3rd Quarter of Fiscal Year Ending December 2020

Summary of Financial Results

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

October 30, 2020

Funai Soken Holdings

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FY2020
3rd Quarter Financial Results

Funai Soken Holdings

1. FY2020 3rd Quarter Financial Results

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(1) Consolidated Income

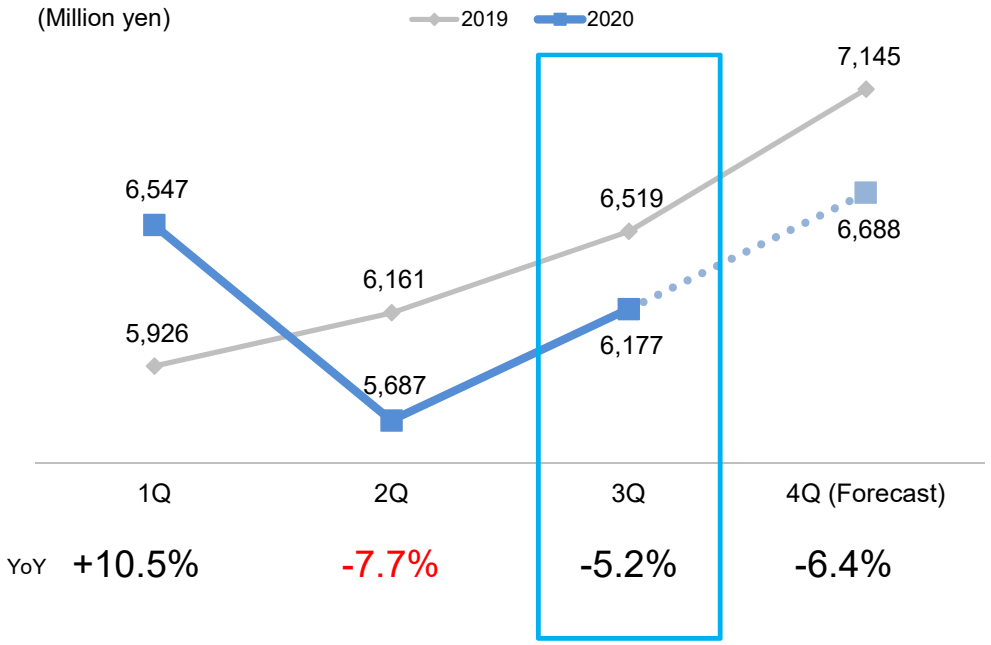
- **3Q (July to September) saw an upturn in net sales due to the recovery trend of orders received in the management consulting business. However, cumulative net sales fell 1.1% year on year due to the impact of the Covid-19 that resulted in a reduction in income and orders in 2Q (April to June) which could not be absorbed by the 3Q upturn.**
- **In terms of profits, operating income, ordinary income, and net income shrank year on year by 11.6%, 10.5%, and 10.3%, respectively, due to a decline in the share of net sales from the more profitable consulting business.**

	September 2019		September 2020		
	Amount (million yen)	% of total	Amount (million yen)	% of total	Difference (%)
Net sales	18,607	100.0	18,411	100.0	-1.1
Operating income	4,109	22.1	3,632	19.7	-11.6
Ordinary income	4,127	22.2	3,695	20.1	-10.5
Net income attributable to owners of the parent	2,730	14.7	2,450	13.3	-10.3

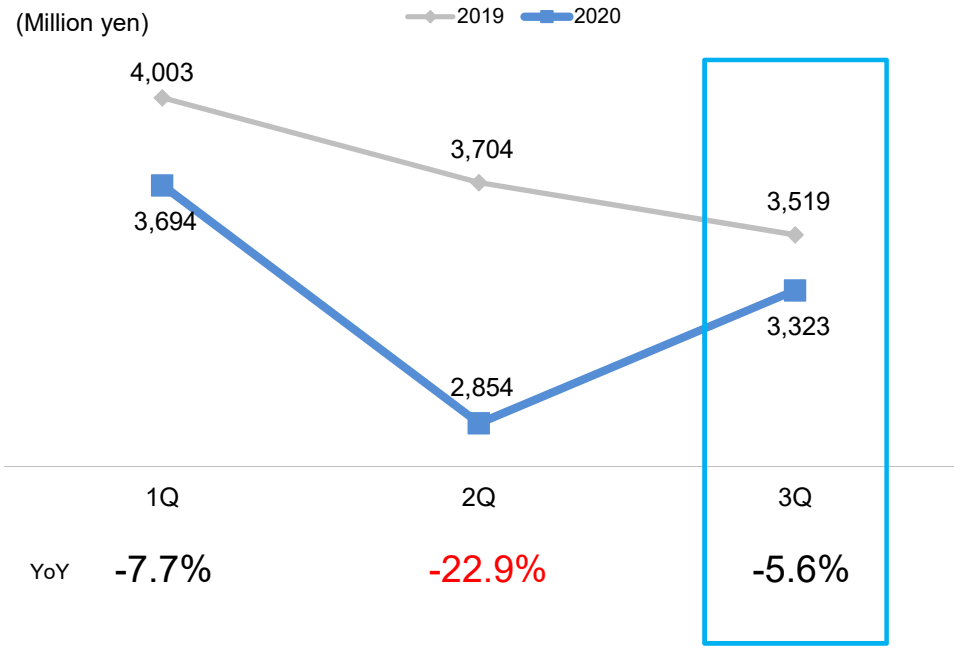
(2) Net Sales and Consulting Orders by Quarter

- **Although net sales and orders in 3Q (July to September) did not recover to levels recorded in the same quarter in the preceding year, both are showing an upward trend, with the impact of Covid-19 having peaked in 2Q (April to June).**

Net sales



Consulting orders received (*)



*Totals of management consulting income from the management consulting business, logistics consulting income from the logistics business, and IT consulting and call center consulting income from other businesses
(The direct recruiting business is not included in consulting orders as it does not generate any consulting income.)

