Funai Soken Holdings Incorporated

2023 Half-year Financial Results Briefing

[Speaker]

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Presentation

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Nakatani: I am Nakatani, President of Funai Soken Holdings Incorporated. Thank you for your continued support of our group.

The content of today's explanation will be based on the items you see. Today's presentation is based on the financial results summary released yesterday, but since time is limited, I have excerpted the explanatory materials. Please refer to our website or contact our corporate communication office for details of the materials, and we will be happy to provide you with a separate explanation.

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, and sales of cloud solutions also up in the digital solutions segment.**
- **Profits were down, pressured by increased costs, mainly travel costs relating to consulting activity and aggressive investment in recruiting and hiring.**

	2022 2Q YTD		2023 2Q YTD			Comparison with financial result forecast (Issued February 8, 2023)	
	Amount (million yen)	% of total	Amount (million yen)	% of total	Change (%)	Amount (million yen)	Difference (%)
Net sales	12,258	100.0	13,392	100.0	+9.3	13,600	-1.5
Operating income	3,749	30.6	3,371	25.2	-10.1	4,000	-15.7
Ordinary income	3,779	30.8	3,428	25.6	-9.3	4,000	-14.3
Net income attributable to owners of the parent	2,596	21.2	2,271	17.0	-12.5	2,700	-15.9

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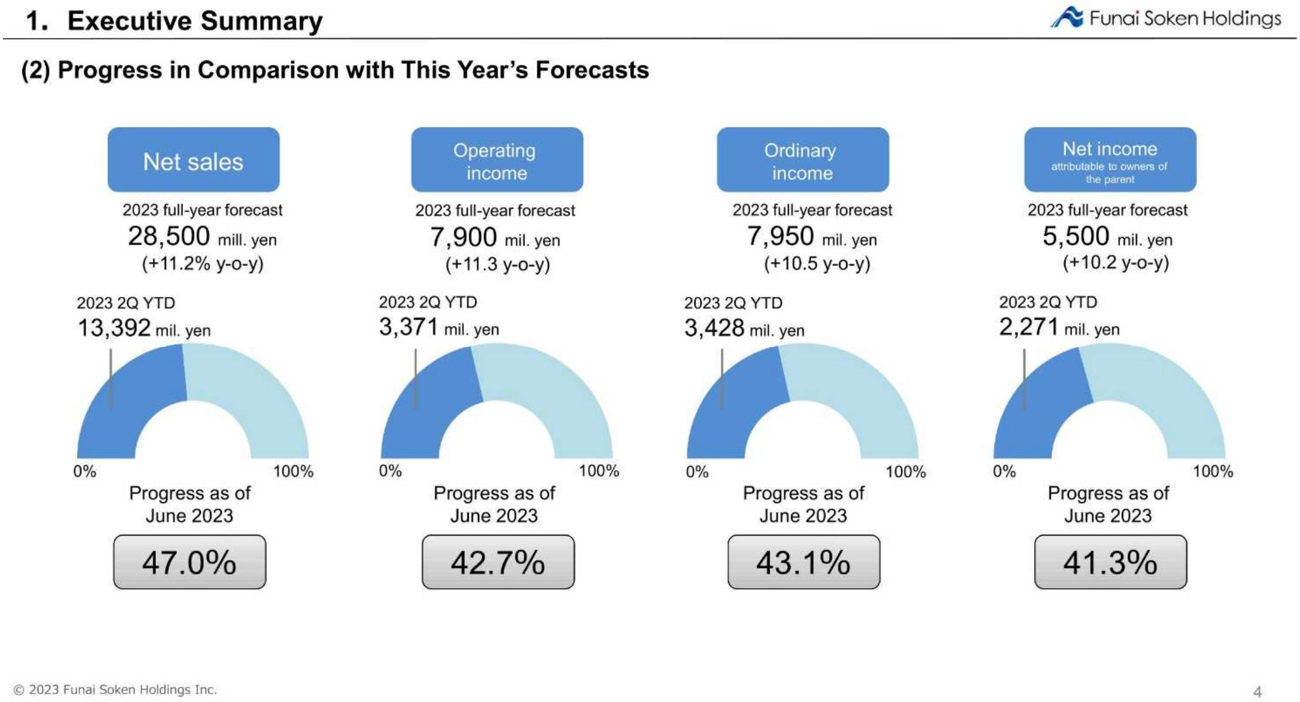
I will now begin with an overview of the Q2 financial results.

Here are the consolidated results for Q2. Sales were JPY13.392 billion, up 9.3% from the previous year. Operating income was JPY3.371 billion, a negative 10.1%.

Overall sales were generally in line with the plan, although there were some large variations in sales performance by segment and theme.

The main reasons for the decrease in operating income were investments in human resources due to a large increase in the number of employees, mainly consultants and engineers, and increased costs due to aggressive sales activities to win orders, but as a result, the order backlog in the management consulting business continues to build up positively.

