

2nd Quarter of Fiscal Year Ending December 2023 Summary of Financial Results

Funai Soken Holdings Incorporated
(TSE Prime, stock code 9757)

Tuesday, August 8, 2023



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Executive Summary

1. Executive Summary

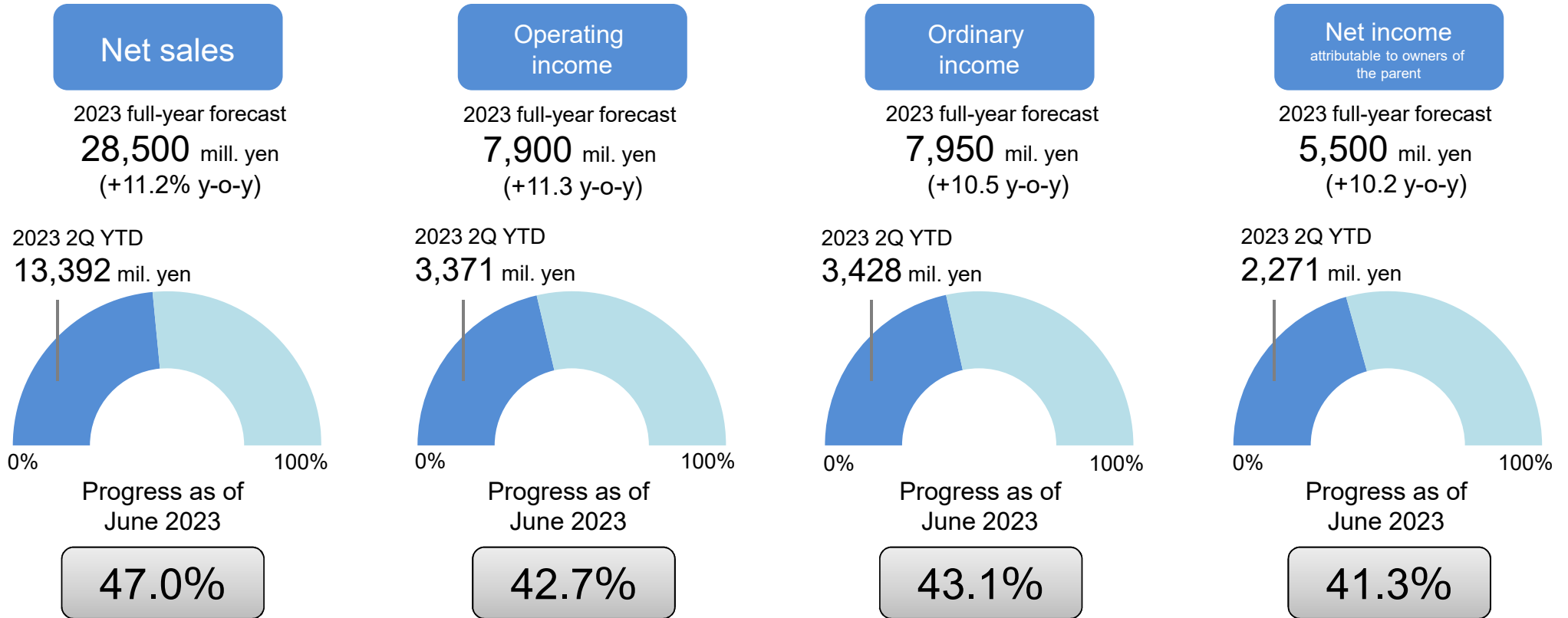
(1) Consolidated Income

- Sales were solid, with sales of monthly support services and project-based consulting up in the consulting segment, and sales of cloud solutions also up in the digital solutions segment.
- Profits were down, pressured by increased costs, mainly travel costs relating to consulting activity and aggressive investment in recruiting and hiring.

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

1. Executive Summary

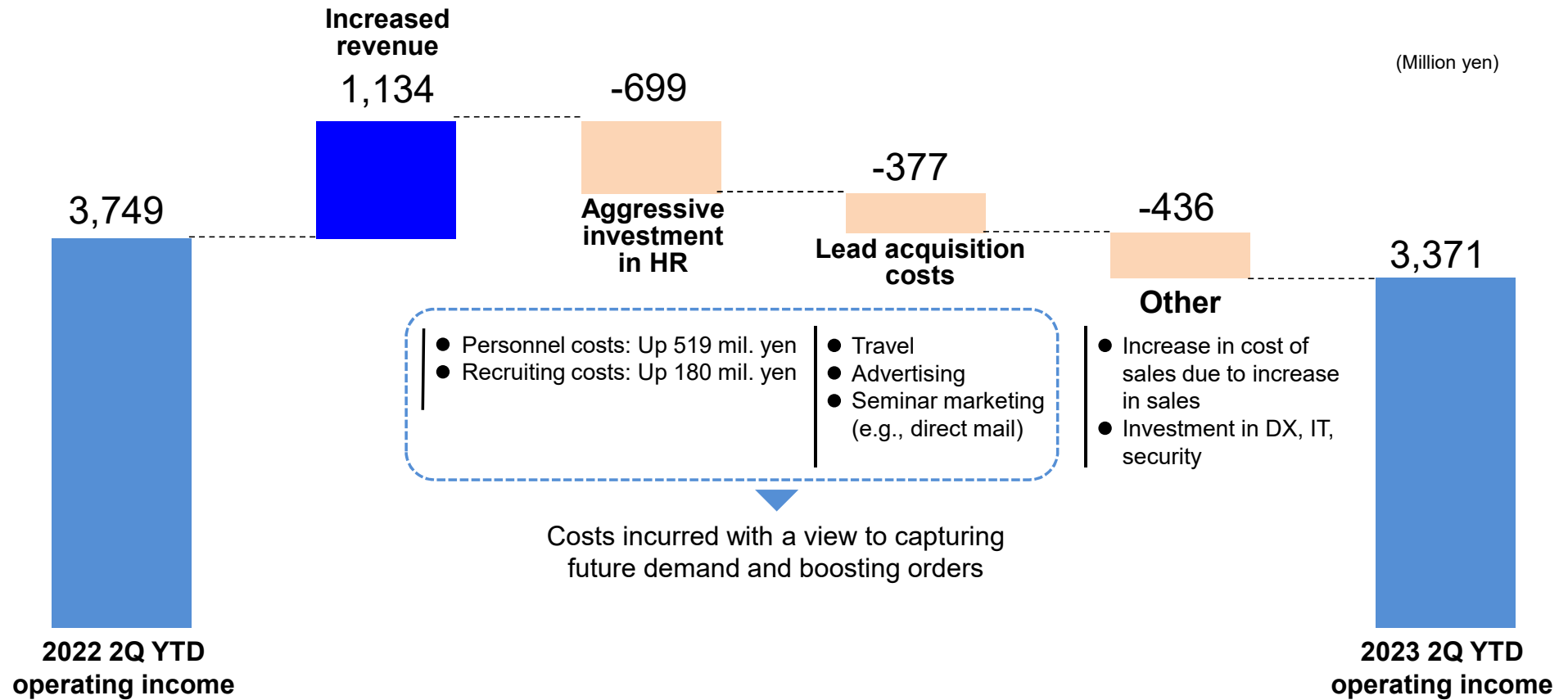
(2) Progress in Comparison with This Year's Forecasts



1. Executive Summary

(3) Analysis of Changes from Same Period Last Year: Operating Income

We are investing aggressively in human resources to prepare for the projected increase in demand for our services, and working hard to strengthen sales activity with a view to boosting orders.



1. Executive Summary

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

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

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

*"Business staff" are those that work in consulting departments with a direct bearing on sales but who are not consultants; roles include development engineering, product sales, new business, management workshop operations staff, etc.

*Business staff and workforce admin staff are new categories introduced in 2022. Year-on-year comparisons are calculated starting in 2023.

*DX staff are counted in accordance with Funai Soken Holdings definition of "digital transformation staff."

1. Executive Summary

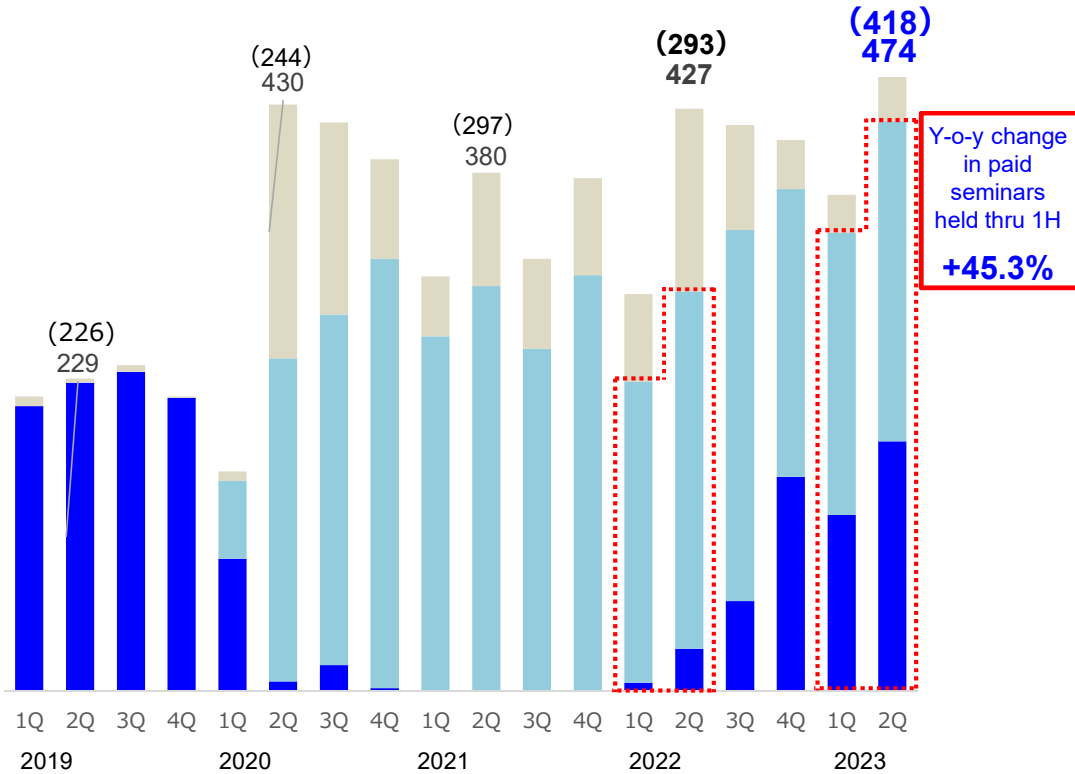
(3) Analysis of Changes from Same Period Last Year: Management Seminars

We have eagerly restarted in-person seminars (not possible in the Covid era) to help strengthen sellability.

