



Funai Soken Holdings Incorporated

2022 Half-year Financial Results Briefing

August 9, 2022

Hello everyone, my name is Nakatani, President and CEO of Funai Soken Holdings. Thank you for your continued support of our group.

Today, I will explain along with what you see on the screen. I will explain based on the financial results summary released on August 4, but since time is limited today, we have excerpted some information from the explanatory materials.

For the details of the materials, please visit our website or contact our investor relations and public relations office, which will be happy to provide you with a separate explanation.

I will now begin with an overview of the financial results for Q2 of the fiscal year ending December 31, 2022.

1. FY2022 2nd Quarter Financial Results



(1) Consolidated Income

- Sales were solid, with sales of monthly support services, project-based consulting, and online advertisement agency services up in the consulting segment, and sales of consulting and BPO also up in the logistics segment.
- Despite a rise in transport costs and consultant hiring costs resulting from the return to on-site consulting activities, as well as an increase in personnel expenses, we managed to sustain a high level of profitability.

	June 2021		June 2022		
	Amount (million yen)	% of total	Amount (million yen)	% of total	Change (%)
Net sales	11,055	100.0	12,258	100.0	+10.9
Operating income	3,279	29.7	3,749	30.6	+14.3
Ordinary income	3,317	30.0	3,779	30.8	+13.9
Net income attributable to owners of the parent	2,257	20.4	2,596	21.2	+15.0

First, let me explain the revenue situation.

Sales were JPY12.258 billion, up 10.9% YoY.

Operating income was JPY3.749 billion, up 14.3% YoY.

Ordinary income was JPY3.779 billion, up 13.9% YoY.

Net income for the quarter was JPY2.596 billion, an increase of 15% YoY and a record high.

In the management consulting business, monthly support services and project-based consulting, as well as listing advertising operations, performed well. In addition, the logistics business continues to perform well, with performance increasing at a faster pace than planned for the current fiscal year.

In terms of profit, the Company continued to maintain a high operating margin of 30%, despite increased transportation expenses associated with the intensification of realistic sales activities for consulting activities, as well as increased consultant recruitment and personnel expenses.

1. FY2022 2nd Quarter Financial Results



(2) Progress in Comparison with This Year's Forecasts



Next, I would like to report on our progress toward the full-year forecast.

Since our planned figures for H1 of the year were net sales of JPY12.3 billion and operating income of JPY3.6 billion, net sales were almost in line with the plan, and operating income exceeded the plan.

As for sales, we believe that the 48.5% progress in H1 of the fiscal year is within the expected range, since our profit structure is such that sales accumulate more in H2 of the fiscal year.

Looking at Q2 alone, sales and operating income grew by only single digits at plus 7.9% and plus 4.1%, respectively.

One factor was the delay in setting up seminars in Q1 from January to March, which prevented an increase in the order backlog in Q1, which in turn affected sales in Q2. However, given the recent seminar and the fact that the order backlog at the end of June was at an all-time high, we still expect to achieve the planned double-digit growth in the end.

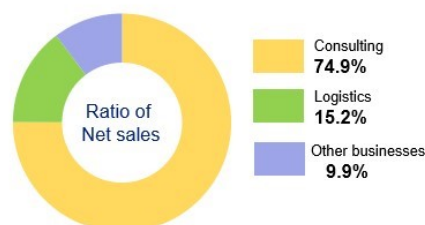
1. FY2022 2nd Quarter Financial Results



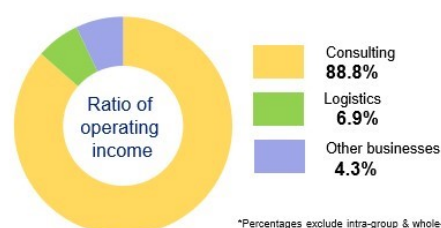
(3) Results of Operations by Segment

- Sales and income were up in all segments.
- Among other businesses, we achieved a large increase in income in the direct recruiting segment due to increases in job opening and system development orders.

