Mid-range Business Plan

(2020-2022)

Funai Soken Holdings Incorporated

February 5, 2020

Funai Soken Holdings

Review of the previous mid-range business plan

Review of the previous mid-range business plan (2017-2019)

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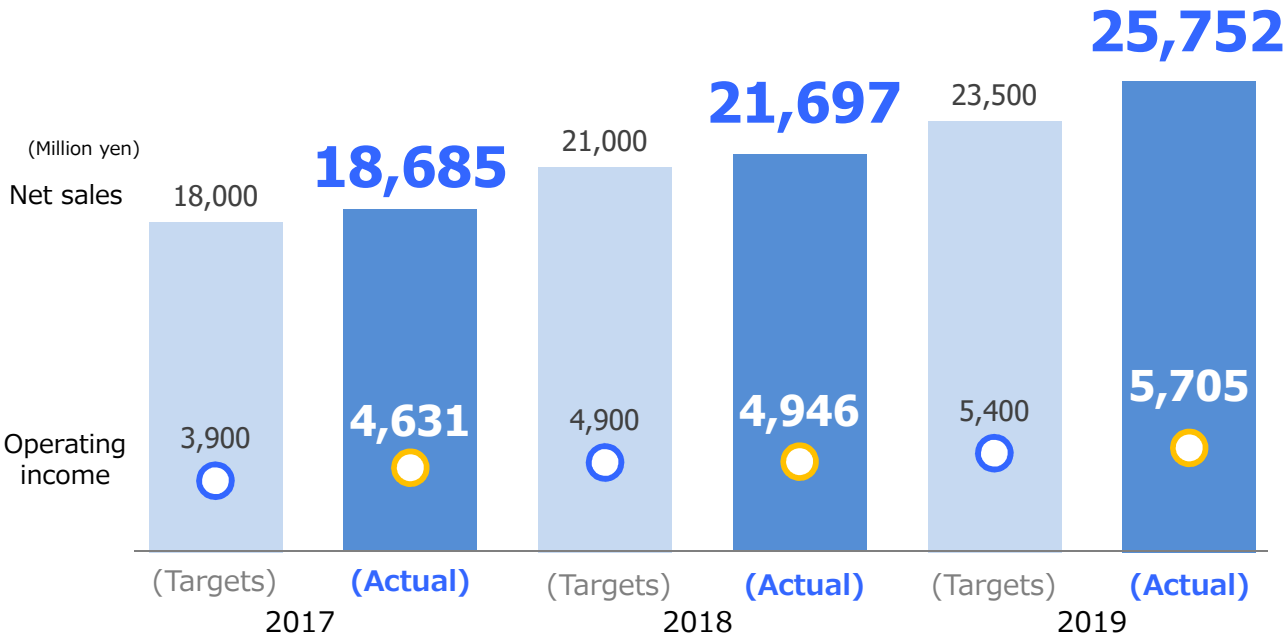
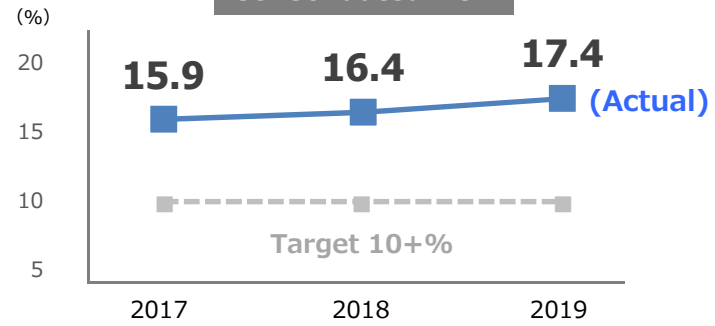
(1) Results of numerical plans and financial strategy

- **Almost all numerical targets have been achieved including in the plan's first-year period. Both net sales and operating income hit record highs, with net income and profit increasing for eight consecutive years.**
- **Over 10% consolidated ROE has been maintained as a result of our goal to increase shareholders' medium to long-term value with an emphasis on capital cost awareness.**
- **Over 50% return-to-shareholder ratio has been achieved due to flexible share buybacks.**

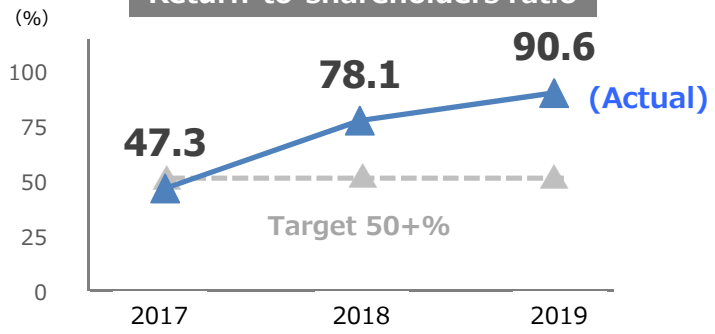
<Net sales and operating income from 2017-2019>



Consolidated ROE



Return-to-shareholders ratio



Review of the previous mid-range business plan (2017-2019)

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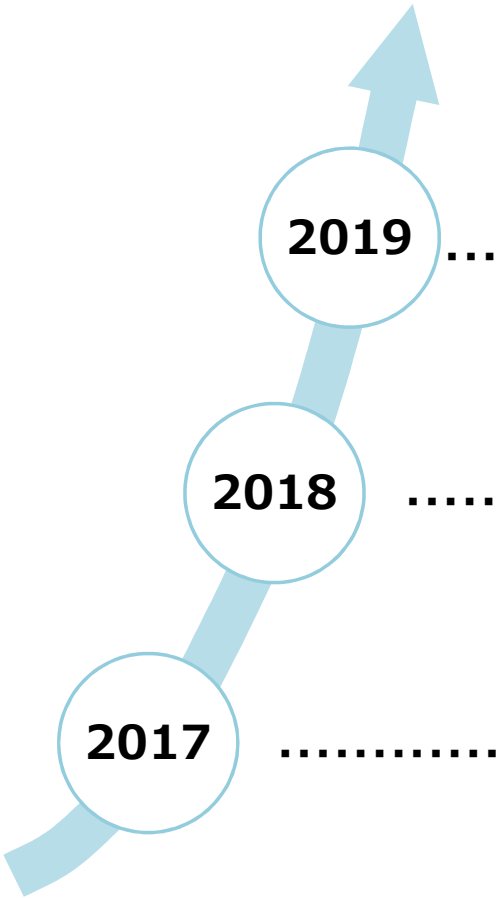
(2) Business strategy results

With an aim to increase the Group's corporate value, the three-year plan has been formulated and implemented, including further sophisticating our management consulting services, our core business.