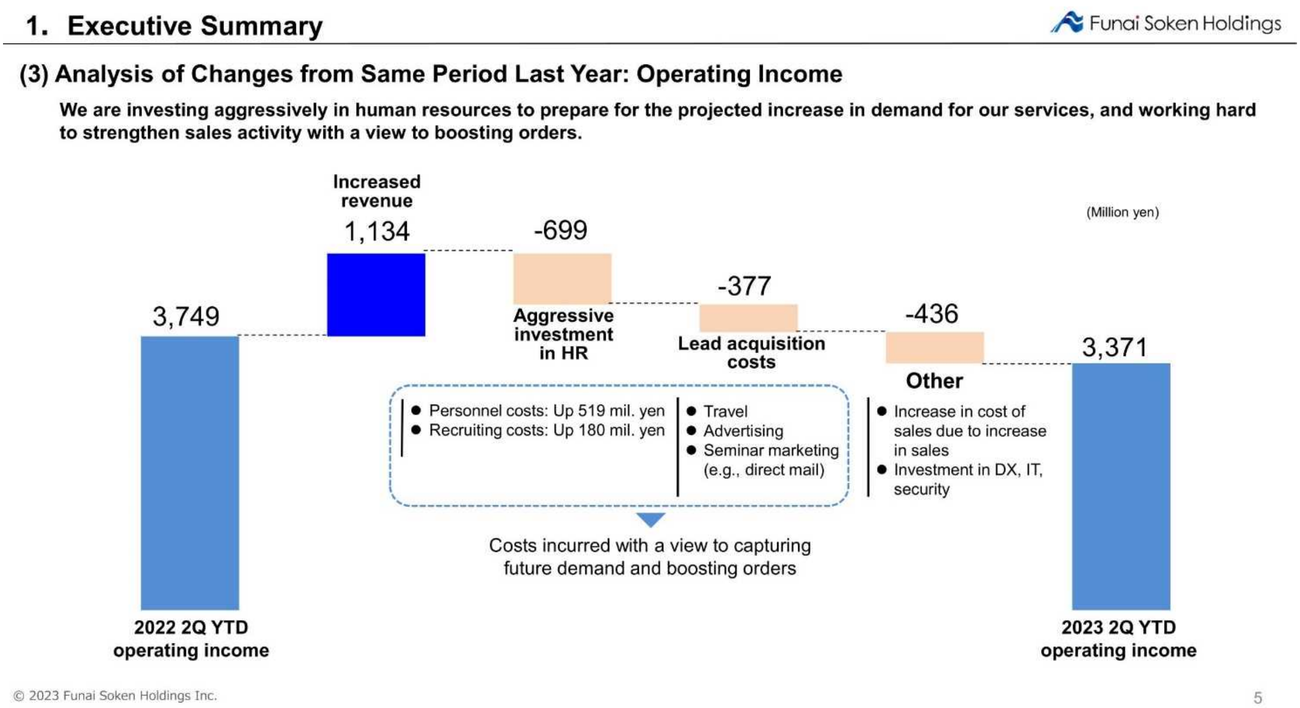


Next is the progress against the full-year forecast.

First, for this fiscal year, we plan an 11.2% increase in sales to JPY28.5 billion and an 11.3% increase in operating income to JPY7.9 billion. The progress rate against that plan at the end of H1 is as shown in the table above.

Regarding the 47% progress rate of sales, this rate is within our expectation because our business model is to increase sales in H2. For your information, the sales progress rate for the past two quarters was 47.9% in 2021 and 48.5% in 2022.

Although there is a delay in terms of the rate of progress in terms of operating income, this is mainly due to the fact that we have been aggressively making upfront investments since the beginning of this fiscal year to acquire human resources and leads, which I will explain next. In any case, we will continue to strive to achieve this plan throughout the full year.



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

Operating income for Q2 last year was JPY3.749 billion. In contrast, sales increased by JPY1.134 billion. From this, JPY699 million was invested in human resources, and JPY377 million was spent on sales costs to acquire leads, or prospective customers, an increase from last year.

In addition, there was increase in cost of sales due to increase in sales, and investments in DX, IT, security, etc. As a result, operating income for the current fiscal year was JPY3.371 billion.

As for the breakdown of investment in human resources, personnel expenses increased by JPY519 million over the same period last year, and costs incurred for recruitment increased by JPY180 million. As for lead acquisition costs, sales costs such as travel expenses for consultants, advertising, and seminar direct mail increased.

In any case, the increase in costs is the result of aggressive investment in human resources in preparation for future increases in demand, as well as intensified sales activities to win orders.

1. Executive Summary

Funai Soken Holdings

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

- We will carry out the HR strategy of our Mid-Range Business Plan through aggressive hiring of people in positions directly linked to future sales: consultants and business staff (e.g., engineers).
- Consultant numbers (one of our most important KPIs) have risen much faster than initial targets.

	2022 2Q YTD	2023 2Q YTD		2023 target	2025 Mid-Range Business Plan target
Total headcount	1,383 +17 (+1.2%)	1,559	Net gain +176 (+12.7%)	1,510	1,800
Consultants	912 +5 (+0.6%)	1,012	Net gain +100 (+11.0%)	950	1,150
Business staff	281	319	Net gain +38 (+13.5%)	330	400
Workforce admin	190	228	Net gain +38 (+20.0%)	230	250
DX staff incl. in above	192	296	Net gain +104 (+54.2%)		

*"Business staff" are those that work in consulting departments with a direct bearing on sales but who are not consultants; roles include development engineering, product sales, new business, management workshop operations staff, etc.
*Business staff and workforce admin staff are new categories introduced in 2022. Year-on-year comparisons are calculated starting in 2023.
*DX staff are counted in accordance with Funai Soken Holdings definition of "digital transformation staff."

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

Last year was a year in which we were unable to increase the number of consultants. In light of this, we are putting considerable effort into recruitment and retention from the start of this fiscal year to realize our human capital strategy, which is also set forth in our mid-term management plan. As a result, we were able to increase the number of employees by 176, to 1,559 this fiscal year, compared to 1,383 in Q2 of last year. The number of consultants has increased by exactly 100, from 912 to 1,012, and the number of DX human resources has also increased significantly, from 192 to 296.

The medium-term management plan announced at the beginning of the year calls for 1,800 employees and 1,150 consultants by 2025, and we are focusing on investment in human resources to achieve this goal. We believe that we are on track in terms of human resources exceeding our plans for the end of this year 2023.

