

Funai Soken Holdings Incorporated

9757

Tokyo Stock Exchange First Section

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Summary

Solid progress on achieving the targets for FY12/19, the final year of the Mid-Range Business Plan, good visibility

Funai Soken Holdings Incorporated <9757> (hereafter, also “the Company”) is one of the leading firms and a pioneer in the small and medium-sized enterprise management consulting industry. It was the first consulting firm to list on the stock market back in 1988. Under current president Sakae Takashima, the company’s fourth president who assumed this position in 2010, based on the mission of “Creating the next great companies,” the Company has been steadily expanding business thanks to success in organizing a membership of executives and with other initiatives. It is strengthening consulting, expanding into related areas, and bolstering group management operations. The Company is a corporate group with eight consolidated subsidiaries, including logistics, direct recruiting, IT, and contact center consulting operations. In the small and medium-sized enterprise management consulting industry, the Company has a dominant presence in terms of its market share and consulting track record.

1. Business overview

The Company’s consulting service has a highly unique “stock-type” recurring revenue business model in the management consulting industry. The business model is designed to bring customers together, deepen trust and build up contracts. Distinguishing features are industry and thematic management workshops (more than 180 workshops for specific themes that can increase execution capabilities), On-the-mark solutions (timely business models for individual industries that could dramatically boost results if promptly implemented), and industry-specific organization and rapid personnel training operations (cultivation of team leaders in average four years and two months through accumulated experience by industry and theme).

2. Performance trends

In 3Q FY12/19, the Company reported consolidated net sales of ¥18,607mn (+19.7% YoY), operating income of ¥4,109mn (+19.1%), ordinary income of ¥4,127mn (+17.8%), and profit attributable to owners of parent of ¥2,730mn (+7.6%), with significantly higher sales and higher profits. Net sales in the consulting business continued to grow steadily, while the Company increased the number of new clients in the direct recruiting business, leading to a significant increase in net sales. In the core consulting business, consultants regularly visited clients, and there was strong growth in both monthly support consulting services, and in listing services, which help client companies attract customers online. By industry, sales grew by double digits YoY in housing and real estate, and in medical, nursing care, and welfare, areas where the Company has a strong client base, while sales growth was also high in both the human resources services and environment and energy fields. In direct recruiting, sales nearly doubled in conjunction with the increase in new clients. The consulting and logistics businesses delivered steady operating income. The consulting business saw a particularly large increase in operating income, as in addition to the jump in sales, operating income was aided by a reduction in expenses, including business travel costs, thanks to efforts to make sales practices more efficient. The operating margin in the consulting business was 28.2%, as this business has dominant earnings capabilities. The logistics business also saw an improvement in profitability based on the growth in logistics consulting.

Summary

Looking at consolidated results for FY12/19, the Company is forecasting net sales of ¥23,500mn (+8.3% YoY), operating income of ¥5,400mn (+9.2%), ordinary income of ¥5,400mn (+7.8%), and profit attributable to owners of parent of ¥3,700mn (+4.2%). The Company is expecting higher sales and profits for the eighth straight year, and expects to set a new record high for profits. In terms of progress towards targets for the final year of the Mid-Range Business Plan, net sales were 79.2% of the target, while operating income were 76.1% through 3Q. With both net sales and profits above the of 75% mark, it appears likely that the targets will be met. In the consulting business, net sales in 4Q are usually the highest of the fiscal year. In the logistics business, the percentage of sales from logistics consulting has increased, and the Company expects to maintain a high level of profitability. The direct recruiting business employs a typical subscription model, and because the cancellation rate is been kept low the business will likely contribute even more to increased revenue in 4Q. We think that the Company will achieve its net sales target given the strong progress through 3Q, and that each profit line target will be exceeded, as the effect of higher sales will offset payments of year-end bonuses.

3. CSR

The Company supports companies through its core business under the mission of "Creating the next great companies," and actively engages in social contribution activities. One such initiative is holding the Great Company Awards for the last 10 years through the Funai Foundation, which carries on the life work of the late Yukio Funai. A "great company" is one that was founded on a philosophy of high value to the community that perfects its own unique business model worthy of the name "enterprise," and as a result grows to be a corporation capable of demonstrating sustainable growth. We define this term as an organization that has created a unique culture that employees and customers alike come to regard as a great company. At the annual meeting of the National Management Strategy Seminar held each August, a grand awards ceremony is held to honor the Great Company Awards recipients. In August 2019, IBJ, Inc., which offers a marriage-hunting support services and life design services received the "Great Company Award." In addition, six other companies received the other various awards (10th Anniversary Foundation Special Award, Customer Appreciation Award, Employee Pride Award, Unique Business Model Award, Philanthropy Award, and the Better Performance Award). There have been 65 award-winning companies (great companies) over the past 10 years. The Company continues to engage in its own unique social contribution activities by producing not only award-winning companies but also many others with high value to the community.