Goals for previous mid-range business plan (2017-2019)	Results achieved in the previous mid-range business plan (2017-2019)
・Establish a system for comprehensive management consulting solutions ・10,000 management workshop members, established Client Stock consulting ・Establish HR strategy for when Group employee numbers reach 1,400 (hiring, HR, development)	・Established a system for comprehensively supporting the management of businesses in each industry with "growth support," "talent development support" and "support for improved corporate value" ・Management workshop members: **7,379 (as of end-2019), increasing** by **1,264 in three years** ・Based on a systematic HR strategy, increased the number of employees by 336 in three years, reaching 1,209 by the end of 2019; planning to hire approx. 200 new graduates in 2020.
・Promote IT, digital, and cloud versions of solutions ・Promote business model commercialization within business departments ・Reorganize group organization, HR, assets, and offices	・Opened a dedicated website for management workshop members; and released cloud-based new services including "Organizational Capabilities Diagnosis" ・Established HR Force, which operates direct recruiting business ・Consolidated Shinwa Computer Service Co., Ltd., which operates system development business
・Expand to consulting for housing and real estate and healthcare and nursing care ・Engage in financing industry (trusts, credit unions, insurance) consulting ・Establish 7 depts. = start solution-specific consulting ・Promote aggressive M&A and business partnership	・Consulting for housing and real estate and healthcare, nursing care and welfare grew **90.1%** and **102.6%** respectively in three years ・Established 3 depts.; Financial Services Consulting Dept., Preschool and Education Consulting Dept., and Community Care Consulting Dept. ・Expanded the range of solution categories such as productivity improvement, financial consulting and IPO support

Review of the previous mid-range business plan (2017-2019)

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(3) Human resources strategy results

Continued implementing systematic hiring strategy and fostering early development of consultants; introduced remote work and flextime system providing work environment with a range of workstyles to choose from

	Goals for previous mid-range business plan (2017-2019)	Results achieved in the previous mid-range business plan (2017-2019)
 **Recruit**	・Aggressive recruiting plan to hire 200 consultants a year (150 new graduates, 50 midcareer consultants) ・Recruit more professionals to provide comprehensive management consulting solutions	・Hired **190** consultants in a year (as of end-2019); strengthened internship; and introduced recruiter system ・Accelerated hiring of licensed and other professionals (e.g. lawyers and small and medium-sized enterprise consultants)
 **Develop**	・Establish a framework to enable recruits to try and reach team leadership positions within five years In 2016: 5 years 4 months (Average years taken to become a team leader)	・Enhanced our own training and development program to develop the capabilities of newly graduated consultants **In 2019: 3 years 8 months** In 2018: 4 years 2 months, in 2017: 3 years 8 months (Average years taken to become a team leader)
 **Retain**	・Aim for 7%, the lowest attrition rate in the industry, by offering a rewarding work environment so as to retain valuable talent ・Better working practices ・Steadily move from temp to permanent employment	・Attrition rate: **11.5%** (2017-2019 average) ・Introduced remote work and flextime system to free employees from work place and time constraints for improved working practices ・Permanent employment rate: **95.6%**

Business and human resources strategies

Our group's future vision

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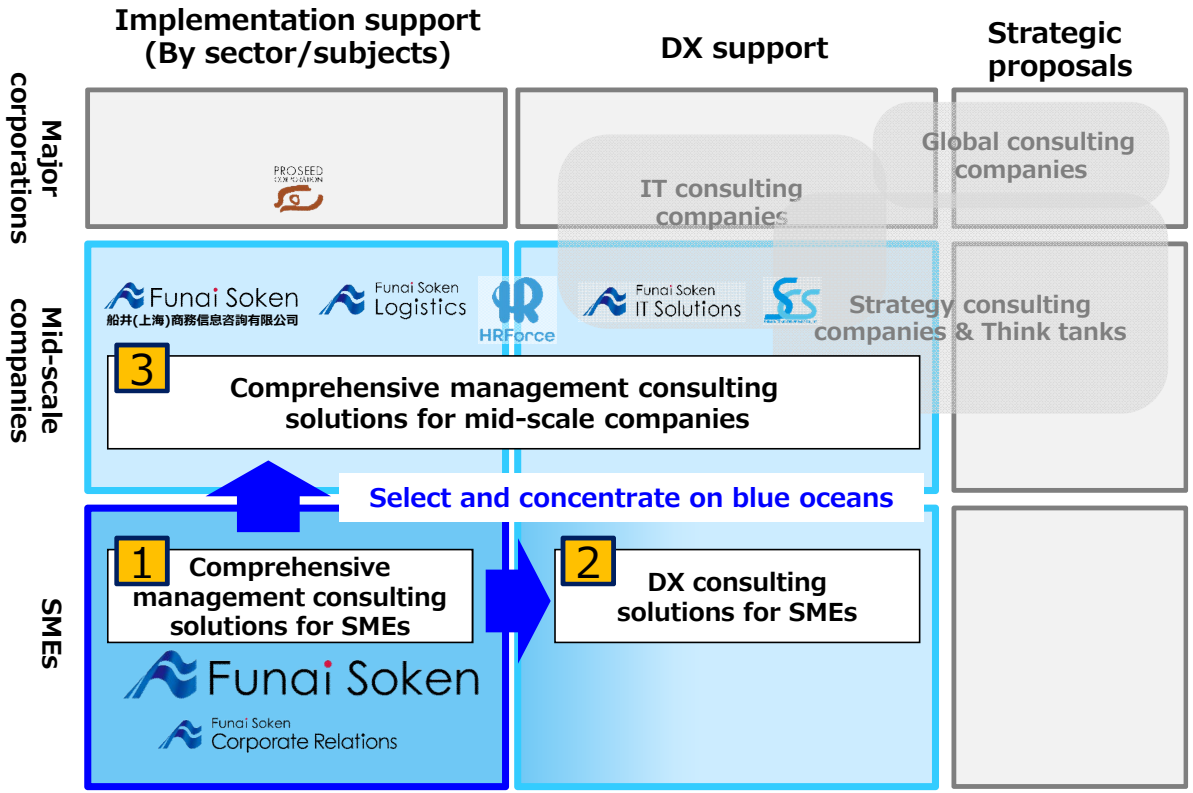
Our Group, including its core company Funai Consulting, will accelerate DX consulting services for SMEs from 2020 to 2022. Furthermore, we will take on challenges towards providing comprehensive management consulting solutions to mid-scale companies while strengthening alliances among our Group companies.

