

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

30-Jun.-15

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Hideo Kakuta

■ Entering a Growth Stage through Consolidated Management

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 industries including housing and real estate, leisure and amusement, and professional services.

The Company's business model is highly innovative, forming latent customer networks through management workshops by industry and thematically, and by proposing and supporting timely, successful business models, establishes structures that can deliver appropriate management support in accordance with the management status of corporate clients, as well as strengthens the Company's customer base.

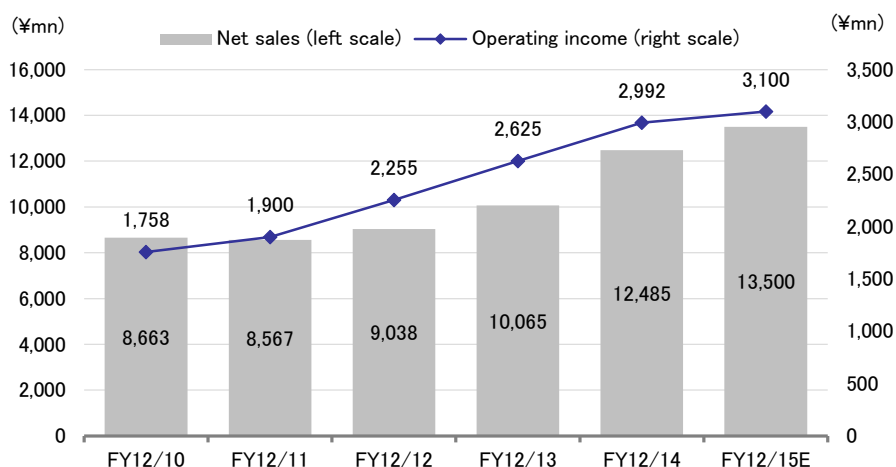
In FY12/14, the Company reached record highs for net sales and operating income. The most recent operating results in Q1 FY12/15 also showed a sound start with net sales of ¥3,305mn (+11.7% YoY) and operating income of ¥941mn (+17.1% YoY). In its core business consulting segment, it succeeded in being both selective and focused, displaying significant growth. From a financial perspective, against a backdrop of formidable profitability (with a Q1 FY12/15 operating profit margin of 28.5%), it possesses a plentiful supply of cash and ample ability to invest.

In order to promote consolidated management, Funai Soken moved to a holding company structure in July 2014. The Company's objective has been to proactively expand businesses peripheral to consulting through M&As and commercial alliances. In March 2015, it announced a commercial alliance with the Mirai Consulting Group which engages in consulting in areas including: accounting and taxation, M&As, corporate succession, business revitalization, corporate restructuring, IPOs, international operations, and HR and labor issues. Specifics of the scheme are pending.

■ Check Point

- Net sales and operating income reached all-time highs
- Plans for increased sales and earnings for full-year FY12/15 also, sound progress in Q1
- Maintaining a high payout ratio of ¥34 for the full-year

Full-Year Business Performance (Consolidated)



■ Corporate Outline

On a growth track through consolidated management under its fourth president

(1) History

The Company was established by the late 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 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 87% of net sales and 97% of operating income (FY12/14). Management support for small and medium-sized enterprises in industries such as housing and real estate, leisure and amusement, professional services, restaurants and food services, and medical and nursing care comprise the Company's main focus. As of FYE12/14, 452 consultants were engaged in an annual number of 4,262 corporate consulting contracts.

From 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 1.1% of operating income of the Group (FY12/14).



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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	87.0%	97.0%
Logistics	Logistics operation, consulting businesses, etc.	11.4%	1.1%
Other	IT outsourcing, consulting businesses, etc.	1.6%	3.1%
Adjustments			-1.3%