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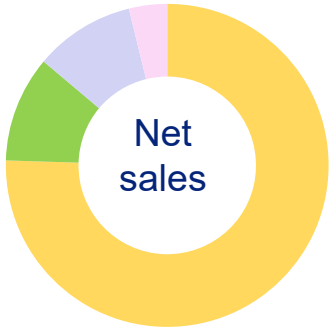
(3) Results of Operations by Segment

- **Despite larger net sales in online advertisement agency services, net sales declined in the core management consulting business as new consulting orders fell due to our refraining from in-person seminars and workshops.**
- **Net sales in the logistics segment grew as a result of increase in spot orders and the deep mining of existing clients in logistics operations.**
- **Cancelled seminars and a decrease in ad placements had an impact on the direct recruiting segment, but operating losses have decreased.**

Net sales	September 2019	September 2020	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	14,236	13,882	-2.5
Logistics	1,768	1,955	+10.6
Direct recruiting	1,749	1,850	+5.8
Other businesses	834	706	-15.4
(Intra-group & whole-group transactions)	17	17	-
Total	18,607	18,411	-1.1



Consulting **75.5% of total**
Logistics **10.6% of total**
Direct recruiting **10.1% of total**
Other businesses **3.8% of total**

Operating income	September 2019	September 2020	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	4,015	3,570	-11.1
Logistics	236	220	-6.9
Direct recruiting	-181	-92	-
Other businesses	25	-95	-
(Intra-group & whole-group transactions)	13	28	-
Total	4,109	3,632	-11.6



Consulting **99.1% of total**
Logistics **6.1% of total**
Direct recruiting **-2.6% of total**
Other businesses **-2.6% of total**

* Percentages exclude intra-group & whole-group transactions

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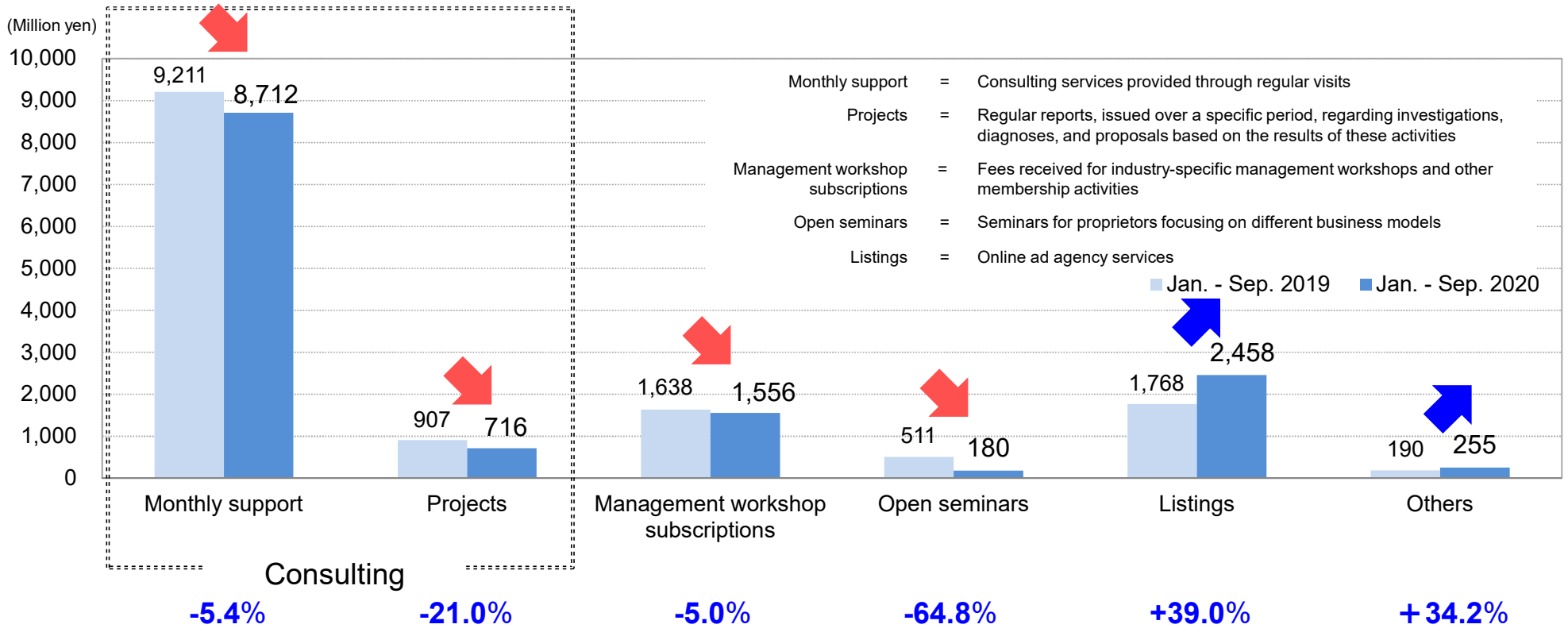
(4) Results of Operations by Segment: Consulting Sales by Service Category

- Despite a trend towards recovery of monthly support from 2Q to 3Q, cumulative net sales shrank 5.4% year on year.
- Management workshop subscription income fell 5.0% year on year despite a shift to a web conference platform due to the impact of Covid-19.
- Income from open seminars declined 64.8% year on year due to seminars being voluntarily cancelled or moved online, and attracting fewer participants.
- Web ad listing income rose 39.0% year on year on the back of a solid increase in accounts.



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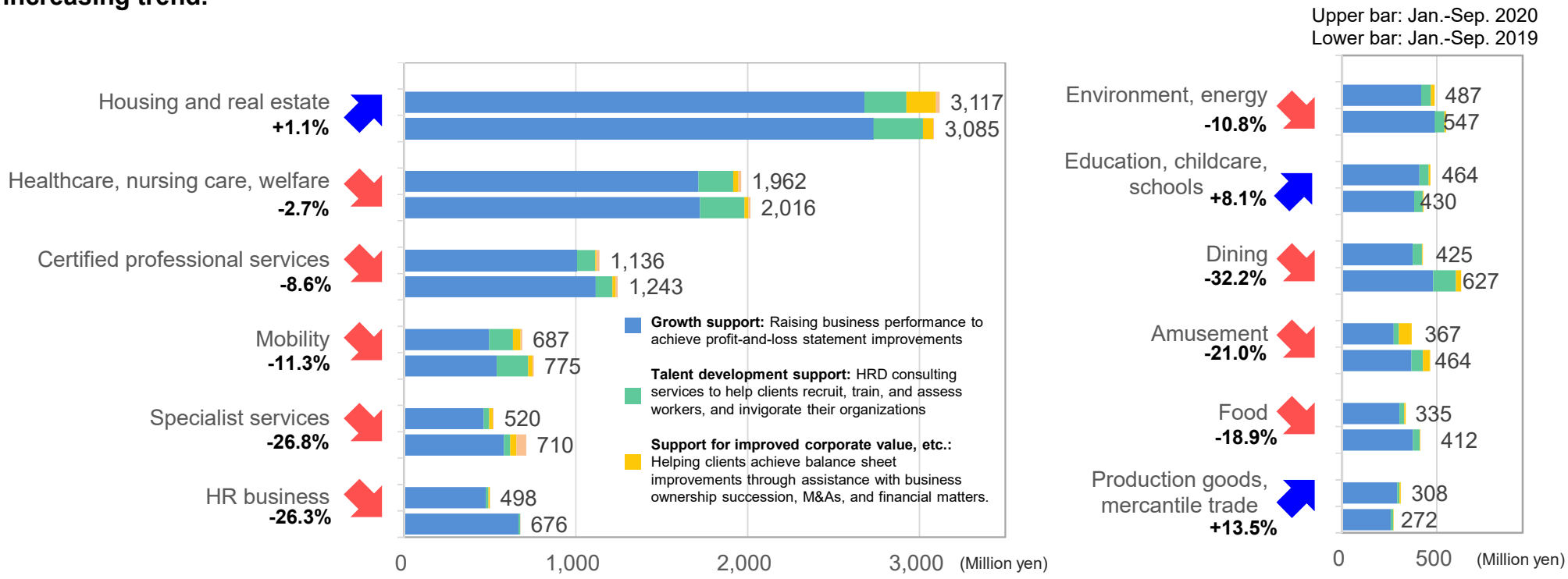
(4) Results of Operations by Segment: Consulting Sales by Sector