4. Shareholder return policy

The Company recognizes appropriate distribution of profit to shareholders as its highest management priority, and intends to continue carrying this out through both "returns through dividends" and "returns through share buybacks" while considering business performance. In conjunction with raising the total amount of dividends sustainably, it is targeting a total return ratio (dividends + share buybacks) of at least 50%. In FY12/19, the Company expects to pay an annual dividend of ¥40 per share, comprised of a first-half dividend of ¥17 per share and second-half dividend of ¥23 per share (including a 50th anniversary commemorative dividend of ¥3), resulting in a total return ratio of 94.7% (54.6% dividend payout ratio). The forecast for an extremely high total return ratio is based on the buyback of shares. A share buyback was considered based on a request from the largest shareholder Funai Honsha, K.K., and a resolution to carry out a tender offer to acquire shares between November 6 and December 3, 2019 was adopted. The maximum number of shares acquired was set at 696,200 shares with an aggregate purchase amount of approximately ¥1,500mn. The Company's total return ratio is expected to be extremely high for the second straight year, and it is clear how much emphasis the Company is placing in shareholder returns.

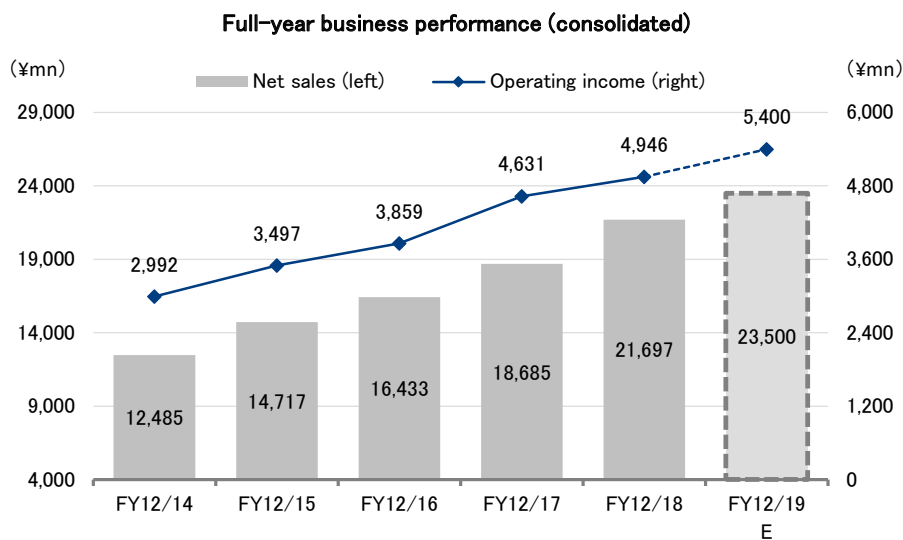
Summary

5. Benchmarks

The Company stands out for its business performance in the management consulting industry, and it is among the leaders in the industry in terms of shareholder returns indicators. For FY12/18, the Company's dividend on equity (DOE) was 8.2%, which ranked second among the 10 companies in the sector. The total return ratio, which encompasses the acquisition of treasury shares, was an outstanding 78.1%. For FY12/19, the Company expects DOE of 9.0%, and is expecting to further raise its shareholder returns. The Company's dividend payout ratio is above 50%, which positions the Company among the top with respect to its peers. For FY12/19, the Company is expecting an even higher dividend payout ratio and total return ratio, and is forecasting a dividend payout ratio of 54.6% and a total return ratio of 94.7%, as it looks to raise its standing even higher.

Key Points

- A pioneer with dominant strength in the small and medium-sized enterprise consulting field. Based on its mission of "Creating the next great companies," the Company is expanding the domains that it supports. The Company has started disclosing segment data for the direct recruiting business.
- Strengths lie in unique consultations to jointly create and advise on successful solutions, based on industry and thematic workshops. The direct recruiting business is growing rapidly
- Performance through 3Q has been solid, as the Company has earned 79.2% of its forecasted net sales for FY12/19, and 76.1% of its forecasted operating income for FY12/19. It seems likely that the Company will achieve the targets for the final year of the Mid-Range Business Plan
- The final year of the 10-year plan. As a social contribution initiative, the Company has recognized more than 60 companies as "great companies"
- Top level shareholder returns among companies in the management consulting industry



Source: Prepared by FISCO from the Company's financial results

■ Corporate outline

Dominant strengths in the field of consulting for small and medium-sized enterprises. “Creating the next great companies” as a mission

1. Corporate outline and 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, the Company 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 services industry. Under president Takashima, the fourth president, who was appointed in 2010, and based on the mission of “Creating the next great companies,” the consulting business has been strengthened and the scope of operations has been expanded to areas peripheral to consulting. The Company shifted to a holding company structure in 2014 and bolstered group management structure aimed at further growth. It is a corporate group with eight consolidated subsidiaries, including logistics, direct recruiting, IT, and contact center consulting operations and 1,105 group employees as of the end of December 2018. The Company is a pioneer in the small and medium-sized enterprise management consulting industry and has a dominant presence in terms of market share and consulting track record.

2. Business description

Consulting is the core segment, generating 76.6% of net sales and 98.0% of operating income (3Q FY12/19 values). Monthly support consulting for small and medium-sized enterprises in over 100 industries, including 12 major industries (housing and real estate, medical, nursing care, and welfare, and certified professional services) comprise the Company's main focus. Other areas include project consulting, management workshop member fees, listing services, and open seminars.

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 9.5% of net sales and 5.8% of operating income of the Group (3Q FY12/19).