Net sales	June 2021	June 2022	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	8,620	9,182	+6.5
Logistics	1,323	1,857	+40.3
Other businesses	1,099	1,209	+10.0
(Intra-group & whole-group transactions)	11	8	—
Total	11,055	12,258	+10.9



Operating income	June 2021	June 2022	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	3,018	3,206	+6.2
Logistics	149	248	+66.0
Other businesses	11	156	+1,313.2
(Intra-group & whole-group transactions)	100	138	—
Total	3,279	3,749	+14.3



*Percentages exclude intra-group & whole-group transactions

Next, I will explain the results by segment.

We have three segments, the core of which is the management consulting business. As shown in the graph on the right, the management consulting business, which accounts for the majority of both net sales and operating income, generated net sales of JPY9.182 billion, up 6.5% from the previous year. Operating income was JPY3.206 billion, up 6.2% YoY.

Next, the logistics business posted sales of JPY1.857 billion, up 40.3% YoY. Operating income was JPY248 million, up 66% YoY, representing a significant increase in both sales and income.

With respect to other businesses, profits increased significantly in the current fiscal year. The breakdown is as follows: the former direct recruiting business, which is included in other businesses from this fiscal year, generated an operating income of approximately JPY70 million in H1 of the fiscal year.

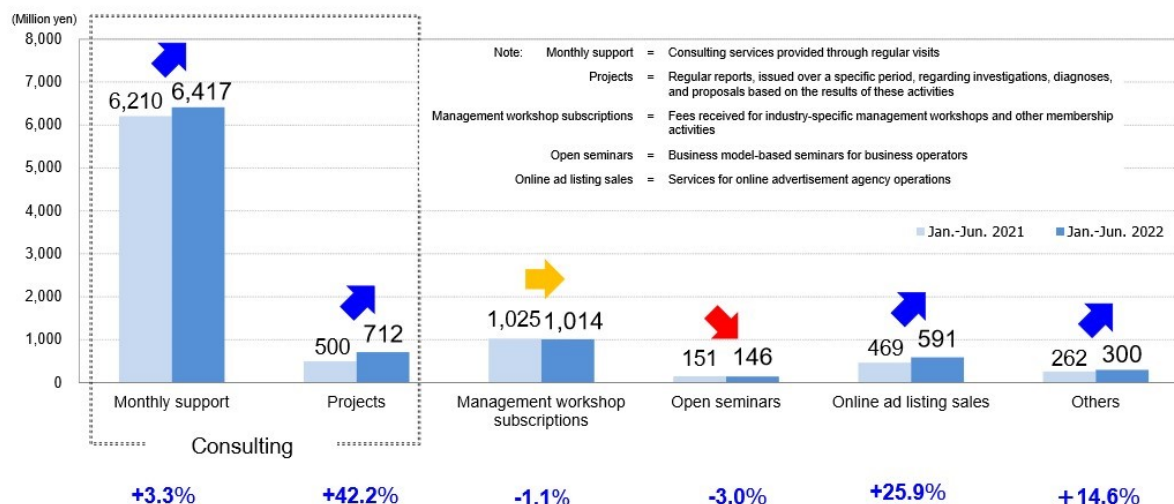
For this business, we saw an operating loss of approximately JPY14 million in the same period last year. The recruitment environment that has been fallen sharply due to COVID-19 has gradually improved, the cost of sales ratio and SG&A expenses have been controlled, and the unit price per client has increased.

In the current fiscal year, we have been able to shift to a structure that generates operating profit on a monthly basis, and finally in its fifth year, we have been successful in turning it into a profit, and it's expected to continue to contribute to profit the Group in the future.

1. FY2022 2nd Quarter Financial Results



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



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This section shows sales by business category in the management consulting business.

Monthly support, our main source of revenue, continues to grow each fiscal year. In terms of amount, the increase was approximately JPY200 million YoY.

The management study group is a membership-based collective study group for business managers. New contracts and enrollments from seminars continue to struggle, but existing clients have remained mostly unchanged, partly due to the establishment of online meetings.

Sales of public seminars, which lagged behind in Q1, remained almost flat in Q2, as Funai Consulting put renewed effort into planning and holding seminars. The number of events and participants exceeded last year's figures, and orders are being received.