In effect, numbers have increased as paid seminars in 2022 2Q included 2,457 National Management Strategy Seminar Conference participants (this will revert to in-person format in Aug. 2023).

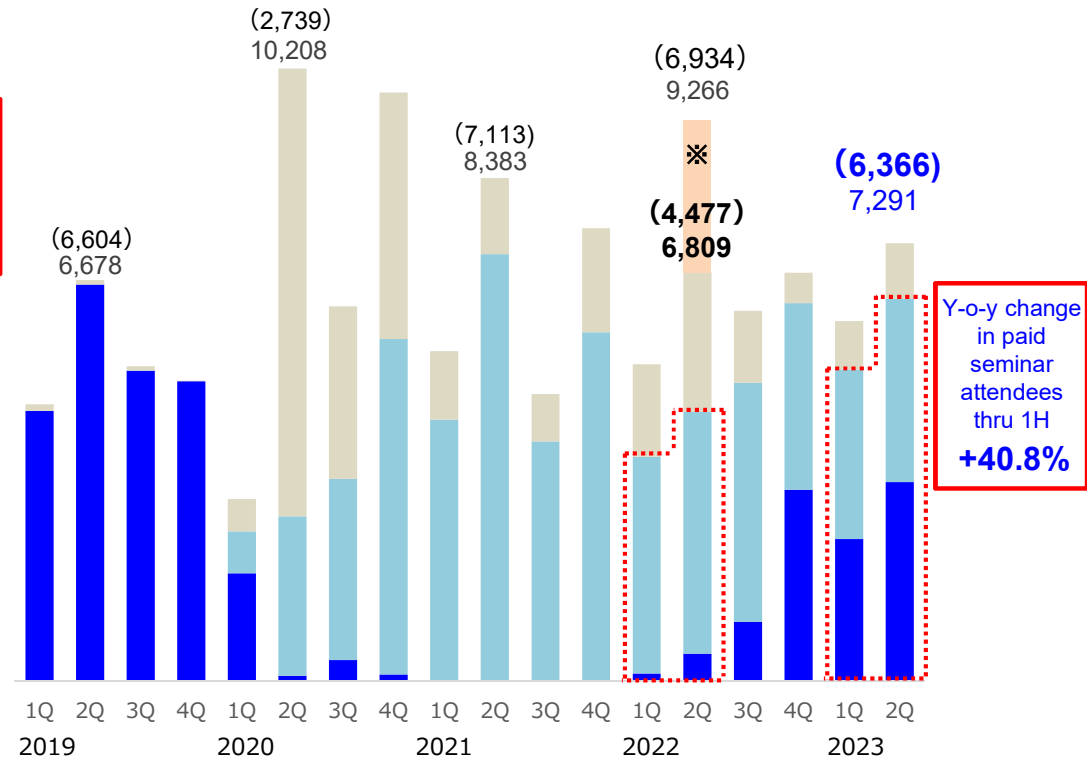
Management Seminars Held

■ In-person seminars ■ Online seminars (paid) ■ Online seminars (free)



Management Seminars Attendance Figures

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

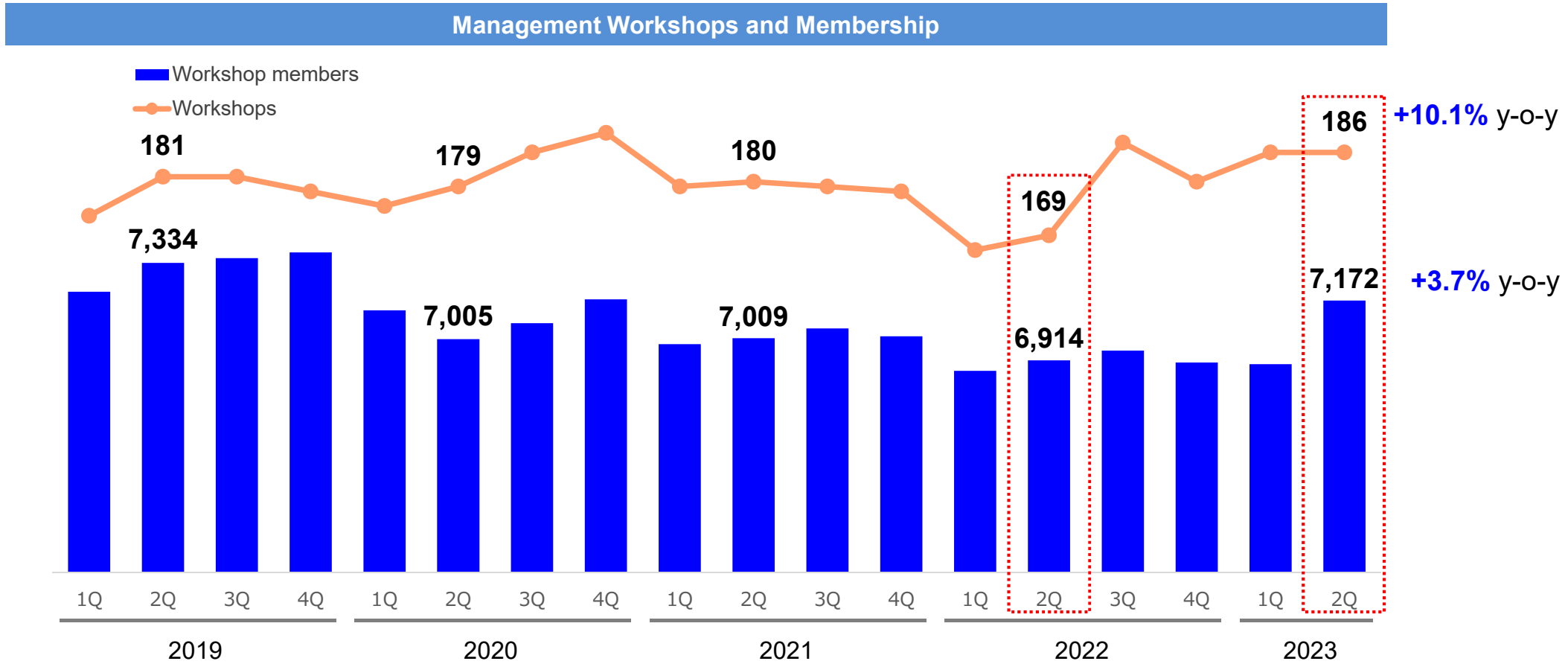


*Seminar figures are the number held by Funai Consulting.

1. Executive Summary

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

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



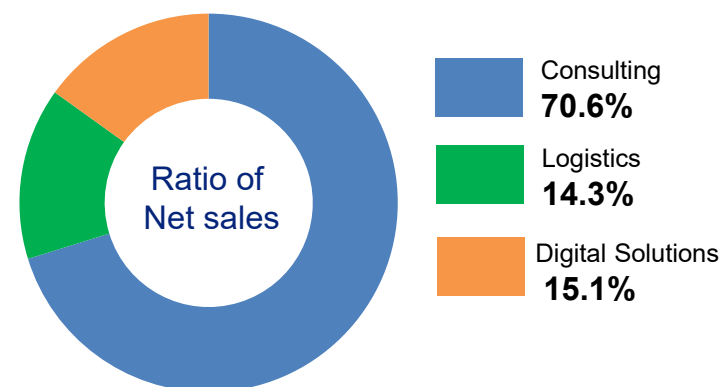
Financial Results as of FY2023 2Q

2. Financial Results as of FY2023 2Q

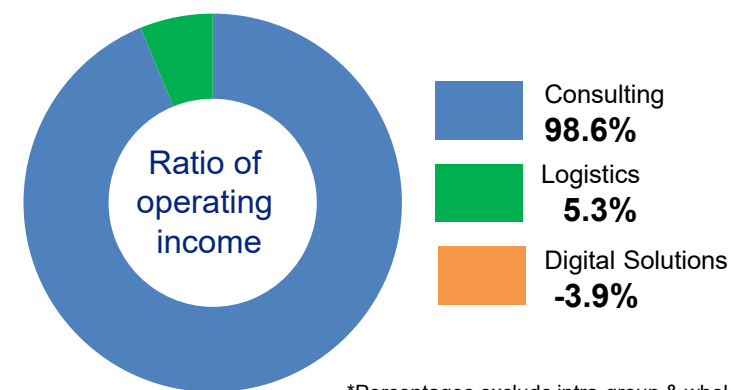
(1) Results of Operations by Segment

- In the consulting segment, orders were strong and consulting client company numbers grew steadily, resulting in increases in sales and income.
- In the logistics and digital solutions segments, an increase in hiring drove personnel costs higher. Thus, sales were up but income was down.

