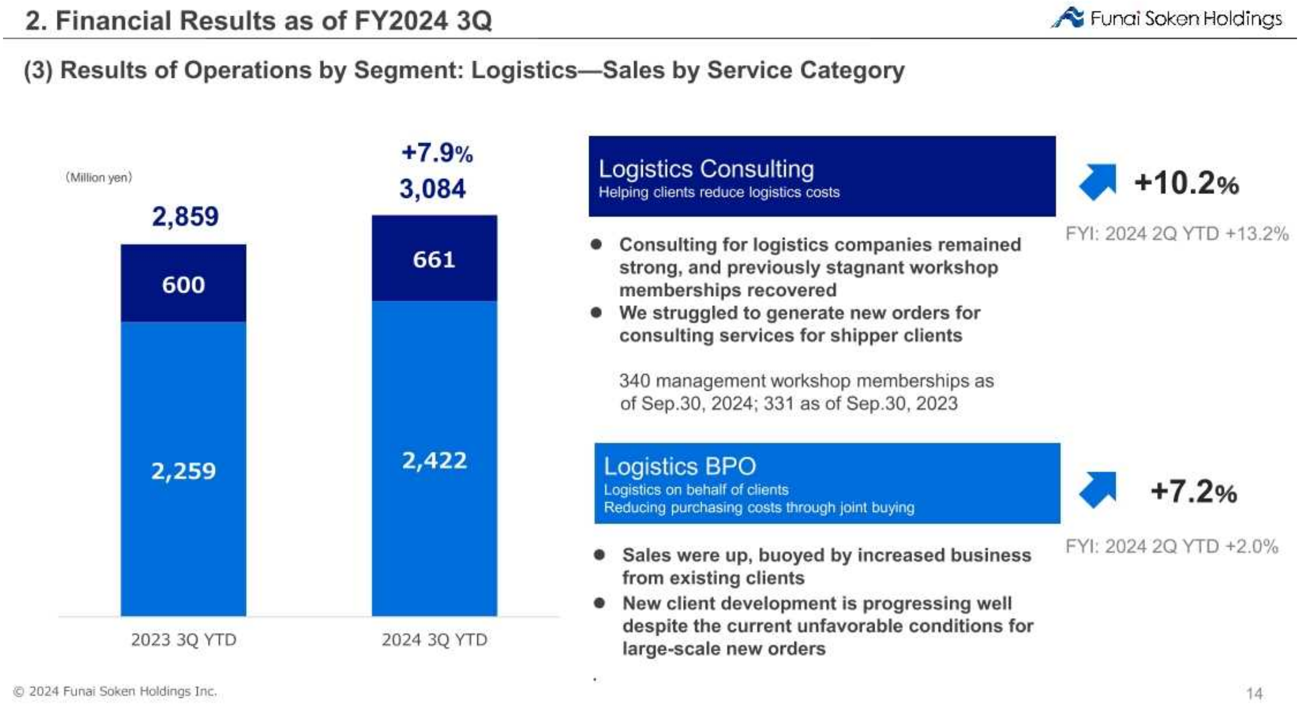


Here are the performance trends by industry category. Many of the industries here also showed a significant increase over the previous year. In particular, the sectors with large percentages of the total are showing strong growth, with medical/nursing/welfare at plus 22%, professional services at plus 17.4%, manufacturing at plus 29%, and mobility at plus 20.9%.



Here is the number of consulting companies by month. The trend has remained the same, and the situation has been consistently increasing by a few percent each month for a long time.

