

**Funai Soken Holdings
Incorporated**9757 Tokyo Stock Exchange First
Section

22-Dec.-15

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Hideo Kakuta**■ Consulting business turned into a subscriber-based business, growth potential remains high, and future growth is highly promising**

Funai Soken Holdings (9757) is one of the leading firms and a pioneer in the small and medium-sized enterprise business consulting industry. It provides services such as consulting, management workshops, and seminars for more than 100 industries including housing and real estate, leisure and amusement, professional services, and medical and nursing care.

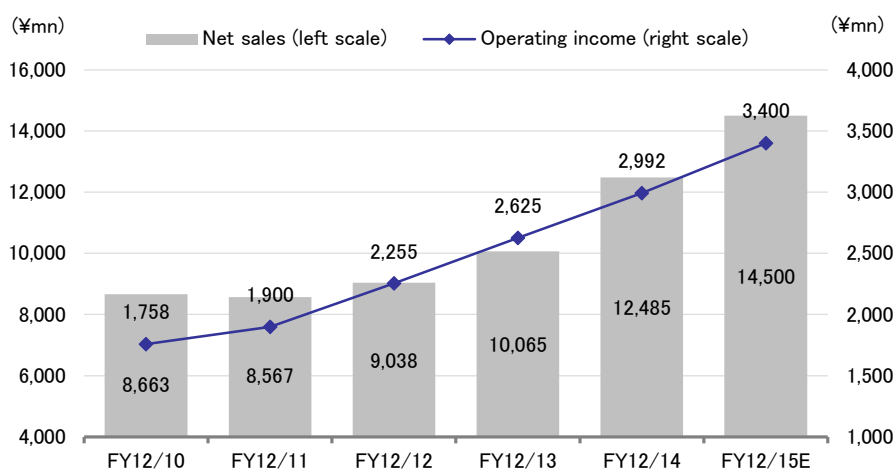
The Company continues to achieve record high net sales and profits and exceeded its previous fiscal year's and initial targets for Q3 FY12/15 (January 1 to September 30, 2015). As a result, the full-year forecast for FY12/15 was revised upward to net sales of ¥14,500mn (+16.1% YoY) and operating income of ¥3,400mn (+13.6% YoY). In particular, Funai Soken has achieved substantial growth in its core business consulting segment with focus areas of housing and real estate as well as medical and nursing care. Although this is the second year of the Company's three-year Medium-term Management Plan, it expects to achieve its operating income target of ¥3,400 million ahead of schedule.

Underpinning the Company's high growth is its unique business model that has turned the consulting business into a subscriber-based business. Funai Soken's strength is its positive growth cycle of setting up industry-specific and solution-specific management workshops, turning companies into members, deriving a stream of profitable business models from them, developing young consultants into effective professionals more quickly, and gaining the satisfaction and repeat business of supporting companies. According to the 10-year long-term plan of the current president, in addition to Funai Soken's strength in industry-specific (vertical axis) consulting, it will strengthen cross-industry (horizontal axis) initiatives, for example, support for mergers and acquisitions (M&A), human resource development, online marketing, and other areas, indicating that its policy is to make rapid progress as a comprehensive consulting group. These specific measures have attracted attention.

■ Check Point

- Full-year FY12/15 forecast revised upwards in light of steady progress in Q3
- Succeeded in forming a unique subscriber-based business in the consulting industry around a core of member organizations
- Dividend increased from initial plan of ¥34 to ¥36
- Conducted a 1.2-for-1 stock split

Full-Year Business Performance (Consolidated)