Net sales	2022 2Q YTD	2023 2Q YTD	
	Amount (million yen)	Amount (million yen)	Change (%)
Consulting	8,634	9,452	+9.5
Logistics	1,857	1,907	+2.7
Digital Solutions	1,758	2,024	+15.2
(Intra-group & whole-group transactions)	8	8	—
Total	12,258	13,392	+9.3



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

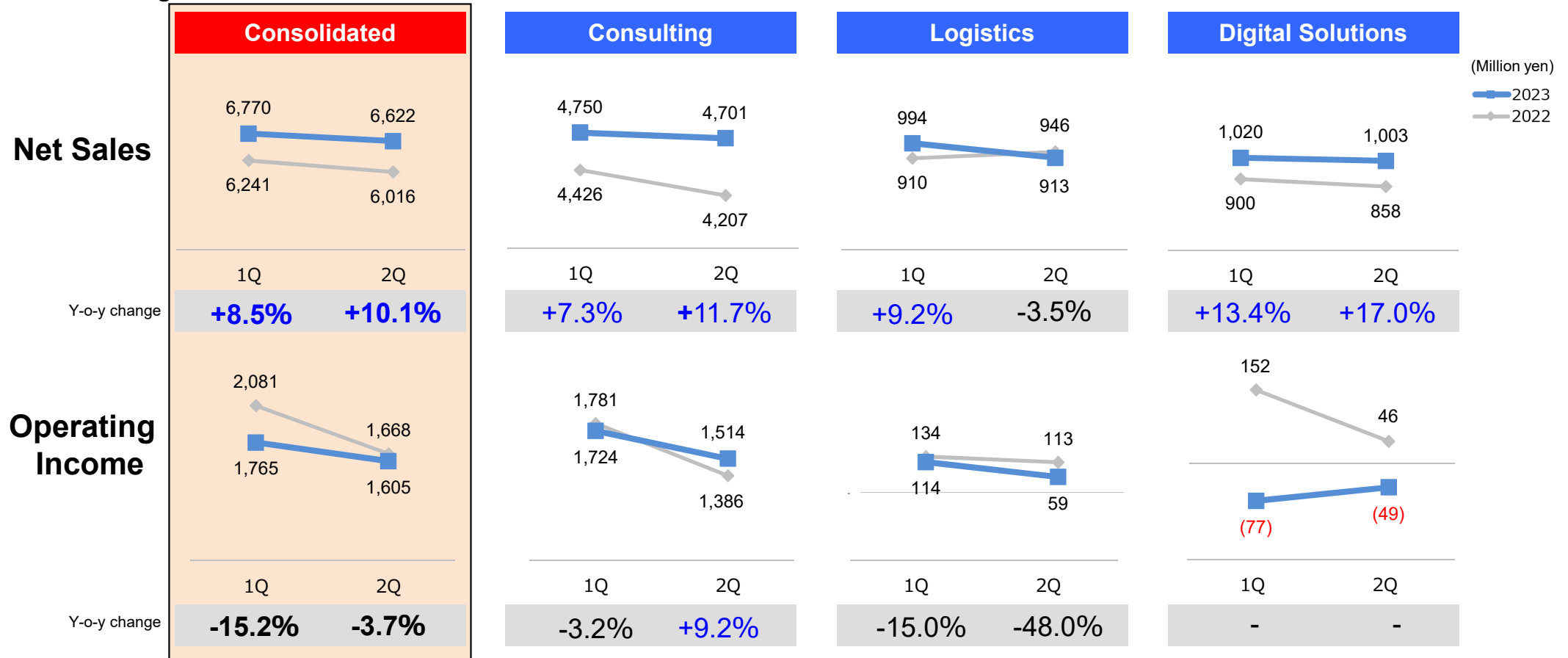


*Percentages exclude intra-group & whole-group transactions

2. Financial Results as of FY2023 2Q

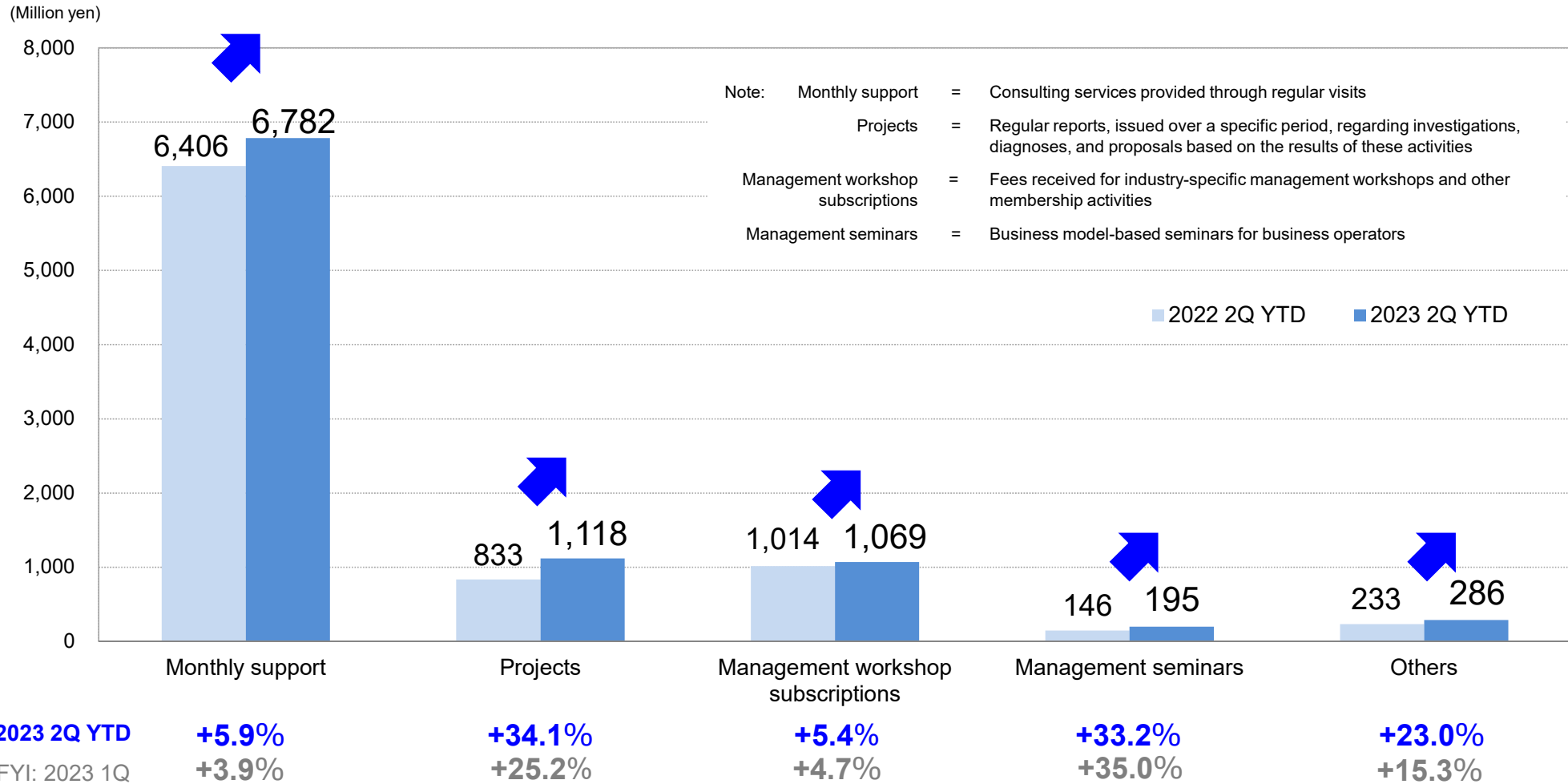
(1) 2Q Results of Operations by Segment

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



2. Financial Results as of FY2023 2Q

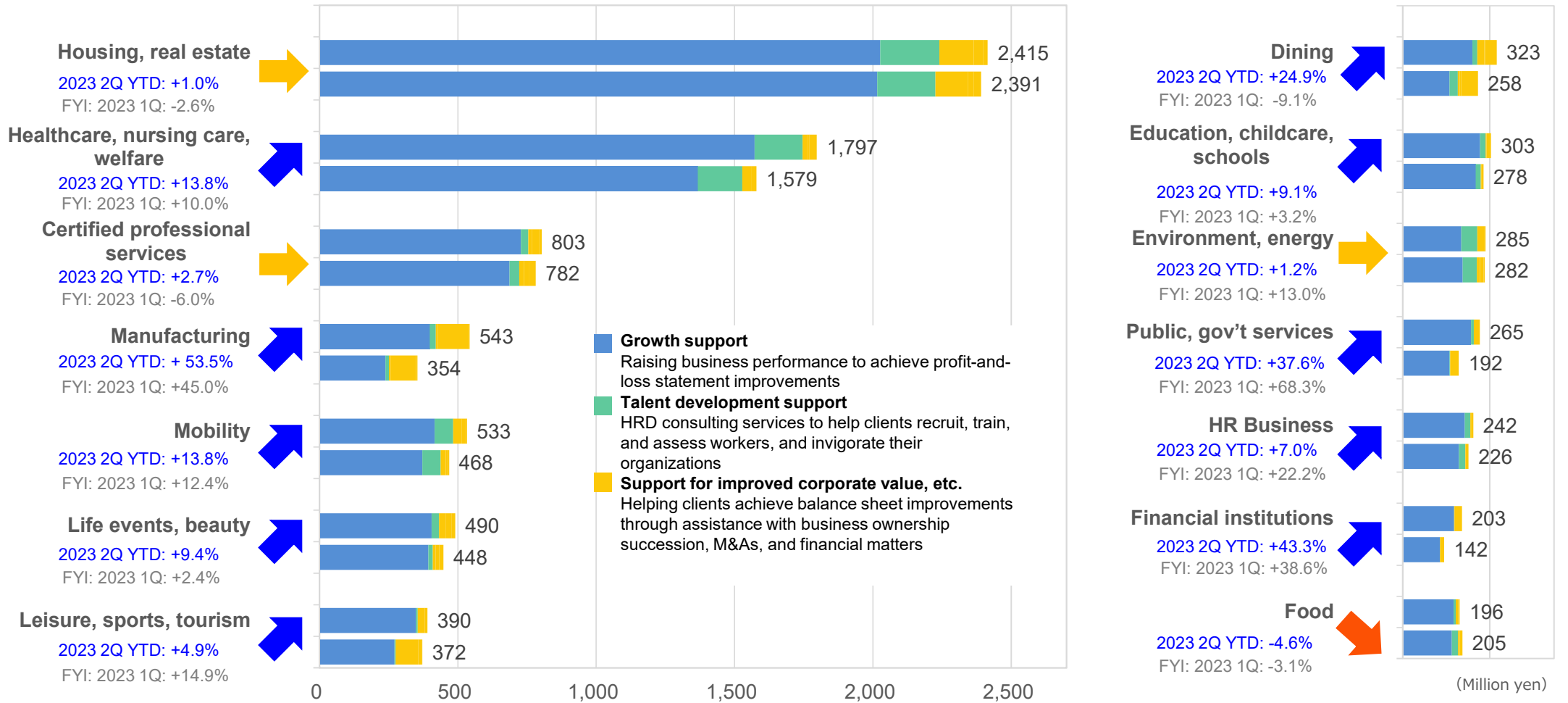
(2) Results of Operations by Segment: Consulting—Sales by Service Category



