1st Quarter of Fiscal Year Ending December 2020

Summary of Financial Results

Funai Soken Holdings Incorporated
(TSE 1st section: stock code 9757)

Wednesday, May 20, 2020

We would like to take this opportunity to express our sincere condolences for those who fell victim to the Covid-19 pandemic along with our greatest sympathy for those who have contracted the disease.

Further, we pray for the swift recovery of those who are infected and also an early end to the pandemic.

With a severe blow to the economy from the pandemic unavoidable, a large burden has been placed on both our customers as well as individuals, who have been refraining from going outside since the declaration of the state of emergency.

All of us, at Funai Soken Consulting Group, will make concerted efforts to reduce the concerns of our stakeholders as much as we can.

Finally, we would like to express our deepest gratitude and respect to the healthcare professionals who are striving to treat the patients and prevent the spread of the infection.

May 20, 2020　Funai Soken Consulting Group Employees

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[Statement Regarding Use of These Materials]

FY2020 1st Quarter Financial Results

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1. FY2020 1st Quarter Financial Results

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(1) Consolidated income

- **Net sales grew 10.5% over the same period last year, maintaining a double-digit growth, as net sales of online advertisement agency operations included in the consulting segment and the direct recruiting segment increased.**
- **Operating income, ordinary income, and net income increased by 3.4%, 4.7%, and 5.3% respectively from the previous term as a result of increased sales.**

	March 2019		March 2020		
	Amount (million yen)	% of total	Amount (million yen)	% of total	Change (%)
Net sales	5,926	100.0	6,547	100.0	+10.5
Operating income	1,426	24.1	1,475	22.5	+3.4
Ordinary income	1,451	24.5	1,519	23.2	+4.7
Net income attributable to owners of the parent company	949	16.0	999	15.3	+5.3

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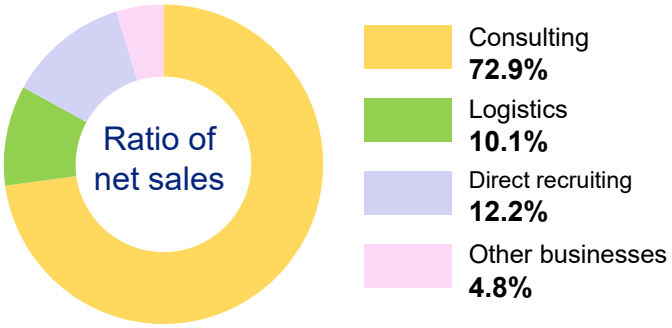
(2) Results of operations by segment

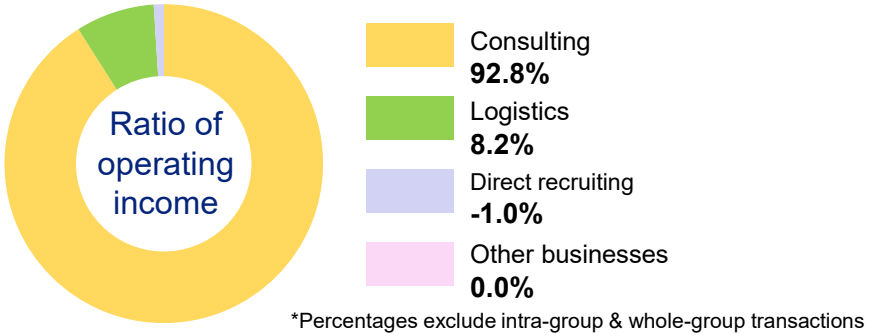
- **The housing and real estate industry continued to be strong in the core consulting segment. Meanwhile, net sales declined at Funai Consulting Shanghai based in Shanghai due to large restrictions on sales activities from the Covid-19 pandemic.**
- **Orders from existing clients as well as large-scale projects received in the previous term contributed to sales and profits in the logistics segment.**
- **Up-front investments for early sales expansion continued in the direct recruiting segment but operating losses declined.**

(Units: million yen, %)

Net sales	March 2019	March 2020	
	Amount	Amount	Change
Consulting	4,489	4,764	+6.1
Logistics	592	663	+11.9
Direct recruiting	508	800	+57.3
Other businesses	329	312	-5.0
(Intra-group & whole-group transactions)	5	5	—
Total	5,926	6,547	+10.5

Operating income	March 2019	March 2020	
	Amount	Amount	Change
Consulting	1,390	1,368	-1.6
Logistics	103	120	+16.4
Direct recruiting	-102	-15	—
Other businesses	42	0	-98.6
(Intra-group & whole-group transactions)	-7	1	—
Total	1,426	1,475	+3.4