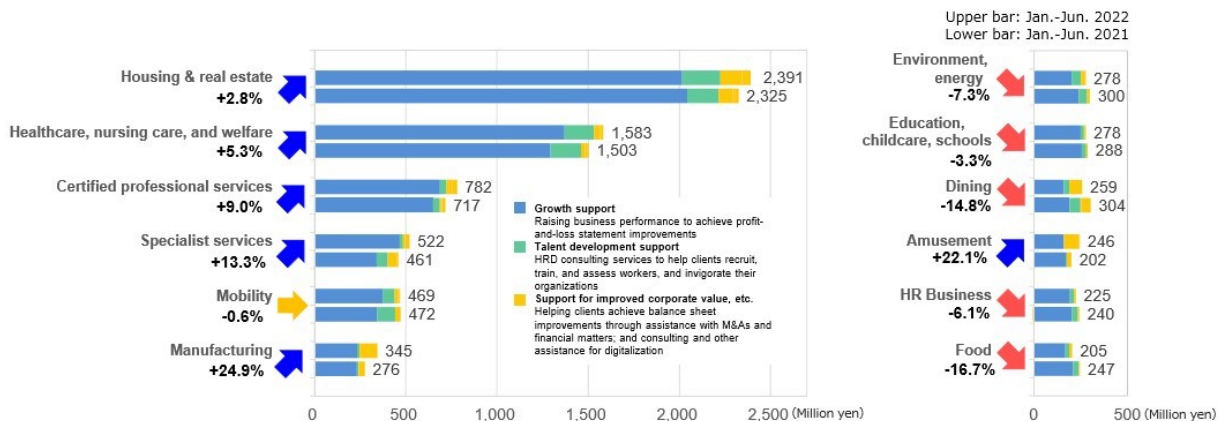
The purpose of the open seminars is to obtain consulting orders rather than stand-alone revenues.

Next, Online ad listing refers to services for online advertisement agency operations. This area has been growing more and more since COVID-19 and continues to expand steadily with a positive 25.9% growth in sales.

1. FY2022 2nd Quarter Financial Results



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



Figures show total sales of consulting contracts, management workshop subscriptions, and open seminars, grouped in accordance with the company's industry classifications, for Jan. through Jun. 2021 and 2022.

Here is the sales situation of the management consulting business by industry category.

Due to the prolonged pandemic, there have been rapid changes in the business conditions in each industry and in the industries we cover, and our sales have varied widely.

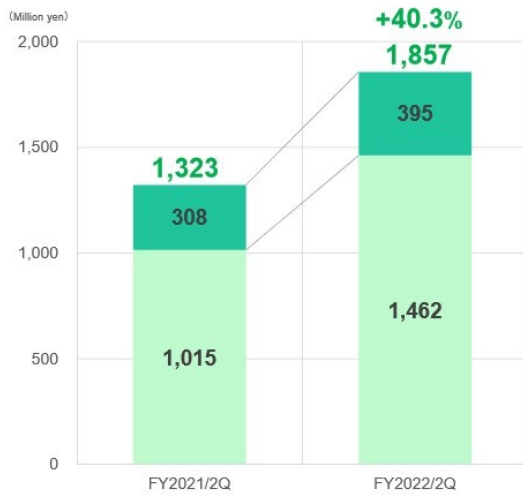
As you can see on the right side of the graph, the dining and food service sectors, which are often referred to as the most affected sectors in the pandemic, showed a significant decrease, but the sectors that account for a larger percentage of our sales showed positive growth compared to the previous year.

The yellow area in the graph shows sales in the areas of value enhancement support and digitalization support. In the past, most of our work has been growth support, marked in blue, but our current focus on DX consulting and consulting utilizing AI and robotics is beginning to produce results.

1. FY2022 2nd Quarter Financial Results



(5) Performance by Segment: Logistics—Sales by Service Category



Logistics Consulting
 Helping clients reduce logistics costs **+27.9%**

- Consulting for logistics companies was in line with the preceding year; management workshop memberships increased: 306 as of Jun. 30, 2022; 291 as of Jun. 30, 2021.
- Revenues from consulting services increased, buoyed by a recovery in orders.

Logistics BPO
 Logistics on behalf of clients
 Reducing purchasing costs through joint buying **+44.0%**

- Deep-mining of existing clients and growth in client orders resulted in an increase in sales.
- Demand for product deliveries was particularly strong among clients.
- Sales increased due to the effect of rising fuel prices on our core offering in this segment: joint purchasing of fuel.