2. Financial Results as of FY2023 2Q

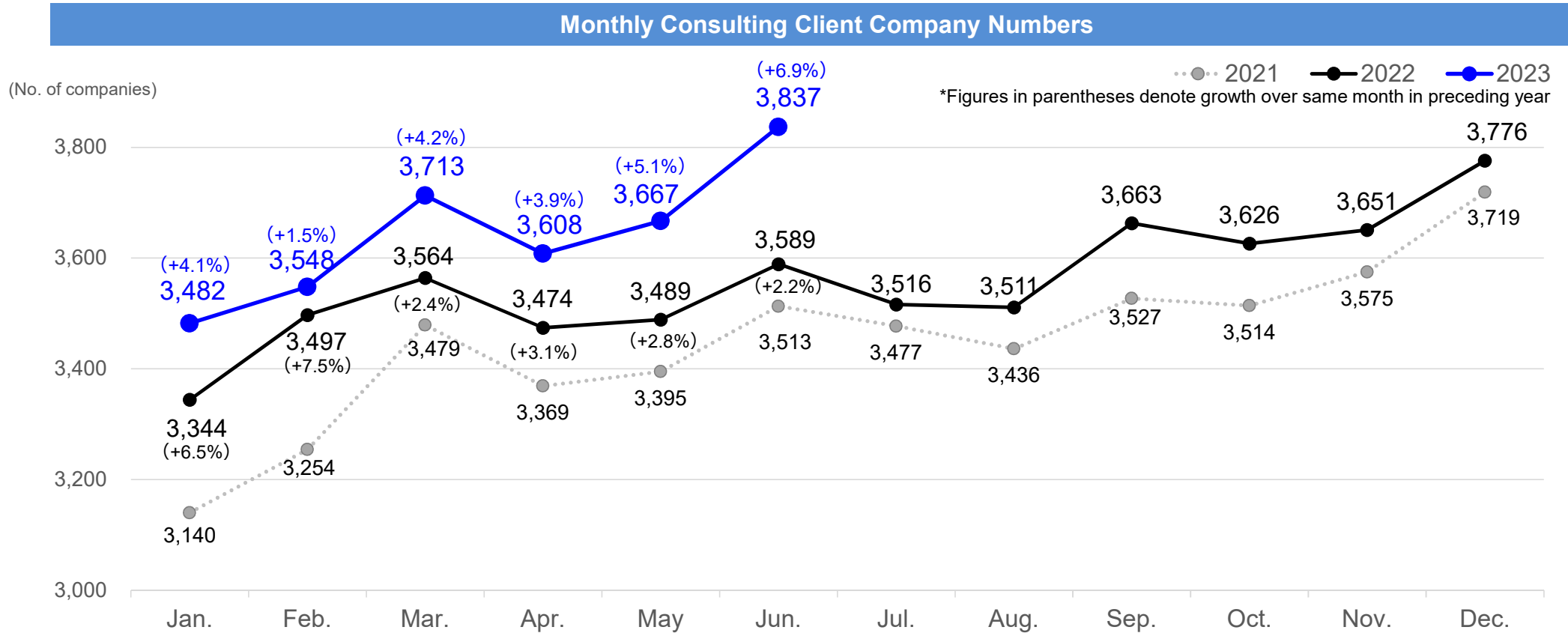
(2) Results of Operations by Segment: Consulting—Sales by Sector

Upper bar: 2023 2Q YTD
Lower bar: 2022 2Q YTD



2. Financial Results as of FY2023 2Q

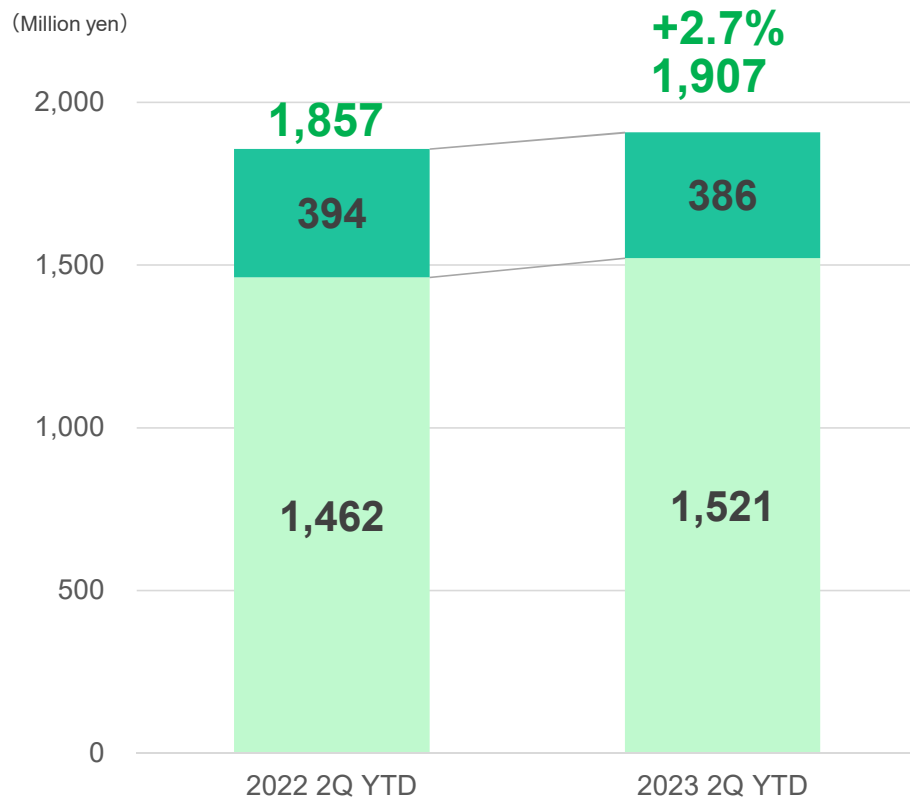
(2) Results of Operations by Segment: Consulting—Consulting Client Numbers



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

2. Financial Results as of FY2023 2Q

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



Logistics Consulting

Helping clients reduce logistics costs

-2.0%

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

Logistics BPO

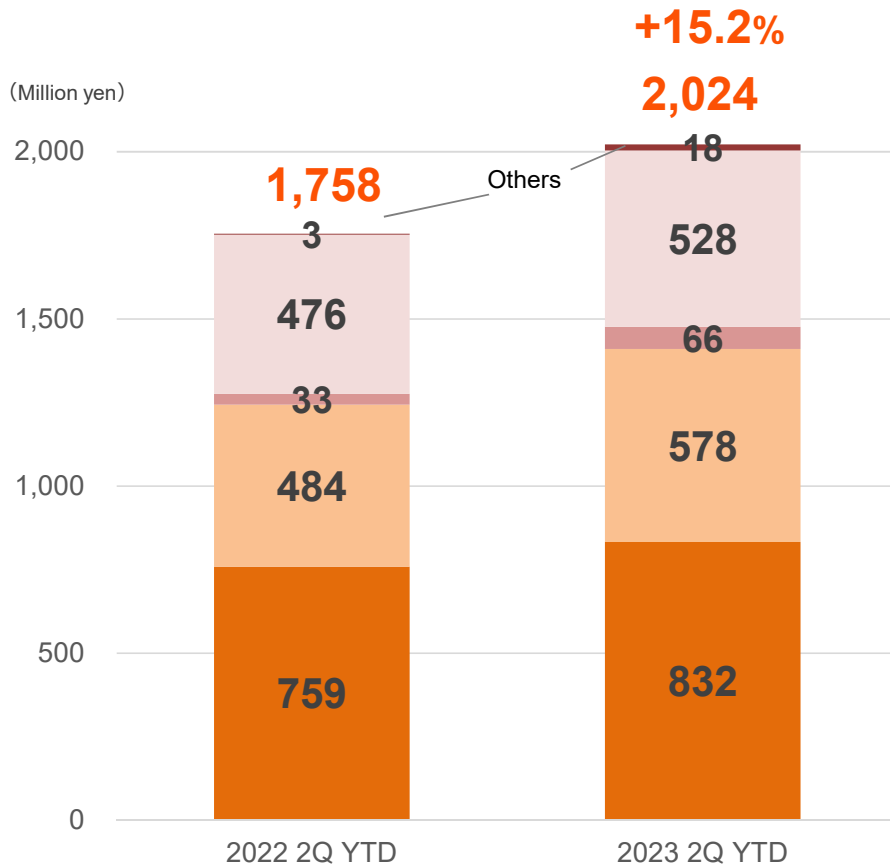
Logistics on behalf of clients
Reducing purchasing costs through joint buying

+4.0%

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

2. Financial Results as of FY2023 2Q

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



HR Solutions

+10.9%

- Steady increase in new orders led to double-digit sales growth; average order per client up; operating margin at 10+%.

IT Consulting

+99.3%

- Solid growth in sales of back-office consulting, from identifying issues to implementing solutions.