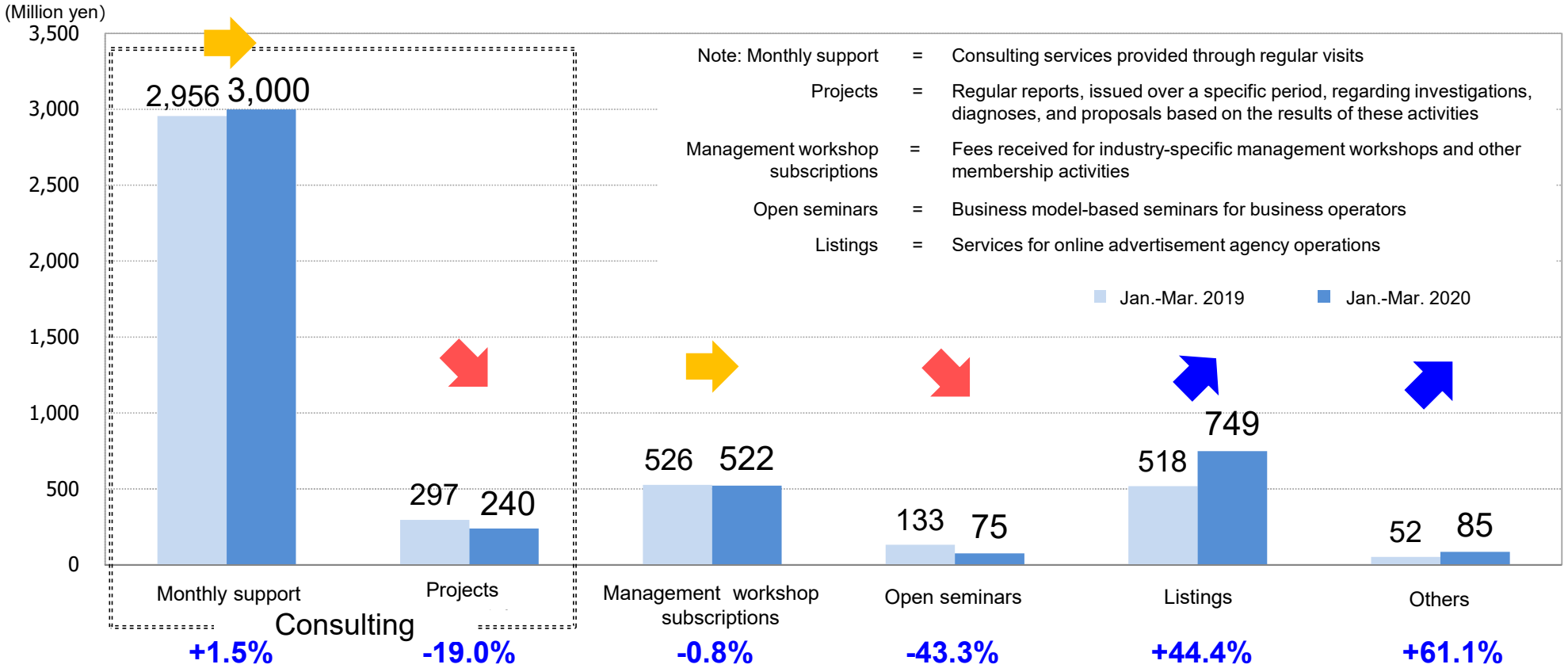


*Percentages exclude intra-group & whole-group transactions

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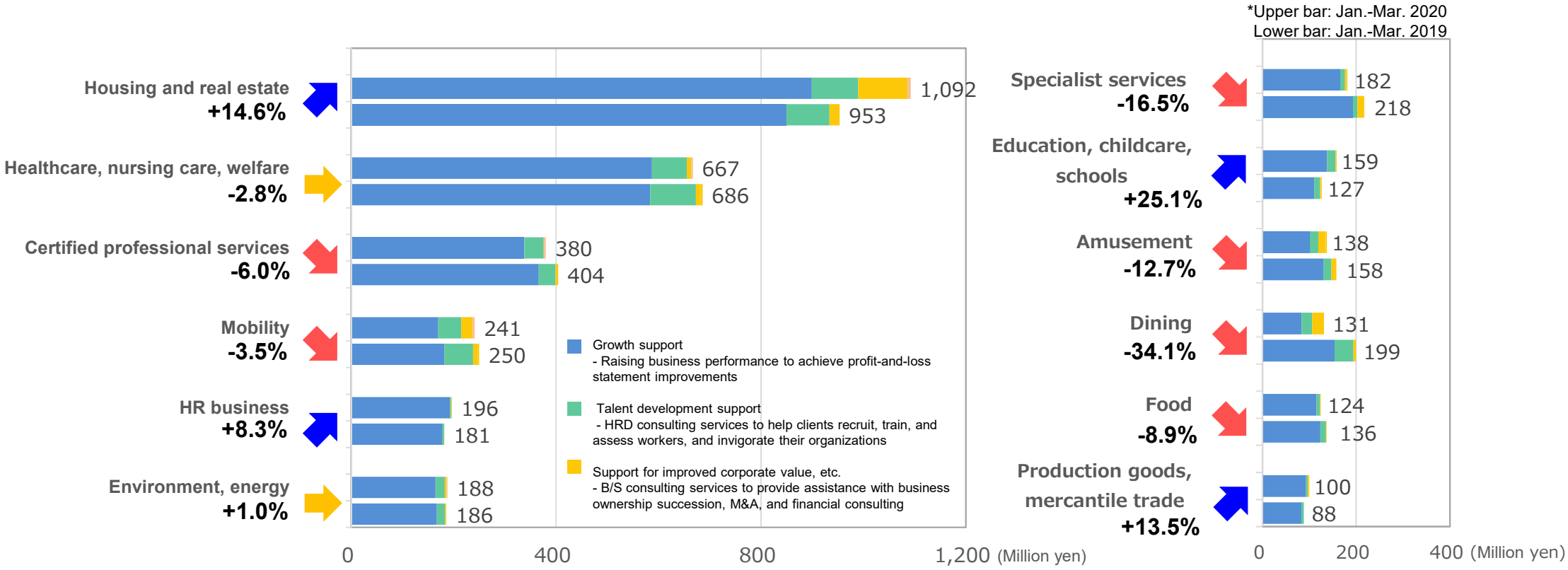
(3) Results of Operations by Segment: Consulting Sales by Service Category

- **Monthly support in the consulting segment increased by 1.5% from the previous term, while projects declined 19.0%.**
- **Revenues from management workshop subscriptions declined 0.8% due to the impact of the Covid-19 pandemic.**
- **Seminar revenues declined 43.3% with cancellations of face-to-face seminars (shifted to online seminars).**
- **Revenues from listing services for online advertisement agency operations grew 44.4% due to a steady increase in the number of contracted accounts from prior year.**



(3) Results of Operations by Segment: Consulting Sales by Sector

- Housing and real estate, a core division, maintained growth partly due to contingency fees from the conclusion of an M&A contract.
- The impact of the Covid-19 differs by industry. Sales of HR services, environment and energy, education, childcare, and schools, and production goods and mercantile trade increased but the rest declined.
- Sales in the dining sector declined significantly owing partly to the restriction of sales activities affected by the Covid-19 infection in China.



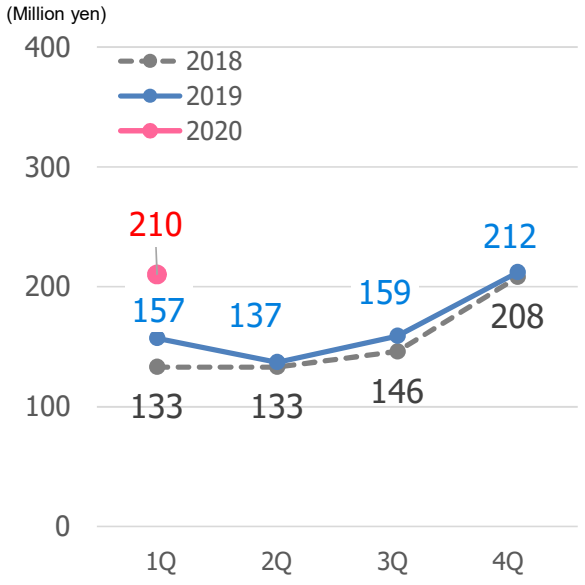
*Figures show total sales of consulting contracts, management workshop membership fees and open seminar income in the consulting segment for January to March in 2019 and 2020, grouped in accordance with the company's industry classifications

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(4) Results of operations by segment: Logistics Sales by Service Category (by quarter)

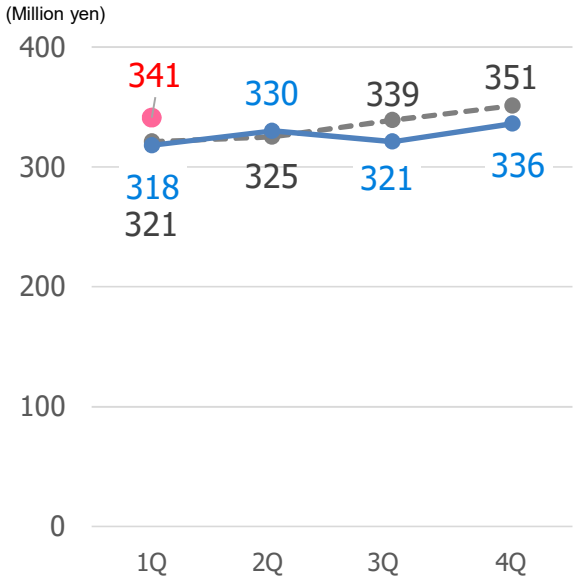
Logistics consulting
(Helping clients reduce logistics costs, etc.)