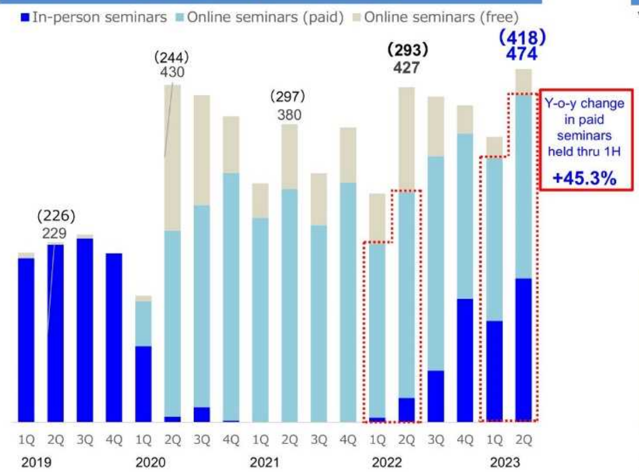
1. Executive Summary

Funai Soken Holdings

(3) Analysis of Changes from Same Period Last Year: Management Seminars

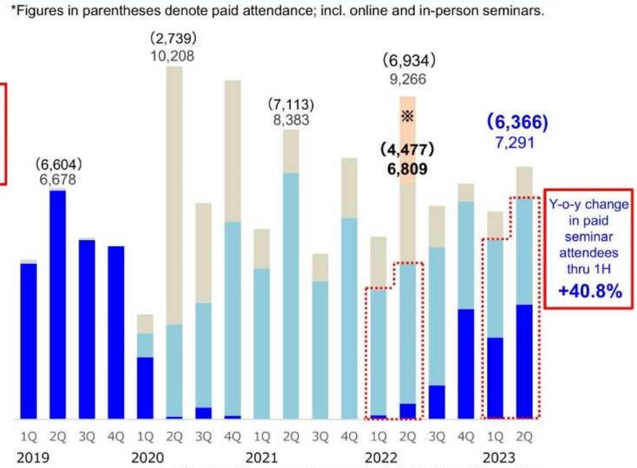
We have eagerly restarted in-person seminars (not possible in the Covid era) to help strengthen sellability.
In effect, numbers have increased as paid seminars in 2022 2Q included 2,457 National Management Strategy Seminar Conference participants (this will revert to in-person format in Aug. 2023).

Management Seminars Held



Management Seminars Attendance Figures

*Figures in parentheses denote paid attendance; incl. online and in-person seminars.



*Seminar figures are the number held by Funai Consulting.

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The following chart shows the number of management seminars held and the number of participants each quarter as a result of the sales activities we have strengthened.

This chart shows the transition from 2019 before COVID-19, but to give you an idea of how to look at it, the dark blue areas are paid face-to-face seminars, light blue are paid online seminars, and gray are free online seminars.

It was difficult to hold face-to-face seminars during COVID-19 period, so the seminars were almost exclusively online. However, the free online seminars have been associated with a low rate of subsequent consulting orders, so we are now increasing the number of paid seminars in order to target more motivated participants.

Looking at the number of participants this quarter, it appears at first glance to be down compared to Q2 of last year, but this is due to the fact that our largest annual seminar, the National Management Strategy Seminar Conference, was held online in June with 2,457 participants, and this year we decided to hold this one in-person in August for the reason. Therefore, taking this into account, the number of paid seminar participants in H1 was up 40.8% from the previous year.

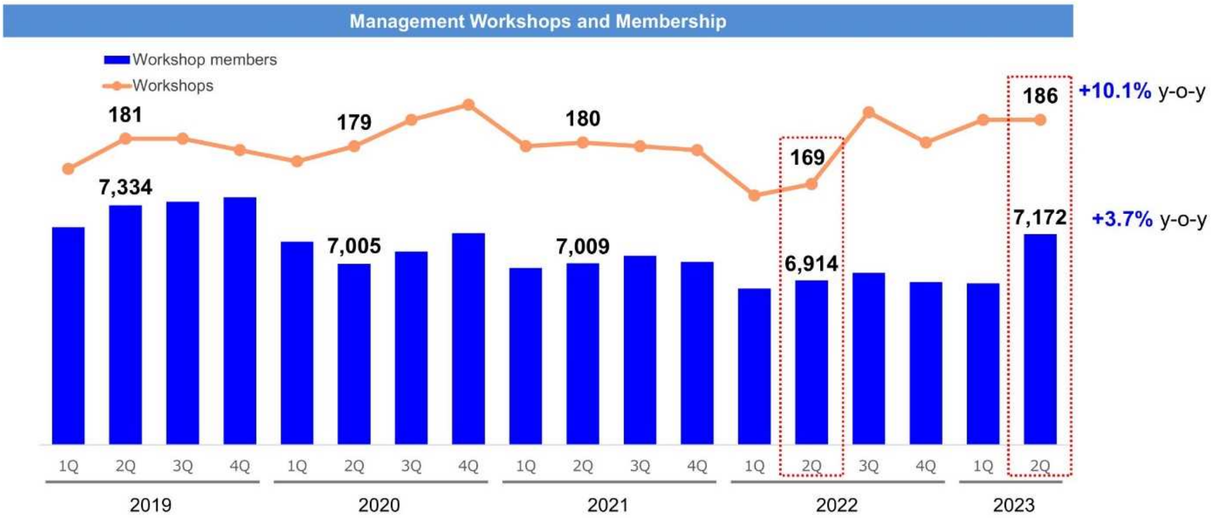
We will continue to focus on holding seminars to attract such prospective clients.

1. Executive Summary

Funai Soken Holdings

(3) Analysis of Changes from Same Period Last Year: Management Workshops

Workshop memberships, which decreased during the Covid years, have begun recovering this year.



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Also, here is another feature of our business model, the number of members and meetings of the management workshop, shown in the same chronological order. The management workshop was severely affected by COVID-19 and the number of members has been slow to recover, but we are finally beginning to see an increasing trend. We will continue to focus on increasing the number of consultants, seminar participants, and management workshop members, as we believe these are leading indicators that will affect our future performance.