Cloud-based Solutions

+19.3%

- Additional orders from existing clients and increased orders for cloud development and operations.
- Continued with aggressive upfront investment in recruiting to secure engineers—our top priority at the moment.
Engineer headcount as of Jun. 30, 2023: 87 (as of Jun. 30, 2022: 48)

Sales Process Transformation (SPX)

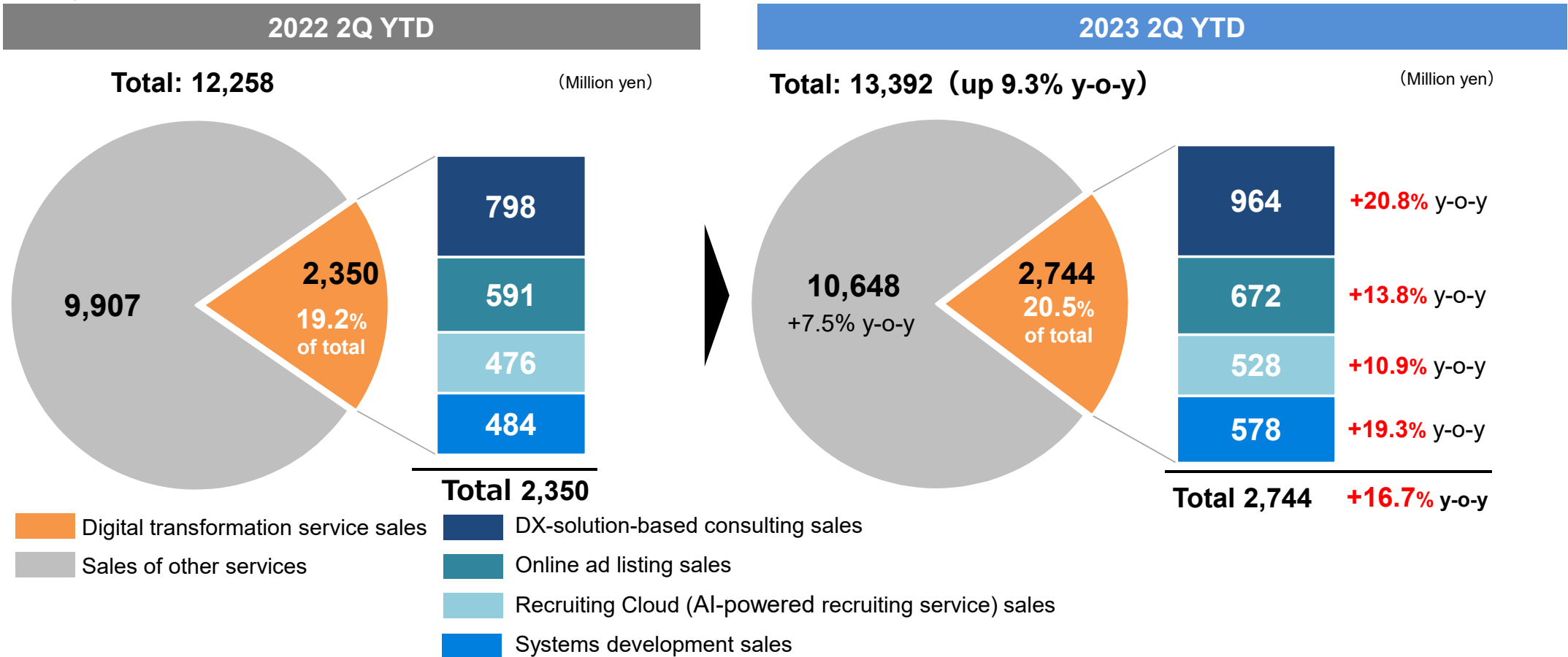
+9.6%

- Sales of online ad agency services, buoyed by ongoing strong performance.

2. Financial Results as of FY2023 2Q

(5) Results of Operations in Digital Transformation Services

- The group is investing significant effort into digital transformation services, which grew 16%.
- Digital transformation services have expanded to account for more than 20% of total sales for the first time, and are helping grow the group's business overall.



2. Financial Results as of FY2023 2Q

(6) Consolidated Financial Position: Balance Sheet

(Million yen)

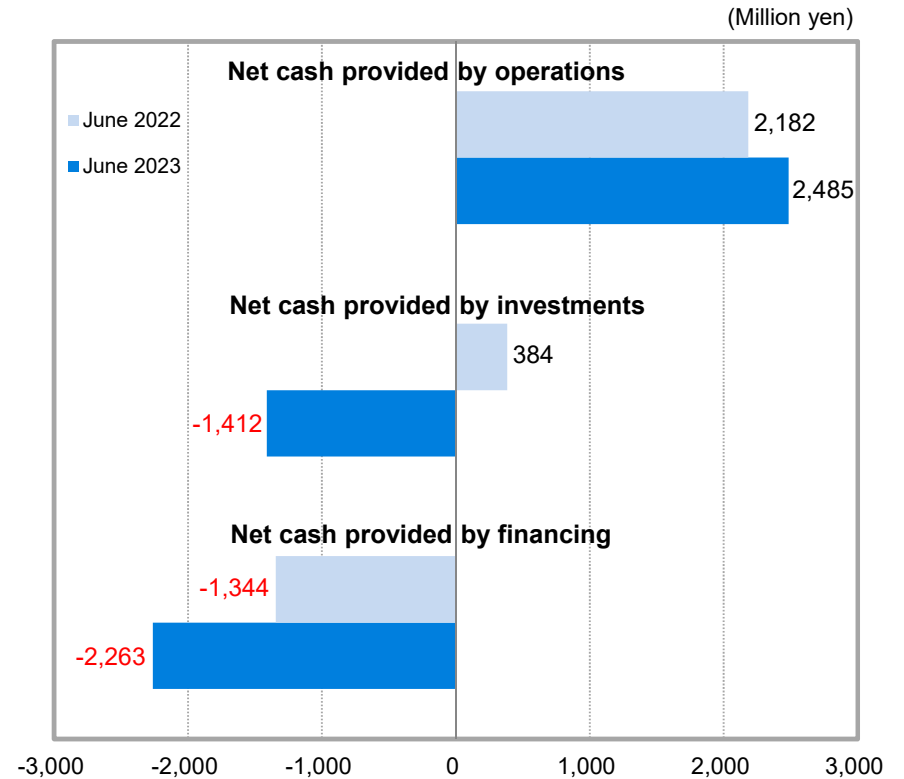
	As of Dec. 31, 2022	As of Jun. 30, 2023	Change	Major factors behind changes	
Current assets	22,283	20,956	-1,326	Decrease in current assets: Major factors include decrease in cash and deposits.	
Noncurrent assets	Property, plant, and equipment	5,813	5,763	-50	Increase in noncurrent assets: Major factors include increases in goodwill, guarantee deposits and other investments (listed under "other investments and other assets").
	Intangible assets	830	1,219	+389	
	Investments and other assets	4,082	5,310	+1,227	
Total assets	33,010	33,250	+239		
Current liabilities	5,067	5,103	+36	Increase in current liabilities: Major factors include increases in provision for bonuses and decreases in deposits received (listed under "others").	
Noncurrent liabilities	242	291	+48	Increase in noncurrent liabilities: Major factors include increase in deferred tax liabilities.	
Total liabilities	5,309	5,394	+84		
Total net assets	27,700	27,855	+155	Financial position remains sound with a high equity ratio of 81.8%.	
Total liabilities & net assets	33,010	33,250	+239		

2. Financial Results as of FY2023 2Q

(7) Consolidated Financial Position: Cash Flow Statement

(Million yen)

	June 2022	June 2023	Change
Net cash provided by (used in) operations			
Net income before income taxes and other adjustments	3,774	3,403	(371)
Depreciation	164	141	(23)
Decrease (increase) in other assets	(658)	(458)	200
Increase (decrease) in other liabilities	(589)	(496)	93
Other	279	540	260
Subtotal	2,970	3,129	158
Income taxes paid	(1,255)	(1,257)	(1)
Income tax refunds	451	602	151
Other cash provided by (used in) operations	16	11	(5)
Net cash provided by (used in) operations	2,182	2,485	302
Net cash provided by (used in) investments			
Purchase of property, plant and equipment and intangible assets	(235)	(95)	140
Payments for guarantee deposits ※1	—	(379)	(379)
Purchase of investments in subsidiaries resulting in change in scope of consolidation ※2	—	(617)	(617)
Other cash provided by (used in) investments ※3	619	(319)	(939)
Net cash provided by (used in) investments	384	(1,412)	(1,796)
Net cash provided by (used in) financing			
Purchase of treasury shares	(1)	(776)	(775)
Dividends paid	(1,330)	(1,476)	(146)
Other cash provided by (used in) financing	(12)	(10)	2
Net cash provided by (used in) financing	(1,344)	(2,263)	(918)
Change in cash and cash equivalents	1,229	(1,186)	(2,416)
Cash and cash equivalents at start of fiscal year	14,675	17,031	2,356
Cash and cash equivalents at end of quarter	15,904	15,844	(59)



1. Security deposit paid for new Tokyo HQ offices (move scheduled for spring 2024).
2. Net expenditure resulting from acquisition of shares in Seicho Senryaku Inc. (which became a group company in Jan. 2023) and revenue of cash and cash equivalents held by Seicho Senryaku.
3. Major factors include net income from short-term investment securities as part of investment of surplus funds, and payments into time deposits.