- **The core housing and real estate sector continued to grow with a year on year rise in orders received in 3Q.**
- **Despite the impact of Covid-19, the production goods and mercantile trade sector performed well as a result of swift solutions development.**
- **Although all sectors are experiencing difficulties, consulting services related to online marketing and digitalization are showing an increasing trend.**



NB: Figures show sales of consulting contracts, management workshop subscriptions, and open seminar revenues, grouped in accordance with the company's industry classifications, for the January-to-September period of 2019 and 2020.

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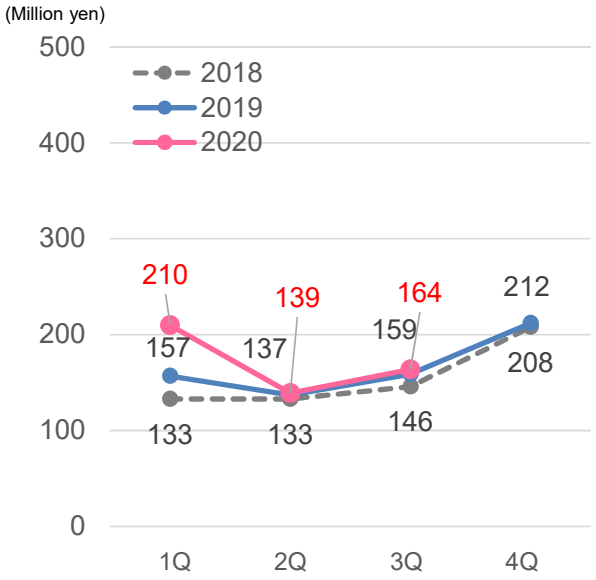
(5) Results of Operations by Segment: Logistics Sales by Service Category (by Quarter)

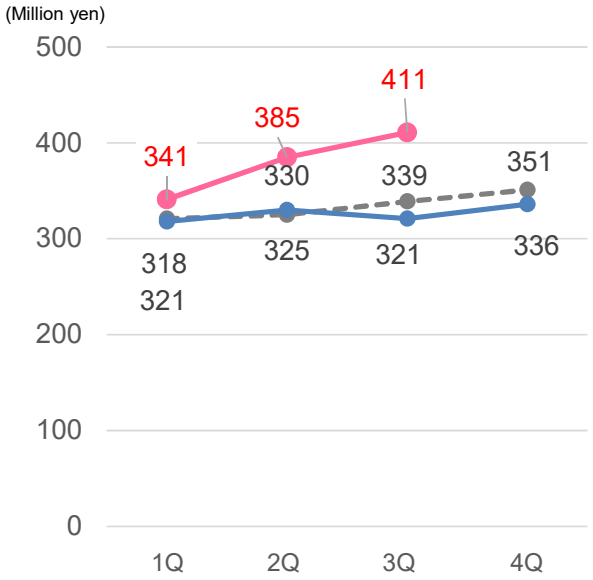
Logistics Consulting
Helping clients reduce logistics costs

Net sales rose slightly in 3Q as projects ordered last year but postponed were sold.



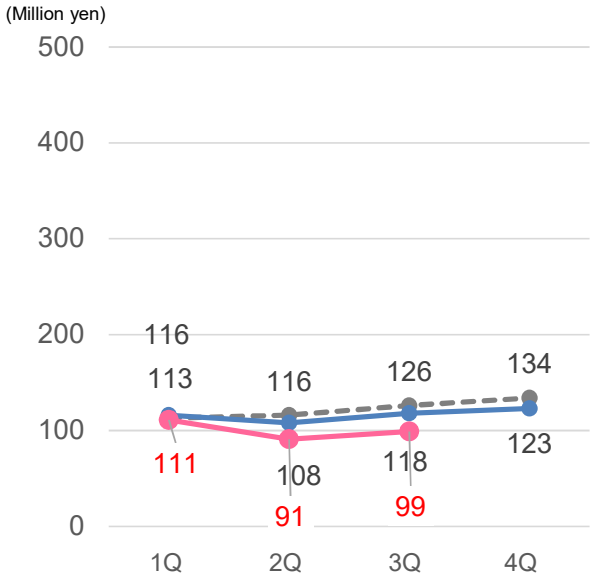
Logistics Operations
Logistics on behalf of clients

Deep-mining of existing clients and ongoing business with new clients from the previous year led to increases in net sales.



Logistics Trading
Reducing purchasing costs through joint buying

The fall in unit prices in the fuel business and the impact of temporary business suspensions caused net sales to decline.