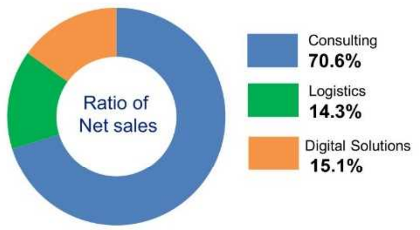
2. Financial Results as of FY2023 2Q

Funai Soken Holdings

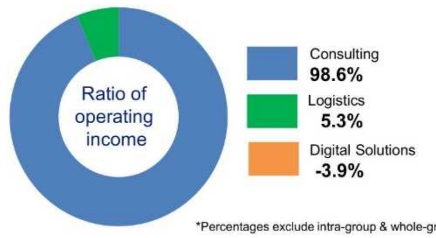
(1) Results of Operations by Segment

- **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 2Q YTD	2023 2Q YTD	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	8,634	9,452	+9.5
Logistics	1,857	1,907	+2.7
Digital Solutions	1,758	2,024	+15.2
(Intra-group & whole-group transactions)	8	8	–
Total	12,258	13,392	+9.3



Operating income	2022 2Q YTD	2023 2Q YTD	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	3,168	3,238	+2.2
Logistics	248	173	-30.1
Digital Solutions	198	-126	–
(Intra-group & whole-group transactions)	133	86	–
Total	3,749	3,371	-10.1



*Percentages exclude intra-group & whole-group transactions

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Now, let me explain each segment.

Here are the results of the three projects. I will now explain each segment in detail. The management consulting business reported higher revenues and profits, while the logistics and digital solutions businesses reported higher revenues and lower profits.

2. Financial Results as of FY2023 2Q

Funai Soken Holdings

(1) 2Q Results of Operations by Segment

- **In 2Q (April-June), sales increased by double digits overall.**
- **Operating income has recovered swiftly in our core consulting segment, and increased by approximately 10% this quarter, thus softening the overall decline in income.**

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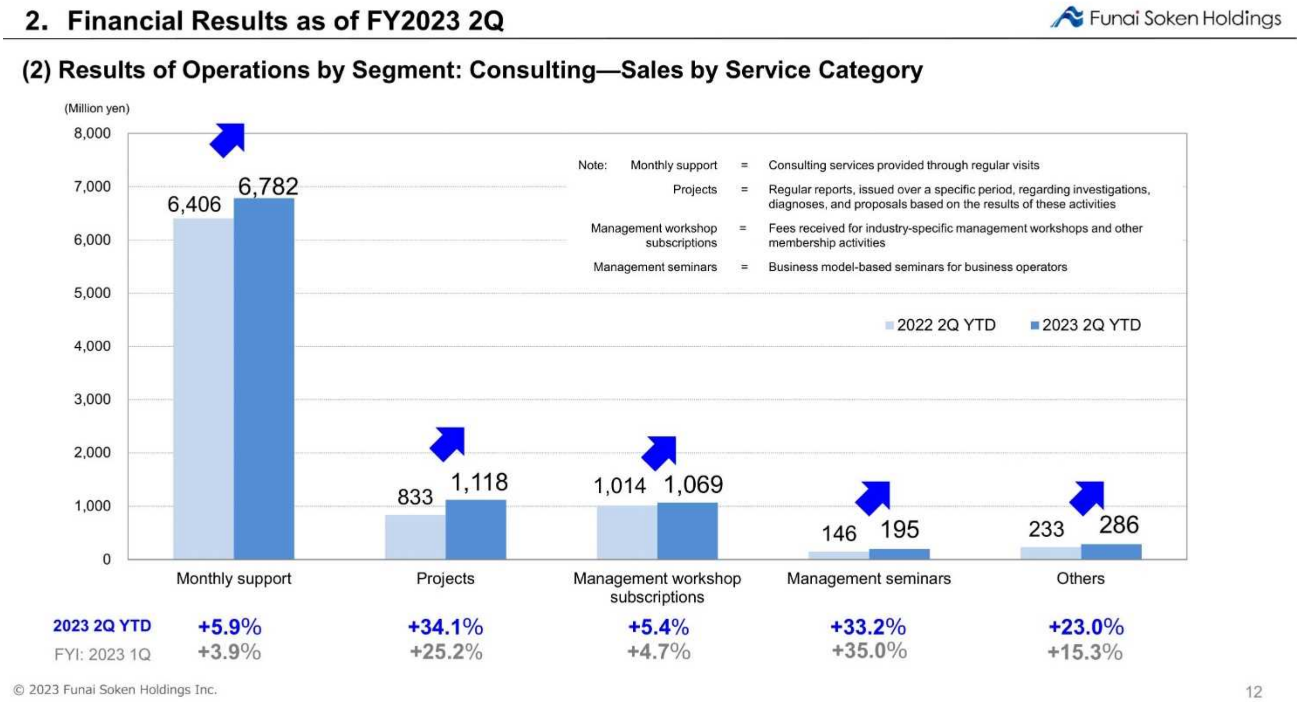
This chart shows the performance trend of each segment broken down by quarter. The blue line represents this year's results, and the gray line represents last year's results.