In the direct recruiting business, HR Force Inc. (established in 1Q FY12/18) provides recruiting support that cuts out middle-man staffing companies and recruiting websites, and puts employers in direct contact with jobseekers. This business is growing rapidly, and accounted for 9.4% of net sales in just its second year.

The other businesses segment covers the operating results of the IT consulting business and contact center consulting business, and Shinwa Computer Service Co., Ltd. (system development business), which was consolidated from 3Q FY12/18. The segment accounted for 4.5% of net sales and 0.6% of operating income (3Q FY12/19).

Business content and composition (consolidated, 3Q FY12/19)

Business segment	Main client industries, description of business	Share of sales	Share of operating income
Consulting	Consulting for industries such as housing and real estate, medical, nursing care, and welfare, certified professional services, automotive, specialist services, food service and food	76.6%	98.0%
Logistics	Logistics consulting, logistics operations, logistics trading	9.5%	5.8%
Direct recruiting	Recruiting support utilizing direct recruiting that cuts out middle-man staffing companies and recruiting websites, and puts employers in direct contact with jobseekers.	9.4%	-4.4%
Other	IT consulting, system development, and contact center consulting businesses	4.5%	0.6%

Note: Before adjustment for inter-segment transactions
 Source: Prepared by FISCO from Company materials

Business overview

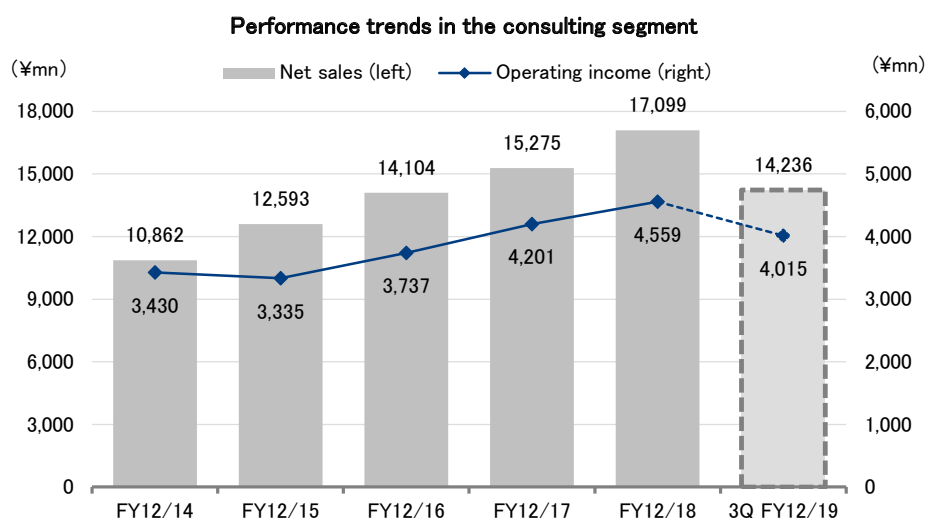
Strengths lie in unique consultations to jointly create and advise on successful solutions

Direct recruiting business is growing rapidly

1. Consulting Business

(1) Performance trends

Consulting business segment has consistently been the Company's breadwinner and source of growth and profits. In this segment, net sales and operating income have experienced a stable compound annual growth rate of 12.0% and 7.4%, respectively, over the past four years. In 3Q FY12/19, consulting posted net sales of ¥14,236mn (+15.6% YoY) and operating income of ¥4,015mn (+24.1%), maintaining a steady rate of growth.



Source: Prepared by FISCO from the Company's financial results

Business overview

(2) Business model for the consulting segment**(a) Industry and thematic management workshops**

Industry and thematic management workshops are a central component of the business model. The Company had over 7,000 paid members participating in more than 170 workshops, including study sessions, model company visits, and other activities, as of the end of December 2018. Generally speaking, executive gatherings are often held as networking events for executives from different industries. In contrast, these workshops are more practical with a focus on specific industries and themes. For example, in the housing industry, the workshops are specific and divided into groups such as “Condominium Business Workshop,” “Rental Management Business and Asset Management Workshop,” “Existing Home Brokerage + Renovation Business Workshop” and “Painting Business Workshop.” Given that existing clients also participate, the contents and benefits of management consulting are easily transmitted by word of mouth.

(b) On-the-mark solutions

“On-the-mark solutions” are discussed in each management workshop. “On-the-mark solutions” is an original term used by the Company that refers to timely business models for individual industries that could dramatically boost results if promptly implemented. Typical management consulting takes the approach of offering proposals of customized solutions after a business diagnosis. The Company does the opposite. It prepares a successful business model ahead of time and gathers clients who want to pursue the model. Some examples of the many solutions are “Compact home building and sales model to sell 80 homes a year in two years” in the housing industry, “Enter the stroke rehabilitation business” in the nursing care industry”, and “One-stop service including certification of aftereffects from an automobile accident” in the legal profession. These are very specific proposals. Even young consultants can handle the same solution for multiple clients and thereby accumulate experience in a short amount of time and quickly become autonomous.