Next, I will explain the logistics business.

Overall, the results are as explained earlier by segment.

As you can see, the logistics operation business has been performing well, especially in the online shopping business, as client companies continue to increase their logistics operations to adapt to the demand for people staying at home during the pandemic.

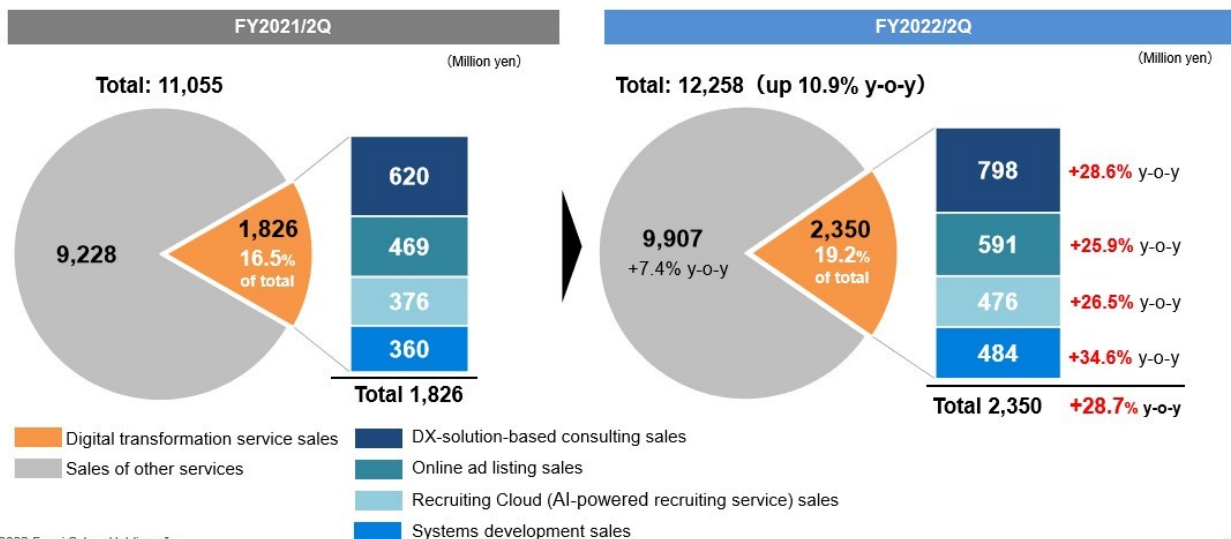
Meanwhile, in the highly profitable logistics consulting business, both the consulting division for logistics companies and the consulting division for shippers are receiving consulting orders steadily and at a much faster pace than planned.

1. FY2022 2nd Quarter Financial Results



(6) Results of Operations in Digital Transformation Services

- The group is investing significant effort into digital transformation services, which grew at least 25%.
- Digital transformation services account for an increasingly large share of total sales and are helping grow the group's business overall.



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We have explained our business performance by segment so far, but we would like to change things up a bit and present here the actual figures for DX-related services as defined by our group.

There are four main types of DX-related services defined by our group. The first is DX-solution-based consulting by Funai Consulting, and the second is services for online advertisement agency operations, known as online ad listing sales, by Funai Consulting and Funai Soken Digital. The third is HR Force's AI-powered recruiting cloud service called Recruiting Cloud. The fourth is systems development sales, also conducted by Funai Soken Digital. These are the four DX-related services.

I believe that each company defines the cut-off point of DX in different ways. We define DX-related services as services and solutions that involve changes in business models and business processes rather than the mere implementation of digital tools.

Based on this definition, sales increased by 28.7% YoY, and the area now accounts for approximately 20% of total sales. In terms of growth rate, there is no doubt that this field will be the engine for future growth. We intend to continue to concentrate our resources to expand this area.