Source: Company materials

* FY12/14 * FY12/14

Management workshops key to marketing activities

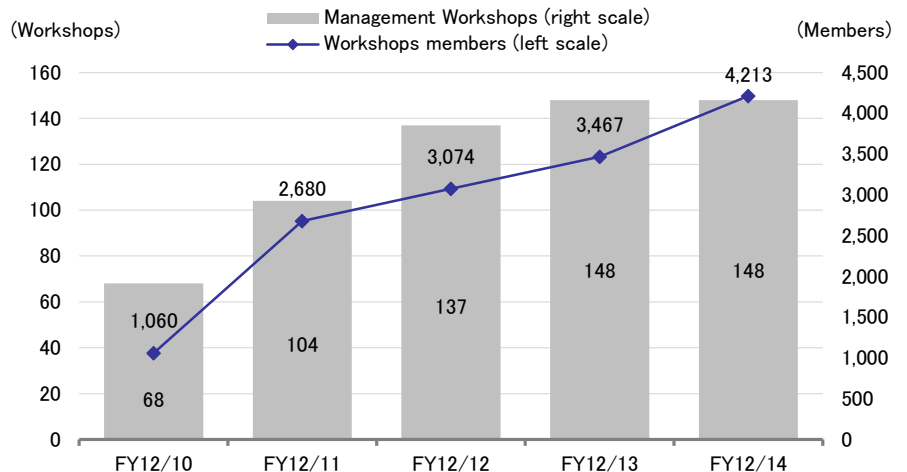
(3) Key Business Model Characteristic 1: Management Workshops

The approach which has supported high growth in recent years has been having management workshops by industry type and thematically. As of FYE12/14, there are 148 workshops engaging in activities such as study groups and model company inspections for 4,213 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 clear.

For example, in the housing and real estate industry, workshops the Company presides 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 was refined by such a workshop.

Additionally, these management workshops, as well 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 HR development.

The Numbers of Management Workshops & Members of Workshops



Source: Company materials and interviews

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, light vehicles! ¥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. In dental clinics, it may be a “Crown (including dowel post and core) for ¥49,800 covered by insurance” campaign 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 gain independence 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 452 consultants (FY12/14, an increase of 27 consultants YoY), 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 67th in popularity among job-seeking students (Diamond, Inc. 2014, 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 trend 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 ¥883mn, FY12/14) is the largest component, which includes agency services for the design, development, and execution of logistics operations for corporate clients. In FY12/14, the existing customer retention rate reached 100%, and it significantly increased sales (+¥311mn YoY). Including logistics consulting and trading operations (joint procurement), in all operations, Group companies aim to improve results through (realizing) synergies.

■ Performance Trends

Net sales and operating income reached all-time highs

Full-year business results trends for FY12/14

Full-year FY12/14 net sales were ¥12,485mn (+24.0% YoY) and operating income of ¥2,992mn (+14.0% YoY), with both net sales and operating income setting new record highs. Regarding the plan at the beginning of the period, targets were achieved for net sales and all profits. The rise in the cost of sales ratio may be seen as resulting from an increased proportion of businesses, such as the logistics segment, which have differing costs structures. Also, the reduction in the amount of net profit compared to the previous year is due to the presence of extraordinary factors in FY12/13 (the impact of depressed corporate taxes and other items associated with the dissolution of a subsidiary), with the actual value in FY12/14 in line with the Company's plan (or 1.0% above plan).

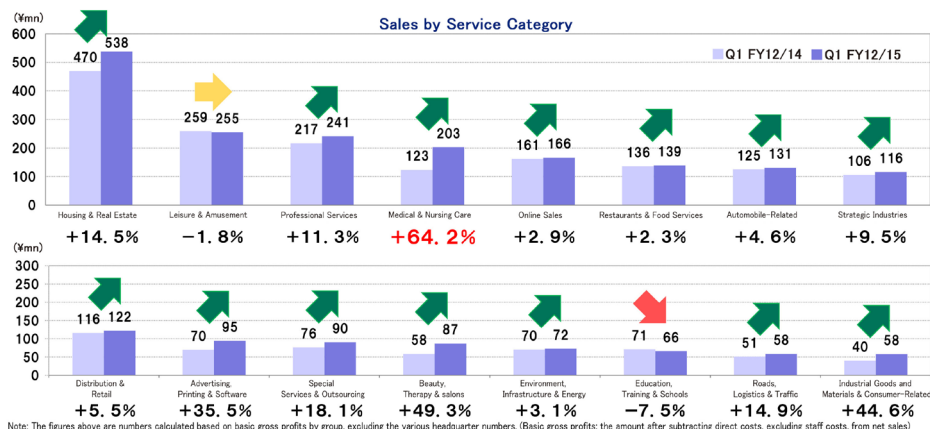
Full-Year Results in FY12/14

	12/13		Company plan (¥mn)	12/14			Compared to plan (%)
	Result (¥mn)	Ratio to net sales (%)		Result (¥mn)	Ratio to net sales (%)	YOY (%)	
Net sales	10,065	100.0	12,000	12,485	100.0	24.0	4.0
Cost of sales	6,434	63.9	-	8,144	65.2	26.6	-
Gross margin	3,630	36.1	-	4,340	34.8	19.6	-
SG&A expenses	1,004	10.0	-	1,348	10.8	34.2	-
Operating income	2,625	26.1	2,850	2,992	24.0	14.0	5.0
Ordinary income	2,692	26.8	2,850	3,028	24.3	12.5	6.3
Net income	1,984	19.7	1,750	1,766	14.1	-11.0	1.0