Consulting needs and positioning



*Consulting: Funai Consulting Inc., Funai Consulting Shanghai Inc., Funai Soken Corporate Relations Inc.
*Logistics: Funai Soken Logistics Inc. *Direct Recruiting: HR Force Inc.
*Others: Funai Soken IT Solutions Inc., Proseed Corporation, Shinwa Computer Service Co., Ltd.

Policy for 2020-2022

1 Comprehensive management consulting solutions for SMEs

(SMEs x implementation support)

Growth support | **Talent development support** | **Support for improved corporate value**

- Deepen our existing businesses (No. 1 market shares in housing and real estate, healthcare and nursing care, and certified professional service industries)
- Expand new main divisions and new themes (construction, HR services, energy, manufacturing, in-bound business, tourism etc.)
- Strengthen M&A and business succession consulting

2 DX consulting solutions for SMEs

(SMEs x DX support)

Digitalization support

- Support SME's improved productivity from the perspective of a digital shift
- Propose and support implementation of industry-specific digital solutions that produce results
- Set up Digital Innovation Lab to promote DX consulting

3 Comprehensive management consulting solutions for mid-scale companies

(Mid-scale companies x implementation support & DX support)

- Help deepen their existing businesses and support development of new businesses that will become their second pillar (incl: support for IPO, rebranding and transformation to holding company systems)
- Enhance solution-specific workshops that meet the needs of mid-scale companies
- Set up Account Partner Office to establish a team-based consulting system for mid-scale companies

Business strategy by segment: Consulting

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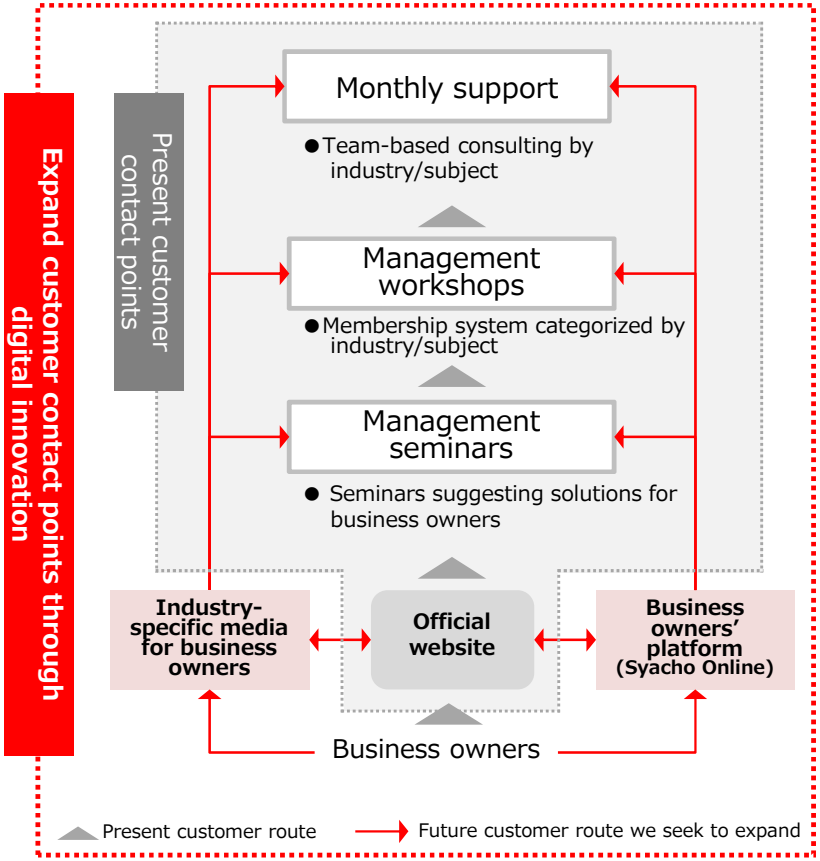
- **Expand customer contact points through digital innovation and implement digital shift of consulting services**
- **Expand the lineup of, and accelerate provision of, comprehensive management consulting solutions in line with business owners' needs**
- **Establish our position as the platformer for SME managers**

■ **Expand customer contact points through digital innovation**



■ **Digital shift in the present customer contact points**

Monthly support platform
- Consulting utilizing data-driven (AI and BI) tools
- Promotion of remote consulting

Remote communications with members
- Business chat communication available anytime
- Video streaming for improved quality of information
- Provision of exclusive e-learning service for members

Digital solutions by industry/subject
- Support the introduction of industry-specific tech solutions, IoT and AI tools
- Database by industry/solution
- CRM, RPA and business apps by industry/solution

■ **Develop and strengthen new digital customer contact points**

<Business owners' platform>
・Develop a web-based members-only digital media platform for business owners to increase their engagement by having them exposed to contents transmitted by consultants

<Industry-specific media for business owners>
・Elevate the present websites categorized by industry to develop as industry-specific media for business owners

Business strategy by segment: Logistics

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Develop Japan's largest logistics business base around four pillars: consulting, community, network and database.