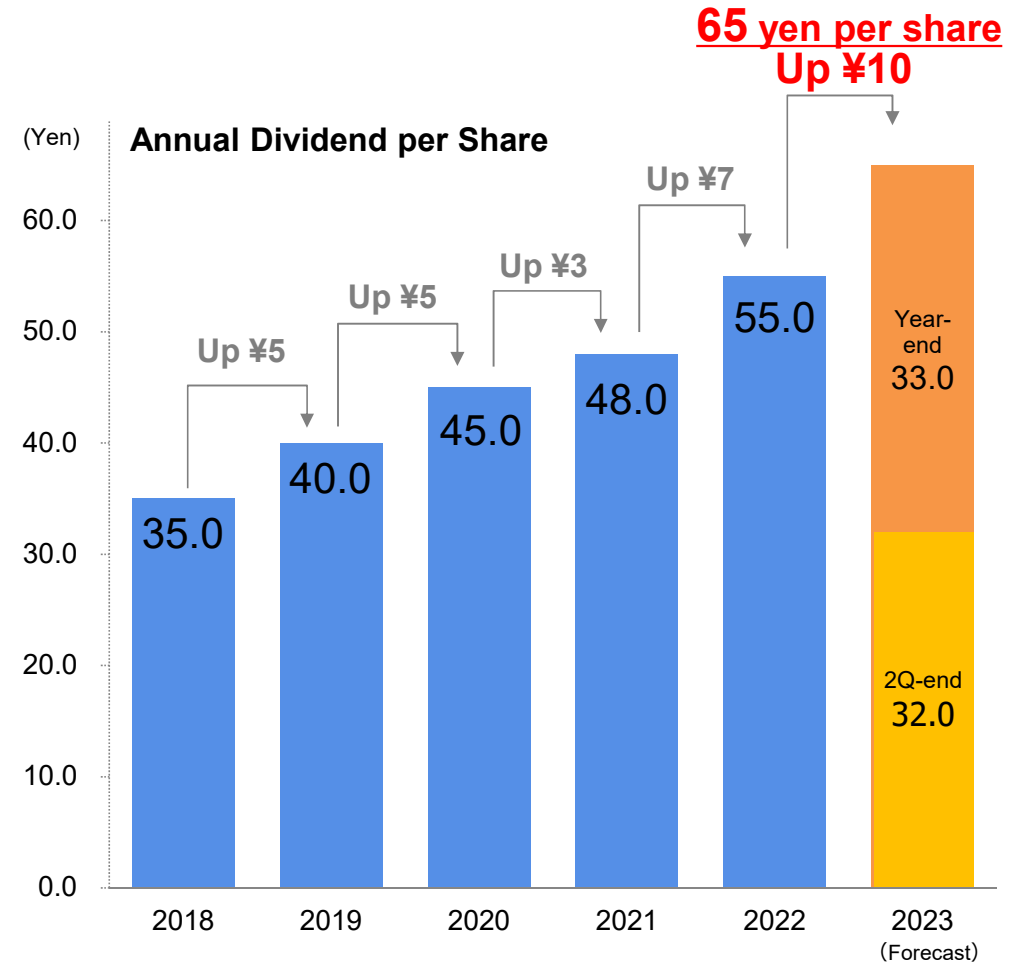
Shareholder Returns and Future Initiatives

3. Shareholder Returns and Future Initiatives

(1) Annual Dividends

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

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



3. Shareholder Returns and Future Initiatives

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

We are undertaking a buyback of shares as outlined below to help improve capital efficiency and boost shareholder returns by allowing for more dynamic implementation of capital policies in response to changes in the business environment.

Share Buyback

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

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

Retirement of Treasury Shares

Date of board resolution	Date of retirement	Number of shares retired		
		Total number of shares outstanding prior to retirement	Number of shares retired	Total number of shares outstanding after retirement
Jan. 24, 2023	Jan. 31, 2023	52,500,000	500,000	52,000,000

3. Shareholder Returns and Future Initiatives

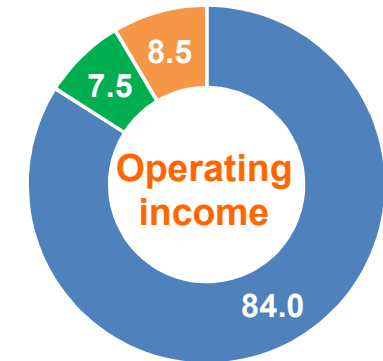
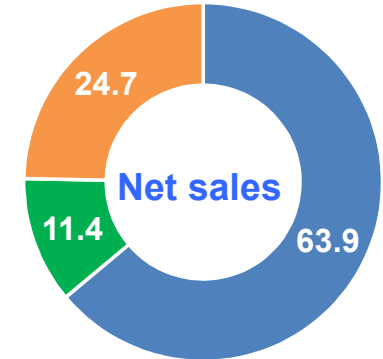
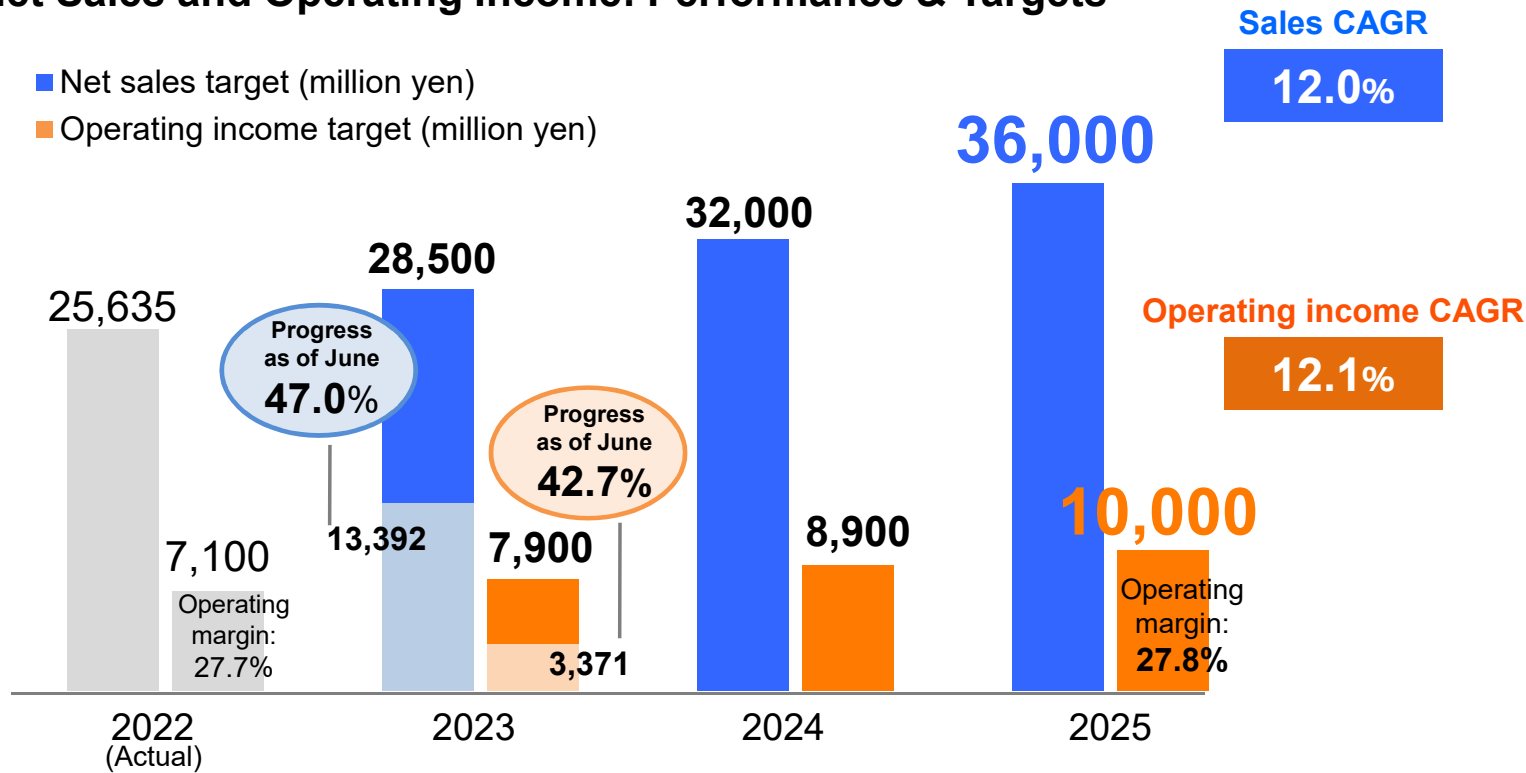
(3) 2023-2025 Targets

The target for 2025 is 36.0 billion yen in sales and 10.0 billion yen in operating income. We will endeavor to sustain high profitability while expanding our presence in the high-growth digital solutions field.

2025 Targets by Segment (%)

■ Net Sales and Operating Income: Performance & Targets

- Net sales target (million yen)
- Operating income target (million yen)