- **Performed strongly as the projects accepted in the previous term were completed as planned**
- **Inquiries regarding logistics strategy review and labor shortage continue to be high**



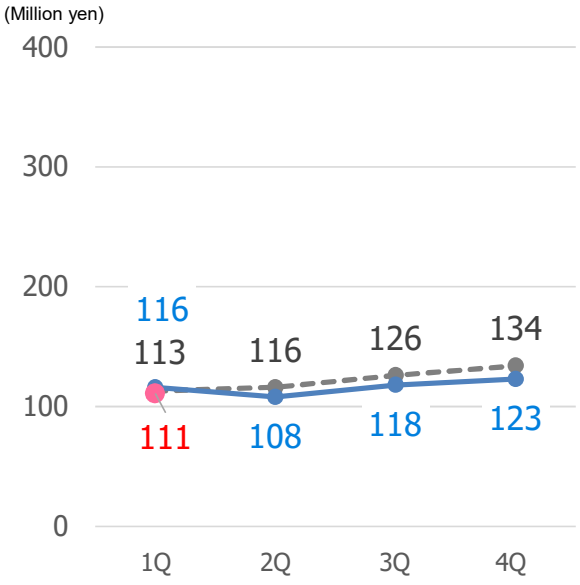
Logistics operations
(Logistics services performed on behalf of clients)

- **Net sales increased as deeper mining and retention of existing clients resulted in higher demand for transport and warehousing logistics operations**



Logistics trading
(Helping to reduce clients' purchasing costs through joint buying)

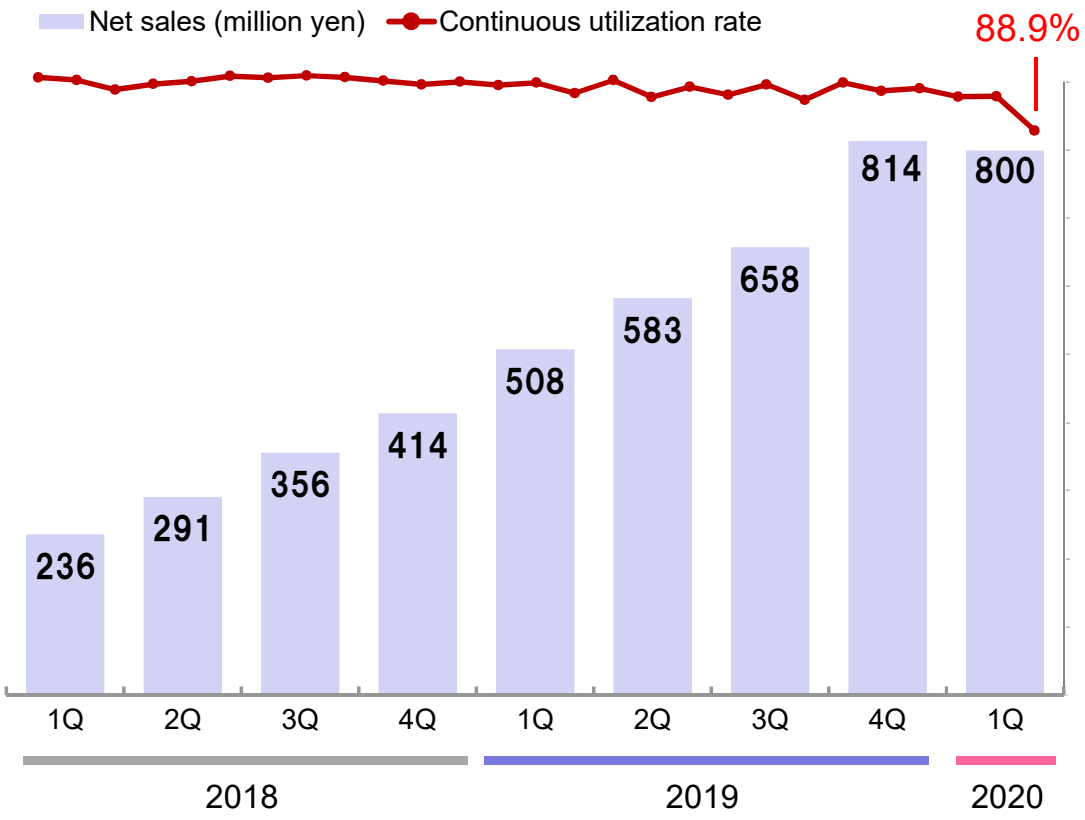
- **Acquired new clients but net sales slightly declined due to the impact of a decline in unit selling price in the fuel segment**



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(5) Results of operations by segment: Direct recruiting

- **Growth in net sales was limited to 57.3% year on year caused by a decline in acquisition of new customers from cancellations of seminars and fewer placements of recruitment advertisements as a result of the impact of the Covid-19 infection.**



Point of difference with competitors



Recruiting Cloud

Cloud-based AI recruiting service

- Big data analysis of job-search keywords enables AI-led writing of effective job ad copy
- Automated listing in optimal, cost-effective media reduces cost per response
- AI allows for 24-hour 365-day operation and integrated administration of respondents, streamlining hiring work

(6) Consolidated Financial Position-Balance Sheet

(million yen)

		As of Dec. 31, 2019	As of Mar. 31, 2020	Change	Description
Current assets		16,694	15,096	-1,598	Decline in current assets primarily reflects decline in cash and deposits, and short-term investment securities
Noncurrent assets	Property, plant, and equipment	6,109	6,087	-22	
	Intangible assets	773	754	-19	
	Investments and other assets	4,840	5,010	+170	Increase in investments and other assets mainly resulting from an increase in investment securities
Total assets		**28,419**	**26,948**	**-1,470**	
Current liabilities		4,931	3,632	-1,298	Decrease in current liabilities is due primarily to declines in corporate bonds up for redemption within a year, and income taxes payable
Noncurrent liabilities		322	291	-30	Noncurrent liabilities declined mainly as deferred tax liabilities decreased
Total liabilities		**5,254**	**3,924**	**-1,329**	
Total net assets		**23,165**	**23,024**	**-140**	The financial position remains sound with a high equity ratio of 83.0%.
Total liabilities and net assets		**28,419**	**26,948**	**-1,470**	