■ Performance Trends

Net sales and operating income remained strong

Business results for Q3 FY12/15

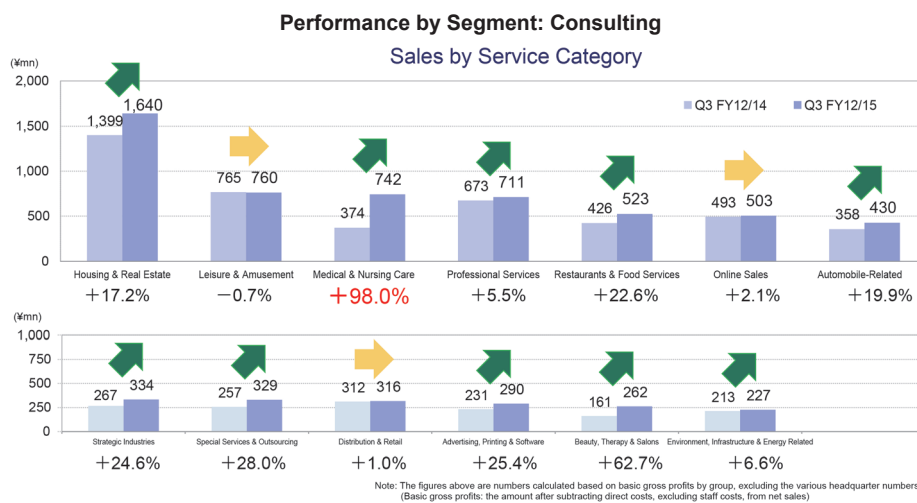
Q3 FY12/15 net sales were ¥10,637mn (+17.4% YoY) and operating income was ¥2,622mn (+17.4% YoY), as net sales and operating income continued to grow. In net sales, the core business consulting segment (sales composition ratio of 85.7%) remained strong. In operating income, the business consulting segment (operating income composition ratio of 92.8%) made a substantial contribution, while operating income in the logistics segment doubled YoY. Amid high sales growth, the operating margin remained at 24.7% and earning capacity remained high.

Results for Q3 FY12/15

	FY12/14 Q3		FY12/15 Q3				
	Result (¥mn)	Ratio to net sales (%)	Initial plan (¥mn)	Result (¥mn)	Ratio to net sales (%)	YOY (%)	Compared to initial plan (%)
Net sales	9,058	100	13,500	10,637	100	17.4	78.7
Cost of sales	5,823	64.3	-	6,855	64.4	17.7	-
Gross margin	3,234	35.7	-	3,781	35.6	16.9	-
SG&A expenses	1,000	11.0	-	1,159	10.9	15.9	-
Operating income	2,234	24.7	3,100	2,622	24.7	17.4	84.5
Ordinary income	2,264	25.0	3,150	2,758	26.0	21.8	87.5
Net income	1,300	14.4	1,850	1,861	17.5	43.2	100.6

Source: Company materials

Housing and real estate, the core sectors of the business consulting segment, continued to fare well. Notably, the medical and nursing care field, which is positioned as the next growth field, grew 98.0% YoY. This resulted from the merging of the separate Tokyo and Osaka consulting organizations for this industry, thereby strengthening the sharing of expertise. Although housing and real estate, leisure and amusement, medical and nursing care, professional services, restaurants and food services, and so forth are industries where business confidence is by no means high, Funai Soken already ranks No. 1 in the consulting industry in these markets and will continue to increase its share.



Source: Company materials

■ Outlook

Performance revised upward and sales and earnings forecasted to increase for a fourth consecutive fiscal year

Full-year FY12/15 outlook

The FY12/15 full-year results forecast was revised upward as net sales, operating income, ordinary income, and net income are all expected to exceed their targets. Net sales were revised upward from the initial target of ¥13,500mn to ¥14,500mn, operating income from ¥3,100mn to ¥3,400mn, ordinary income from ¥3,150mn to ¥3,550mn, and net income from ¥1,850mn to ¥2,200mn. Because a characteristic of the Company's business consulting and logistics segments is their high percentage of repeat business, we can infer that the range for divergence between the forecast and the actual result is small.

■ Growth Strategies

10-year plan is making steady progress and Medium-term Management Plan is to successfully transform into an business with an infrastructure for regular income

10-year plan

In considering the Company's growth strategies, we should again review the long-term plan. Because the plan was formulated in 2010, when the Company transitioned to the structure under the current president, Sakae Takashima, the 10-year period to 2020 was divided into three phases. The first phase (Hop: 2011-2013), the middle phase (Step: 2014-2016), and the final phase (Jump: 2017-2019). FY12/15 corresponds to the second year of the middle phase. Today, this plan still serves as the foundation, acting as a compass indicating the Company's direction.



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10-Year Plan, Goals and Course

		2017-2019 Jump "Trusted brand"
	2014-2016 Step "High growth potential"	New business expansion
2011-2013 Hop "Assured profitability"	Expansion of core business plan	1) Group management 2) Raise corporate value 3) 2020, become a great company
Business centralization	1) Creation of subscriber-based business 2) Achieve 50% or more growth in three years 3) Shift to a holding company	Raise corporate value
1) Cut losses from unprofitable businesses 2) Operating margin of 25% 3) 10-year plan to become a great company	Increase growth potential	1) Become a comprehensive consulting group for SMEs 2) Achieve 10,000 workshop members 3) Accelerate PL and BS consulting
Gain solid footing	1) Expand workshops 2) Strengthen recruiting = Recruit 150 people Stronger support of industry recruiting 3) Accelerate business succession/ M&A	
1) Shift from individualism ("superstar" consultants) to organization (team consulting) 2) Expansion of consulting teams		
2010	2015	2020