■ Consulting ■ Logistics ■ Digital solutions

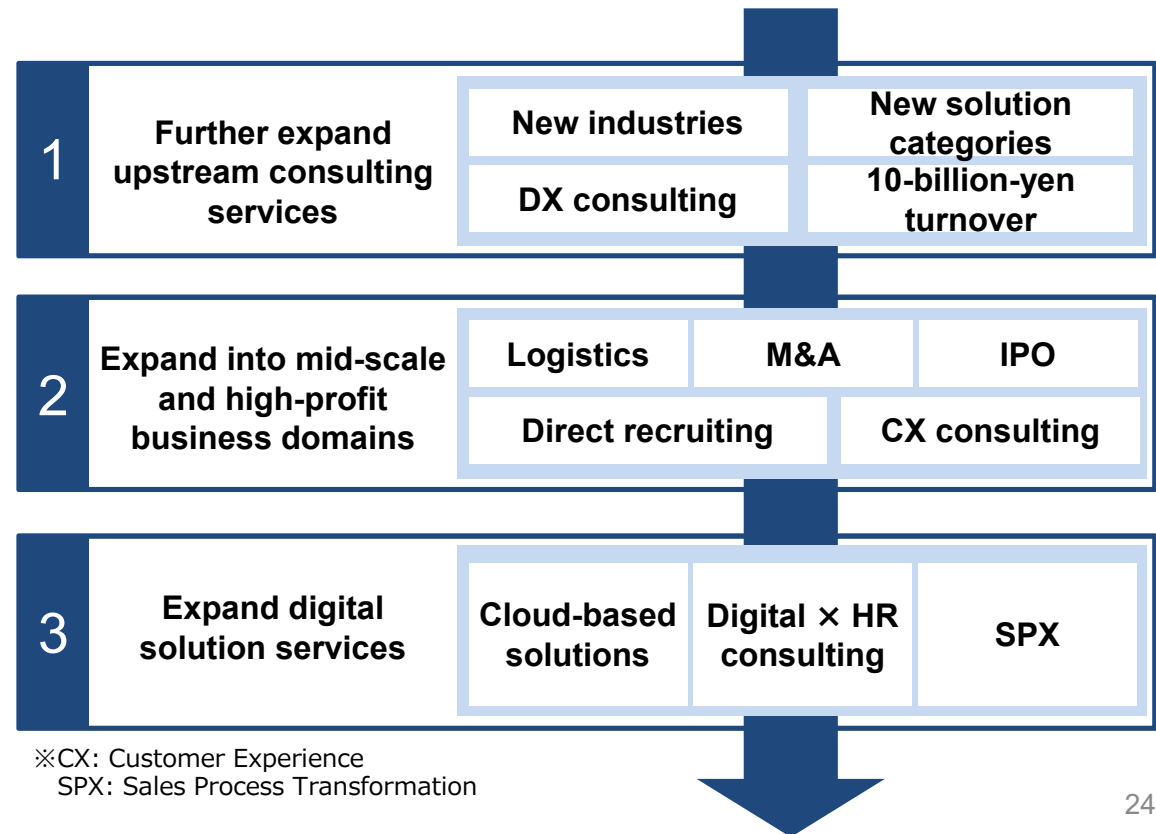
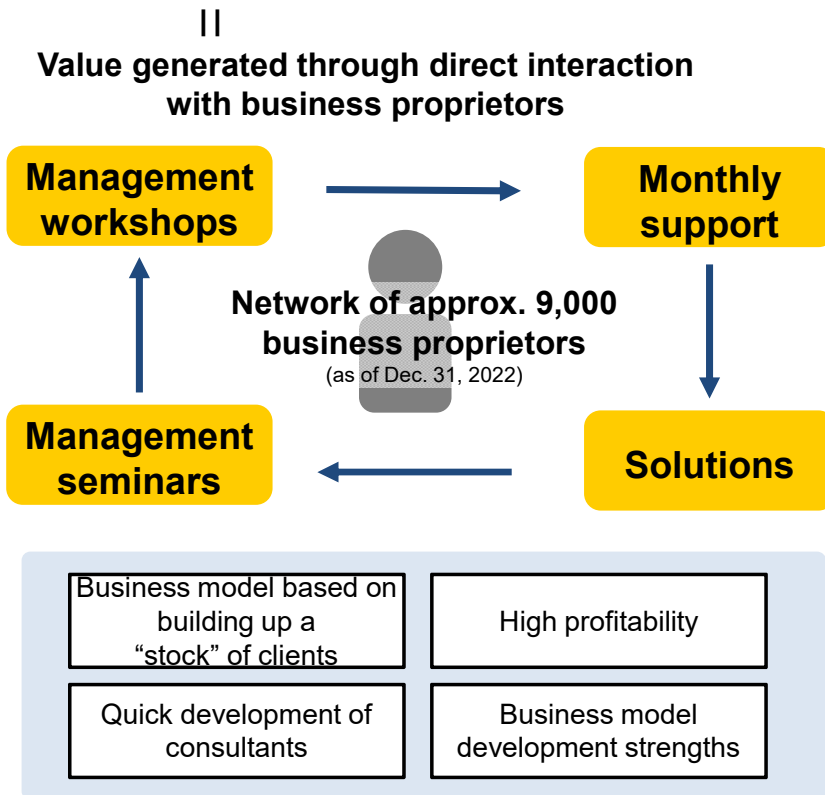
*Percentages exclude intra-group & whole-group transactions

3. Shareholder Returns and Future Initiatives

(4) Business Strategy

Direct contact with a large pool of proprietors gives us a unique strength: the ability to approach immediately with upstream services. In this way, we can maintain high profitability while expanding our business so as to provide a full spectrum of solutions for SMEs and midscale companies seamlessly.

Seamless delivery of digital and comprehensive management solutions leverage our long-standing strengths to serve mid-scale and SME clients.



3. Shareholder Returns and Future Initiatives

(4) Business Strategy 1) Strengthens partnership with Zoho Japan in business for mid-scale companies and SMEs

- Expand the range of target industries for Growth Cloud, an industry-specific cloud service based on Zoho's platform, to meet a wider range of corporate needs

Industries for which we offer Growth Cloud Solutions

Housing & real estate, mobility, new car leasing, osteopathic clinics, dental clinics, tutoring schools, certified professional services, mercantile trading firms, online food sales, printing & advertising, staffing agencies, manufacturing

- More courses for Zoho application certification, strengthen development of DX talent for mid-scale and SME clients

Zoho Certification Courses

Marketer	Client survey specialist
DX consultant	SNS marketing specialist
Marketing automation specialist	Help desk specialist
CRM・SFA specialist	Project management specialist
Chatbot specialist	Business intelligence specialist



Our target for 2024:
Solutions implemented
at cumulative total of

800
companies

Approx. **400**
companies
as of Jun. 30, 2023



Digital Enabler
Training

Our target:
10
courses

5 courses
as of Dec. 31, 2022

Our target for 2024:
Cumulative total of

700
students

Approx. **380** students
as of Jun. 30, 2023

3. Shareholder Returns and Future Initiatives

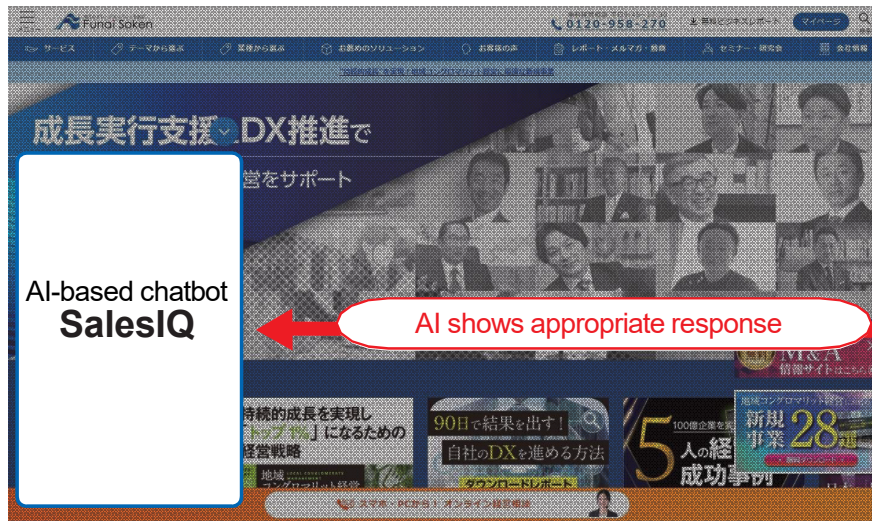
(4) Business Strategy 2) Test compatibility of ChatGPT and AI chatbots

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

Visitor to website



Asks question using chat function



ChatGPT

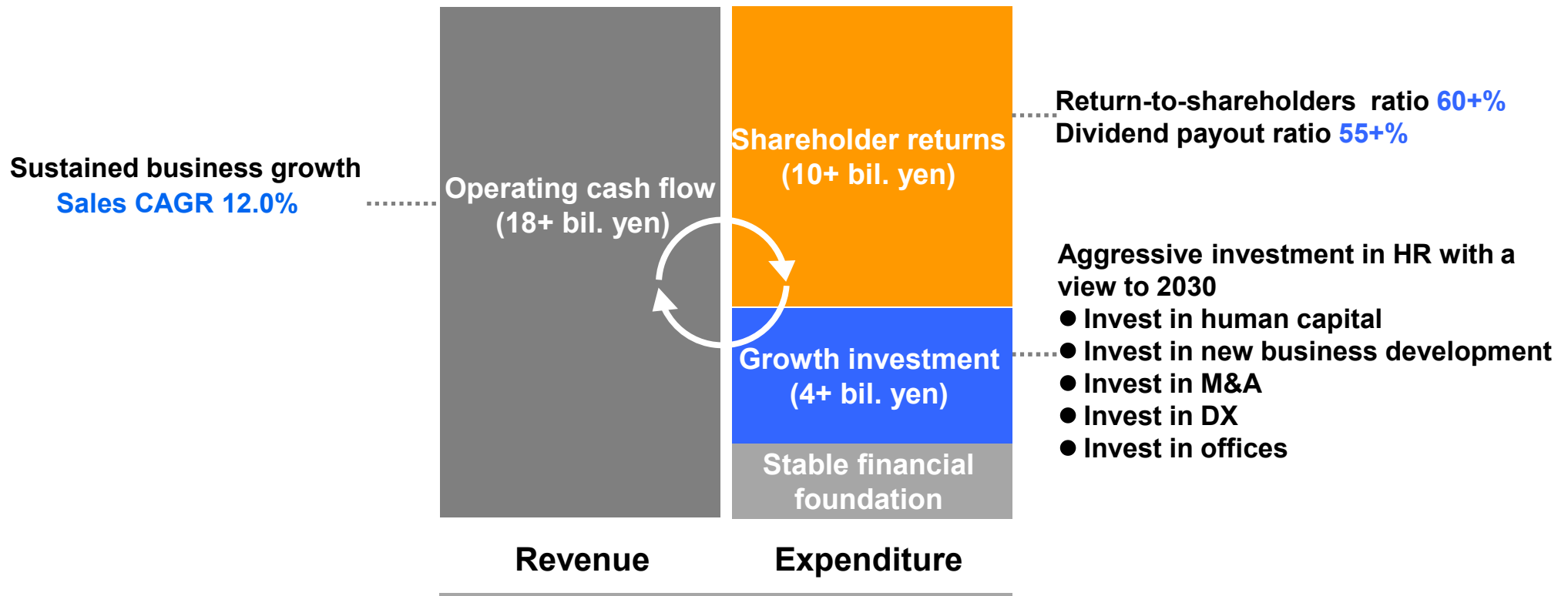
Develop new, industry-specific AI by training and fine-tuning ChatGPT on industry-specific material. AI can learn to deliver appropriate answers based on chat logs and information on order outcomes.