(c) Industry- and theme-specific organization and rapid personnel training system

The Company fundamentally utilizes an industry- and theme-specific organization. Its many young consultants (primarily new university graduates) quickly absorb knowhow and gain autonomy by specializing in a certain industry or theme through involvement in specific management workshops, management seminars, and monthly support consulting. Consultants previously needed a period of 7 years and 1 month to advance from being new graduates to a team leader (2013). However, the Company shortened this period to 4 years and 2 months now (2018) by refining the framework for promptly cultivating full-fledged consultants.

(d) Operations centered on monthly support consulting closely intertwined with the frontlines

By operation, monthly support consulting accounts for two-thirds of sales as the primary income source. With monthly support consulting, consultants regularly visit the frontlines, form close relationships with executives, and provide practical support. Many contracts last for a year, and the renewal rate is high. Project consulting conducts surveys and diagnosis and periodically issues reports with proposals based on these results. This service involves substantial customization and includes M&A deals. Non-consulting income largely comes from listing services to help clients attract customers online, and this area is growing at a high rate. Management workshop membership fees and open seminars help to cultivate new clients, and are an indispensable part of the Company’s business model. With the exception of projects, each business grew during 3Q FY12/19.

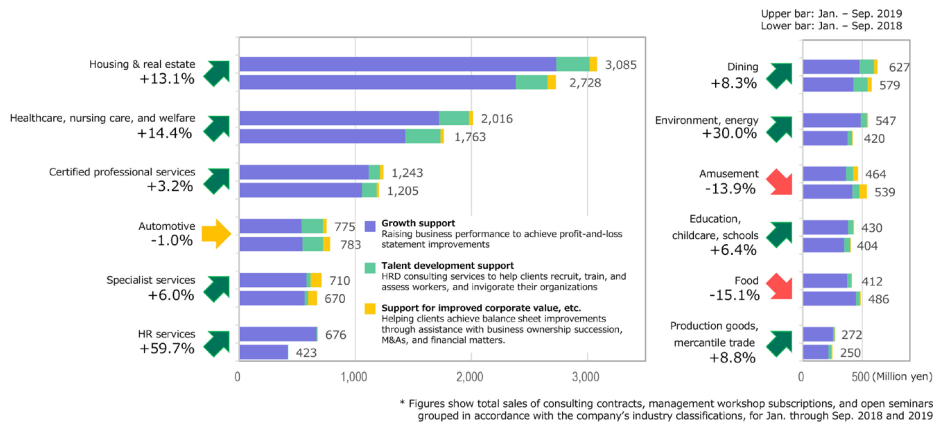
Business overview

(3) Trends by industry and theme

Looking at consulting trends by industry, the Company has increased sales by double digits YoY in the two core areas of housing and real estate, and medical, nursing care, and welfare. There is a positive cycle at play in which consultants are increased in strong-performing industries, leading to even better performance in each of those industries. As a result, the Company holds top-class market shares in many industries in Japan's consulting market, including housing and real estate, medical, nursing care and welfare and certified professional services. Industries with smaller scale, but strong growth potential, include human resource services (+59.7% YoY) and environment and energy (+30.0% YoY). Examples of industries facing headwinds are food (-15.1% YoY) and amusement (-13.9% YoY). In the past few years, the industry itself has peaked out, and the Company's performance has been negatively impacted.

By type of support, there has been no change in the trend for "growth support (enhance business performance)," a long-established area, to account for a large share of business. However, talent development support (help clients recruit, train, and assess workers, and invigorate their organizations) and support for improved corporate value (assistance with business ownership succession, M&As, financial matters, etc.) are also accounting for an increased share of business.

Sales by main industry in the consulting business



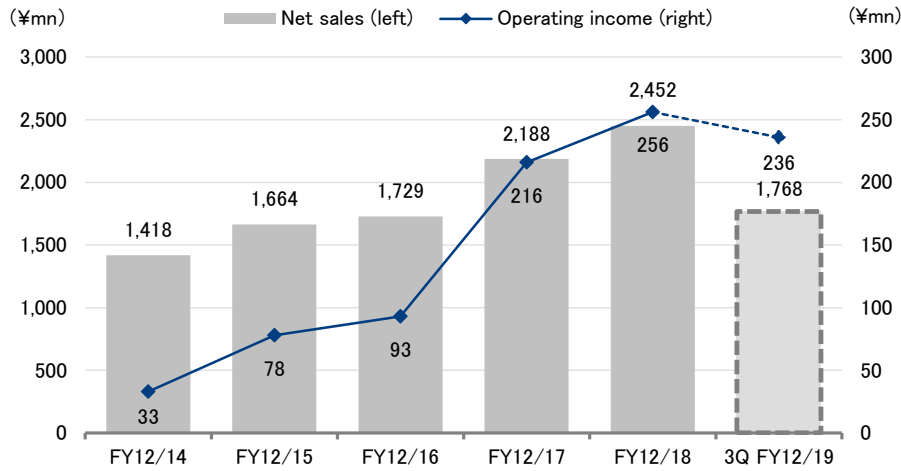
Source: The Company's summary of financial results

2. Logistics Business

The logistics business segment consists of three types of operations: "logistics consulting," where the Company provides consulting services aimed at helping clients reduce logistics costs; "logistics operations," which are logistics services performed on behalf of clients; and "logistics trading," where the Company helps to reduce clients' purchasing costs through joint buying. Looking at the sales mix, logistics operations account for around 55% of the logistics segment's net sales. This is followed by logistics consulting, which stands out for being a high-margin business. In the logistics segment, net sales and operating income have experienced a compound annual growth rate of 14.7% and 66.2%, respectively, over the past four years. The logistics segment has delivered steady growth, along with dramatically improving its profitability. In FY12/19, the logistics segment has improved profitability, driven mainly by large project orders in logistics consulting.