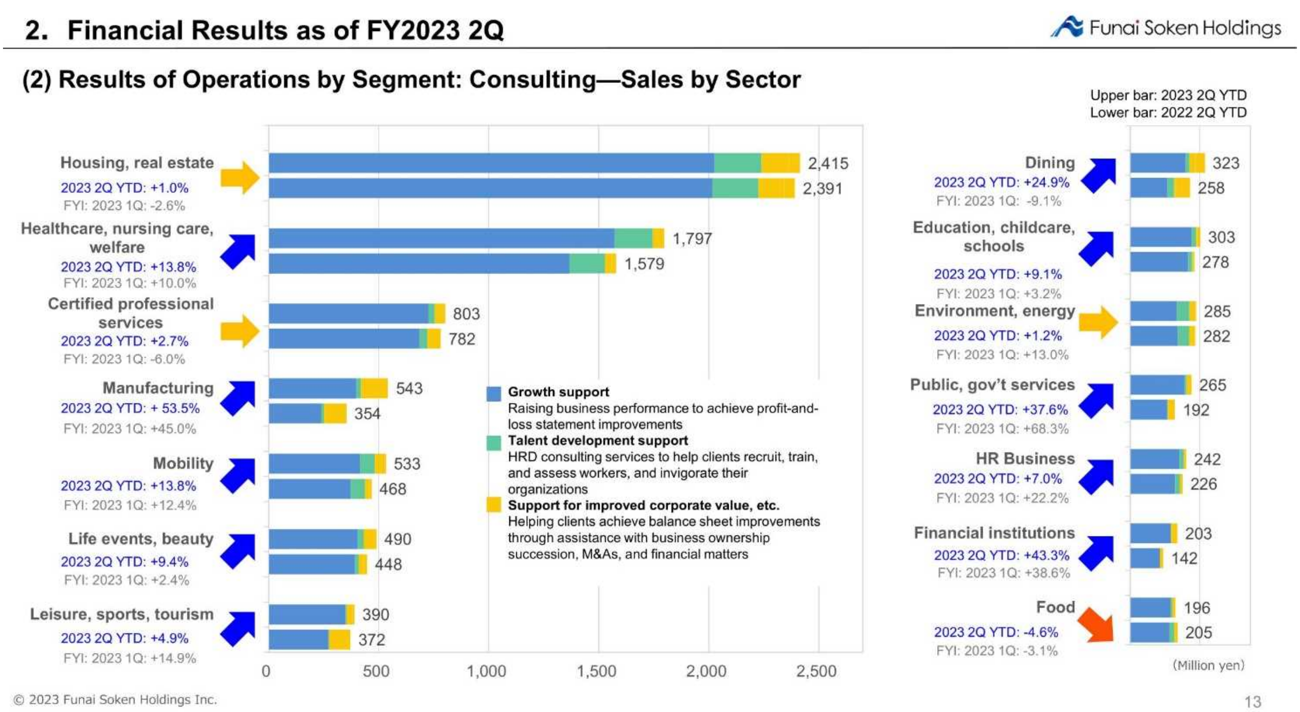
Quarterly, Q2 showed a recovery trend compared to Q1. Particularly in the management consulting business, looking at Q2, sales increased by double digits and operating income rose to about 10% of the previous year's level while increasing the number of consultants, and we intend to continue to grow in Q3 and beyond.



From here, we will look at each segment individually. We will begin with our management consulting business.

Here are the sales by business category for the management consulting business. Monthly support has grown by approximately 6% and projects have grown by approximately 34%. However, M&A, which is included in projects, is still negative compared to last year, and we expect to see a turnaround in the M&A segment in H2.

In addition, membership fee income from the management workshop, which had been flat for some time, finally showed a positive trend, increasing 5.4% this fiscal year due to the increase in membership as mentioned earlier. Management seminars also saw a significant increase in revenues due to an increase in the number of participants.



Here are the performance trends by industry category.

The first main division, housing and real estate, was negative in Q1 compared to the previous year, but recovered to positive growth in the current quarter. The second main sector, healthcare, nursing care, and welfare, continued to perform well, adding 13.8%. The third main division, certified professional services, was also able to turn positive this quarter after a negative YoY performance in Q1.

In addition, many other sectors were able to improve their performance this quarter, with the manufacturing sector in particular achieving a significant increase in performance, with a plus of 53.5%.

The graph on the right also shows that the dining sector finally turned positive this fiscal year. The main reason for this one is that Funai Consulting Shanghai, based in China, was able to get out of the situation last year where it was unable to operate due to COVID-19 disaster this year.

In any case, we believe that the consulting division is finally beginning to demonstrate its true potential.

2. Financial Results as of FY2023 2Q

Funai Soken Holdings

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

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

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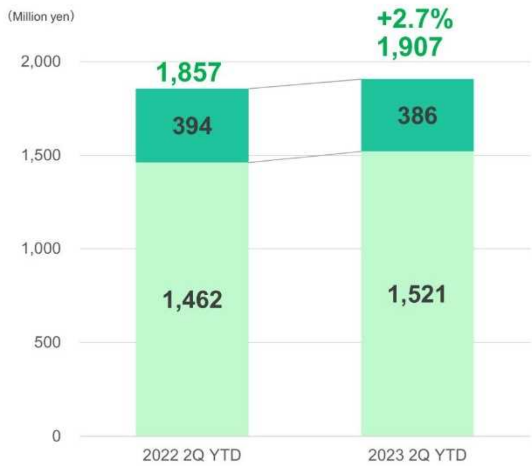
Here is the number of consulting companies by month. The trend remains the same, with an increase of a few per cent every month. As you can see, the growth in the number of consulting client companies has expanded in the past quarter, which we consider a positive trend.

2. Financial Results as of FY2023 2Q

Funai Soken Holdings

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



Logistics Consulting
Helping clients reduce logistics costs

-2.0%

- Consulting for logistics companies was strong in 2Q, and management workshop memberships also increased: 322 management workshop memberships as of Jun. 30, 2023; 306 as of Jun. 30, 2022.
- Revenues from consulting services for shipper clients were down as a result of a lack of growth in project orders.

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

+4.0%

- Deep-mining of existing clients and growth in client orders resulted in an increase in sales despite the effect a drop in orders from some major clients.
- Demand for product deliveries was particularly strong among clients.
- Sales trended downward, affected by stubbornly high fuel prices on our core offering in this segment: joint purchasing of fuel.