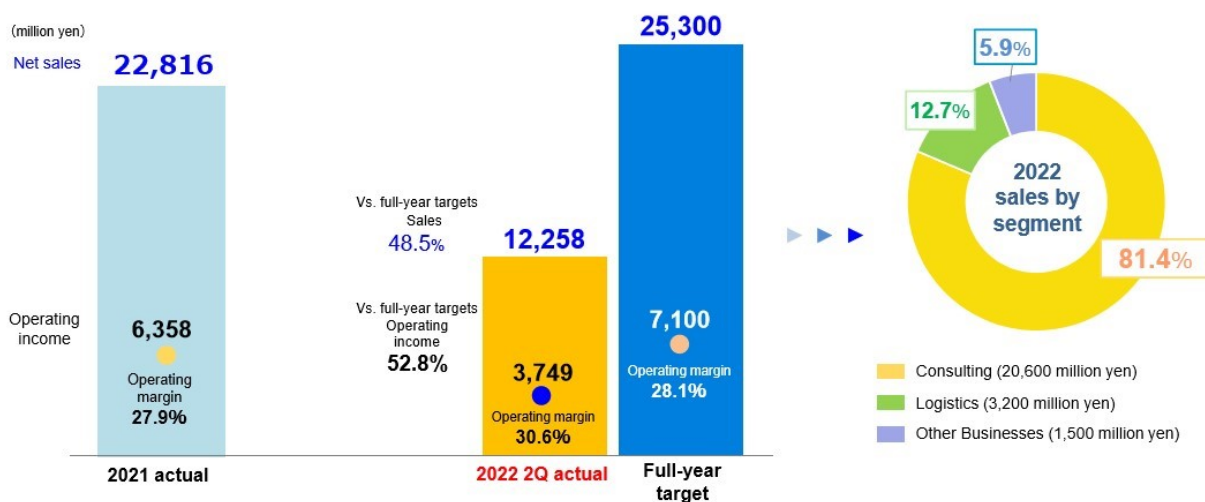
This is also the background behind the launch of Funai Soken Digital in July, which I will explain later.

2. Progress toward Achieving the Mid-Range Business Plan



(1) Progress toward Achieving the Mid-Range Business Plan

- In 2022, the final year of the current Mid-Range Business Plan, our target is sales of 25.3 billion yen.
- We are aiming for sustained double-digit growth and record operating income of 7.1 billion yen in FY2022.



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This has been an overview of the financial results for Q2 of FY2022. I will now continue with an explanation of the progress of our medium-term management plan, which is now in its final year.

The year 2022 is the final year of our medium-term management plan. Therefore, the forecast for the current fiscal year is directly the target figure for the final year of the medium-term management plan. Therefore, to repeat what I said earlier, we are aiming to achieve JPY25.3 billion in sales and JPY7.1 billion in operating income.

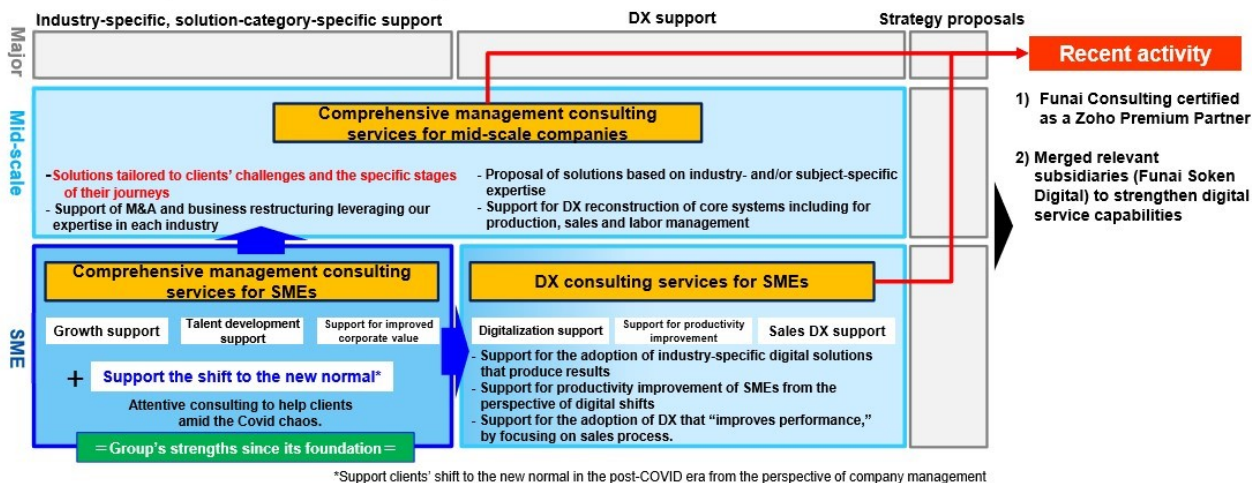
If we achieve this plan, sales will increase by 10.9% and operating income by 11.7%, so we are determined to achieve double-digit growth in the final year of the medium-term management plan.