Further expand the conventional business areas to grow into a comprehensive logistics provider

Policy for 2020-2022

Consigners network



Expand nationwide network of chief logistics officers (CLOs)

Platform

Japan's largest logistics community

- Develop a community that connects consigners with logistics companies, collecting and providing a range of logistics-related data
- Furthermore, as an extension of conventional on-site consulting, seek to develop joint businesses with consigners or logistics operators that generate business revenue

Logistics operators network



Workshop membership: Further expand membership from current 300

Digital

AI and robotics consulting

- Aim to become the top runner among Japanese robotics consulting companies, foreseeing the future of the market based on the current trend towards rapid digitalization

(e.g. consulting on and support for introduction of AI-based logistics robotics)

Global

Global SCM consulting

- Expand and strengthen consulting services in China (in cooperation with Funai Shanghai) and in ASEAN region
- Seek to roll out (export) our logistics consulting overseas with a focus on mid-scale consigners, providing them with support for development of global SCM

Business strategy by segment: Direct Recruiting

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Since inception, the Direct Recruiting segment has maintained a high retention rate (i.e. customer satisfaction). It has completed its topline increase phase and entered its profit increase phase.

Continue investing management resources into this growth segment which will be our next pillar.

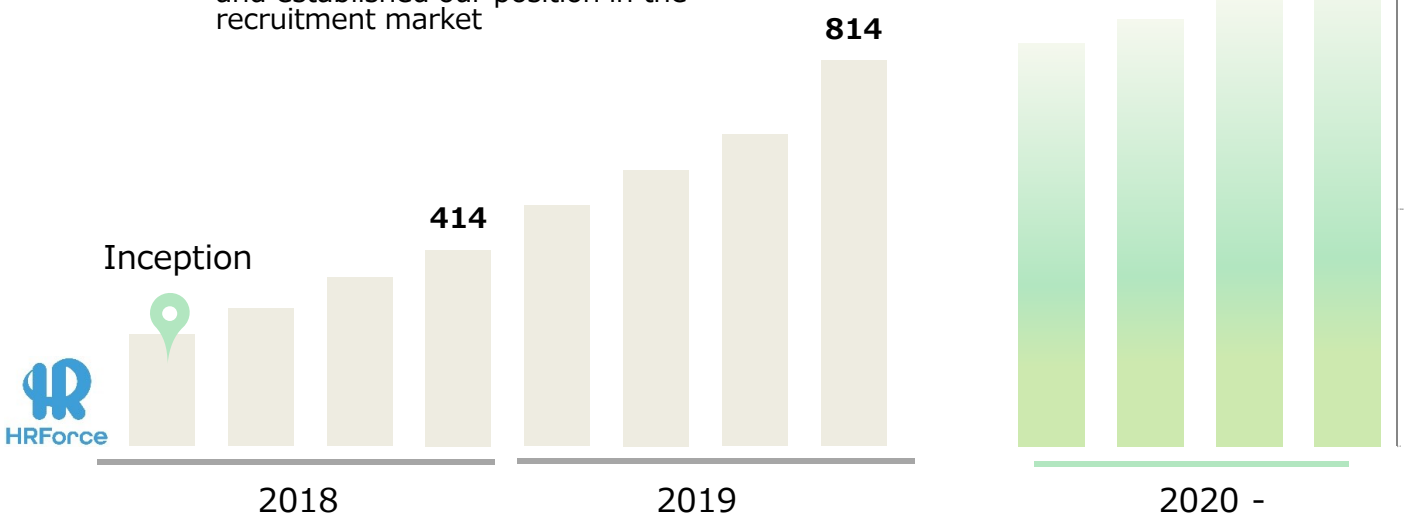
2018-2019

Topline increase

- Proactively implemented sales promotion and system development investment
- Acquired and increased new customers and established our position in the recruitment market

2020-2022 policy

Topline increase + Turn into the black and improve profit margin



*Quarterly net sales since inceptions (million yen)

Average retention rate:

95%



Recruiting Cloud

- Improve profit *margin with* optimized recruiting media mix, utilizing Recruiting Cloud, an AI-based cloud service developed in-house.
- Provide comprehensive HR-related services leveraging our consulting knowhow, big data and AI technologies

Human resources strategy

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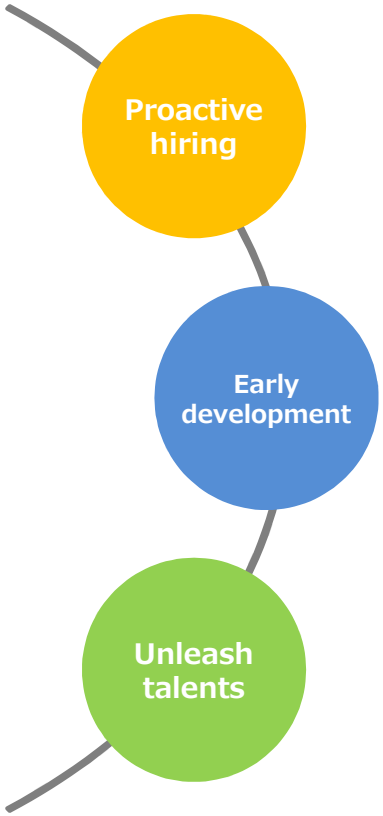
- **Design an environment, based on the new Group-wide core values, that helps diverse individuals fully unleash their strengths**
- **Realize the Group's sustained growth through a positive cycle of hiring, developing and helping individuals unleash their talents**



<Hiring>
The Group's employee number to reach 1,600 by 2022 (adding approx. 400)
(1) Continue proactively hiring consultants (hiring 200-250 per year);
(2) Expand new hires for DX functions;
(3) Accelerate the hiring of non-Japanese (especially in Shanghai, China); and
(4) Strengthen the hiring of licensed professionals (to support governance and improved productivity in back-offices)

<Developing>
Re-develop an "Early Development Program" suitable for increased personnel
(1) Set up Talent Development Center (TDC) seeking to foster early development of individuals for DX functions and maximizing consultants' employee lifetime values (ELTV); and
(2) Continue fostering early development of team leaders (with the target to make them team leaders within five years)
Result in 2019: 3 years and 8 months

<Helping individuals unleash their talents>
Establish an environment where diverse individuals can unleash their talents
(1) Introduce and establish a new personnel assessment system based on four career courses:
(i) Consulting Development Course, (ii) Business Development Course,
(iii) Corporate Professional Course and (iv) Management Course
(2) Increase the flexibility of work hours and places towards realizing a working environment with improved efficiency
Expand and strengthen Remote Support that makes it possible to conduct consulting from anywhere

+ **Involve all employees of the Group in the celebration of the company's 50th anniversary to create new core values for the future.**

*Our company is celebrating its 50th anniversary on March 6, 2020.