Impact of Covid-19 Pandemic

2. Impact of Covid-19 Pandemic

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(1) Revision of Financial Result Forecast

- **Given the impact of the Covid-19 infection, we announced a revision to the FY 2020 second quarter (cumulative) plans on May 20, 2020.**
- **The full-year plan for FY2020 was revised to be undetermined, as the impact of the spread of the infection and when it would subside is currently unclear.**
  ***We will announce the full-year forecast immediately once calculations becomes possible.**

FY2020 second quarter	2019 Actuals	Initial plan (announced on Feb. 5)	Revised plan (announced on May 20)	
	Amount (million yen)	Amount (million yen)	Amount (million yen)	Change from initial plan
Net sales	12,087	14,000	12,000 to 12,400	-14.2% to -11.4%
Operating income	2,874	3,150	2,100 to 2,300	-33.3% to -27.0%
Ordinary income	2,914	3,150	2,100 to 2,300	-33.3% to -27.0%
Net income attributable to owners of the parent company	1,918	2,100	1,350 to 1,450	-35.7% to -31.0%

FY2020 full year	2019 Actuals	Initial plan (announced on Feb. 5)	Revised plan (announced on May 20)	
	Amount (million yen)	Amount (million yen)	Amount (million yen)	Change from initial plan
Net sales	25,752	29,000	Undetermined *To be announced when forecast calculations become possible	
Operating income	5,705	6,300		
Ordinary income	5,755	6,300		
Current net income attributable to owners of the parent company	3,868	4,200		

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(2) Our Responses to Covid-19 Pandemic

- **From January to March, our top priority was the prevention of the spread of infection and the safety of the Group employees, clients, and business partners.**
- **Since April, we have been considering and implementing measures that adapt to the new norm (“with corona”) in stages.**

	Regarding Group employees	Regarding customers, business partners
January **Restrict activities in China**	● Restrict business trips from Japan to China ● Ensure preventative measures such as encouraging handwashing, gargling, and disinfection	● Restrict consulting activities in China
February **Measures to prevent damages from infection within and outside the Company and ensuring safety of our Group employees**	● Establish of a Covid-19 task force ● Recommend staggered commutes to work, shift to online meetings ● Recommend voluntary bans for large group meetings and social gatherings ● Recommend staying home and telecommuting when a family member falls ill	● Cancel study tours in which participants travel together by bus to model businesses ● Recommend shift from visiting-type consulting to remote consulting
March **Shift to a remote structure to ensure measures to prevent infection**	● Restriction on overseas business trips (blanket ban from March 20) and recommendation to refrain from visiting places with conditions that increase infection risk ● Shift to a remote working structure, as a general rule, and shift internal meetings online	● Shift to online workshops and seminars, etc. ● Refrain from visiting client, shift to online meetings and support, as a general rule ● Hold online events for recruitment of new graduates ● Begin measuring temperature of visitors using thermography and noncontact thermometers
April onwards **Create business opportunities under a new norm “with corona”**	● Shift education and training, including new hire training, to online programs ● Full-scale deployment of teleworking also aimed at improving productivity	● Gradually resume sales activities of consulting in China ● Plan and hold seminars on Covid-19 responses by industry and theme ● Issue Management Support Report on Covid-19 infection countermeasures

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(3) Impact of Covid-19 on Group Financial Performance

- In the first quarter, the Chinese consulting business experienced significant impact and beginning in March, the Japanese operation started seeing the impact on new orders.
- Going forward, the impact on performance is expected to be unavoidable for a certain period of time, especially on the consulting segment.

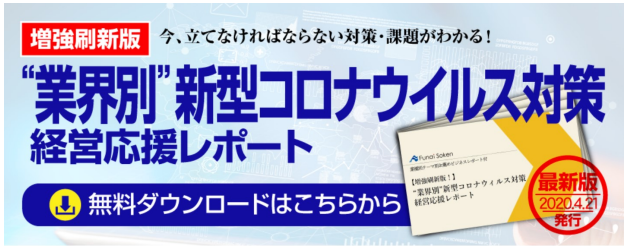
	Impact in the first quarter (Jan. to Mar.)	Impact on future business performance
Consulting	・Consulting in China has been non-operational in February and March, significantly affecting performance ・New sales activities for consulting in Japan have also been greatly restricted since March	・Sales activities for consulting in China have resumed ・Shifts to online support, online seminars, and online workshops are taking place, but a certain level of impact is likely on existing and new orders depending on industry
Logistics	・No significant impact of the Covid-19 in the first quarter as the segment achieved growth in both sales and profits	・Smaller impact compared to other segments but limited sales activities have affected new orders
Direct recruiting	・Seminar cancellations has led to a decline in new clients acquisition	・Since April, an increasing number of companies have suspended employment and recruitment, and continuous utilization rate is expected to decline for the time being
Other businesses	・Impact from project cancellations and postponements in system consulting and contact center consulting segments ・No significant impact on the system development segment	・Impact in the first quarter is expected to continue for the time being

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(4) Our Other Initiatives Related to Covid-19

・**In order to overcome this state of emergency with business operators, the Group is proposing Covid-19 countermeasures by industry and theme, and holding online seminars.**

- Issue Management Support Report on Covid-19 infection countermeasures



- Seminars specializing on Covid-19 countermeasures



- Implement consulting proposals for Covid-19 countermeasures by industry and theme (Some implemented initiatives)

Education and child care	・**Proposal and enhancement of online classes at cram schools and vocational schools, and solutions for online student recruitment**
HR business	・**Given the trend in personnel reductions due to the Covid-19 shock, outplacement market is expected to expand. Focus will be on consulting clients on establishing outplacement businesses**
Dining and food	・**Proposal of new business formats to recover sales and measures to strengthen sales such as take-away and delivery channel, etc.**
Digital innovation	・**As more companies adopt telecommuting, propose methods for switching to a telecommuting and online business model**
Financial	・**Prioritize management consultation and proposal of countermeasures focusing on member companies and companies we support, to respond to deteriorating cash flow and medium-term concerns**

(4) Our Other Initiatives Related to Covid-19

- Decisions to revise the initial plan given the spread of the Covid-19 infection.
- There are no immediate cash flow issues but future trends of the situation will be closely monitored.

Recruitment, education

- Given cancellations of various recruitment events, gradual switch to online company information sessions and interviews
- Shift various education and training including new hire training, to programs that are completed online

Events

- Cancelled the National Management Strategy Seminar Conference scheduled in August
- Cancelled the Company's 50th anniversary ceremony scheduled in August
- Cancelled the Overseas inspection tours planned for later in the fiscal year

Cost reduction

- Reduction of travel expenses with the restriction on movement and business travel
- Reduction of directors' stock-based compensation
- Cost reduction from the cancellation of the 50th anniversary event, etc.