Business overview

Performance trends in the logistics segment

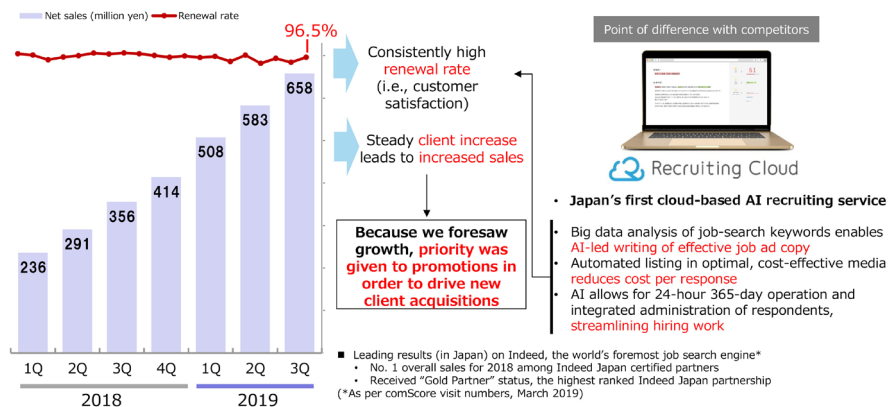


Source: Prepared by FISCO from the Company's financial results

3. Direct Recruiting Business

Direct recruiting involves companies proactively searching for the personnel they want and directly approaching them. Unlike the conventional “waiting” recruitment method of using a job posting site or a recruitment agency, this is an “offensive” recruiting method in which a company itself searches for personnel it needs from a human resources database and directly contacts and recruits people. As a certified partner of Indeed, a major job search engine, the Company provides support services such as posting job advertisements and managing applicants for client companies. What sets the Company apart from its peers is its AI-based cloud service, the first of its kind in Japan. Using job keyword analysis based on accumulated big data, AI reviews job postings that have attracted lots of applications. Then the job postings are automatically posted to optimal media with high cost-effectiveness. Since AI can automatically manage applicants 24 hours a day, 365 days a year, recruiters can work more efficiently. The number of new clients is rising steadily, driven by the booming job market for career changes based on increased job openings at domestic companies. In 3Q FY12/19, net sales were ¥1,749mn (+97.9% YoY) and segment operating loss was ¥181mn. The Company plans to continue upfront investments, mainly involving sales promotion costs and system development costs, in order to expand sales sooner rather than later.

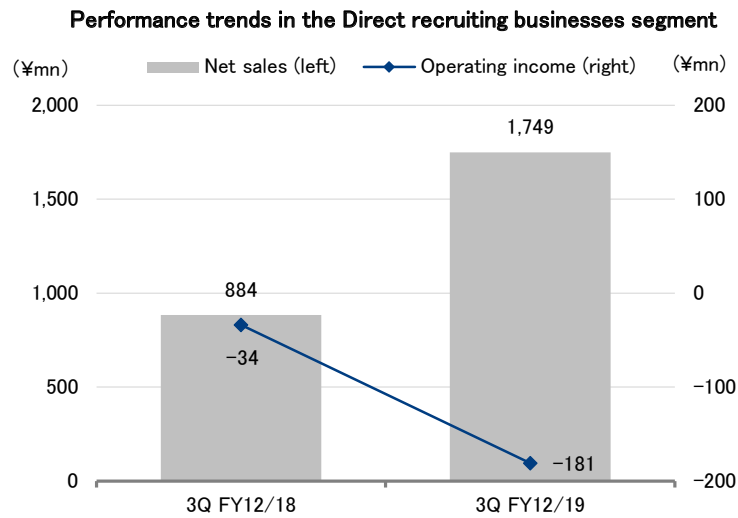
Performance trends in the direct recruiting business



Source: The Company's summary of financial results

We encourage readers to review our complete legal statement on “Disclaimer” page.

Business overview



Source: Prepared by FISCO from the Company's financial results

4. Other businesses

Other businesses encompass peripheral businesses the Company is engaged in as it aims to be a “comprehensive management consulting group.” Specifically, this segment comprises three businesses: Funai Soken IT Solutions Inc. (IT consulting business), Proseed Corporation (contact center consulting business), and Shinwa Computer Service Co., Ltd. (system development business). The segment’s net sales in 3Q FY12/19 were ¥834mn (+45.3% YoY), largely due to the fact that earnings from Shinwa Computer Service (which was brought under the scope of consolidation in 3Q FY12/18) contributed to performance for the entire period.

Performance trends

The consulting business and logistics business were the foundations of profit. The direct recruiting business is growing rapidly

1. Review of 3Q FY12/19 results trends

The Company reported the following consolidated results for 3Q FY12/19: Net sales were ¥18,607mn (+19.7% YoY), operating income was ¥4,109mn, (+19.1%), ordinary income was ¥4,127mn (+17.8%), and profit attributable to owners of parent was ¥2,730mn (+7.6%). The Company recorded higher sales and profits.