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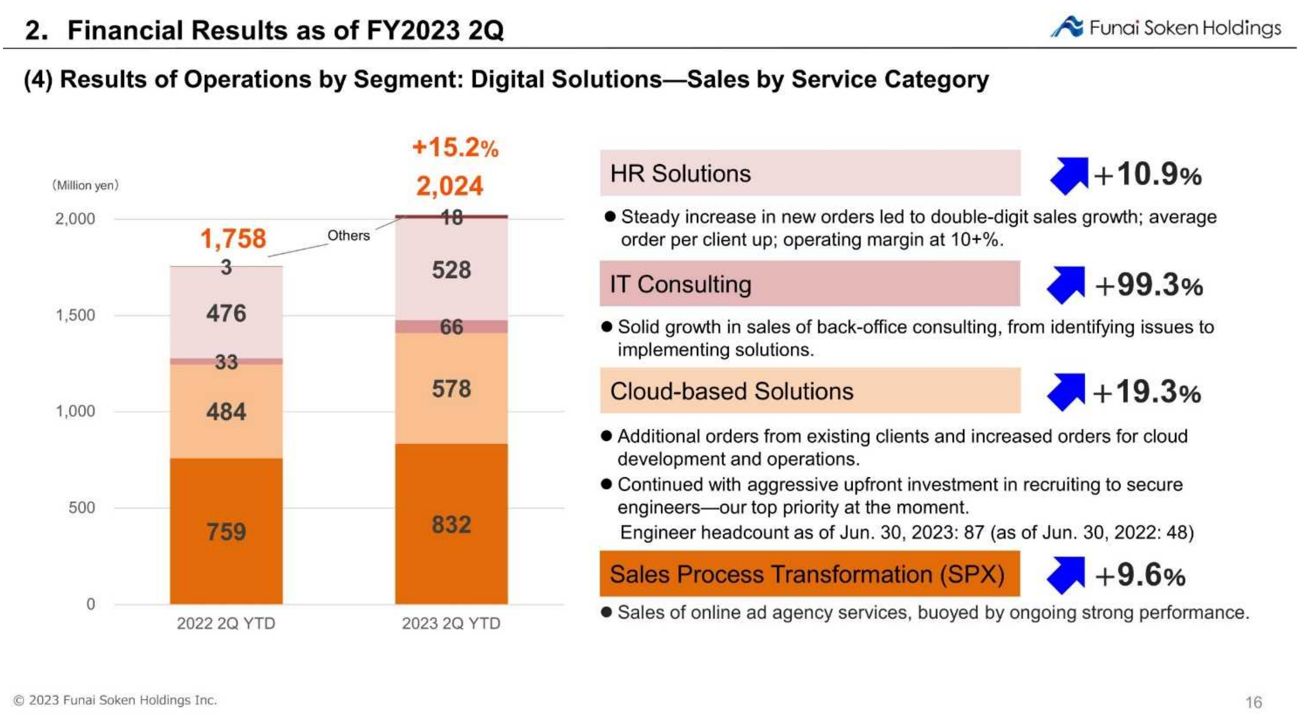
Next is the logistics business. In the logistics business, the consulting division struggled somewhat in the current fiscal year.

In logistics consulting, project orders did not increase in consulting for shippers, resulting in a slight decrease. Logistics BPO grew by plus 4%, for a total increase of plus 2.7%. The number of members of the management workshop has increased from 306 to 322 members, and we will make every effort once again to provide solid logistics consulting solutions.



Next is the digital solutions business. The digital solutions business is organized into four major business segments and others.

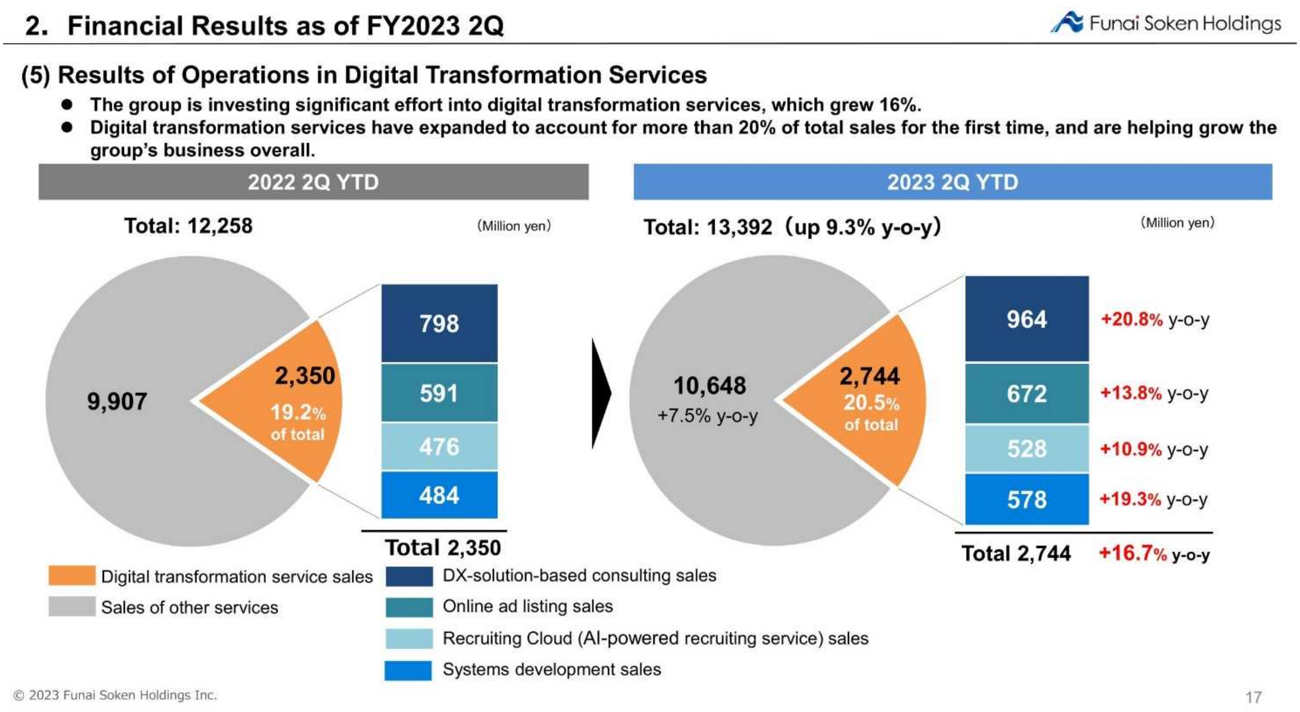
As explained from the bottom of the table, SPX stands for sales process transformation, which is a BPO business area for digital marketing. The mainstay of this business is web advertising management services, known as listing advertising, which has grown by approximately 10%.

The cloud solution business is the area of system construction and solution development using cloud technology, which is currently the focus of our group's efforts. This area continues to grow by approximately 20%, and we will continue to make aggressive up-front investments, with the most important priority now being to secure engineering personnel.