Source: Company materials

○ **First phase (Hop: 2011-2013, period of previous Medium-term Management Plan)**

In this period, the Company transferred or closed unprofitable subsidiaries to eliminate declining profitability caused by those subsidiaries and focused on the consulting segment, its core business. In order to raise profitability in a stable manner within the consulting segment, Funai Soken changed its organization from one that had been based on individualism (a system depending on "superstar" consultants) to one based on the collective organization (a system of team consulting). As a result, despite only modest growth in net sales from ¥8.6 billion (FY12/10) to ¥10.0 billion (FY12/13), the Company increased operating income from ¥1.7 billion (FY12/10) to ¥2.6 billion (FY12/13) and successfully solidified its earnings base.

○ **Middle phase (Step: 2014-2016, period of current Medium-term Management Plan)**

The current Medium-term Management Plan aims for even greater growth. In FY12/16, it targets net sales of ¥15.0 billion (a 50% increase over FY12/13) and operating income of ¥3.4 billion (a 30% increase over FY12/13).

The main theme is to bolster industry-specific consulting, the Company's original strength. It aims to turn SMEs, its target customers, into members by creating industry-specific and solution-specific management workshops, increase the number of customers, and get repeat business. The management workshops generate profitable solutions and increase the number of products offered. The workshops also help to quickly give consultants wide-ranging experience and develop them into effective professionals. Customers (customers converted to members), objects (products), people (consultants), money (management skills that generate profits) have a positive impact on each other, and the achievement of 50% growth over three years as a result of each of these factors growing at an annual rate of around 15% is the essential feature of the current Medium-term Management Plan. Although this fiscal year marks the second year of the plan, the Company is set to achieve its targets ahead of schedule and has already achieved 96.7% of the Medium-term Management Plan's sales target (FY12/15 forecast / FY12/16 target) and 100% of the plan's operating income target (FY12/15 forecast / FY12/16 target).

Incidentally, as of September 2015, the Company has presided over 154 management workshops attended by 5,084 members. The number of seminars held during the year (FY12/14) was 863, with 21,476 seminar participants (results for FY12/14), and Web members were 75,553 (as of September 30, 2015). As of FY12/14, the Company had an annual number of 4,262 corporate consulting contracts.

○Final Phase (Jump: 2017-2019)

In this phase, the consummation of the 10-year period, the Company aims to transform from a “comprehensive business consulting group for SMEs” into a “great company” with a “trusted brand.” It has already begun to take those preparatory steps. The shift to a holding company structure (2014) and the conversion of peripheral businesses into subsidiaries, starting with Funai Soken Logistics Inc., lays the foundation for Group management including in non-consulting areas. Collaboration with the Mirai Consulting, Inc. group in the M&A and business succession consulting fields and establishment of an M&A consulting business division (in July 2015) appear to be strategic moves into the balance sheet (BS) consulting business. In addition, the Company has established a policy of pursuing a more practical and high-quality consulting service by strengthening its business promotion capabilities in core cross-industry (horizontal axis) themes such as human resource development and online marketing support.

Looking over a 10-year span, selection and focus succeeded during the first half. The Company effectively maintained high growth and profitability by turning the consulting business segment into a subscriber-based business. Now, they will further reinforce their strong business consulting segment and enter a new phase as a comprehensive consulting group, having completed the strategic addition of peripheral businesses and operations. It will be worthwhile focusing on the Company’s specific strategies and the organization along with the numerical targets that they are likely to announce going forward.