Financial status

- In preparation of contingencies, the Company secured stable funds by signing a commitment line of 3 billion yen with financial institutions
- Financially, maintaining strong financial base with current ratio of 415.5% and equity ratio of 83.0%

Risk information

- Currently, no obstacles to business continuation
- However, if economic activity stagnates or worsens in the future and the business environment of SMEs, our Company's main clients, deteriorates, it may impact our Group's performance and financial situation, therefore we will continue to closely monitor future trends

Shareholder Returns and Future Initiatives

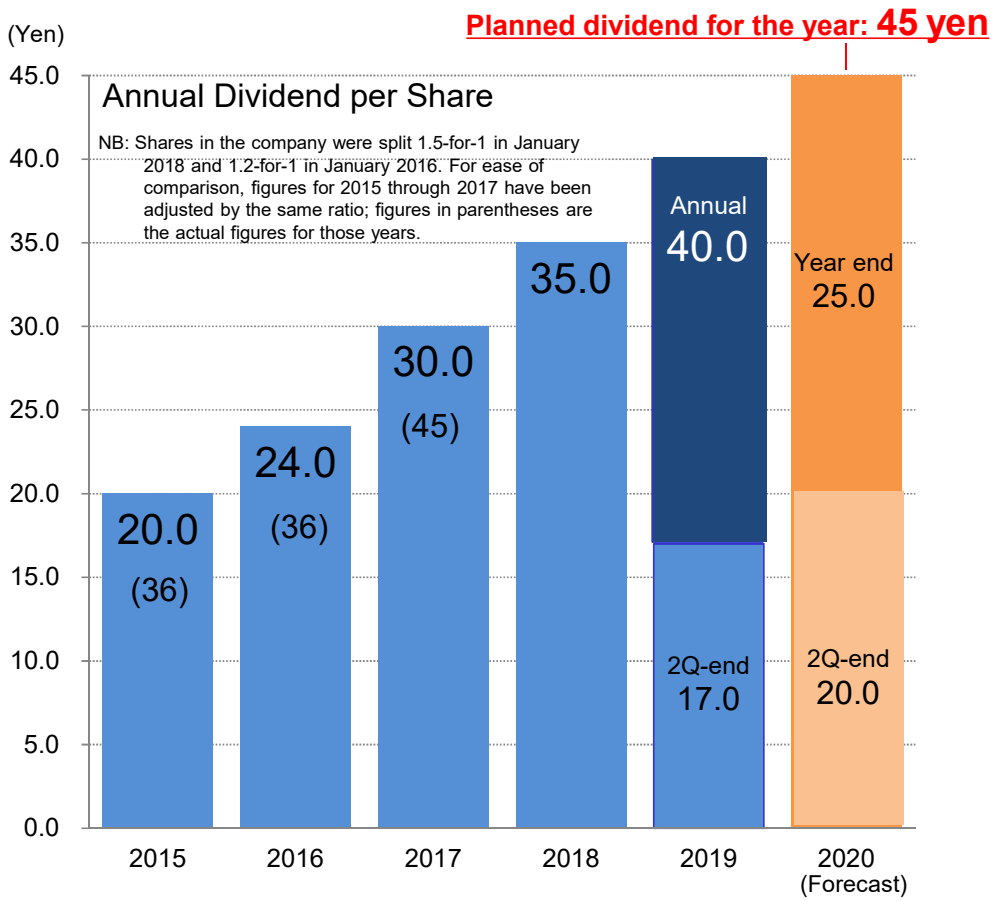
3. Shareholder Returns and Future Initiatives

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(1) Dividends

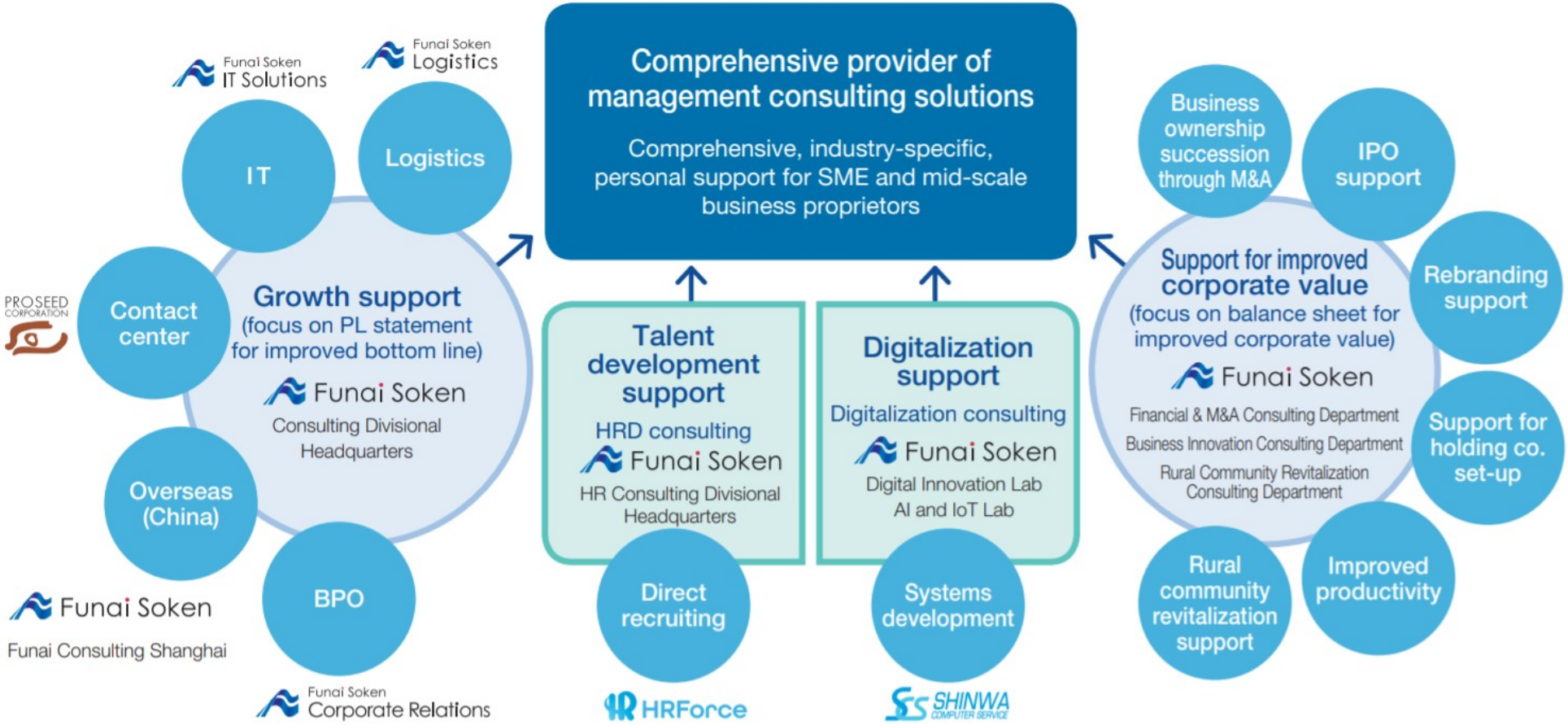
・In 2020, we plan to distribute an interim dividend of 20 yen and a year-end dividend of 25 yen, thus totaling 45 yen for the year.
***Revisions to financial result forecasts for the current period were announced on May 20, 2020 but there will be no change to dividend forecasts at this time**

