

Tanabe Management Consulting Co., Ltd.

9644

Tokyo Stock Exchange First Section

23-Aug.-2017

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■ Summary

Aiming to increase sales, profits, and dividends by promoting the C&C (Consulting & Conglomerate) strategy and strengthening the recruitment and training of consultants

Tanabe Management Consulting <9644> (hereafter, also “the Company”), which was founded in 1957 and so is this year celebrating its 60th anniversary, is a pioneer and a major presence in management consulting for mid-sized companies and small-and medium sized enterprises (SMEs) in Japan. Its corporate mission is to “be the first call company that will be selected even 100 years from now.” From the perspectives of its domains, including food & food services, healthcare, and home and lifestyle (business strategy); its functions, such as profits, organizations & human resources, and promotions (organizational strategy); and its regions, of developing bases in 10 major cities nationwide from Hokkaido to Okinawa (regional strategy), it is realizing stable growth through expanding its “domain x function x region team consulting” in which it forms teams from selecting the optimum number of consultants in order to meet customer needs. As its medium-term business strategy, the Company is promoting a “C&C (Consulting and Conglomerate) strategy (a strategy to diversify consulting domains), and it aims to provide customers with new consulting value and achieve further sustainable growth alongside its customers. Its strengths include solid management, debt-free operations, and a sturdy financial standing based on an equity ratio of more than 80%.

1. Seventh consecutive fiscal year of higher sales and profits in FY3/17

In FY3/17, sales and profits increased for the seventh consecutive fiscal year, with net sales rising 1.1% year-on-year (YoY) to ¥8,389mn and ordinary income growing 3.3% to ¥915mn. There is significant demand for consulting, particularly from medium-sized companies and SMEs, in areas such as business strategy and organizational strategy, next generation management support (business succession), and personnel recruitment, training, and activities. In this situation, the main factors behind the higher sales and profits were that the average number of contracts for team consulting management cooperation during the period increased by 20 YoY to 436 contracts, and also that in the SP (Sales Promotion) consulting business, the Company changed to a strategy of prioritizing profitability and conducted activities to capture orders mainly for high-value added projects.

2. Company projects continued sales and profit increases in FY3/18

The forecasts are for steady growth in FY3/18 also, with net sales to increase 1.9%YoY to ¥8,550mn and ordinary income to rise 3.3% to ¥945mn. In the last few years, the Company has newly added seven workshops to its strategic domain & management workshop services, which play a ‘hook’ role for the acquisition of new customers. It currently provides a total of 27 workshop services, which is resulting in an increase in the number of team consulting management cooperation contracts. In addition, in the current fiscal period it newly launched “consulting to support the establishment of FCC academies,” which utilizes a cloud education system to establish its proprietary in-house universities within medium-sized companies and SMEs. It also plans to strengthen family-business consulting and branding consulting and to provide a fully-fledged service for Web consulting and M&A consulting, and we shall be paying attention to how these services develop.

Summary

3. Aiming for sustained and stable growth through strengthening the recruiting and training of consultants

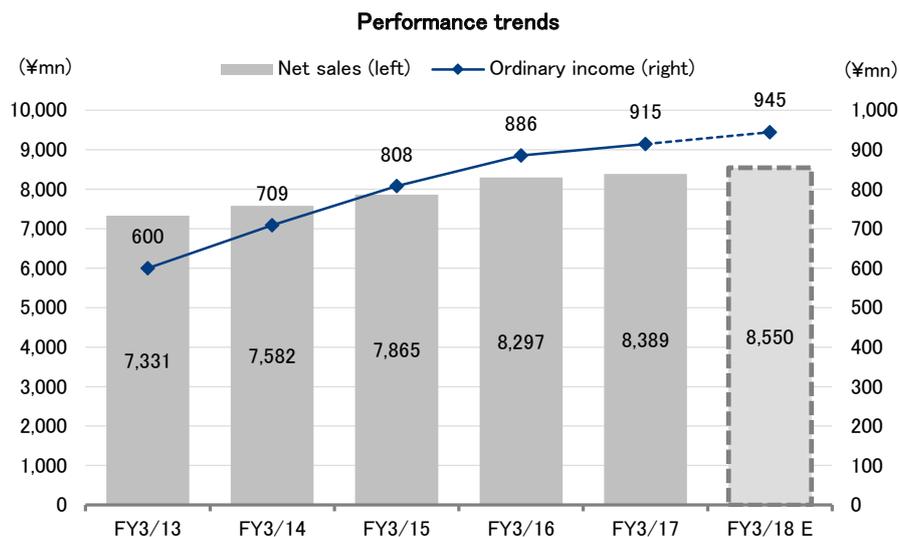
As its medium-term business strategy, in addition to promoting the previously mentioned C&C strategy, the Company is strengthening its recruitment and training of consultants. For recruitment, it plans to increase consultant numbers from 215 at the end of FY3/17 to 254 by the end of FY3/20. In order to acquire highly professional and skilled human resources, it will fully launch a new personnel evaluation system from FY3/19 and thereby shift to evaluations that place greater emphasis on skills. For training, the aim is to quickly get the recruits ready to be deployed in actual operations through the Tanabe Consultant Academy, which is its in-house business school. There is strong demand for consulting from medium-sized companies and SMEs in the regions, and the Company is aiming to capture this demand to achieve net sales of ¥9,000mn and ordinary income of ¥1,000mn in FY3/20. At FISCO, we think that these targets are fully achievable if the M&A consulting and other businesses continue to steadily expand in the near future.