Source: Company materials

The rise in net sales may be divided into that part of the growth that came from the business consulting segment (¥1,003mn, +10.2% YoY) and the additional part that came from the new addition of the logistics segment (with net sales of ¥1,418mn). By industry type and theme, net sales from the business consulting segment showed housing and real estate ranked 1st, leisure and amusement ranked 2nd, and professional services ranked 3rd; when examining sales growth rates, medical and nursing care ranked 1st, restaurants and food services ranked 2nd, and housing and real estate ranked 3rd. In particular, in respect of the medical and nursing care, which had the highest growth rate, it is felt that the formation of a specialist team in October 2014 contributed to performance, and that strategic measures definitely linked to results. Given that, in recent years, there has been a strategy of strengthening areas of core competence and other areas of focus, it is forecast that this will deliver a different level of growth to that of top ranking industries.

Performance by Segment : Consulting



Source: Company materials

Ample cash and an extremely robust financial condition

Financial status

As of FYE12/14, the financial position is sound. Total assets rose ¥1,834mn compared to the previous year-end to ¥20,437mn. The main increase was a rise of ¥1,790mn in cash and deposits, with expansion in operational scale being the main cause. The balance of cash and deposits was ¥5,876mn, which represents ample cash reserves.

On the other hand, liabilities increased ¥1,093mn from the previous year-end to ¥3,783mn. The main increase was a rise of ¥1,651mn in current liabilities with items such as accrued taxes payable and bonds payable within one year being the main causes.

Among management indices (FY12/14), both the current ratio (283.0%) and the shareholders' equity ratio (81.1%) are extremely high, providing superior stability. In terms of profitability, its ROA (15.5%) and operating profit margin (24.0%) are outstanding.

Consolidated Balance Sheet and Management Indicators

	(Unit: ¥mn)		
	FY12/13	FY12/14	Changes
Current assets	8,265	9,521	1,256
(Cash and deposits)	4,086	5,876	1,790
Fixed assets	10,337	10,915	578
Total assets	18,602	20,437	1,834
Current liabilities	1,712	3,364	1,651
Fixed liabilities	977	419	-558
Total liabilities	2,689	3,783	1,093
Total net assets	15,912	16,653	741
Total liabilities and net assets	18,602	20,437	1,834
(Stability)			
Current ratio (current assets ÷ current liabilities)	482.7%	283.0%	-
Equity ratio (equity ÷ total assets)	85.3%	81.1%	-
(Profitability)			
ROA (ordinary income ÷ total assets)	15.0%	15.5%	-
ROE (net income ÷ equity)	13.1%	10.9%	-
Operating margin	26.1%	24.0%	-

Source: Company materials

■ Current Period Outlook

Plans for increased sales and earnings for full-year FY12/15, sound progress in Q1

Q1 FY12/15 results & full-year outlook

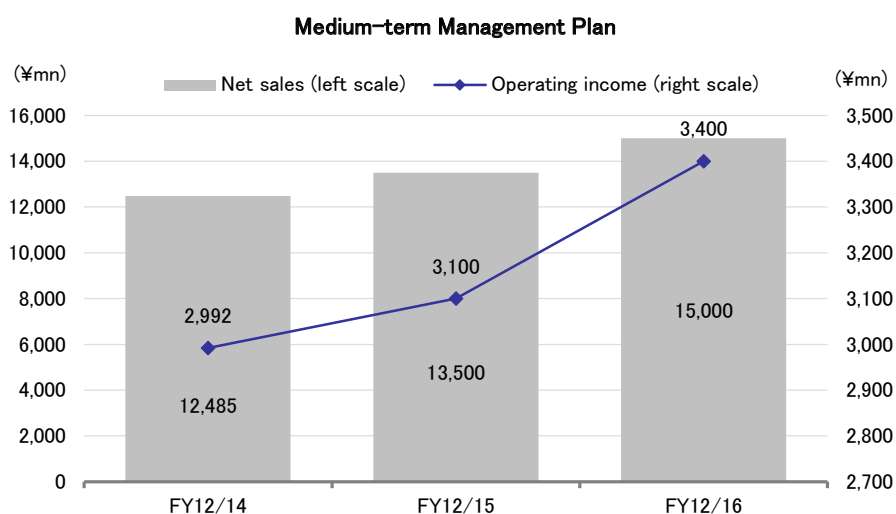
The FY12/15 full-year outlook forecasts net sales of ¥13,500mn (+8.1% YoY), operating income of ¥3,100mn (+3.6% YoY), ordinary income of ¥3,150mn (+4.0% YoY), and net income of ¥1,850mn (+4.7% YoY). Looking at the most recent actual results for Q1, we see a significant increase in sales and earnings, with net sales of ¥3,305mn (+11.7% YoY), operating income of ¥941mn (+17.1% YoY), ordinary income of ¥1,020mn (+23.6% YoY), and net income of ¥633mn (+44.2% YoY). The Company is also performing soundly in terms of the rate of progress, with 24.5% for net sales and 30.4% for operating income. In the core business consulting segment, factors such as member numbers in management workshops increasing steadily and orders for assisted consulting increasing significantly are driving results. In February 2015, Proceed K.K., which engages in contact center consulting, was made a wholly owned subsidiary, and additional contributions to results are expected.