Performance trends

With respect to net sales, the consulting business continued to grow steadily, and the direct recruiting business also steadily increased new customers, resulting in a large increase in sales. In the core consulting business, consultants regularly visited clients, and there was strong growth in both monthly support consulting services and in listing services, which help client companies attract customers online. By industry, sales grew by double digits YoY in housing and real estate, and in medical, nursing care, and welfare, areas where the Company has a strong client base, while sales growth was also high in both the human resources services and environment and energy fields, growing at 59.6% YoY and 30.0% YoY, respectively. In direct recruiting, sales nearly doubled (+97.9%) in conjunction with the increase in new clients. The other businesses segment saw a 45.3% YoY increase in net sales, as net sales from Shinwa Computer Service (system development business) were added.

The consulting and logistics businesses delivered steady operating income. The consulting business saw a particularly large increase in operating income (+24.1% YoY), as in addition to the jump in sales, operating income was aided by a reduction in expenses, including business travel costs, thanks to efforts to make sales practices more efficient. The operating margin in the consulting business was 28.2%, as this business has dominant earnings capabilities. The logistics business saw a 26.1% increase in operating income, as profitability improved based on the growth in relatively high-margin logistics consulting.

3Q FY12/19 results

	3Q FY12/18		3Q FY12/19		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	15,550	100.0%	18,607	100.0%	19.7%
Cost of sales	10,099	64.9%	12,244	65.8%	21.2%
Gross profit	5,450	35.1%	6,362	34.2%	16.7%
SG&A expenses	2,000	12.9%	2,253	12.1%	12.6%
Operating income	3,450	22.2%	4,109	22.1%	19.1%
Ordinary income	3,505	22.5%	4,127	22.2%	17.8%
Net income attributable to owners of parent	2,538	16.3%	2,730	14.7%	7.6%

Source: Prepared by FISCO from the Company's financial results

Robust cash and deposits of ¥11,600mn. Solid financial base with an equity ratio above 80%

2. Financial position and management indicators

Total assets as of end-3Q FY12/19 were ¥27,995mn, an increase of ¥1,262mn from the previous fiscal year-end. Current assets rose by ¥1,364mn. The main reasons were increases in cash and deposits and securities. Noncurrent assets decreased by ¥102mn. The main reasons were decreases in investments and other assets. The Company has abundant cash and deposits, which stood at ¥11,635mn.

Total liabilities increased ¥174mn yen from the end of FY12/18 to ¥4,536mn. Of this, current liabilities increased ¥563mn, mainly due to the booking of provision for bonuses and the current portion of bonds. Noncurrent liabilities decreased ¥389mn from the end of FY12/18 to ¥297mn, mainly due to a decrease in bonds payable. Long-term borrowings of ¥100mn are the only outstanding bank loans.

Performance trends

Management indicators show solid financial soundness as of the end of 3Q FY12/19. The current ratio stood at 376.4%, far above the 200% threshold for short-term financial soundness. The equity ratio stood at 81.9%, indicating a sound financial position over the medium and long terms as well.

Consolidated balance sheet and management indicators

	FY12/18	3Q FY12/19	Change
	(¥mn)		
Current assets	14,590	15,954	1,364
Cash and deposits	11,022	11,635	612
Noncurrent assets	12,142	12,040	-102
Total assets	26,732	27,995	1,262
Current liabilities	3,675	4,239	563
Noncurrent liabilities	686	297	-389
Total liabilities	4,361	4,536	174
Total net assets	22,370	23,458	1,088
Total liabilities and net assets	26,732	27,995	1,262
Stability			
Current ratio (current assets ÷ current liabilities)	397.0%	376.4%	-
Equity ratio (equity ÷ total assets)	82.2%	81.9%	-

Source: Prepared by FISCO from the Company's financial results

■ Outlook

Net sales and operating income through the end of 3Q are 79.2% and 76.1% of FY12/19 guidance. Highly likely to achieve targets.

● Outlook for FY12/19

Looking at consolidated results for FY12/19, the Company is forecasting net sales of ¥23,500mn (+8.3% YoY), operating income of ¥5,400mn (+9.2%), ordinary income of ¥5,400mn (+7.8%), and profit attributable to owners of parent of ¥3,700mn (+4.2%). It expects higher sales and profits. Net sales and operating income through 3Q were 79.2% and 76.1%, respectively, of FY12/19 forecasts. With both net sales and profits above the of 75% progress mark, it appears likely that the targets of the final year of the Mid-Range Business Plan will be achieved.

In the business model of the consulting segment, contract periods are relatively long, and the regular income portion accumulates over time. Sales and profit are the highest in the fourth quarter of each year. The mainstay housing and real estate, and medical, nursing care and welfare fields, as well as the rapidly growing human resources services and environment and energy fields, are also performing well. In the logistics business, the ratio of logistics consulting services has increased due to the proactive holding of seminars, and the Company expects to maintain high profitability for the rest of FY12/19. The direct recruiting business employs a typical subscription model, and because the cancellation rate has been kept low (3.5% in 3Q FY12/19), this business will likely contribute even more to increased revenue in 4Q. We think that the Company will achieve its net sales target given the strong progress through 3Q, and that each profit line target will be exceeded, as the effect of higher sales will offset payments of year-end bonuses.