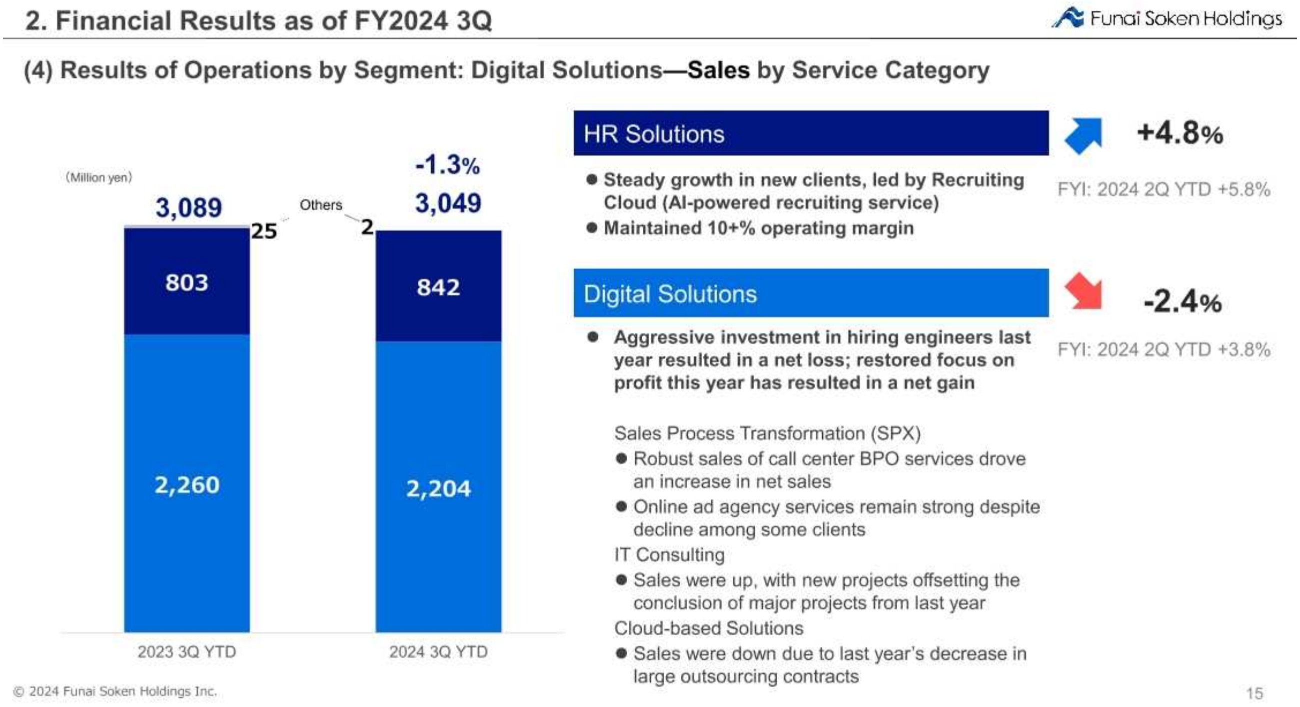
These are the results reported for the management consulting business.



Next is the logistics business. As for the logistics business, the logistics consulting business achieved double-digit growth, while the logistics BPO business also achieved sales growth during the quarter.

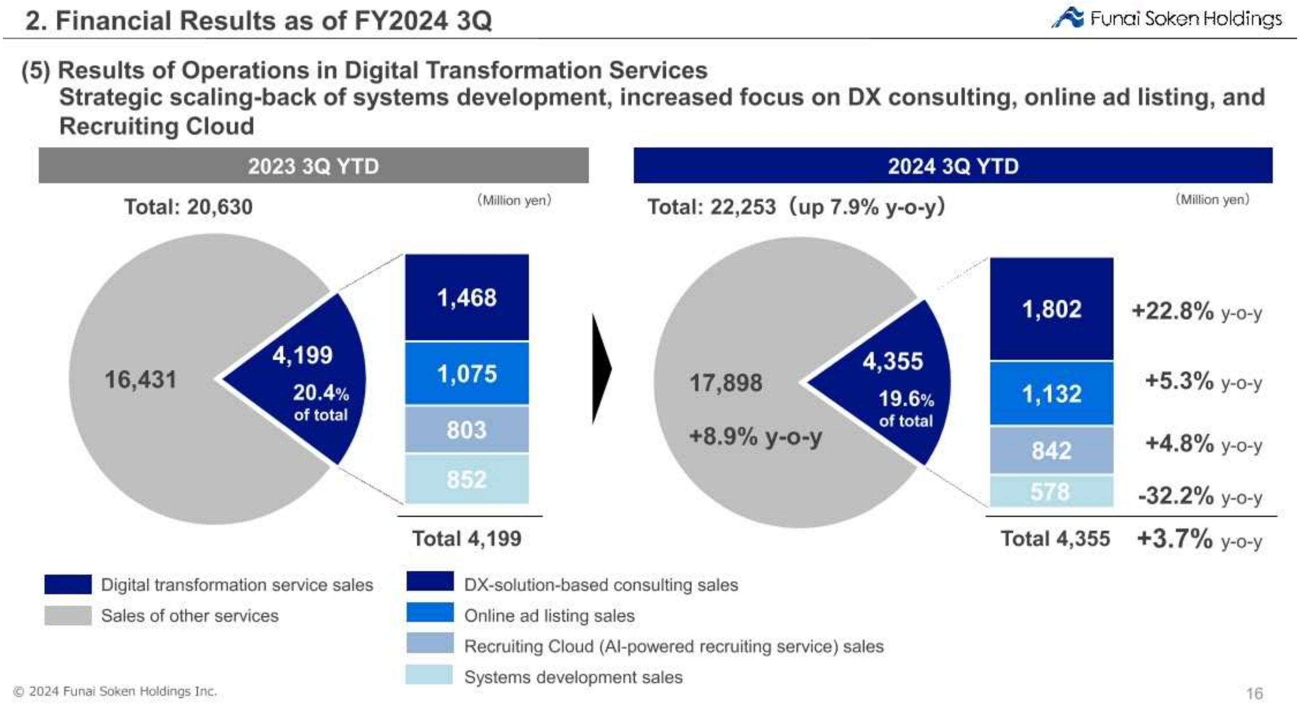
While consulting services for shipper companies have struggled somewhat in the current fiscal year, consulting services for logistics companies continue to perform well.