Performance Targets and Financial Strategy

Funai Soken Holdings

Performance targets

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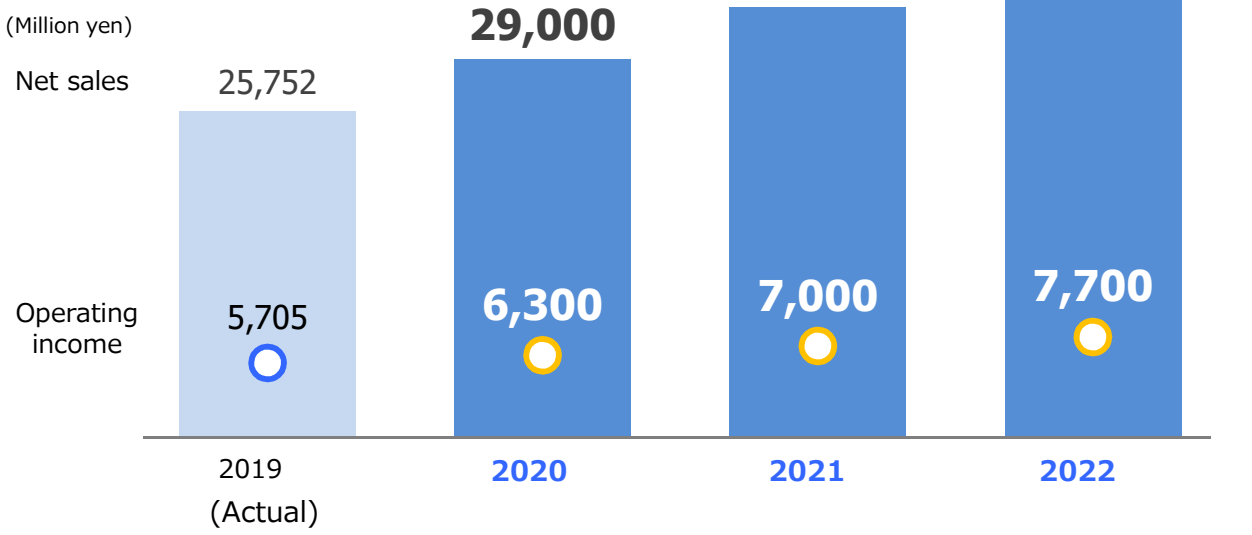
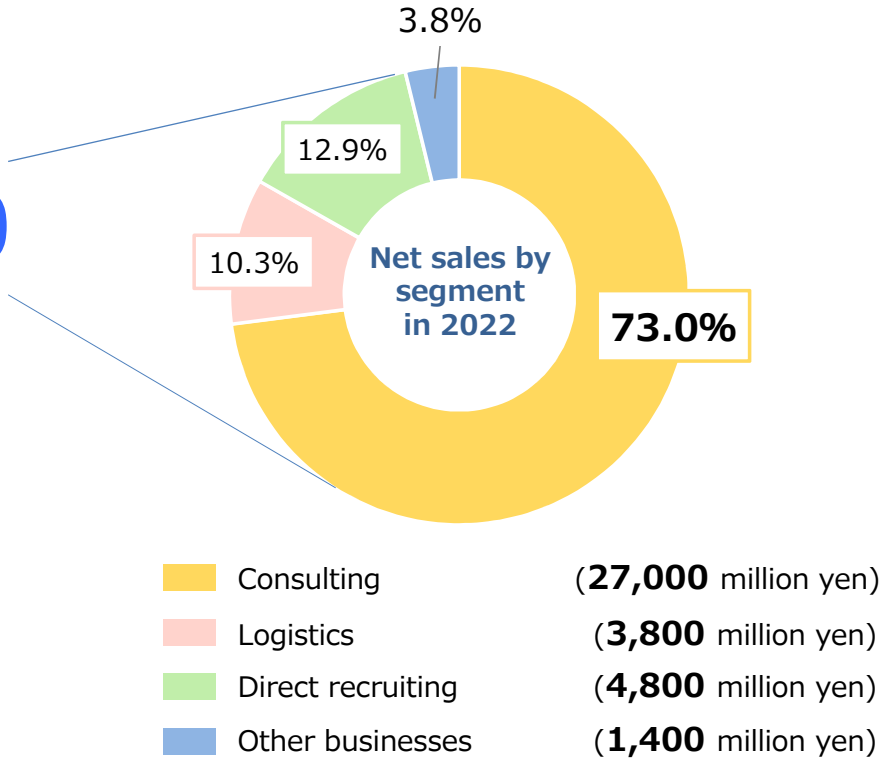
Our Group's targets for 2022 are to achieve JPY37 billion in sales and JPY7.7 billion in operating income while maintaining high profitability.