Another higher level, IT consulting, is in the back-office consulting area. While Funai Consulting's consulting services focus on marketing, this service is a consulting service that provides digital solutions necessary for back-office transformation. Although still small in scale, this will be the next consulting area we are looking forward to working on.

The HR solutions business at the top of the list is mainly the direct recruiting business that we have been engaged in until last year. In the current fiscal year, sales have increased by double digits and the profit margin has been maintained at more than 10%.

Overall, we are still in an operating deficit at this point, but this business is positioned as a growth area in our medium-term management plan, and we are looking at it from a medium- to long-term perspective.



Next, here are the actual figures for DX-related services as we have defined them, rounded out.

This quarter, for the first time, the sales composition exceeded 20% of total sales, which was our target for the time being. We will continue to focus on this area as it is sure to be a growth area in the future.

This is the description of each segment so far.

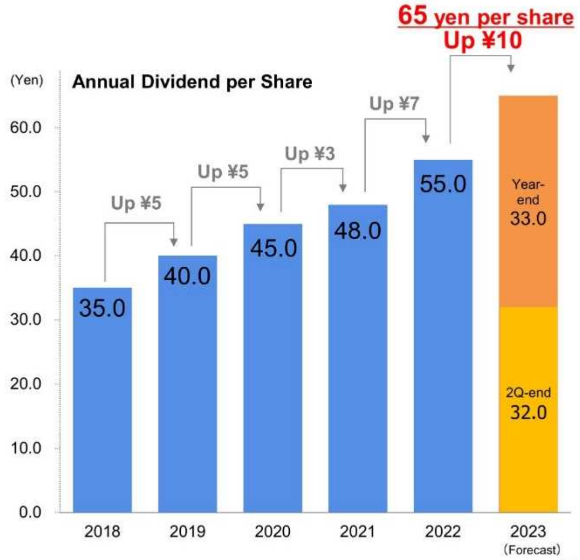
3. Shareholder Returns and Future Initiatives

Funai Soken Holdings

(1) Annual Dividends

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

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



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Next, I would like to explain our shareholder returns and future initiatives, and then I would like to take your questions.

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

3. Shareholder Returns and Future Initiatives

Funai Soken Holdings

(2) Share Buyback (Progress thru June 30, 2023)

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	2022	2023	Total price paid	%age of approved amount used	
Nov. 8, 2022	Nov. 9, 2022 – Jan. 19, 2023	¥500 mil.	¥399 mil.	¥99 mil.	¥499 mil.	99.9% (buyback complete)	183,600
May 11, 2023	May 12, 2023 – Apr. 30, 2024	¥2,000 mil.	-	¥674 mil.	¥674 mil.	33.7% (buyback ongoing)	260,200

***A return-to-shareholders ratio of approximately 96% is forecast if the buyback approved by the board on May 11, 2023, is completed by the end of this fiscal year.**

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
Jan. 24, 2023	Jan. 31, 2023	52,500,000	500,000	52,000,000

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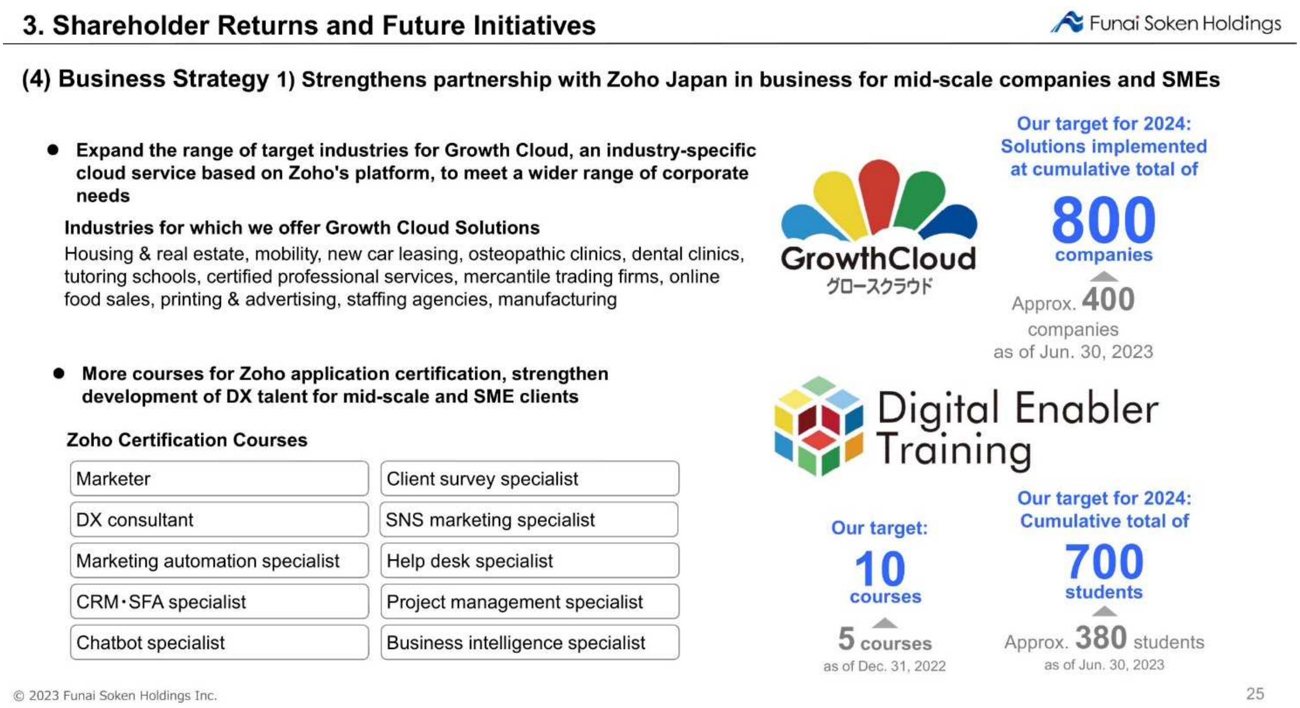
Next, I will explain the progress of the share buybacks program currently underway.