2. Progress toward Achieving the Mid-Range Business Plan



(2) Business Strategy

Our comprehensive management consulting services for SMEs, the group's core strength, are the ideal vehicle for offering clients through post-Covid "new normal" support to help them cope amid the related upheaval. We are also working on a series of initiatives relating to digital transformation consulting for SMEs and comprehensive management consulting services for mid-scale companies, which will help us expand into new business segments as stated in our Mid-Range Business Plan.



There is no change in the direction of the business strategy of the medium-term management plan that we have been working on for the past three years.

In the lower left part of the diagram, we provide execution support services to SMEs, and have grown as a leading company in this field. We maintain this strength and offer specific solutions to SMEs nationwide, including growth implementation support, talent development support, value enhancement support, and now, in addition to these, support the shift to the new normal.

This is an area where consulting needs have not yet fully emerged, and there is little competition, making it an attractive consulting area for the future. We are looking forward to further expansion in this area.

In addition to the above, two other areas are being expanded in this medium-term management plan. One is in the fast-growing DX support area, and the other is in the area of general management consulting for mid-scale companies.

2. Progress toward Achieving the Mid-Range Business Plan



(2) Business Strategy : (1) Funai Consulting Certified as a Zoho Premium Partner

- Zoho is the ideal tool for our digital transformation consulting services for SMEs and mid-scale clients.
- Our partnership with Zoho has developed, and we are the only company in Japan to be certified as a Premium Partner, the highest rank of Zoho partnership.



■ What is a Zoho Premium Partner?

- A Zoho partner is a company that works alongside clients and uses Zoho and other methods to provide solutions to their challenges.
- A Premium Partner is a Zoho partner that achieves year-on-year growth in Zoho sales of at least \$200,000.



Zoho, the Growing Company's Preferred DX Tool (written and edited by Funai Consulting Inc.)

About Zoho

Zoho is a suite of cloud-based solutions to help businesses digitalize their operations and improve efficiency. Worldwide, Zoho has more than

75 mil. users at 250,000 companies



Out now!

Maruzen Marunouchi business category (May 12-18, 2022)

Amazon SME management category (May 25, 2022)

Ranked No. 1

I would like to explain in some detail about the developments we have made as a group in the last three months.

First of all, we reported at our last financial results meeting in February that we had entered into a training and certification partnership agreement with Zoho Japan on digital solution staff training services and that the Funai Soken Consulting Group had agreed to exclusively use of Zoho products in Japan for the group's digital solutions staff training business. Since then, as part of our business strategy, we have continued to provide full-scale DX consulting services using Zoho.

Funai Consulting, our core business company, has been developing and providing Zoho modules optimized for each industry. At the same time, the recently published commentary book, *Zoho: The Most Powerful Digital Transformation Tool Selected by Growing Companies*, ranked first in the business category in bookstores, indicating that this is a topic that is attracting attention from corporate executives.

In fact, although it was only this year that we began offering consulting proposals utilizing Zoho in earnest, as of the end of June 2022, we have already provided support for the introduction of Zoho to approximately 250 client companies.

This is still only about 4.5% of our consulting contracts with approximately 5,500 companies per year, but we plan to provide consulting services using Zoho not only to these existing clients, but also to new clients.

In addition, the partnership with Zoho has developed as a result of the consulting services. We are also pleased to announce that Funai Consulting has been certified as a Premium Partner, the only partner in Japan with the highest rank, two steps up from the previous Authorized Partner status.

2. Progress toward Achieving the Mid-Range Business Plan



(2) Business Strategy : (2) Merged Relevant Subsidiaries to Strengthen Digital Service Capabilities

- Merged two subsidiaries on July 1, 2022, into Funai Soken Digital, Inc.
- Funai Soken Digital will work together with Funai Consulting to offer a full spectrum of digital transformation services from initial consulting to final installation.