<Targets for sales and operating income>





Financial strategy

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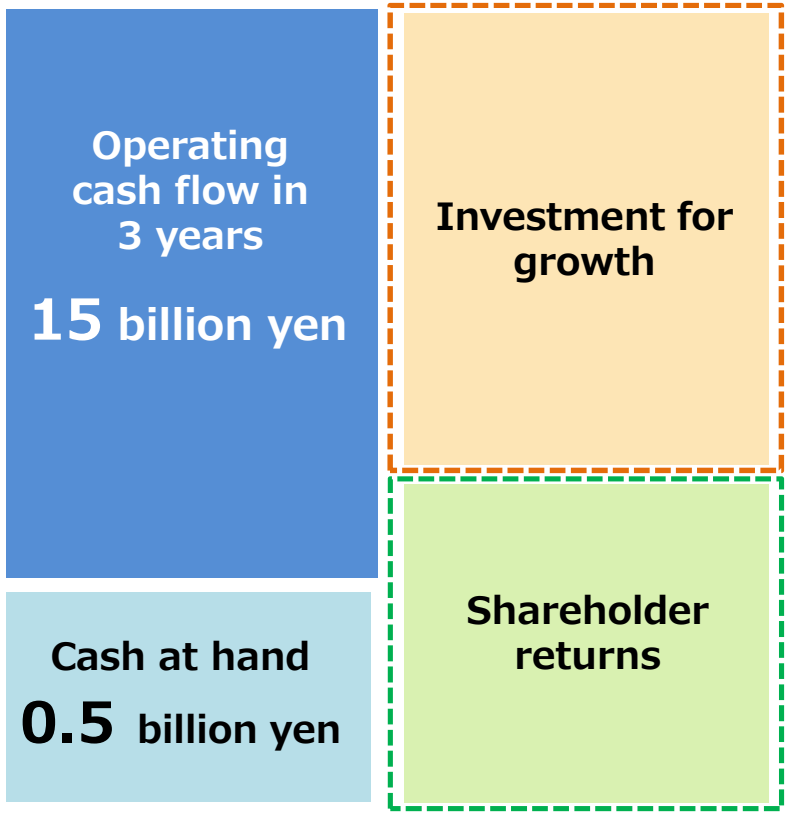
(1) Investment for growth: Allocation of cashflow from operating activities in coming three years

Allocate cash at hand and cashflow from operating activities for investment in the next growth period and for appropriate shareholder returns to increase shareholder value



*excluding working capital of 7 billion yen

Priority initiatives

- Business strategy
- M&A
- Overseas expansion
- Digitalization
- HR
- Offices

etc., proactive investment for further growth

Continue to promote shareholder returns with the return-to-shareholders ratio target of 60+%

Financial strategy

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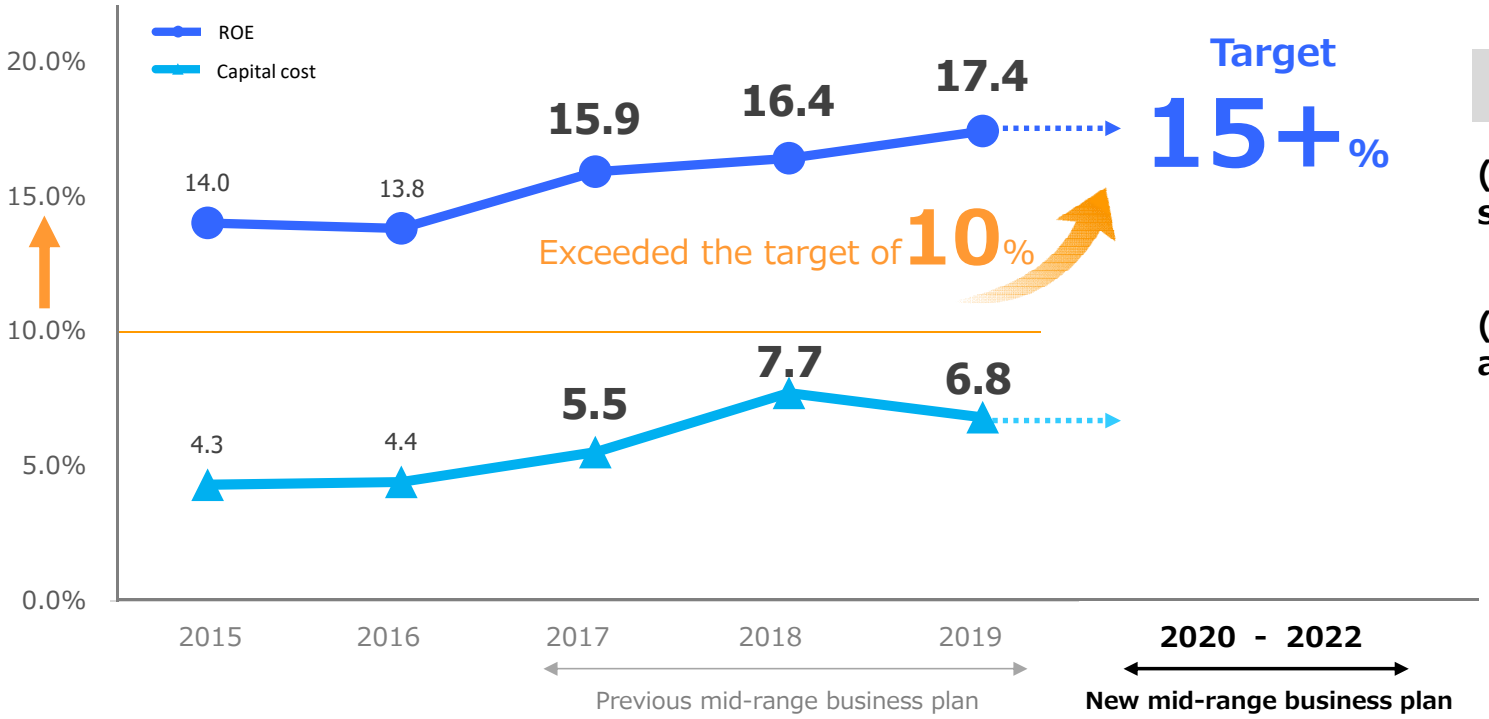
(2) Capital policy

Maintain 15% or higher consolidated ROE, pursuing "our Group's sustained growth and increased medium to long-term shareholder value," "appropriate level of shareholders' equity," "appropriate shareholder return," and "proactive business investment with necessary risk-taking"