Logistics BPO also saw a significant increase in sales during the quarter as existing customers expanded their transactions.



Next is the digital solutions business. In the digital solutions business, we focused on profitability this fiscal year and curbed hiring, resulting in a slight decrease in sales, but we were able to turn a profit of JPY73 million this fiscal year from an operating deficit last year.

HR solution continues to perform well. The operating profit margin is also in a position to maintain more than 10%.



Next, here are the actual figures for DX-related services as we have defined them, rounded out. All of these areas have continued to grow until now, but this fiscal year we are strategically downsizing the system development area, which is part of the Digital Solutions business. This is a shift to more profitable operations.

Therefore, although this overall figure is low, the three sectors combined, excluding system development, grew by an additional 12.9%. This growth has outpaced our overall sales growth, and we plan to continue to focus on this area, particularly in DX solution consulting.

2. Financial Results as of FY2024 3Q

Funai Soken Holdings

(6) Consolidated Financial Position: Balance Sheet

(Million yen)

		As of Dec. 31, 2023	As of Sep.30, 2024	Change	Major factors behind changes
Current assets		18,657	14,909	-3,748	Decrease in current assets: Major factors include decreases in cash and deposits
Noncurrent assets	Property, plant, and equipment	6,146	6,567	+421	Increase in noncurrent assets: Major factors include increases in buildings and structures and time deposits (listed under “other investments and other assets”), and decrease in construction in progress listed under “other property, plant, and equipment.”
	Intangible assets	1,124	709	-415	
	Investments and other assets	5,702	7,414	+1,712	
Total assets		**31,631**	**29,601**	**-2,029**	
Current liabilities		5,666	6,367	+700	Increase in current liabilities: Major factors include increases in provision for bonuses and decreases in other accounts payable and deposits received (listed under “others”).
Noncurrent liabilities		238	239	+0	
Total liabilities		**5,904**	**6,606**	**+701**	
Total net assets		**25,726**	**22,995**	**-2,731**	Decrease in total net assets: Major factors include share buyback. Financial position remains sound with a high equity ratio of 75.4%.
Total liabilities & net assets		**31,631**	**29,601**	**-2,029**	

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Next, here is a summary balance sheet. The decrease in net assets was mainly due to share repurchases, but the Company continues to maintain a sound financial position.

2. Financial Results as of FY2024 3Q

Funai Soken Holdings

(7) News

National Workshop Conference 2024
(97th National Management Strategy Seminar Conference)

- One of Japan's largest events for business proprietors, held over 4 days
- Guest lectures by 50+ current top executives; proprietors and executives from some 2,600 companies in attendance

Inspection Tours of Sustainable Growth Companies Outside of Japan

- The world's must-see companies and organizations carefully selected by our top consultants
- 114 business proprietors attended, eager to learn more on this year's theme: Insights on How to Harness AI & Drive Future Innovation

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The following is a summary of the major activities undertaken by our group during Q3 from July to September.