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

3. Shareholder Returns and Future Initiatives

(5) Investment Strategy & Cash Allocation

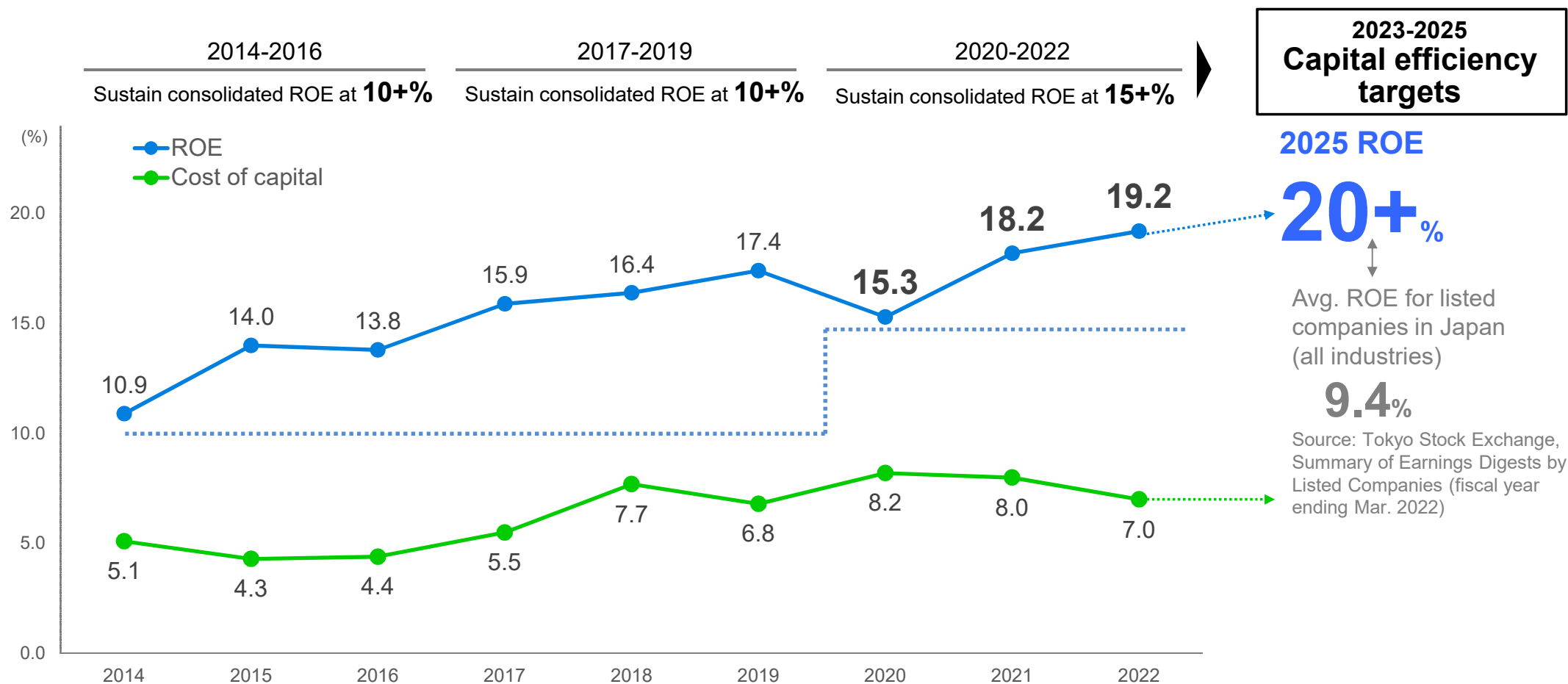
We will allocate cash earned in operations between activities aimed at generating **future growth** and appropriate **shareholder returns**, thus improving shareholder value. We will also use the 2023-2025 plan period for aggressive investment in HR with a view to 2030.



3. Shareholder Returns and Future Initiatives

(6) Financial Strategy 1) Capital Policy

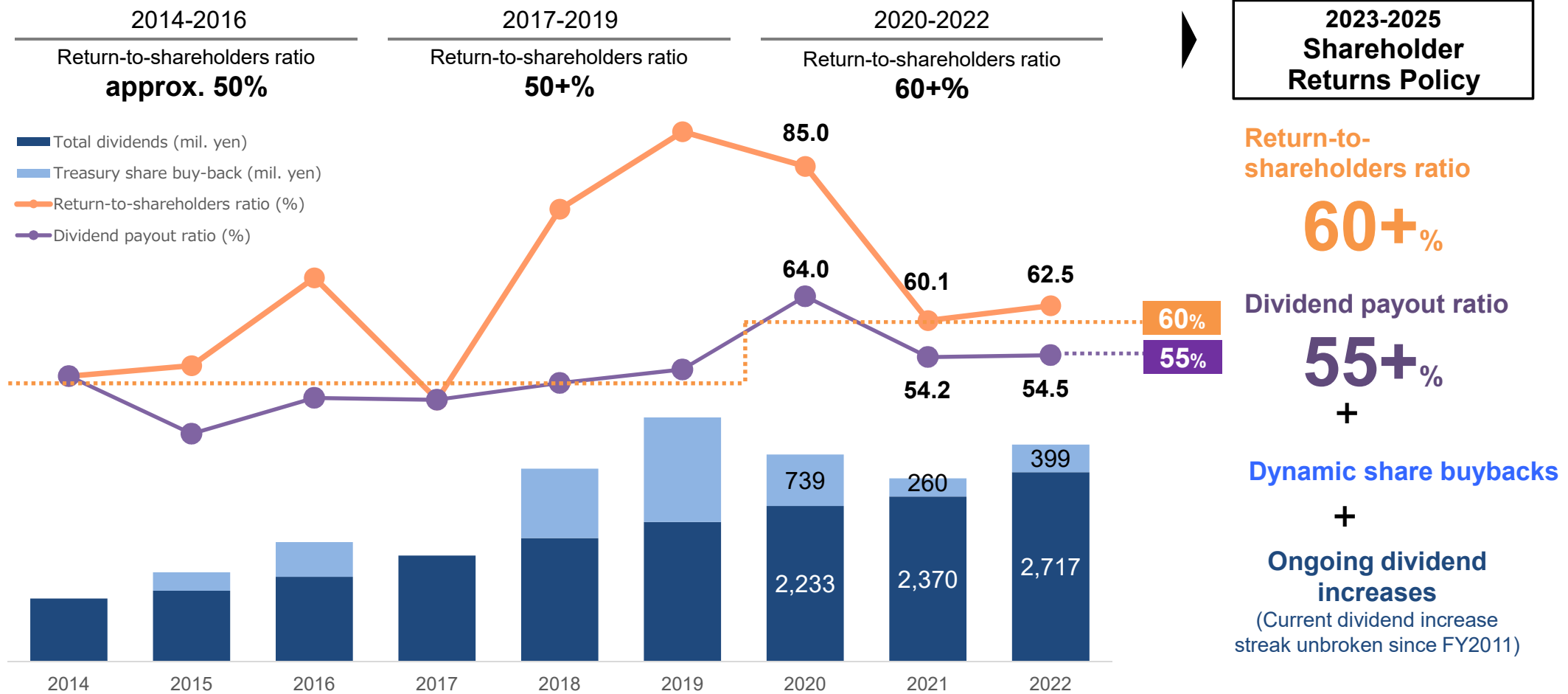
Through ongoing growth investment, increased capital efficiency ratio, and high shareholder returns, we aim to achieve sustained improvements in corporate value. Our target is an ROE of at least 20% by 2025.



3. Shareholder Returns and Future Initiatives

(6) Financial Strategy 2) Shareholder Returns Policy

We will continue to strive for a high rate of shareholder returns, such as through ongoing dividend increases and share buybacks.



3. Shareholder Returns and Future Initiatives

(7) Human Resource Strategy

We will strive to increase the number of consultants and business staff—i.e., employees with a direct bearing on sales—by an average of 10% per year.

Growth Targets by HR Category

Consultants	2025	1,150 (862 in 2022)	Increase +288
			CAGR 10.1%

- Increase upstream service consultants, expand profitability
- Bolster mid-career recruiting in high-growth domains like DX and M&A consulting
- Boost productivity by strengthening recruiting and training of project management staff able to work with mid-scale clients

Business staff	2025	400 (305 in 2022)	Increase +95
			CAGR 9.5%

- Expand system development and BPO, accelerate growth
- Boost engineer numbers; bolster DX solution development

**Business staff* are those that work in consulting departments with a direct bearing on sales but who are not consultants; roles include development engineering, product sales, new business, management workshop operations staff, etc.

Key Initiatives in HR Strategy

Hiring

Ramp up hiring: 1,800 headcount by end of 2025

- Restrengthen hiring of recent graduates for consulting positions
- Strengthen mid-career hiring in new and specialist fields
- Hire people from more diverse backgrounds for management roles

Training & career development

Training & career development for consultants and business staff

- Expand training programs to accelerate development of new and younger employees
- Improve productivity through acquisition of digital skills by consultants
- Expand investment in professional development to boost staff skills and develop the pool of management candidates

Retention

Improve employee value proposition to boost retention of talent

- Boost retention through sustained improvements in compensation
- Boost communication by relocating Tokyo office and consolidating into a single floor
- Increase employee engagement by sharing the Group Purpose

3. Shareholder Returns and Future Initiatives

(8) ESG Initiatives Announced in Our Mid-Range Business Plan (2023-2025)

① Signing up to the UN Global Compact (Apr. 2023)

The Funai Soken Consulting Group signed up to the United Nations Global Compact on April 20, 2023. As a signatory, we are committed to further strengthening our efforts to achieve sustainability.

② Integrated Report (Jul. 2023)

Our integrated report for 2023 was released on July 3, 2023 (first in Japanese, English translation later). This year's report contains thoughts from group management, including inside and outside directors, and commentary on plans for achieving growth.

③ TCFD Commitment (Jul. 2023)

By committing to the Taskforce on Climate-related Financial Disclosure (TCFD), we undertake to analyze the risks and opportunities to business in climate change. In addition to making TCFD disclosures in our securities reports and on our website, we also offer clients support for decarbonizing their operations.

WE SUPPORT





The Funai Soken Consulting Group Purpose

Sustainable growth for more companies

We lead the way to a better future and a more productive society in which more companies can achieve growth in any conditions and people can reach their full potential

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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