■ Growth Strategies

Second year of the Medium-term Management Plan shows Funai Soken performing soundly as prioritization of the four core segments shows results

Medium-term Management Plan and expanding the scope of operations

The Medium-term Management Plan, having FY12/14 as its initial year and FY12/16 as its final year, is in progress. It aims for net sales of ¥15.0bn and operating income of ¥3.4bn. Against the benchmark year (FY12/13), this is 1.5 times increase for net sales and 1.3 times increase for operating income. The initial year achieved plan targets, carrying out plan execution with certainty. The shift to a holding company structure (July 2014) was completed in accordance with the plan, with shared company Funai Soken Corporate Relations spun-off and Funai Soken Logistics Inc. made a subsidiary. The key plan priorities for FY12/15 are concentrating management resources on promising consulting markets and strengthening businesses peripheral to consulting.



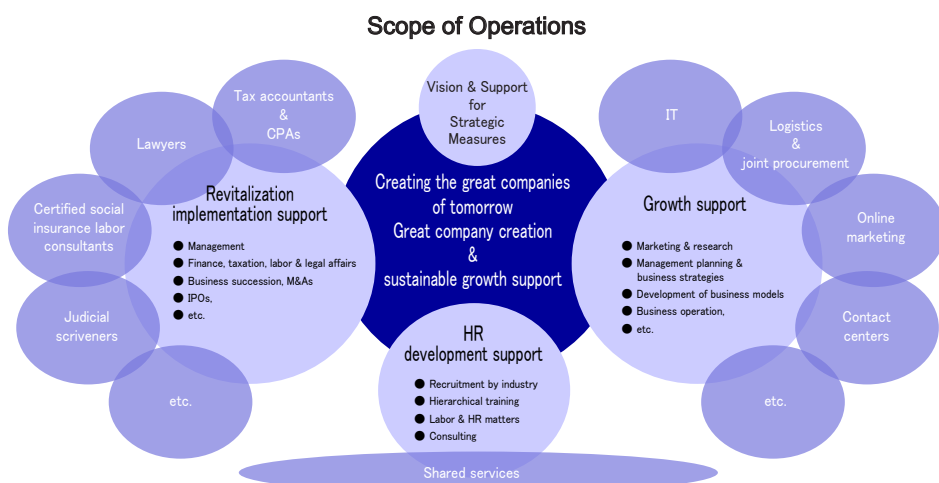
Focusing on promising consulting markets

The Company is building a plan that prioritizes investment in order to capture the leading position for recognition and market share in Japan in its three core fields (housing and real estate, leisure and amusement, and professional services), as well as the next growth field, medical and nursing care. The net sales growth rate in the four fields noted above was 18.3% (FY12/14), significantly exceeding the overall growth rate for the business consulting industry of 10.2%, with prioritization of the four core segments showing results.

Proactive development utilizing M&As and commercial alliances

Strengthening businesses peripheral to consulting

As regards the future scope of operations, while keeping the business consulting segment as the nucleus, Funai Soken aims to expand its scope of operations to businesses that are peripheral to consulting, and provide higher quality, more comprehensive consulting services. Businesses peripheral to consulting may be categorized into three domains: growth support, HR development support, and revitalization support. In the growth support domain, corporate structures are being developed fully, in addition to Group companies for logistics, IT, and the contact center. In the HR development support domain, the Company is striving to fully develop recruitment and HR development consulting service products that are fully conversant with industry characteristics and work milieus by using sector specialist consultants. The development of structures in the revitalization support domain is currently in progress via initiatives such as the commercial alliance with Mirai Consulting noted above. Funai Soken’s policy is to proactively consider approaches, including commercial alliances and M&As.