	Initial forecast		Actual dividend	
Record date	Dividend (per share)	Details	Dividend (per share)	Details
FY2015	34.0	2Q-end 15.0 Year end 19.0	36.0	2Q-end 15.0 Year end 21.0
FY2016 1.2-for-1 share split	36.0	2Q-end 15.0 Year end 21.0	36.0	2Q-end 15.0 Year end 21.0
FY2017	39.0	2Q-end 15.0 Year end 24.0	45.0	2Q-end 15.0 Year end 30.0
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 *including 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 *Including a commemorative dividend of 3.0
FY2020 (Forecast)	45.0	2Q-end 20.0 Year end 25.0		



(2) Business Strategy

We are sequentially expanding the range of solution categories in which we offer support as part of our quest to be a comprehensive provider of management consulting solutions.

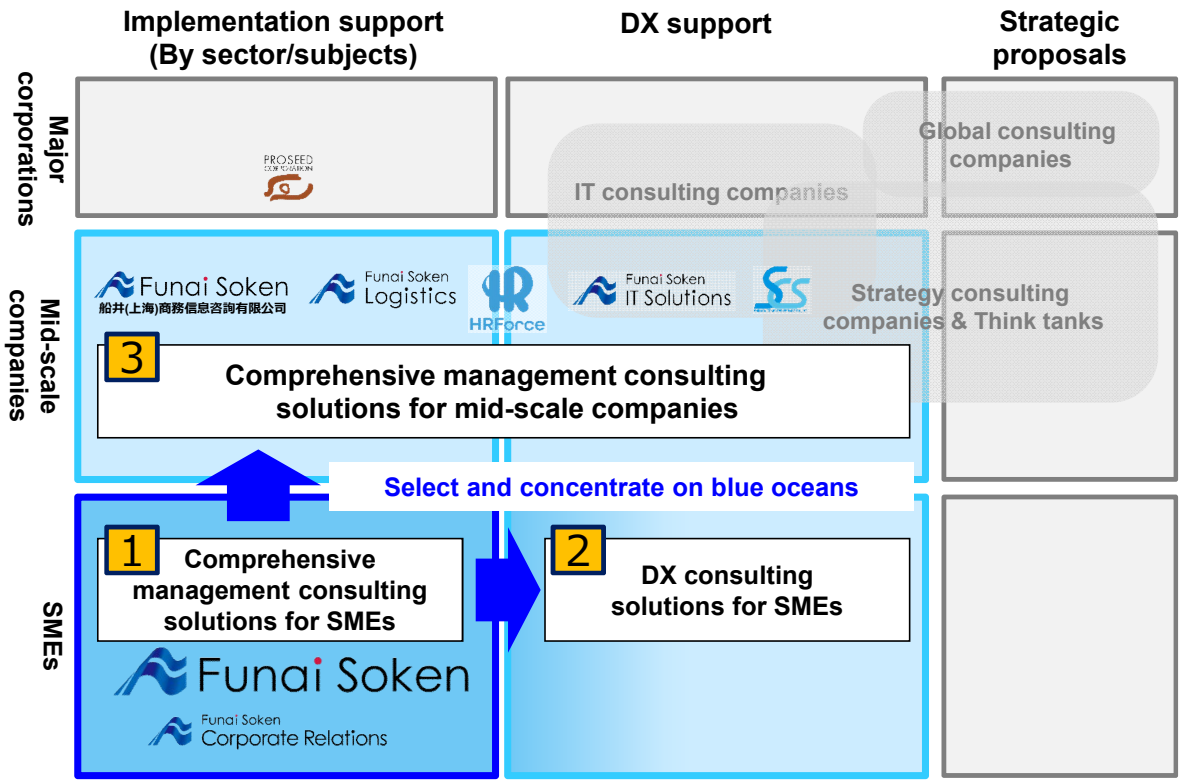


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(2) Business Strategy

Our Group will accelerate DX consulting services for SMEs and we will take on challenges towards providing comprehensive management consulting solutions to mid-scale 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

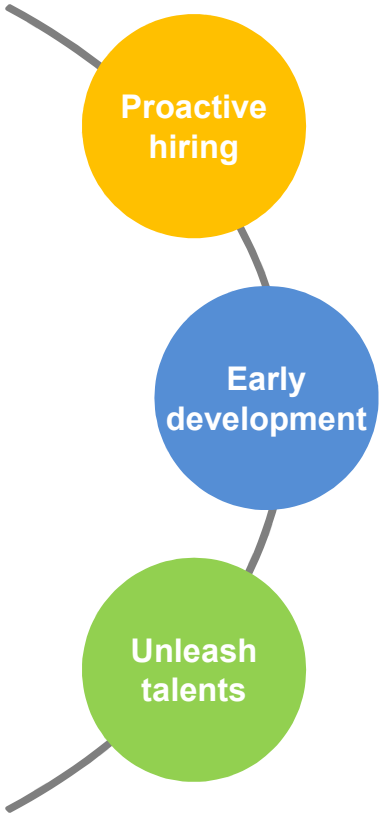
3 Comprehensive management consulting solutions for mid-scale companies
(Mid-scale companies x implementation support & DX support)

- 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

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(3) Human Resources Strategy

Design an environment that helps diverse individuals fully unleash their strengths to support the Group's sustained growth.