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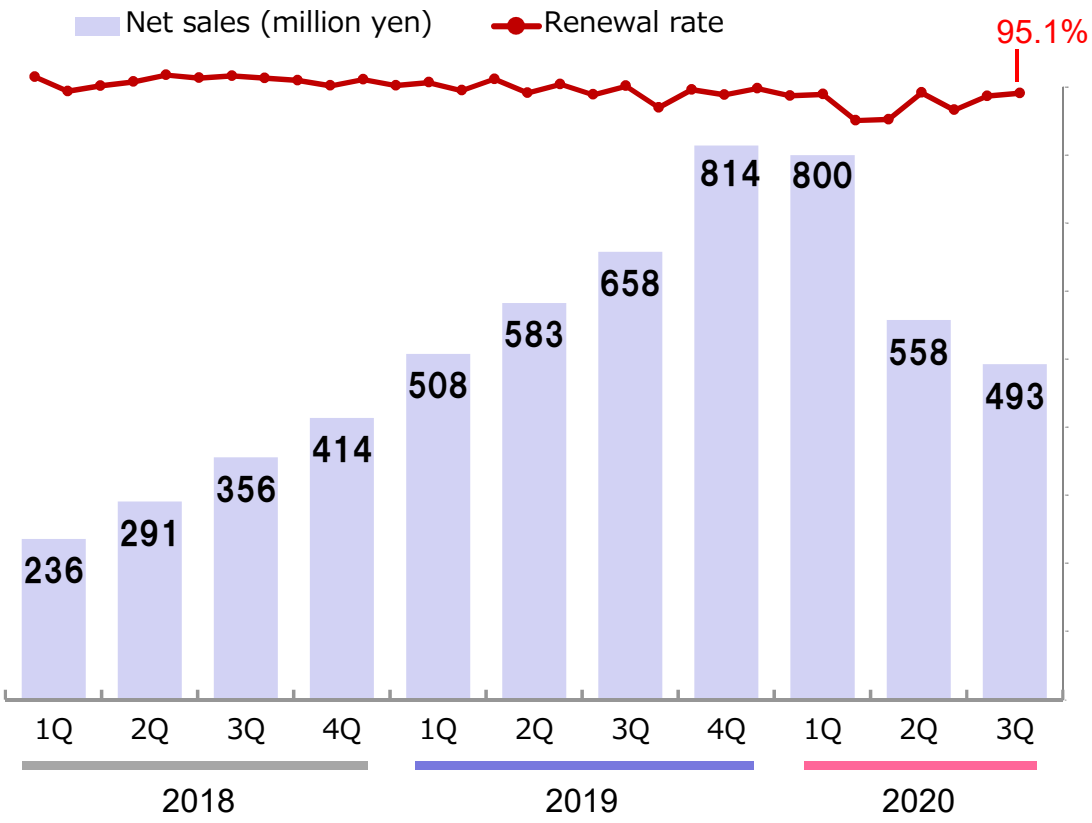
(6) Results of Operations by Segment: Direct Recruiting

- **Due to Covid-19, net sales fell sharply due to fewer placements of recruiting advertising and seminar cancellations leading to less new client acquisitions. However, the existing client renewal rate from the cloud-based AI recruiting service remained at over 95%.**
- **Personnel placement business was launched in 3Q.**



Main Services of Direct Recruiting Business



Cloud-based AI recruiting service

- Use accumulated big data for automatic AI operations to invite applications
- 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



Fixed-fee, unlimited use service

- Cheaper recruitment cost. No additional charge regardless of the number of people hired. With a fixed fee, the more it is used, the better value it is.
- Guaranteed number of hires (commitment)
- Fee is returned in full if it does not result in a hiring
- Blind resumes of candidates are released in real time.

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(7) Consolidated Financial Position-Balance Sheet

(Million yen)

		As of Dec. 31, 2019	As of Sep. 31, 2020	Change	Major factors behind changes
Current assets		16,694	15,637	-1,057	Decrease in current assets: Mainly decreases in cash and deposits, trade notes and accounts receivable, and securities
Noncurrent assets	Property, plant, and equipment	6,109	6,023	-86	
	Intangible assets	773	757	-16	
	Investments and other assets	4,840	5,174	+334	Increase in noncurrent assets: Mainly increases in investment securities
Total assets		**28,419**	**27,593**	**-825**	
Current liabilities		4,931	3,753	-1,178	Decrease in current liabilities: Mainly decreases in current portion of bonds and accrued income tax
Noncurrent liabilities		322	286	-36	Decrease in noncurrent liabilities: Mainly decrease in deferred tax liabilities
Total liabilities		**5,254**	**4,039**	**-1,214**	
Total net assets		**23,165**	**23,554**	**+389**	The financial position remains sound with a high equity ratio of 82.9%
Total liabilities and net assets		**28,419**	**27,593**	**-825**	

Full-year Outlook & Impact of Covid-19

2. Full-year Outlook & Impact of Covid-19

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(1) Revision of Financial Result Forecast

・**The financial result forecast for FY2020 announced on August 20, 2020 was revised based on information currently obtainable.**

FY2020 full-year forecast	(FYI) FY2019 actual	Previous forecast (August 20)	**Revised forecast** (October 30)
	Amount (million yen)	Amount (million yen)	Amount (million yen)
Net sales	25,752	24,000 - 25,760	25,100
Operating income	5,705	4,300 - 5,150	4,900
Ordinary income	5,755	4,350 - 5,200	5,000
Net income attributable to owners of the parent	3,868	2,900 - 3,500	3,400

Net sales forecast by segment

Consulting	19,150 million yen
Logistics	2,600 million yen
Direct recruiting	2,350 million yen
Other businesses	1,000 million yen

Operating income forecast by segment

Consulting	4,850 million yen
Logistics	250 million yen
Direct recruiting	-140 million yen
Other businesses	- 100 million yen
Entire company	40 million yen

Reason for revising financial result forecast

Although it remains unclear when the Covid-19 pandemic will end, we revised the previous range of figures and finalized net sales and profit forecasts to reflect the recovery of orders since 3Q.

2. Full-year Outlook & Impact of Covid-19

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(2) Outlook & Impact of Covid-19 by Segment

- The decline in orders through the second quarter due to operational limitations caused by Covid-19 will inevitably have an impact on full-year performance.
- Consulting activity in China is returning to the pre-Covid levels.

	Impact on 3Q FY2020 (Jan.-Sep.)	Outlook
Consulting	・In Japan, new orders struggled to grow as we have refrained from consultant visits since March and in-person seminars and workshops continued to be cancelled. ・Sales declined sharply in China, as business activities stopped in Feb. and Mar. Since resuming sales activities in Apr. however, new orders are showing a recovery.	・In Japan, for each sector, we will offer solutions to adapt to the Covid situation, support remote operations, offer online seminars, and hold management workshops online. However, Covid-19 impacts will still likely impact our full-year results. ・In China, consulting activities have recovered to pre-Covid levels from 3Q.
Logistics	・Amidst a difficult environment for new orders, the deep-mining of existing clients and receipt of spot orders meant the impact on actuals was not as significant when compared to other segments, with revenue projected to increase 10.6% year on year.	・Despite a year-on-year rise in orders received in 3Q, net sales are projected to be flat from the previous year and operating income to decline as the 3Q upturn could not make up for the delayed in new orders attributable to the impact of the restricted sales activities until 2Q.
Direct recruiting	・A drop in new client acquisitions due to seminar cancellations and fewer placements of recruiting advertising caused sales to drop sharply, but operating loss shrank as a result of cost reductions.	・As recruiting advertising services struggled to capture new clients, the focus has shifted to the personnel placement business which launched in 3Q. ・Unable to recover from the slowdown in 1H, revenue and profits are projected to fall.
Other businesses	・Operational restrictions and delays have had an impact on the IT and call center consulting sectors. ・Delivery delays also occurred in the system development sector.	・Results this quarter is expected to be tough for the IT consulting business, call center consulting business, and system development business.

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(3) New Services Adopted to Current Conditions with Covid-19

・We have begun offering solutions and web-based seminars to help clients deal with Covid-19, each tailored to specific industries and solution categories.