Outlook

FY12/19 results forecast

	FY12/18		FY12/19			
	Results	vs. net sales	Forecast	vs. net sales	YoY	3Q progress rate
Net sales	21,697	100.0%	23,500	100.0%	8.3%	79.2%
Operating income	4,946	22.8%	5,400	23.0%	9.2%	76.1%
Ordinary income	5,008	23.1%	5,400	23.0%	7.8%	76.4%
Net income attributable to owners of parent	3,549	16.4%	3,700	15.7%	4.2%	73.8%

Source: Prepared by FISCO from the Company's financial results

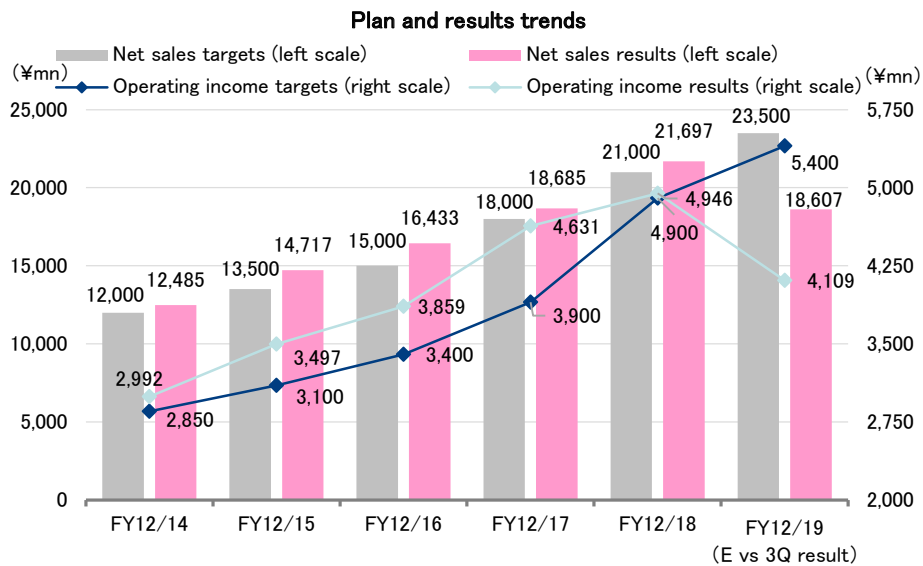
Medium-to-long-term growth strategy

The final year of the 10-year plan Great Company Award as a social contribution initiative

1. Progress on the Mid-Range Business Plan

The Great Value 2020 Mid-Range Business Plan, which started in FY12/17 and will end in FY12/19, is in its final stages. In this three-year period (2017–2019), the Company is completing the 10-year plan laid out by president Takashima's management team. In the first Mid-Range Business Plan laid out by president Takashima's management team, growth support (P/L consulting) for SMEs was enhanced. In the second Mid-Range Business Plan, talent development support (HRD consulting) for SMEs was emphasized. In the third Mid-Range Business Plan, support for raising corporate value (balance sheet consulting) and digitalization support (ICT consulting) have been bolstered. In FY12/19, the final year of the third Mid-Range Business Plan, having put a full support menu in place, the Company is aiming to build a trusted brand. The Company has already upwardly revised its targets. For FY12/19, the Company has raised its net sales target from ¥22,000mn to ¥23,500mn, and its operating income target from ¥4,500mn to ¥5,400mn. Progress is solid as of the end of 3Q, and the Company is in the countdown stage to reaching its targets. Up until now, the Company has consistently outperformed its business targets and can be trusted to achieve them.

Medium-to-long-term growth strategy



Source: Prepared by FISCO from the Company's results briefing materials

2. Social contribution through the Great Company Award

The Company supports companies through its core business under the mission of "Creating the next great companies," and actively engages in social contribution activities. One such initiative is holding the Great Company Awards for the last 10 years through the Funai Foundation, which carries on the life work of the late Yukio Funai. A "great company" is one that was founded on a philosophy of high value to the community that perfects its own unique business model worthy of the name "enterprise," and as a result grows to be a corporation capable of demonstrating sustainable growth. We define this term as an organization that has created a unique culture that employees and customers alike come to regard as a great company.

Requirements for being a great company

- A company that grows sustainably
- A company that has ardent fans and inspires fierce loyalty
- A company with high employee satisfaction that employees and their families are proud of
- A unique company that cherishes its special characteristics
- A company that values the larger world and contributes to society

At the annual meeting of the National Management Strategy Seminar Conference held each August, a grand awards ceremony is held to honor the Great Company Award recipients. In August 2019, IBJ, Inc., which offers a marriage-hunting support services and life design services received the "Great Company Award." In addition, six other companies received the other various awards (10th Anniversary Foundation Special Award, Customer Appreciation Award, Employee Pride Award, Unique Business Model Award, Philanthropy Award, and the Better Performance Award). There have been 65 award-winning companies (great companies) over the past 10 years. The Company continues to engage in its own unique social contribution activities by producing not only award-winning companies but also many others with high value to the community.