<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

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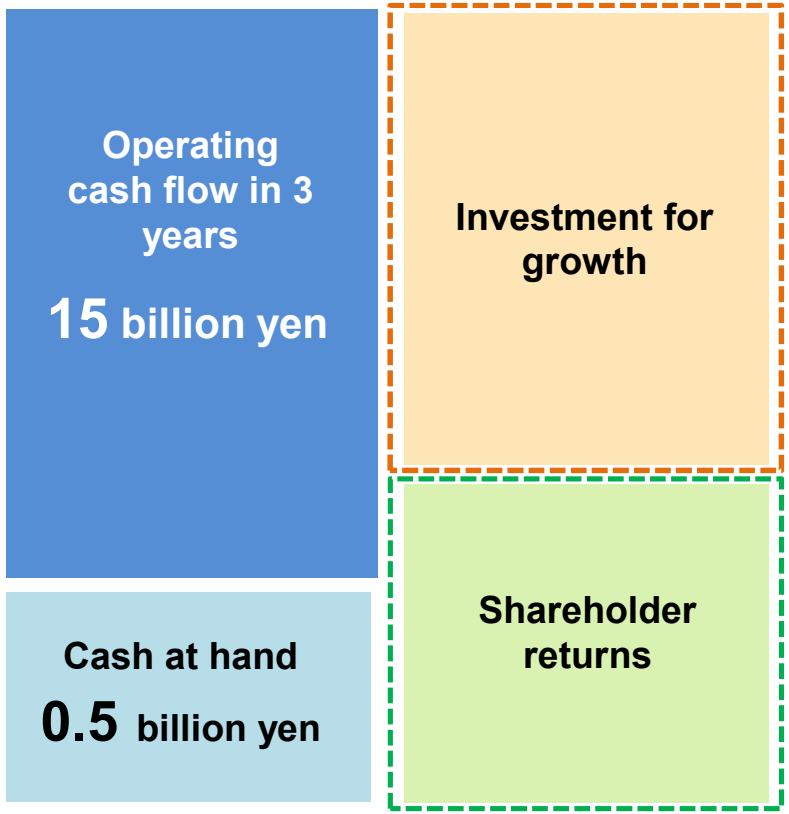
Involve all employees of the Group in the celebration of the company's 50th anniversary to create new core values for the future.

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

(4) Financial Strategy

- **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+%

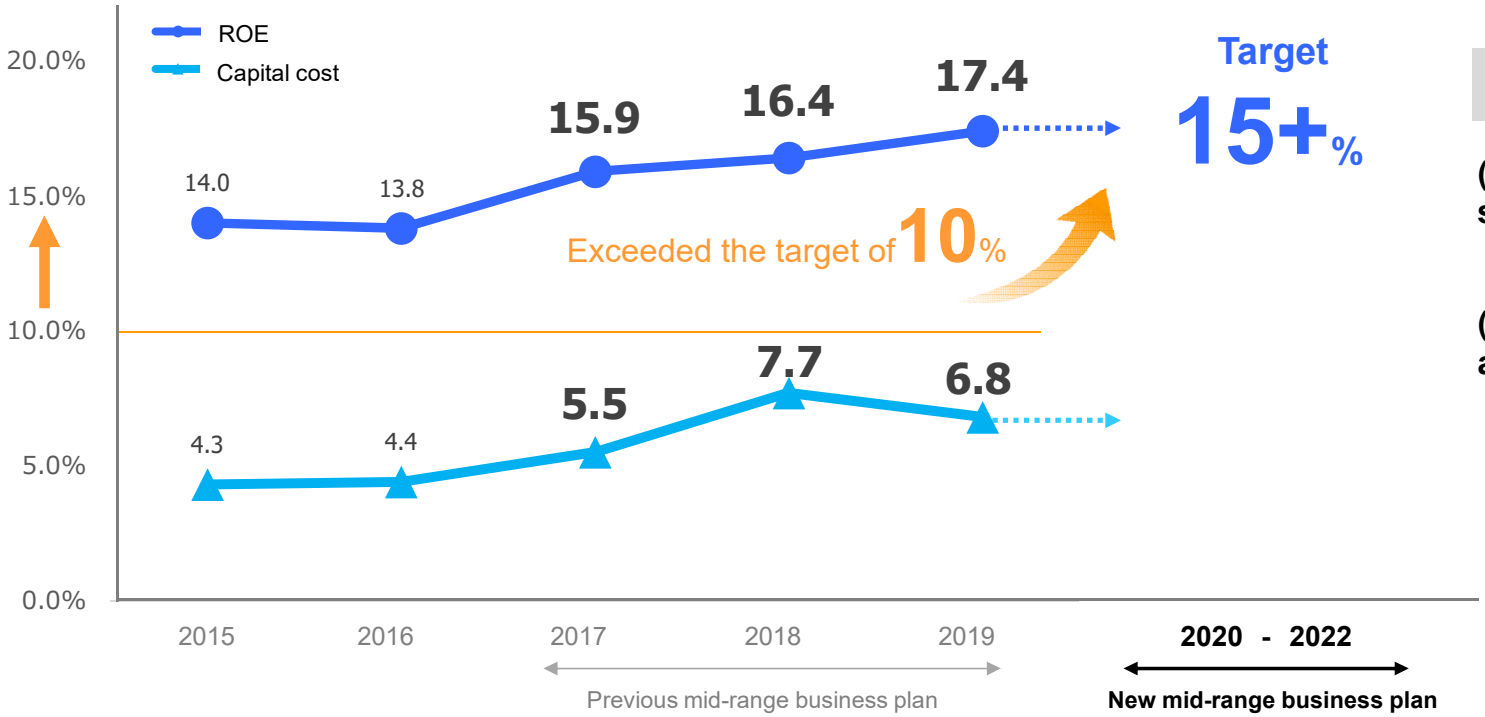
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(4) Financial Strategy