Consolidated ROE and capital cost



Priority initiatives

(i) Promote new investments, taking shareholder return into account

(ii) Business investments with awareness on capital efficiency

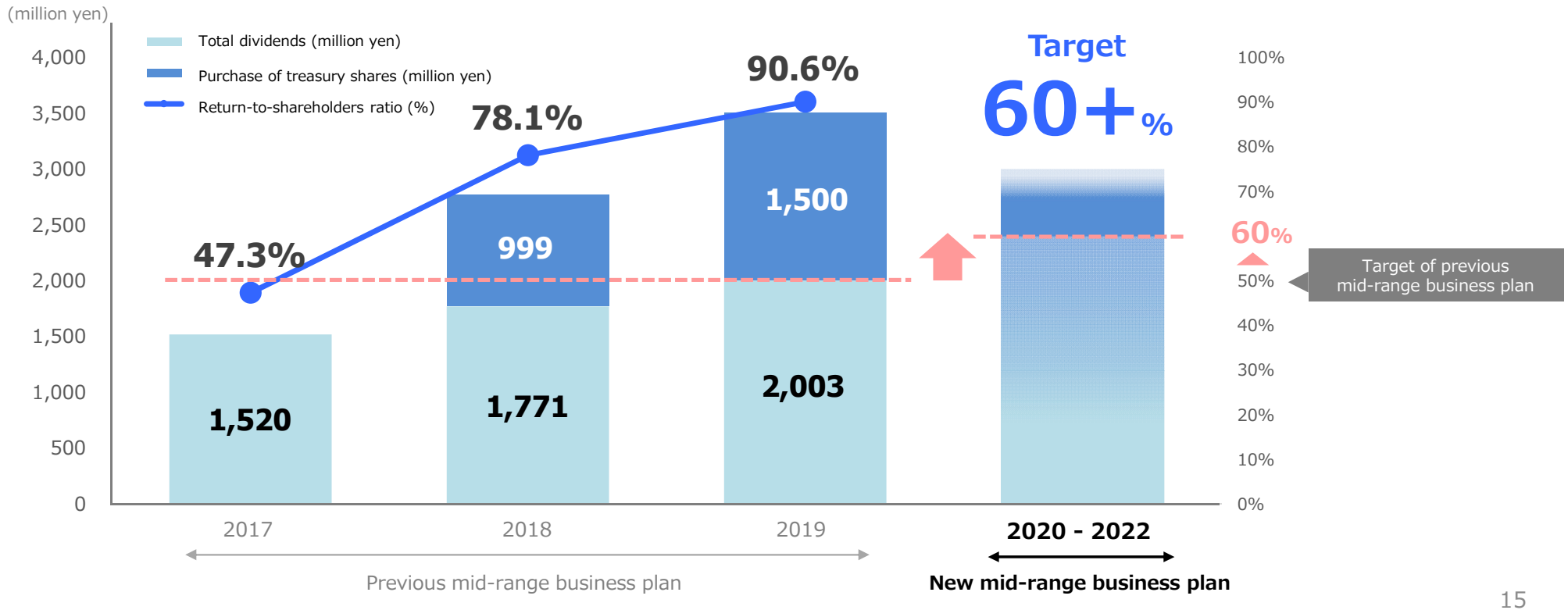
- **Capital cost**
- **Net present value (NPV)**

Financial strategy

(3) Shareholder return policy

(i) Distribution of profits taking performance into account
(ii) Flexible share buyback taking into consideration market environment, capital efficiency etc.
(iii) 60% or higher return-to-shareholder ratio

Total dividends and return-to-shareholders ratio



ESG initiatives

ESG initiatives

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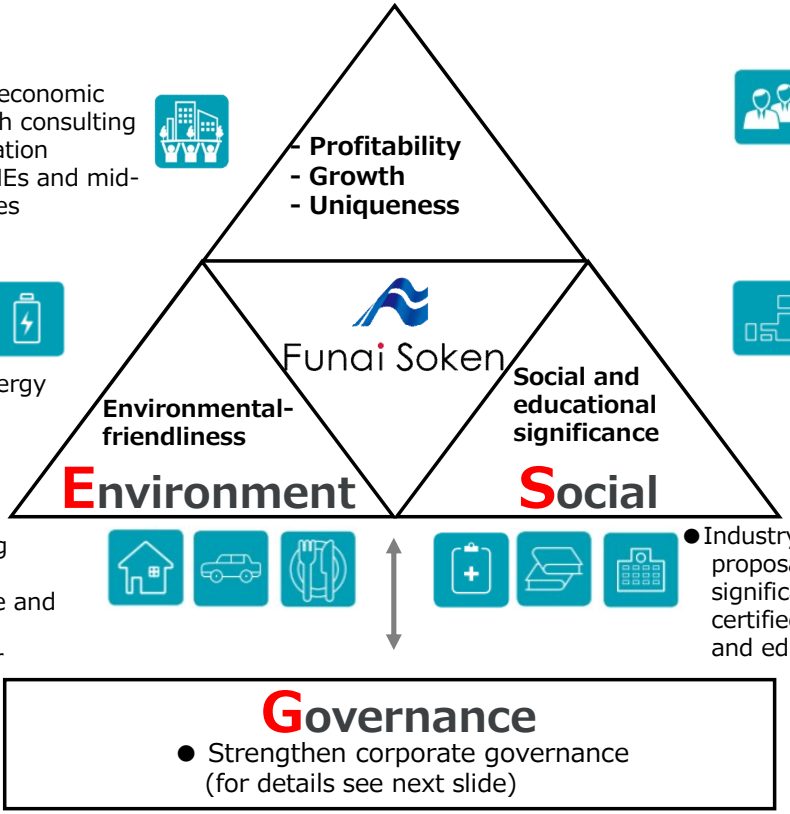
We will further strengthen our initiatives for ESG, recognizing its importance, under the Group philosophy: "We help to build a better future for people, business, and the society."