Currently, the Company is repurchasing up to JPY2 billion of its own shares. If all acquisitions are completed by the end of this fiscal year, the total return ratio will be approximately 96%. We would also like to report that we have retired treasury stock in January of this fiscal year.

As our medium-term management plan through 2025 also calls for a dividend payout ratio of at least 55% and a total return ratio of at least 60%, we will continue to strive to improve capital efficiency and increase shareholder returns.



To conclude my presentation, I would like to report on some of the business strategies currently being implemented by our group, mainly in the digital field.

First, Funai Consulting has been offering Growth Cloud, a unique service based on Zoho's platform that implements industry-specific best practices, since last year.

Growth Cloud is a tool that incorporates the know-how for improving business performance accumulated through industry-specific consulting into business processes to improve business performance and increase productivity through DX. Both marketing automation (MA) functions and sales force automation (SFA) functions are available, from prospect acquisition to sales management.

Since the tools are packaged by industry, even SMEs lacking DX human resources can implement them quickly and without specialized knowledge.

The scope of this service will be further expanded to include the current housing, real estate, and manufacturing industries to meet the needs of companies in a wider range of fields in the future.

In addition, the Group offers certification courses for Zoho's business applications, and has now added five new educational programs. By offering these educational programs, we will strive to meet the needs of companies that utilize Zoho's business applications.

In July, we announced the strengthening of our partnership with Zoho Japan for the purpose of receiving comprehensive technical and marketing support for these initiatives.

3. Shareholder Returns and Future Initiatives

Funai Soken Holdings

(4) Business Strategy 2) Test compatibility of ChatGPT and AI chatbots

- **Develop chatbots optimized for specific industries by arming Zoho SalesIQ* with a potent combination of OpenAI's ChatGPT and Funai Consulting's customer engagement expertise**
- **Seek to develop services that are more affordable than other companies' AI-enabled chatbots and more attractive to mid-scale companies and SMEs struggling with labor shortages**

* Zoho services enable broad management, not only of sales and marketing tasks, but also of accounting, HR management, and even workflow streamlining within a single system. There are currently more than 80 million Zoho users worldwide (as of 2023). Zoho SalesIQ is just one application among the extensive line-up of services offered by Zoho.

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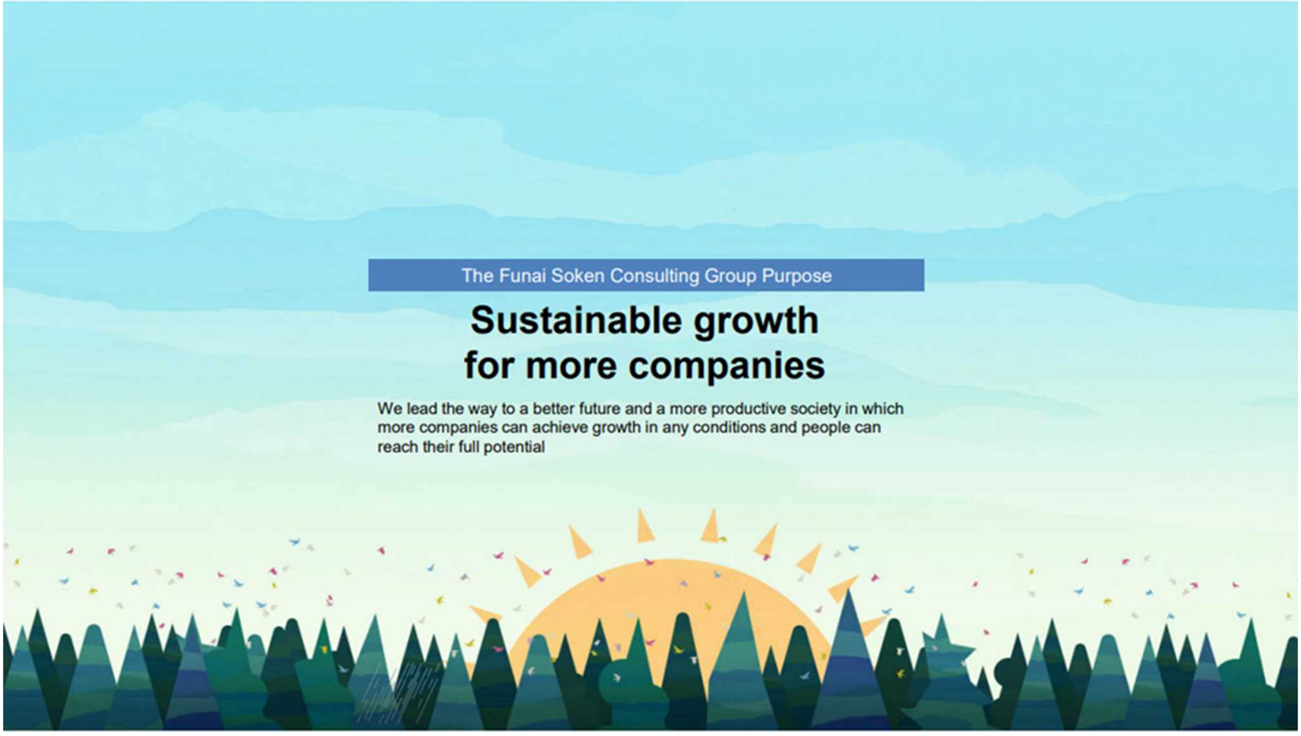
I would also like to introduce another of our group's AI-related initiatives.

Funai Consulting is developing a function for integration with ChatGPT provided by OpenAI, using a chatbot platform called SalesIQ provided by Zoho. This linkage function will allow us to anticipate and respond to prompts tailored to the industry and provide services that contribute to the DX of small and midsize companies.

We are already providing services to automate response acquisition using chatbots and unmanned services, and have created successful case studies in different industries, and by utilizing such AI technology, we will contribute to improving our clients' productivity.

We will continue to work toward the realization of the Group's vision of the foremost provider of digital and comprehensive consulting solutions for mid-scale and SME clients.

This concludes my explanation. Thank you.



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

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