■ Funai Soken Digital's Services



(1) Cloud-based solutions development

Development and operation of Azure and other public cloud-based solutions, and technical consulting

(2) Digital marketing BPO

Comprehensive, industry-specific and solution-category-specific digital marketing support for mid-scale and SME clients

(3) IT consulting

Helping mid-scale and SME clients transform through back-office BPR and DX solutions

(4) Product development

Development and popularization of vertical SaaS (industry-specific digital products)

(5) Digital solutions staff recruiting & training

Training and reskilling services to help clients alleviate digital solutions staff shortages



A briefing on the new company on July 11, 2022, was attended by more than 100 people from business partner companies.

This is another topic for the business strategy of the medium-term management plan.

As previously announced, in order to strengthen the Group's digital-related services business, two consolidated subsidiaries, Funai Soken Corporate Relations and Shinwa Computer Service, were merged to form the new Funai Soken Digital, Inc. in July.

This was the first step in a system that provides a full range of services from consulting to implementation in the DX area in cooperation with Funai Consulting.

Funai Soken Digital's business can be divided into five major categories. The first is the cloud-based solutions development business, the second is the digital marketing BPO business, the third is the IT consulting business, the fourth is the product development business, and the fifth is the digital HR business.

The launch of Funai Soken Digital as a company started with such aspirations to fill in areas where we have not been able to adequately address up to now, and to capture the number one position in the DX area, such as comprehensive management consulting for SMEs.

In the next mid-term management plan, we hope that you will look forward to our growth as one of the core companies that will drive the growth of our group.

2. Progress toward Achieving the Mid-Range Business Plan



(3) Human Resource Strategy

We strive to generate sustained growth by designing a positive cycle that promotes the maintenance of a working environment that empowers our diverse workforce to make full use of their skills.

Mid-Range Business Plan (2020-2022)		2021 Outcomes and Plan Progress
1 Hiring 	Groupwide workforce of 1,500 by 2022 (increase by approx. 300) (1) Ongoing aggressive hiring of consultants (200–250 per year) (2) Expand hiring of digital transformation staff (3) Step up hiring of non-Japanese (esp. in Shanghai) (4) Hire more qualified professionals	Progress ● Employees: 1,317 (groupwide; up 108 from 2019) Underway ● 32 digital transformation staff hired by Funai Consulting in 2020-2021 ● 58 non-Japanese hired throughout the group in 2020-2021
2 Development 	Rebuild accelerated development programs for an expanding workforce (1) Establish a Talent Development Center: Swift development of digital transformation staff, maximize consultants' employee lifetime value (2) Continued accelerated development of team leaders (target: promotion to team leader within 5 years). In 2019: 3 years 8 months	Underway ● Talent Development Center opened; consultant training programs expanding ■ Instilling skills conducive to improving the bottom line ■ Digital training aimed at developing and reskilling for digital transformation staff Target achieved ● In 2020: Promotion to leader-level position: 4 years 1 months
3 Empowerment Virtuous cycle	A rewarding environment for a diverse workforce (1) Establish and embed a new assessment system based on four major career paths 1. Consultant development course; 2. Business development course; 3. Corporate professional course; 4. Management course (2) Flexible working arrangements for improved efficiency: Expand remote support services to reduce the need for consultants to travel	Underway ● New assessment system implemented at Funai Consulting; establishment of systems enabling employees to change career courses, take up in-group job offers, or transit between departments has led to smoother placement of the right people in the right positions ● Remote delivery of support services exceeds 50% (in 2021) ● "Hybrid" delivery of services combining remote and on-site support

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Next, I will explain our human resource strategy.

First, with regard to the human resource strategy, the current mid-term plan was to increase the number of employees by 300 over a three-year period starting at the end of 2019, with a target of 1,500 employees.

At the end of 2021, the number of employees was 1,317, an increase of just over 100. At the end of this fiscal year, the number of employees is still expected to be around 1,400 at this time. Therefore, the target of 1,500 employees in the mid-term plan may be pushed back somewhat, but we will continue to focus on the recruitment, training, and retention of human resources as our most important theme, as it is positioned as an investment for the future.

In this pandemic, the consulting style also incorporates remote support, which has resulted in higher productivity per person, including higher efficiency. Therefore, I would like to add that we do not necessarily have to stick to our pre-COVID-19 target of 1,500 employees for 2022, and even if we do not reach the employee target of the human resource strategy in the medium-term management plan, we believe we will be able to achieve our performance goals.