Our Group's ESG vision

Strengthen ESG initiatives through management consulting and other business activities



● Contribute to economic growth through consulting on implementation support for SMEs and mid-scale companies

● Contribute to the environment through consulting relating to energy savings and renewable energy-related areas

● Industry-specific consulting making environmentally-conscious proposals, advice and support (for housing, automotive, food and other industries)

● Provide diverse personnel with opportunities to unleash their capabilities (emphasizing diversity and inclusion)

● Contribute to development of local societies through consulting for regional revitalization (revitalization of local community, local production local consumption, response measures for declining birthrate)

● Industry-specific consulting providing proposals, advice and support taking social significance into account (for healthcare, certified professional services, preschool and education, and other industries)

CSR activities

Great Company Awards

Awarded **64** companies over ten years (every year since 2010)

● We support the Great Company Award program run by Funai Foundation helping to find and promote "great companies" that serve as role models for many companies.

*We define "great companies" as "companies with sustained growth that demonstrate their unique merits along with social and educational significance, profitability, growth and environmental-friendliness."

Corporate governance framework

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Implement and strengthen our Group's corporate governance based on the below framework

*at the end of December 2019

Nominating Committee:
Ensures objectivity and adequacy of the director candidate selection process

1 internal member;
2 external members

Successor Nominating Committee:
Ensures fairness and high transparency of procedure for selecting and fostering candidates for next Group CEO

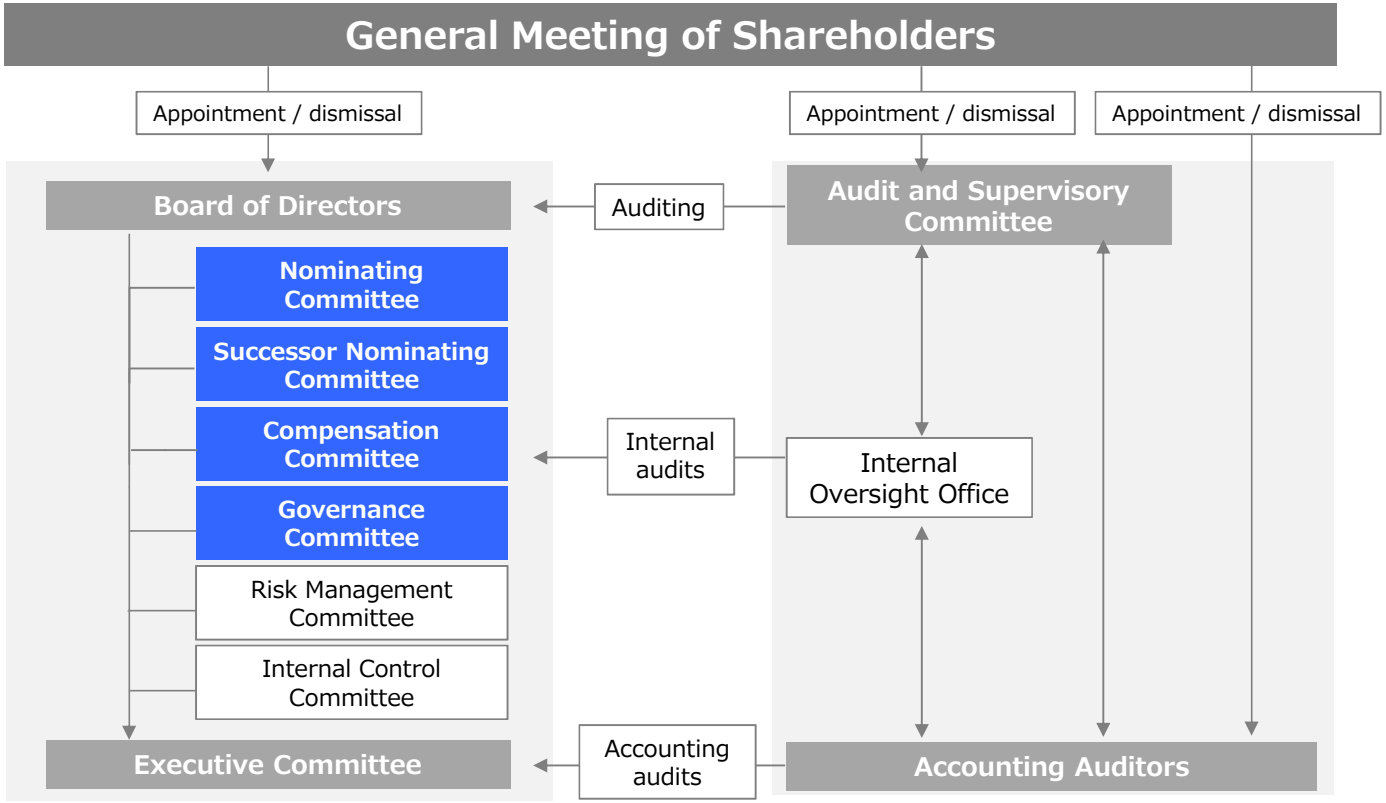
1 internal member;
3 external members

Compensation Committee:
Ensures objectivity of decisions on, and the adequacy of, directors' compensation through consideration of a pay package that contributes to improved medium to long-term performance

2 internal members;
2 external members

Governance Committee:
Seeks to strengthen governance by discussing overall governance from medium to long-term perspectives

3 external members



[Examples of past initiatives for strengthening governance]

2017: Held explanatory meetings for shareholders (May and June) and new business meetings
2018: Reduced cross-shareholdings
2019: Set up Successor Nominating Committee; appointed external directors for core Group companies; and hired in-house lawyers

[Considerations for future initiatives]

- **Appointment of women directors**
- **Establishment of a Group compliance department focusing on Group companies**
- **External disclosure of the Group's code of ethics and conduct**



Our Mission

We help to build a better future for people, businesses, and society

We at the Funai Consulting Group will offer solutions for a better future to all the people and businesses we are involved with – and to society as a whole – and will do our best to turn those ideas into reality.

Our Vision for the Future

Trusted and respected by society for bringing joy to people and businesses through our work

We are determined to work together as a corporate group to bring joy to the people and businesses we are involved with. By earning the trust and respect of the people and businesses we seek to please, we can also earn the trust and respect of society as a whole.

Statement Regarding Use of These Materials

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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.

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Please direct enquiries regarding IR to:

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