In August, we held Japan's largest seminar event for business managers, the four-day National Workshop Conference 2024. More than 50 top executives were invited as guest lecturers, and approximately 2,600 company executives and senior management attended the event.

In September, we held an overseas inspection seminar, this time with the theme of learning about cutting-edge AI applications and gaining hints for future innovation. 114 executives participated in the seminar, which traveled mainly to the West Coast of the United States.

(7) News

Funai Consulting certified as a Fukuoka Pro Market "F-Adviser"

- Following on from its certification as a J-Adviser for the Tokyo Stock Exchange Pro Market, Funai Consulting has acquired certification as an F-Adviser for the Fukuoka Stock Exchange Pro Market.
- As an F-Adviser, the company is entrusted by the Fukuoka Stock Exchange to assess, advise, and guide companies that want to be listed on the Fukuoka Pro Market. .

Funai Teams Up with Kobe University for Joint Research

Funai Soken

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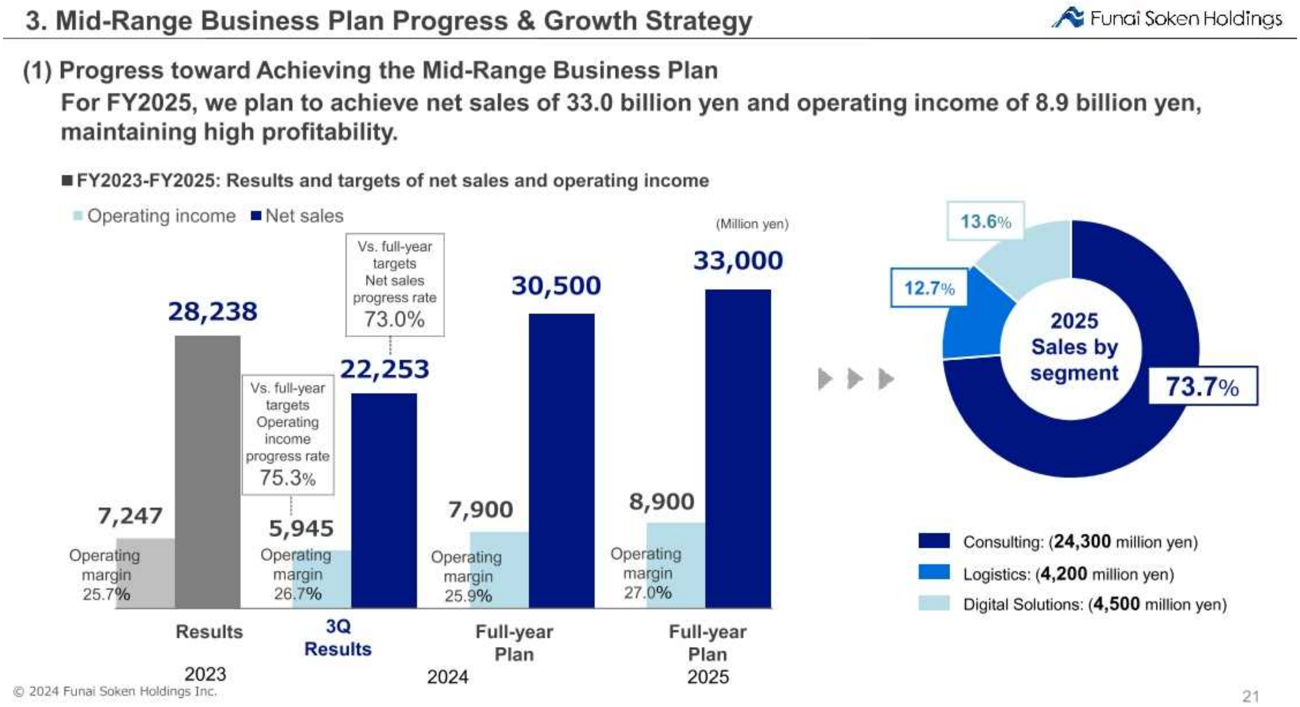
KOBE 神戸大学

- Funai Consulting has teamed up with Kobe University to launch a new research initiative into value creation by SMEs with the aim of shedding light on the relationship between the growth factors and proprietors of enterprises with turnover of ¥10 billion. The initiative combines the company's wealth of data amassed through consulting for some 40,000 companies with Kobe University Graduate School of Business Administration's various management theory systems.