- “Exit Strategy Report” offers Covid-19 strategies covering 41 industries and solution categories



- Online seminars tailored for optimal effectiveness in these Covid-affected times.



- We are developing and delivering industry-specific and solution category-specific ideas for dealing with Covid-19

(Partial list)

Education & childcare	・Online lesson delivery and online student recruiting for tutoring and vocational schools
Certified professional services	・Helping to counter Covid-19 difficulties through firm-wide digitalization, e.g., building a remote legal advice framework, streamlining case processing
Dining & food	・Helping restore sales in a Covid-affected landscape with new business categories and productivity improvement ideas based on staff-saving solutions using serving robots
Manufacturing	・Marketing automation and remote sales meeting solutions that work in a drastically changed sales landscape under Covid-19 ・Proactively develop consulting services targeting small and medium-sized manufacturers with 100 or less employees regarding the popular use of AI and introduction of robots
Digital innovation	・“DX Journey Mapping Consulting” to help clients plot their digital transformation
Finance	・Facilitating stronger monitoring of funding and finances, and execution of astute financial strategies via remote support

Shareholder Returns and Future Initiatives

3. Shareholder Returns and Future Initiatives

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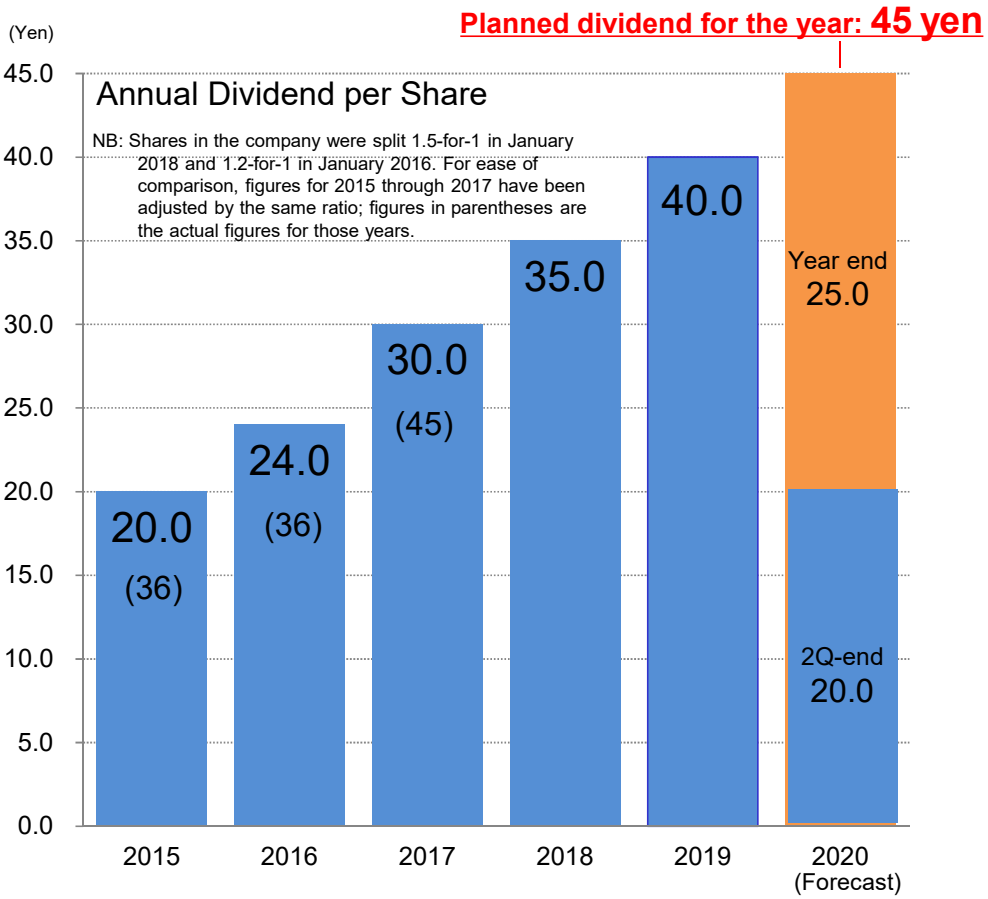
(1) Dividends

In 2020, we plan to pay a total dividend of 45 yen per share, comprising an interim dividend of 20 yen and a year-end dividend of 25 yen.

	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	Year end 25.0		2Q-end 20.0



(2) Acquisition and Cancellation of Treasury Shares

- **Acquire and cancel shares as below to raise capital efficiency by increasing the value per share while also aiming to implement a flexible capital policy in response to the changing business environment.**

(i) Acquisition of treasury shares

	Resolution at Board of Directors Meeting held on October 30, 2020
Type of shares to be acquired	Common stock
Total number of shares to be acquired	420,000 shares (maximum) *Ratio of the total number of issued shares (excluding treasury stock): 0.8%
Total acquisition value	1,000,000,000 yen (maximum)
Acquisition period	November 2, 2020 - March 31, 2021

(ii) Cancellation of treasury shares

Type of shares to be cancelled	Common stock
Number of shares to be cancelled	500,000 shares *Ratio to the total number of issued shares prior to cancellation: 0.94%
Date of cancellation	November 13, 2020