■ Shareholder Returns Policy

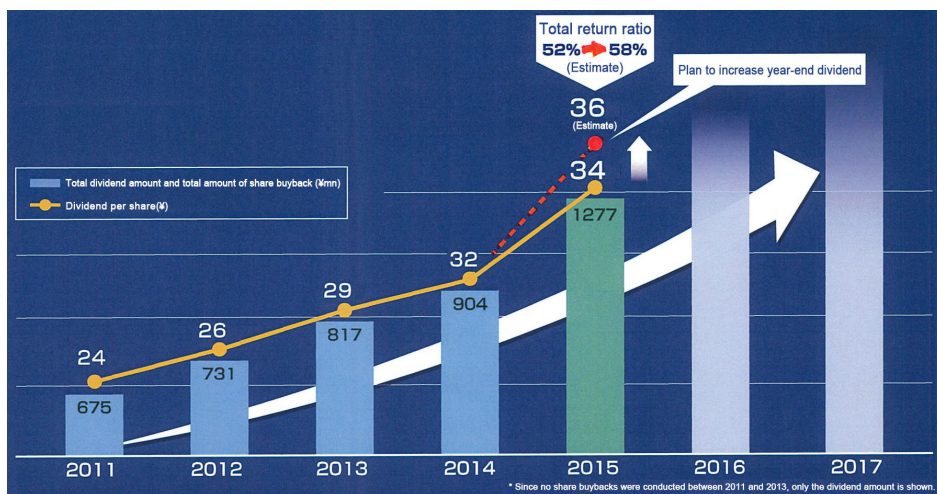
Raising the year-end dividend by ¥2 for an annual dividend of ¥36

The Company recognizes appropriate distribution of profit to shareholders as its highest management priority, and intends to carry this out through both “returns through dividends” and “returns through share buybacks” while considering future earnings. Under a policy of raising the total amount of dividends sustainably, the Company is targeting a total return ratio of around 50%. For FY12/15, the interim dividend was ¥15, and the year-end dividend is estimated to be raised by ¥2 from the original plan of ¥19 to ¥21, for an annual dividend of ¥36. This will result in a dividend payout ratio of 46.1% (forecast) and a total return ratio including share buybacks of 58.0% (forecast).

On November 5, 2015, the Company announced a 1.2-for-1 stock split to be conducted on January 1, 2016. The stock split is a point of focus since it will increase the liquidity of the Company’s stock and create an environment that is easier for investors to invest in.

With regard to shareholder rewards, the Company has changed the reward to a QUO card (last year it distributed book tokens or nationwide gift vouchers). The Company distributes QUO cards (with a value up to ¥10,000) to shareholders as of December 31, according to the number of shares held.

Shareholder returns



Source: Company materials

■ Corporate Outline

On a growth track under its fourth president

(1) History

The Company was established by Mr. Yukio Funai in 1970, with its core business in comprehensive diagnosis of corporate management. With the founder's charismatic nature and hit publications, Funai Soken steadily expanded operations, having succeeded in forming a member organization of small- and medium-sized enterprises focusing on the distribution industry, and was the first company in the consulting industry to list its shares in 1988 (being a Specially Designated Stock on the 2nd Section of the Osaka Stock Exchange). From the 1990s, the baton was passed to the second president, with a shift in customers from predominantly the distribution industry to the service industry. Under the current fourth president, who was appointed in 2010, the consulting business has been strengthened and the scope of operations has been expanded to areas peripheral to consulting, with a shift to a holding company structure in 2014 and strengthening of consolidated management structures.

Business consulting forms the basis of net sales and operating income

(2) Business Overview

The business consulting segment forms the core, representing 85.7% of net sales and 92.8% of operating income (Q3 FY12/15). Management support for small and medium-sized enterprises in industries such as housing and real estate, leisure and amusement, professional services, and medical and nursing care comprise the Company's main focus.

In FY12/14, Funai Soken Logistics Inc. became part of the Group, forming the logistics segment, as part of a strategy to enter businesses peripheral to consulting. It constitutes 11.4% of net sales and 3.0% of operating income of the Group (Q3 FY12/15).

Business Description and Composition (Consolidated)

Business segment	Main client industries, description of business	Share of sales	Share of operating income
Business Consulting	Consulting for industries such as housing and real estate, leisure and amusement, professional services, restaurants and food services, and medical and nursing care	85.7%	92.8%
Logistics	Logistics operation, consulting businesses, etc.	11.4%	3.0%
Other	IT outsourcing, consulting businesses, etc.	2.9%	4.2%

Source: Company materials

Management workshops key to marketing activities

(3) Key Business Model Characteristic 1: Management Workshops

The approach which has supported high growth in recent years has been having management workshops by industry type and solution. As of the end of Q3 FY12/15, there are 154 workshops engaging in activities such as study groups and model company inspections for 5,084 paying corporate members. The nature of pan-industry exchanges promotes the gathering of management, however, these workshops are focused on specific industry types and themes, where the purpose is more practical.