Funai Consulting, Inc. has been certified as an F-Adviser following J-Adviser. We will provide advice and guidance to companies wishing to list on the Fukuoka PRO Market, which will open this December.

We have also started joint research with Kobe University. We are currently conducting a joint research project focusing on the relationship between the growth factors of JPY10 billion companies and their managers by combining the management data of about 40,000 companies accumulated by Funai Consulting and the management theory system studied by Kobe University.



As the last part of my presentation, I would like to explain the progress of our medium-term management plan and the growth strategy of our group.

The current mid-term management plan is for three years, from FY2023 to FY2025. The graph below shows actual and projected sales and operating income for the past three years.

We plan to maintain high profitability and further increase profit margins, with group net sales of JPY33 billion and operating income of JPY8.9 billion in 2025.

At the end of the presentation, I will explain the Group's growth strategy. Our group was a JPY10 billion company in 2013. Since becoming a holding company in 2014, we have continued to grow over the past 10 years, with sales of JPY28.2 billion in 2023 and projected sales of JPY30.5 billion at the end of the current fiscal year, 2024.

The primary basis for this growth, as I have explained again and again, will be monthly support and management workshops. We see this as our so-called basic organic growth part.

The average growth rate in this area has been plus 7.2% over the past decade. We have a growth image that will continue to increase this growth in the range of 5%-10% in the future.

In addition to these areas, we are currently focusing on medium-sized enterprise consulting, DX consulting, and M&A consulting, which have grown at an average annual rate of 14.1% over the past 10 years.

We have a strategy to increase the number of new group members through M&A after the Company is reorganized as a holding company, and we envision an additional 15% to 20% growth in these two areas combined with these priority measures and M&A.

The main sense of direction is to aim for sustainable double-digit growth in combination with the organic growth portion in total.

In the summary of financial results disclosed today, there is a section on shareholder returns and reference materials after this, but that concludes my explanation for now. Thank you.

Question & Answer

Moderator [M]: We will now begin the question-and-answer session. If you have any questions, please enter them in the Q&A section so we can take a moment to answer them.

Participant [Q]: What is your outlook for achieving your consultant hiring goals for the current fiscal year?

Saito [A]: Thank you. Recruitment goals. First, regarding the recruitment targets for consultants, it is already December, so we are in a situation where we can see the end result, and the new graduates have already been confirmed, and if I give you the figures, including April and autumn recruitment, 168 consultants have joined the Company.

As for the rest, we are planning to increase the number of careers hires a little more, with a total goal and plan of 34 hires. When added together, the plan is to land on a hiring goal and plan of 202 employees.

The other thing is the landing of the plan, which is rather like hiring a consultant. We have set a target for the number of consultants for 2024 and 2025, and our first target for 2025 is 1,150 consultants. As for the number of employees for this year, according to the financial results, the number was 1,039 for the current fiscal year, and we expect the number to be around 1,020 by the end of December this year. This is the forecast for the full year. That's all from me.

Participant [Q]: I have a question about consultant turnover. Although there seems to be a net decrease in the number of consultants, is this due to a decrease in DX personnel with low productivity and profitability, and therefore the turnover rate of core consultants with high profitability is stable?

Saito [A]: Thank you. You are correct. The fact is that the turnover rate for this quarter is slightly higher than last year. In Q3, for the Group as a whole, the turnover rate accounted for 12.3%, and Funai Consulting's figure was 12.6%, compared to the same period last year, which was 8.6% and 8.7%, respectively, so there were up about 4 points.

There are two types of consultants, DX consultants and traditional monthly support-based consultants, and in this respect, the productivity, or in short, with the consultants who earn more money, the turnover rate went up a little, but not that much.

Conversely, the turnover rate has unfortunately increased slightly due to various reasons, including the fact that consultants from the former Funai Soken Digital have joined Funai Consulting.

In terms of productivity, however, we have not seen a large number of highly productive consultants leave the Company, and the retirement rate of highly productive consultants has remained at about the same level as last year. As a result, productivity has increased, but it is still true that the number of consultants and the turnover rate have risen, so we will make improvements, including in terms of compensation, and next year, we would like to reduce the turnover rate again, increase the number and ratio of consultants, and increase productivity and performance. That's all from me.

Participant [Q]: Why is the operating margin in Q3 lower than in Q1 and Q2? What do you think will happen in Q4?