In addition, the hiring of diverse human resources and the training of DX human resources are progressing as planned.

2. Progress toward Achieving the Mid-Range Business Plan



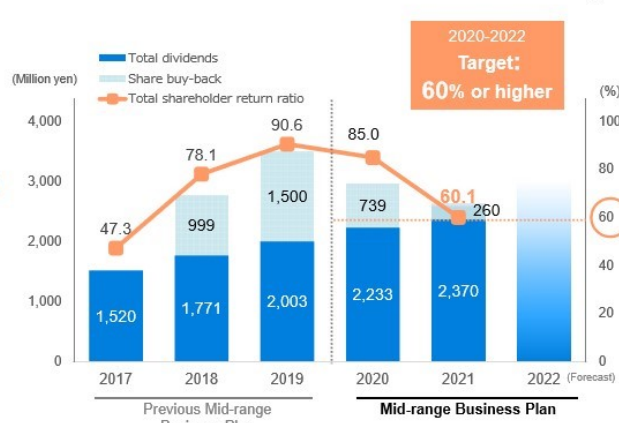
(4) Financial Strategy: (1) Capital Policy and Shareholder Return Policy

Amid residual impact from Covid-19 in 2021, we undertook a share buy-back. By acquiring treasury shares, we aimed to improve capital efficiency to a consolidated ROE of at least 15% and raise the return-to-shareholders ratio to at least 60%. Ultimately, we achieved those goals, with a consolidated ROE of 18.2% and a return-to-shareholders ratio of 60.1%. We remain committed to achieving the targets of 2022, the final year of the current Mid-Range Business Plan.

■ Consolidated ROE and capital cost: Results and targets



■ Total dividends and total shareholder return ratio: Results and targets



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Next, I will explain our financial strategy.

During the period of this medium-term management plan, despite the impact of COVID-19, we have improved capital efficiency and increased the shareholder return ratio in accordance with the stated policy. As a result, in FY2020 and FY2021, we have achieved both our consolidated ROE target of 15% or higher and total return ratio of 60% or higher.

We will continue this initial policy in the current fiscal year, the final year of our medium-term management plan, with the aim of achieving our goals.

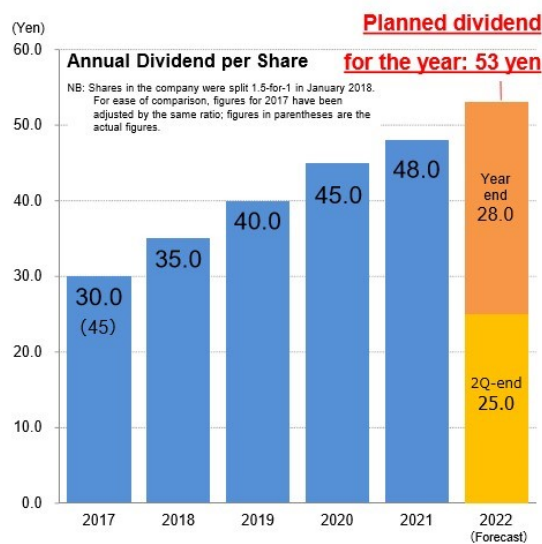
2. Progress toward Achieving the Mid-Range Business Plan



(4) Financial Strategy: (3) Annual Dividends

In 2022, we plan to pay a total dividend of 53 yen per share, comprising an interim dividend of 25 yen and a year-end dividend of 28 yen.

Record date	Initial forecast		Actual dividend	
	Dividend (per share)	Details	Dividend (per share)	Details
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	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 (Forecast)	53.0	2Q-end 25.0 Year end 28.0		



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This is the last explanation from me today, and I would like to report on the dividend.

For FY2022, we plan to raise the dividend by JPY5, a total dividend of JPY53 per share, comprising an interim dividend of JPY25 and a year-end dividend of JPY28. If dividends are paid as planned, this will be the 12th consecutive year of dividend increases.

We will continue our efforts to sustainably increase dividends based on the sustainable growth of our group, and we ask for your continued support in this endeavor.

This concludes my explanation. Thank you very much.

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.

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