For example, in the housing and real estate industry, the workshops are extremely specific and divided into groups such as the "FAST-Reform Workshop," the "Rental Management Business Workshop," the "Housing for Senior Citizens Workshop," the "Northern European Modern Housing Workshop," and the "Zero Yen Utility Cost Housing Workshop." Given that existing clients also participate, both the actual state and benefits of business consulting are easily transmitted by word of mouth. The "Zubari Solution," referred to later, also originated from and will be refined by such a workshop.

Additionally, these management workshops, as well as enabling the acquisition of special characteristics and perspectives of managers through communication between young consultants and clients, constitute an opportunity to collect, analyze, and study raw management data, which is also linked to early human resource development.

Proposing a specific plan that is readily implemented and allows results to grow dramatically

(4) Key Business Model Characteristic 2: The "Zubari Solution"

The "Zubari Solution" (pin-point solution) is an original Funai Soken term that means "a business model pertinent to the times within that industry that if put into practice now will allow the client to aim for dramatic results improvement." In typical business consulting, the normal path is to propose a customized package of solutions after undertaking management diagnosis. However, the Company has the opposite idea. It prepares a successful business model in advance, and attracts clients that approve of that model.

Within any number of solutions, by way of example, "Specializing in low-cost, mini-cars! ¥398,000" is a Zubari Solution in the used car industry, as is "Succeeding in ultra-low-cost housing in as little as six months" in the residential construction industry or a "One-stop service including a residual disability assessment after a traffic accident" campaign in the legal industry.

Zubari Solutions are the accumulation of detailed know-how, and require continuous support in implementation. Most of the Company's consulting contract terms are initially for half a year, with renewals in one year increments, many of which continue for lengthy periods. Even young consultants can accumulate a track record and grow quickly by taking charge of multiple projects with the same solution.

Where youth can play an active role

(5) Key Business Model Characteristic 3: HR Management

It goes without saying that the business consulting industry is its consultants, that is, human resources. Funai Soken has increased net sales along with its increases in consultants. Currently, Funai Soken boasts more than 500 consultants, giving it the largest scale in Japan within the industry. Moreover, there was a time for the Company when it relied on "superstar" consultants. However, at present it has established systems that enable track records to be built-up rapidly, and structures where the team as a whole creates added value. The Company is ranked 93rd in popularity among job-seeking students (Diamond, Inc. 2015, Listed in the Top 100 for male humanities graduates for 10 consecutive years), and has no impediments to recruiting, even including mid-career hires. The average length of employment trends around 7.5 years, with no observable tendency for staff loss, which is common in the consulting industry.

The Company's strength lies in the fact that management workshops, Zubari Solutions, and human resources management are intertwined, creating a robust business model.

Group creation as a part of strengthening peripheral businesses

(6) Special Features of the Logistics Segment

Within the logistics segment, logistics operation business (sales of ¥816mn, Q3 FY12/15) is the largest component, which includes agency services for the design, development, and execution of logistics operations for corporate clients. In this fiscal period, the existing customer retention rate reached 100%, and it significantly increased sales (+¥201mn YoY). The overall profitability of the logistics segment also improved, with segment income of ¥80mn (+ ¥42mn YoY, Q3 FY12/15).

Ample cash and an extremely robust financial condition

○Financial status

As of the end of Q3 FY12/15, the financial position is sound. Total assets rose ¥1,009mn compared to the previous year-end to ¥21,446mn. The main increase was a rise of ¥742mn in fixed assets, primarily resulting from increases in goodwill and software in progress. The balance of cash and deposits was ¥6,229mn, which represents ample cash reserves.

On the other hand, liabilities increased ¥110mn from the previous year-end to ¥3,893mn. The main increase was a rise of ¥309mn in fixed liabilities with items such as bonds being the main causes.

Among stability-related management indices (Q3 FY12/15), both the current ratio (309.3%) and the shareholders' equity ratio (81.4%) are extremely high, providing superior stability.

Consolidated Balance Sheet and Management Indicators

(Unit: ¥mn)

	End of FY12/14	End of Q3 FY12/15	Changes
Current assets	9,521	9,788	267
(Cash and deposits)	5,876	6,229	353
Fixed assets	10,915	11,657	742
Total assets	20,437	21,446	1,009
Current liabilities	3,364	3,165	-199
Fixed liabilities	419	728	309
Total liabilities	3,783	3,893	110
Total net assets	16,653	17,552	898
Total liabilities and net assets	20,437	21,446	1,009
(Stability)			
Current ratio (current assets + current liabilities)	183.0%	309.3%	-
Equity ratio (equity + total assets)	81.1%	81.4%	-

Source: Company materials

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