- **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)**

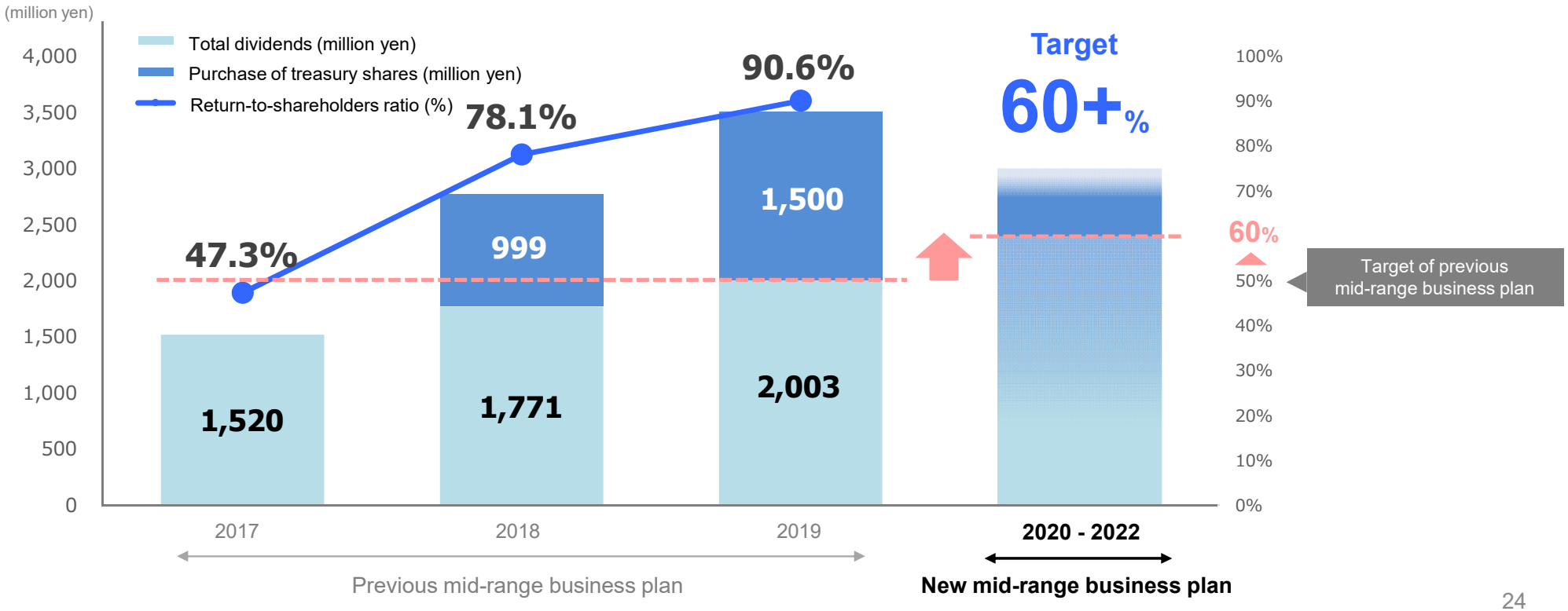
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(4) Financial Strategy

- **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



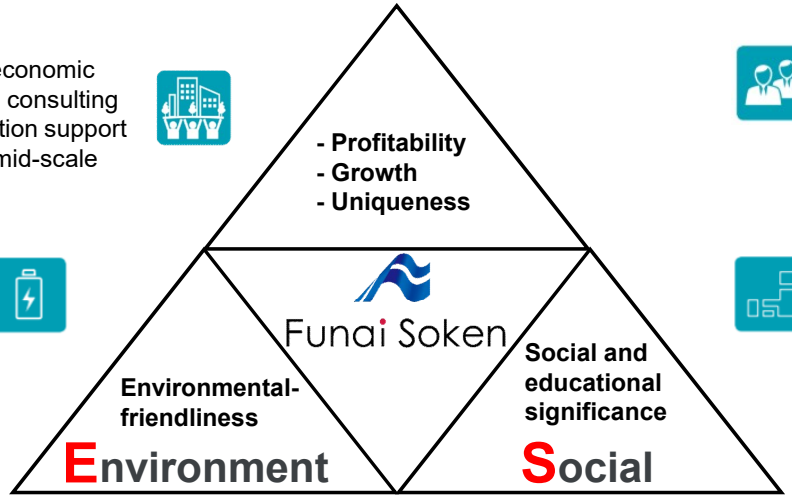
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(5) ESG initiatives

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)

Governance

- Strengthen corporate governance (for details see next slide)

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."

Better future for people, business and society
Funai Soken Holdings

(6) Corporate governance framework

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

*at the end of March 2020

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

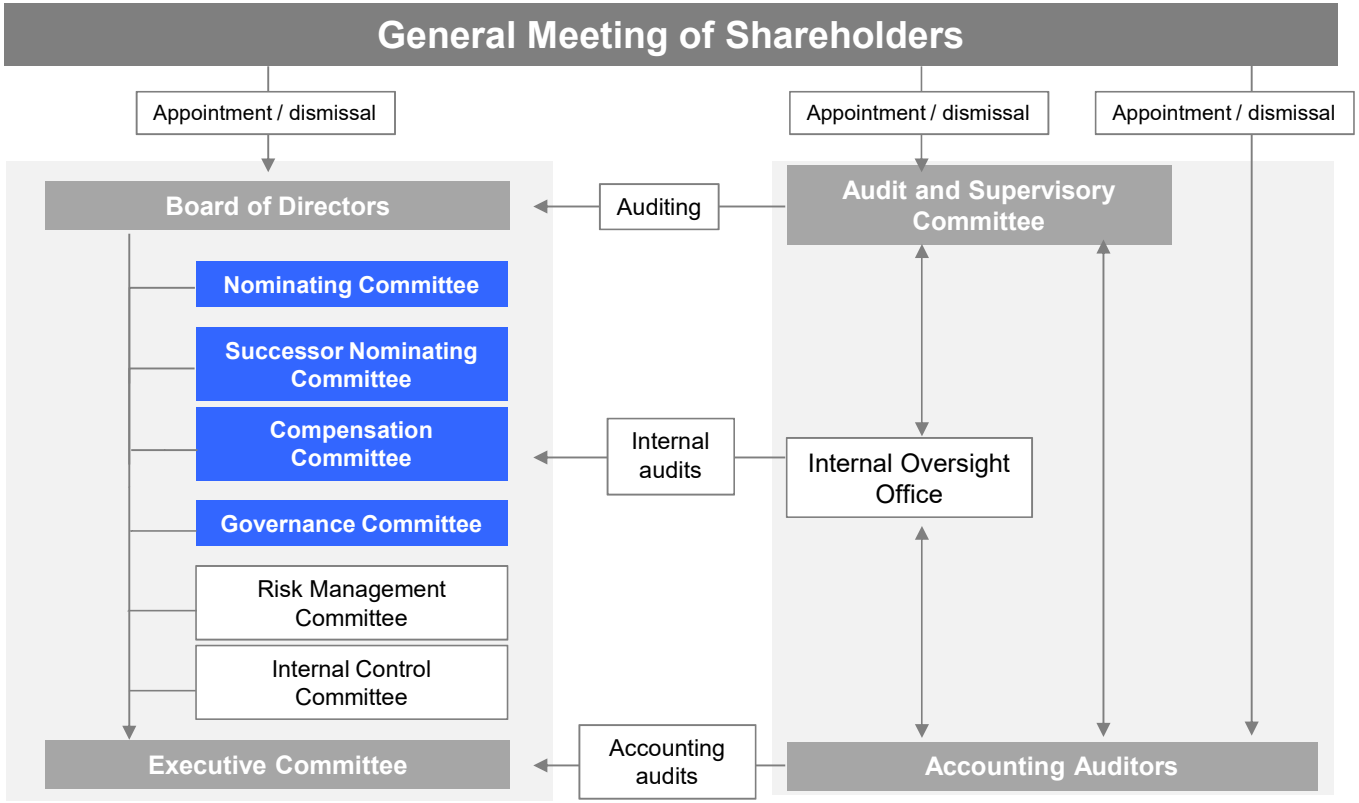
1 internal member;
3 external members

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

4 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 *Appointed 1 woman director in March 2020**
- **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

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.

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