Source: Company materials

As part of tackling the revitalization support domain, Funai Soken reached an agreement with Mirai Consulting on a commercial alliance in March 2015. Funai Soken, with its forte in improving results, and the Mirai Consulting Group, which is a specialist organization covering accounting, taxation, legal, HR, and labor and other areas, are mutually complementary. To cite an M&A example, we can provide coherent consulting from the pre-deal to the post-deal that increases corporate value. Attention will be focused on specifics of the collaboration scheme and the degree of impact it will have.



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Regarding the commercial alliance in relation to M&As and other consulting with the Mirai Consulting Group

Reason for the commercial alliance	<ul style="list-style-type: none"> • In recent years, our Group has received a variety of consultation requests including corporate exit strategies on matters such as financial and taxation strategies, IPOs, corporate revitalization, business succession, and M&As, resulting in a state of affairs where many areas were beyond the scope of our Group's consulting operations. • This commercial alliance with Mirai Consulting, which is an expert in these fields, enables optimal consultation for clients. Furthermore, on the M&A front, we are able to provide clients with a comprehensive M&A consulting service from pre-deal to post-deal with our flexible solution methodology. • In order to provide the optimal consulting service according to each client's current growth phase, we entered into a commercial alliance with Mirai Consulting that possesses a prodigious track record and level of experience.
Details of the commercial alliance	<ul style="list-style-type: none"> • By mutually utilizing, amongst other things, the respective specializations and know-how of the Funai Soken Group and Mirai Consulting possess, as well as management resources, we cooperate in enhancing the client's corporate value. (1) The performance enhancement consulting and HR development and recruiting consulting capabilities the Funai Soken Group possesses (2) Consulting capabilities such as in accounting and taxation, M&As, business succession, corporate revitalization, structural reorganization, IPOs, international affairs, HR and labor that Mirai Consulting possesses

Source: Company materials

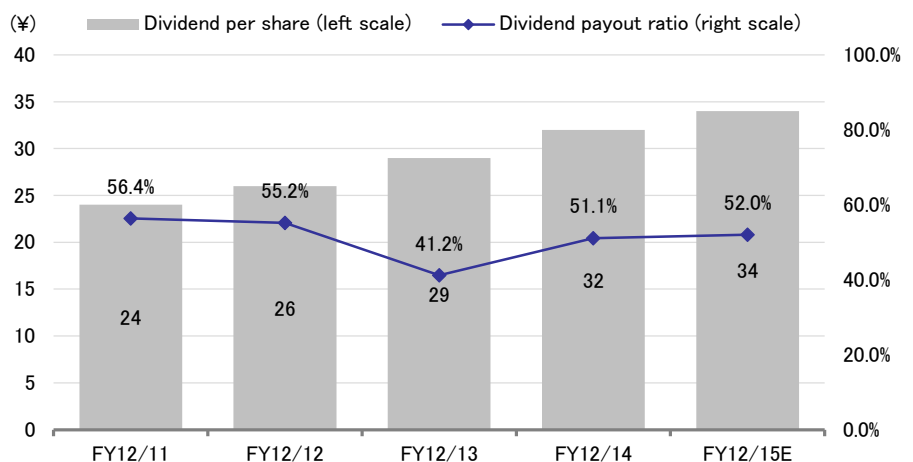
■ Shareholder Returns Policy

Maintaining a high payout ratio of ¥34 for the full-year

The Company has a policy of emphasizing an appropriate distribution of profits to shareholders, while raising the amount of dividends sustainably. A payout ratio of around 50% is the yardstick. The annual amount of in FY12/14 was ¥32 (¥15 H1, ¥17 H2), forming a payout ratio of 51.1%. The policy for FY12/15 is also the same, with an annual amount of dividends per share of ¥34 (¥15 H1, ¥19 H2), and payout ratio of 52.0% expected. Also, the Company is implementing a share buyback, reflecting a proactive stance on shareholder returns.

As for other shareholder rewards, Funai Soken awards QUO cards to its shareholders. The Company distributes book tokens or QUO cards with a value up to ¥10,000 according to the number of shares held by the shareholder as of December 31.

Dividend per share and dividend payout ratio



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