Medium-to-long-term growth strategy

Great Company Award 2019 ceremony



Source: Posted on Funai Foundation's home page

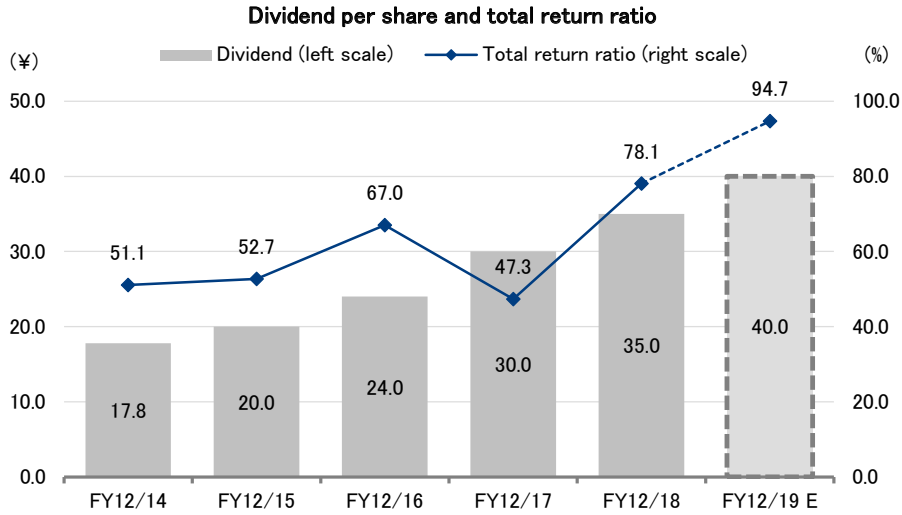
Shareholder return policy

Company emphasizes shareholder returns. Increased dividends significantly in FY12/19, and expects to reach a total return ratio, which takes share buybacks into consideration, of 94.7%.

The Company recognizes appropriate distribution of profit to shareholders as its highest management priority, and intends to continue carrying this out through both “returns through dividends” and “returns through share buybacks” while considering business performance. The Company emphasizes the total return ratio. In conjunction with raising the total amount of dividends sustainably, it is targeting a total return ratio (dividends + share buybacks) of at least 50%. In FY12/18, the Company paid an annual dividend of ¥35 per share, with an interim dividend of ¥15 and a year-end dividend of ¥20 (including a special dividend of ¥2), and the total return ratio was 78.1% (a 50.0% dividend payout ratio). In FY12/19, the current fiscal year, it forecasts an annual dividend of ¥40 per share, with an interim dividend of ¥17 and a year-end dividend of ¥23 (including a 50th anniversary commemorative dividend of ¥3), and a total return ratio of 94.7% (a 54.6% dividend payout ratio).

The Company’s forecast for an extremely high total return ratio of 94.7% is based on share buybacks. A share buyback was considered based on a request from the largest shareholder Funai Honsha, K.K., and a resolution to carry out a tender offer to acquire shares between November 6 and December 3, 2019 was adopted. The maximum number of shares to be acquired was set at 696,200 shares with an aggregate purchase amount of approximately ¥1,500mn. The Company’s total return ratio is expected to be extremely high for the second straight year, and it is clear how much emphasis the Company is placing on shareholder returns.

Shareholder return policy



Note: The Company conducted stock splits at ratios of 1.2 for 1 in January 2016 and 1.5 for 1 in January 2018. Dividends have been retroactively restated.

2019 forecasts assume the acquisition of all shares the Company planned to acquire, as stated in the "Notice of Acquisition of Treasury Shares and Tender Offer for Treasury Shares" issued November 5, 2019

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Benchmarks

A leader in the consulting industry in terms of shareholder return indicators

The Company stands out for its business performance in the consulting industry, and it is among the leaders in the industry in terms of shareholder return indicators. For FY12/18, the Company's dividend on equity (DOE) was 8.2%, which ranked second among the 10 leading companies in the sector. The total return ratio, which encompasses the acquisition of treasury shares, was an outstanding 78.1%. For FY12/19, the Company expects DOE of 9.0%, and is expecting to further raise its shareholder returns. The Company's dividend payout ratio is above 50%, which positions the Company among the top with respect to its peers. For FY12/19, the Company is expecting an even higher dividend payout ratio and total return ratio, and is forecasting a dividend payout ratio of 54.6% and a total return ratio of 94.7%, as it looks to raise its standing even higher.

Comparison of companies' dividend on equity ratios (DOE) and dividend payout ratios

	Dividend on equity ratio (DOE)		Dividend payout ratio	
		Ranking		Ranking
Company A	10.0%	1	36.9%	8
The Company	8.2%	2	50.0%	4
Company B	8.2%	3	38.4%	7
Company C	7.8%	4	54.6%	1
Company D	6.4%	5	55.0%	2
Company E	5.3%	6	27.0%	9
Company F	5.1%	7	41.5%	6
Company G	3.4%	8	52.2%	3
Company H	3.3%	9	42.9%	5
Company I	0.0%	10	0.0%	10

Note: The Company's total return ratio taking share buybacks into account is 78.1%

Source: Prepared by FISCO from financial results statements (most recent full-year financial results) issued by listed companies in the consulting industry



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