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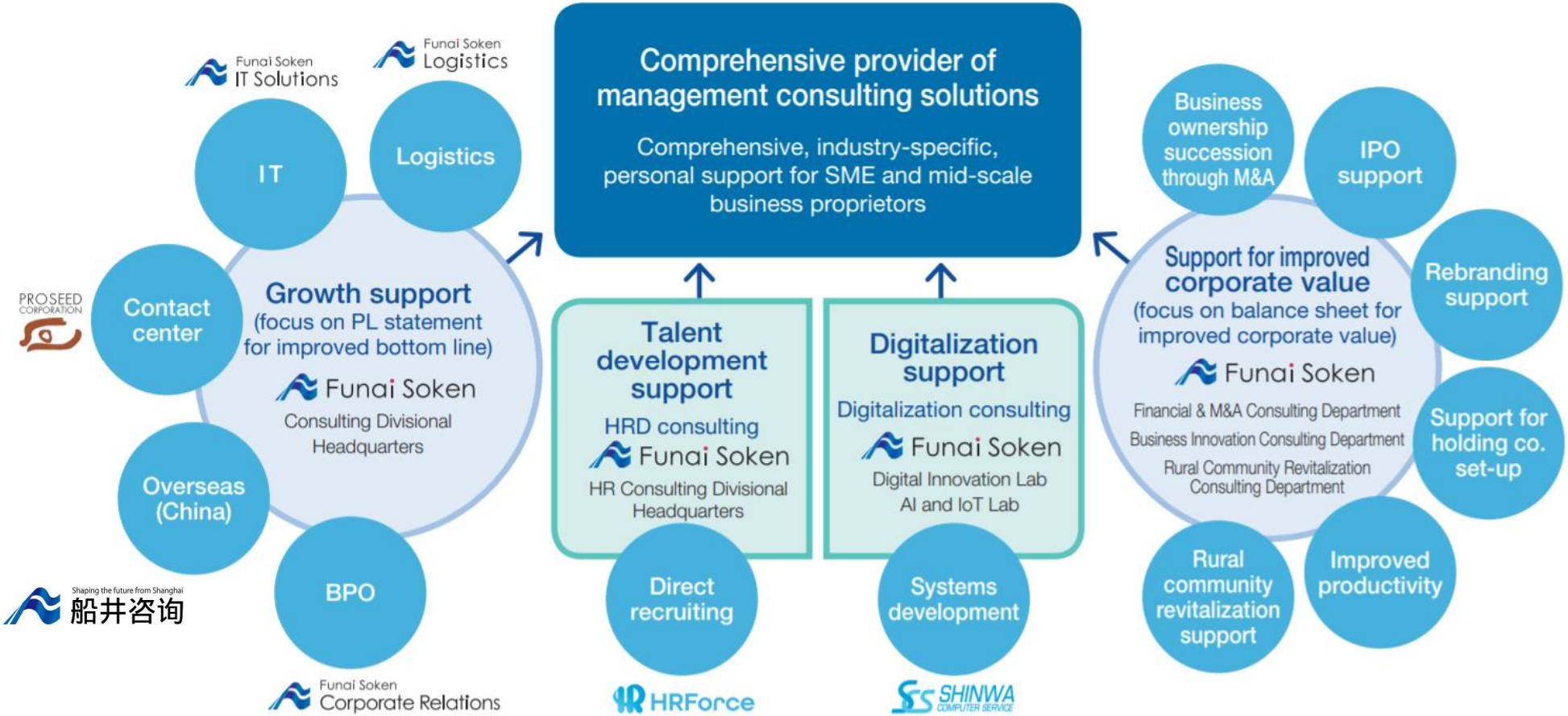
(2) Business Strategy

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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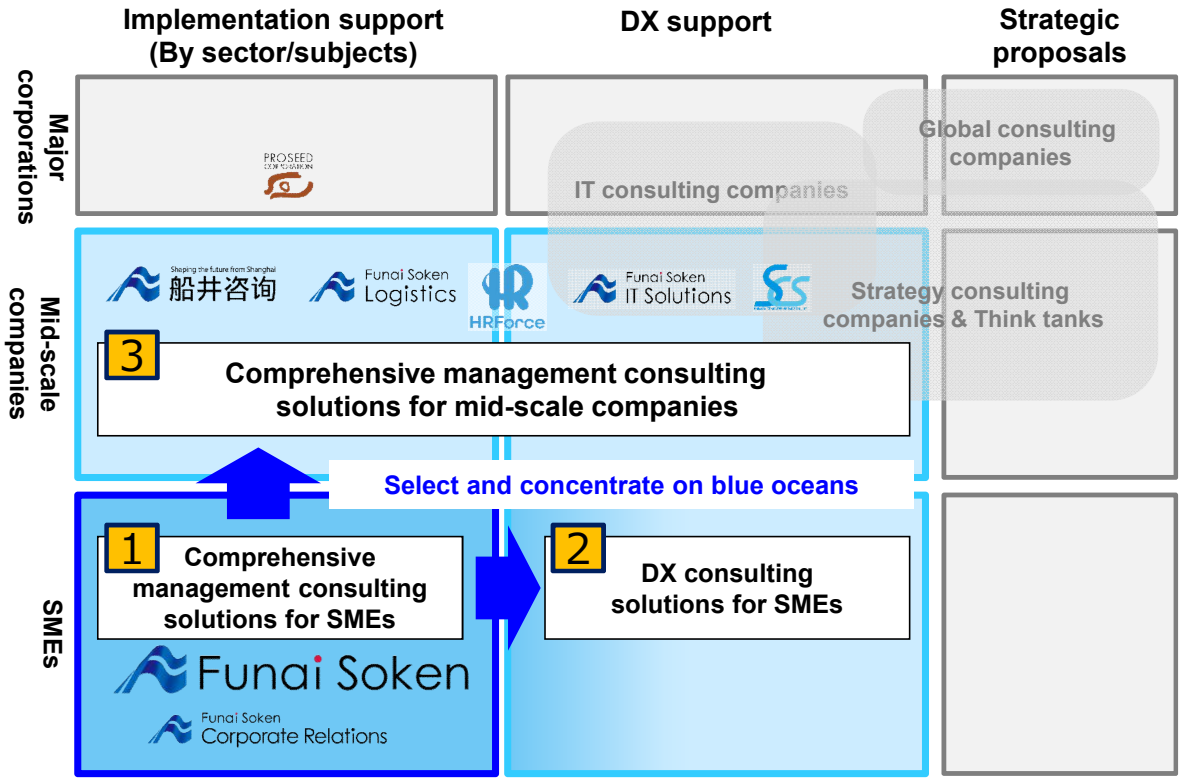
(2) Business Strategy

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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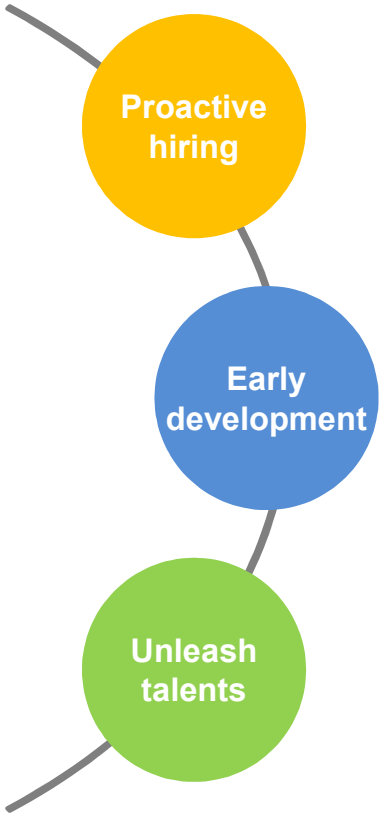
(3) Human Resources Strategy

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

\+ **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.