Saito [A]: Thank you. First, operating profit margin for Q3 is probably 22%.

If you look at Q3 of last year and the year before, you will see that the operating margin was 21.8% last year and 20.7% the year before, so due to our company business structure, the operating margin tends to be lower in Q3.

The reason for this is that winter bonuses, mainly for consultants, are paid in December, and the bonus reserve is allocated from Q3. Winter bonuses are paid out in proportion to incentives, and the source of the bonus amount is higher than that of summer bonuses, but the operating profit margin is lower in Q3 because of the provision for this amount.

So, what will the operating margin be in Q4? As a result, I think it would be best to assume that Q3 will be the lowest.

Last year was quite strong, and we were able to generate about 30%, but looking at other past years, the operating margin will be higher than Q3, so I think we can rest assured about that.

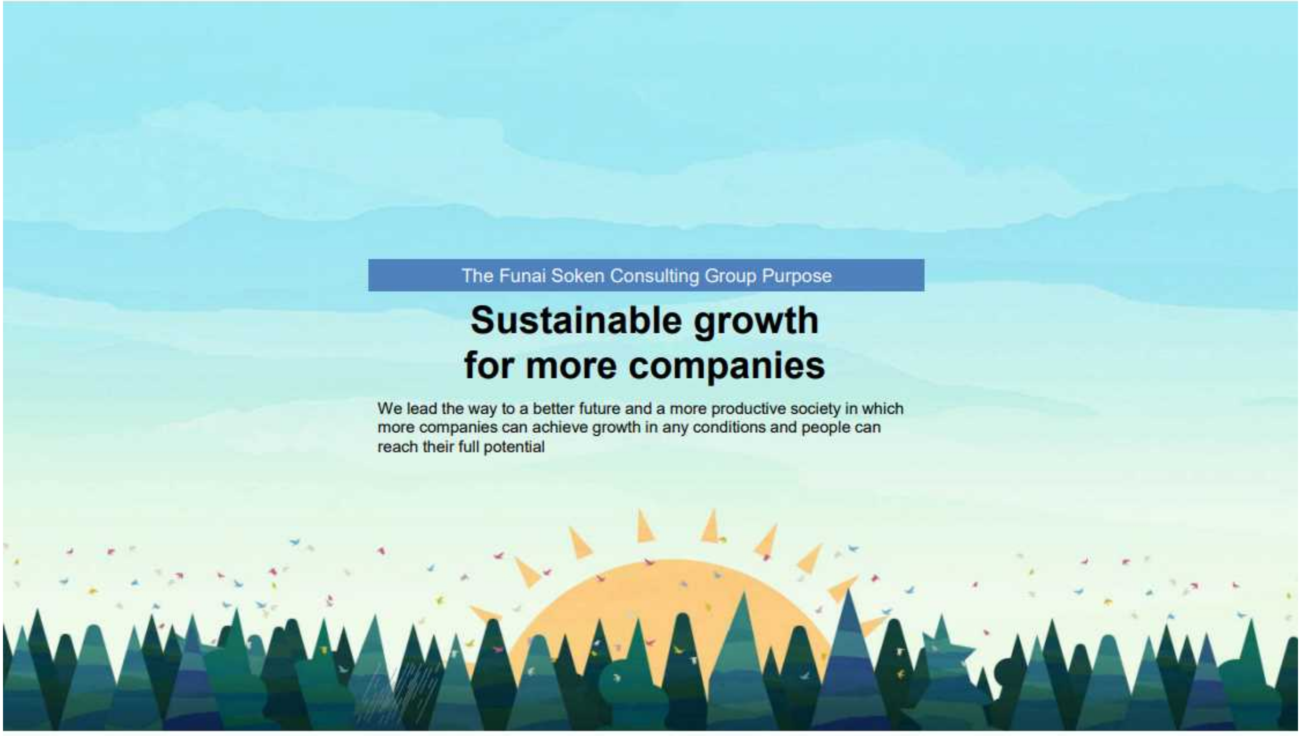
So, I hope you can think of it as a structural reason.

Moderator [M]: Thank you very much. If you have individual questions, please contact our IR staff for a one-on-one.

This concludes the financial report for Q3 of the fiscal year ending December 31, 2024.

Thank you very much for joining us today. We will now close the briefing.

[END]



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