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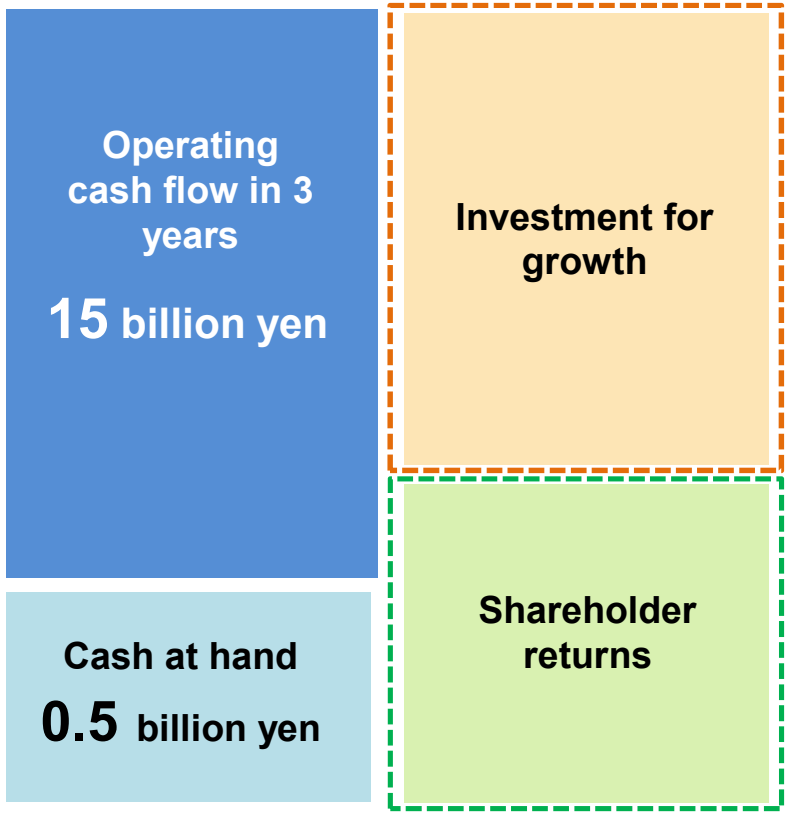
(4) Financial Strategy

- **Investment for growth: Allocation of cash flow from operating activities in coming three years**

  Allocate cash at hand and cash flow 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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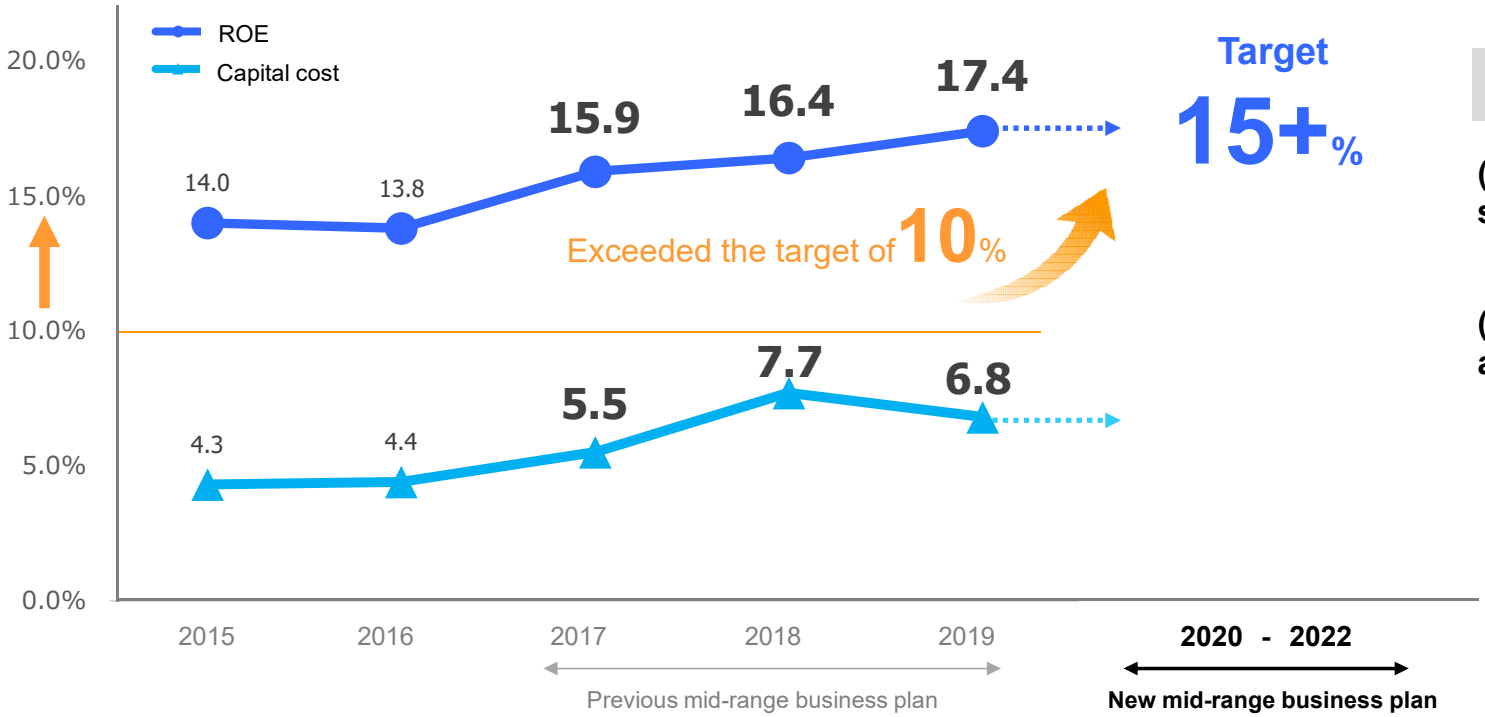
(4) Financial Strategy

- **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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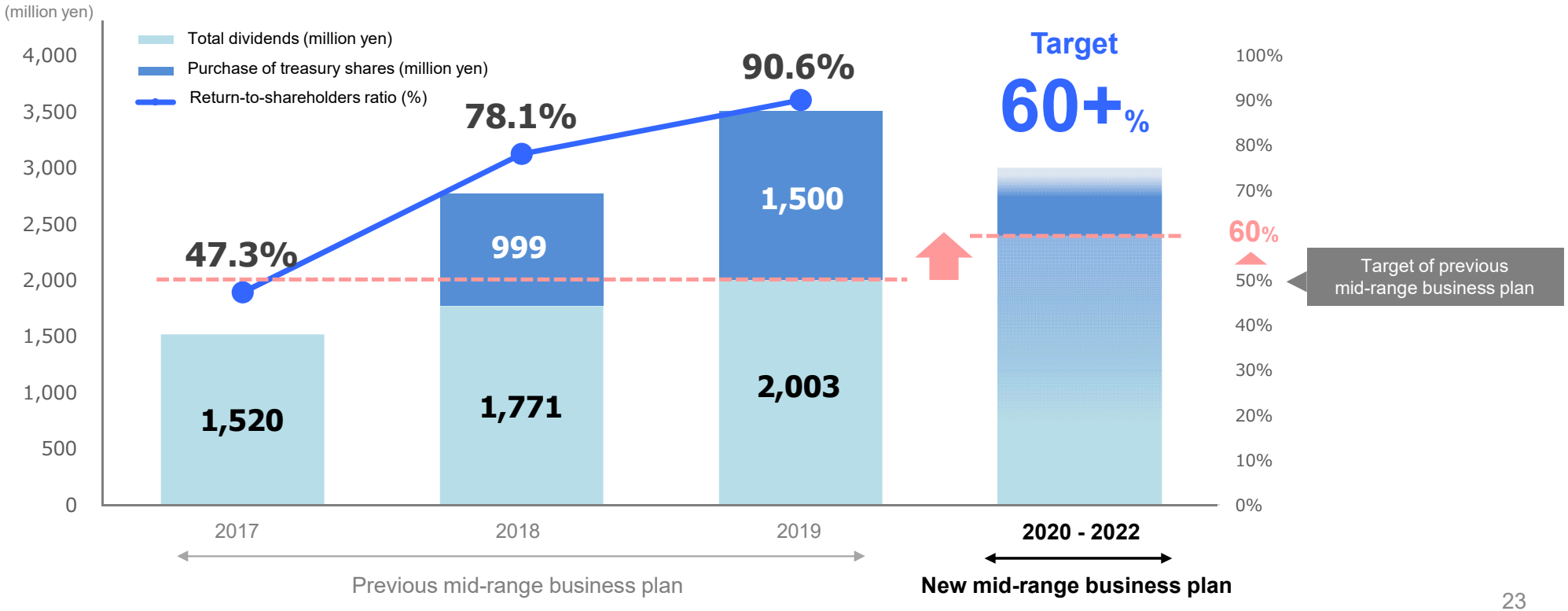
(4) Financial Strategy

- **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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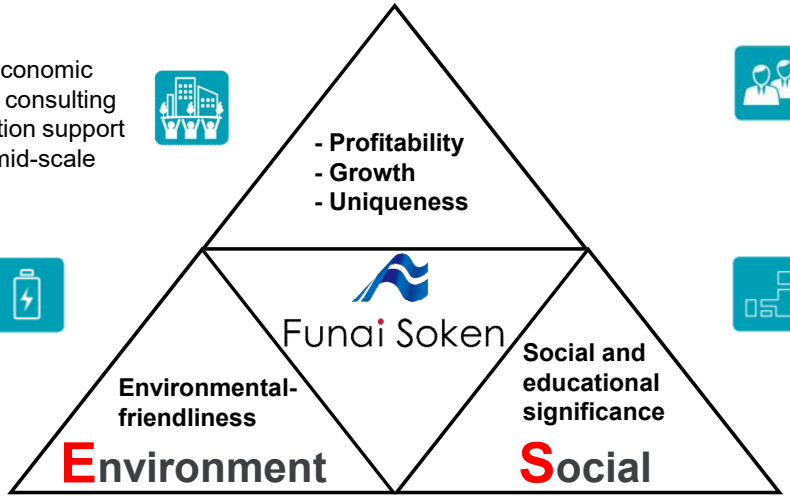
(5) ESG Initiatives

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 **70** companies over 11 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."

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(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

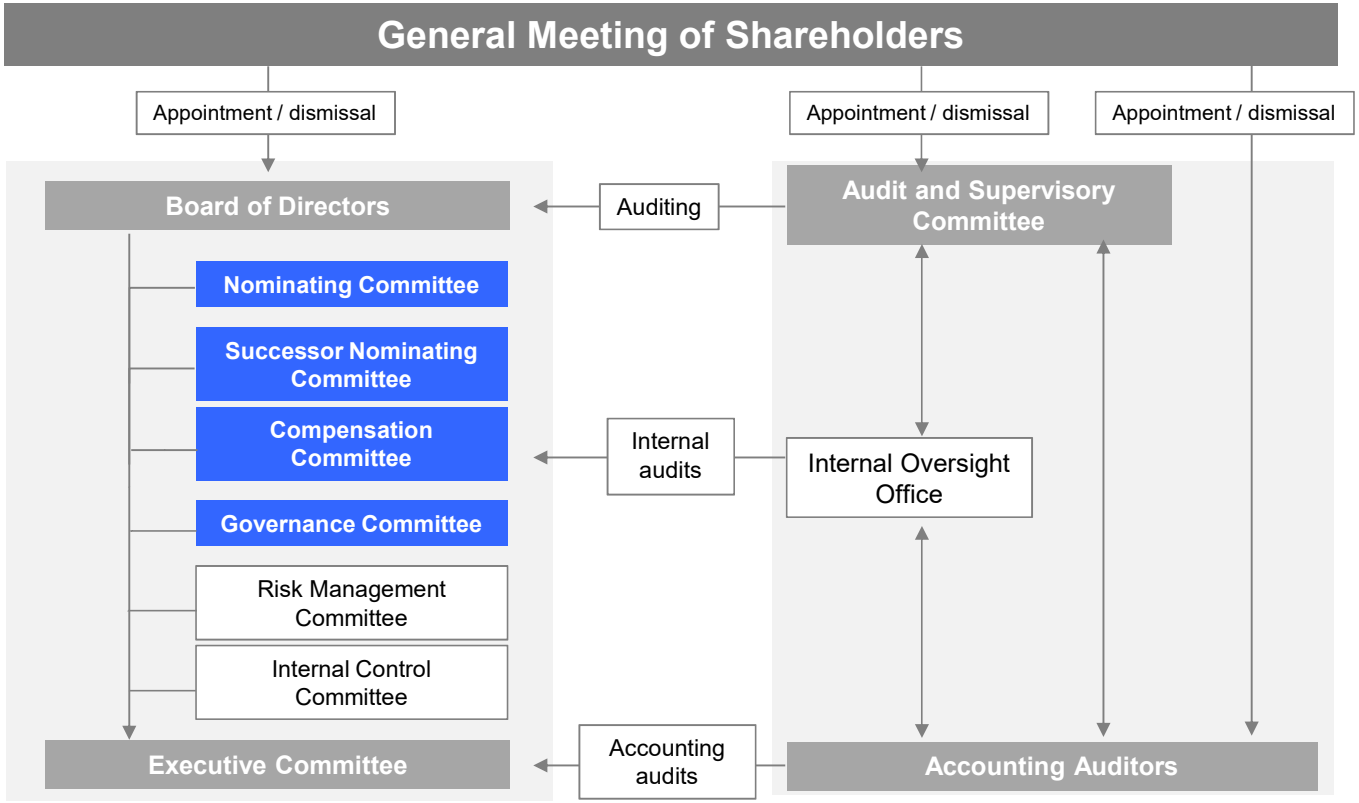
1 internal member;
3 external members

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

Better future for people, business and society
Funai Soken Holdings

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

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

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

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

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