4. Continues to increase the dividend based on a benchmark payout ratio of 60%

As its policy to return profits to shareholders, the Company pays dividends and also provides gifts to shareholders, Its benchmark for dividends is a payout ratio of 60% and it determines the dividend while considering results and other factors. In FY3/18, it plans to increase the dividend by ¥1.0 to ¥41.0 (for a payout ratio of 55.1%), for the sixth consecutive fiscal year of higher dividends. It also intends to continue to increase dividends in the future if earnings continue to expand. In addition, the Company provides a gift to shareholders on record as of the end of September of its original Blue Diary scheduler (worth about ¥3,000). The dividend yield was about 3% and the investment return was around 5% including the shareholder gift, based on the share price of June 6, 2017 (¥1,387).

Key Points

- In FY3/17, sales and profits increased for the seventh consecutive fiscal year and the forecasts are for the stable growth to continue in FY3/18 also
- Through promoting its C&C strategy, in FY3/18 it will fully launch consulting to support the establishment of FCC academies, Web consulting, and M&A consulting
- Strengthening recruitment of consultants for a variety of consulting domains and training professional consultants



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

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■ Business overview

Creation of the first call company (that will be selected even one hundred years from now) through “business x organization x region team consulting”

1. Company overview

The Company, which was founded in Kyoto in 1957, is a pioneer and a major presence in the industry for management consulting for medium-sized companies and SMEs. It aims to achieve sustainable growth together with its customers by providing them with new consulting value through promoting its C&C strategy (a strategy for the diversification of business domains). Its corporate mission is to “be the first call company (that will be selected first even 100 years from now)” through creating more value even as a single company.

Criteria for becoming a first call company

- Constantly pursue customer value (management that cultivates modesty to identify customer value and strengths)
- Create a number-one brand business (number-one strategy model for creating brand business)
- Determination to establish robust corporate capabilities (ordinary income margin of 10% or more with debt-free operations)
- Free and broadminded organization (teams that can self-reform and organization that leverages development capabilities)
- Management technique for business succession (100-year management that passes along corporate spirit to the next generation)

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

As a strategic partner, the Company provides consulting services for customers nationwide for the full scope of their management needs, from formulating business strategies to organizational design, building management systems, and developing next-generation management operations, as well as human resource training consulting, from executives and business successors through to new recruits, and also SP consulting. It is characterized by its provision of “team consulting” in which it selects the optimum number of specialist consultants and forms them into a team in accordance with the issues facing the customer, from the viewpoint of “business x organization x region.”

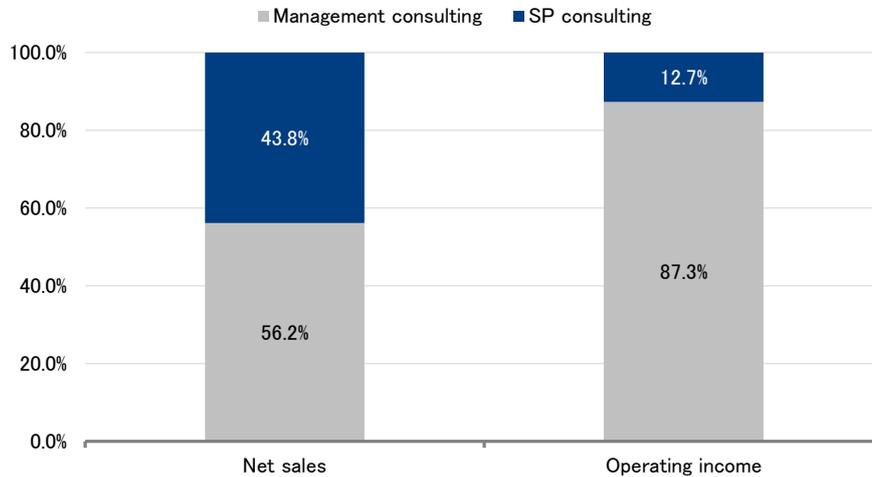
It conducts its business from its bases in 10 major cities nationwide, from Hokkaido to Okinawa. The features and strengths of the Company include that, within its industry, only it conducts a nationwide business and only it can provide consulting services tailored to each specific region. Also, in April 2017 it raised the status of the Tokyo Headquarters to the Tokyo Head Office. By establishing a two-company structure, of the Strategic Comprehensive Institute that plans and produces various types of consulting services, analyzes information gathered from consulting sites and elsewhere, and carries out the function of disseminating information to member companies and to society, and the Tokyo Head Office that is responsible for IR and PR, recruitment, and M&A functions, the Company is aiming to supplement its support functions for customers nationwide and to achieve further growth.

2. Business details

The Company has two business segments, the management consulting business and the SP consulting business. In terms of percentages of net sales (FY3/17), the management consulting business provides 56.2% and the SP consulting business 43.8%. In the last few years, it has focused on consulting domains with high added-value in the SP consulting business also, and this segment's operating profit is rising.

Business overview

Breakdown by segment (FY3/17)



Note: Operating income shows the value prior to deduction of headquarters management costs.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

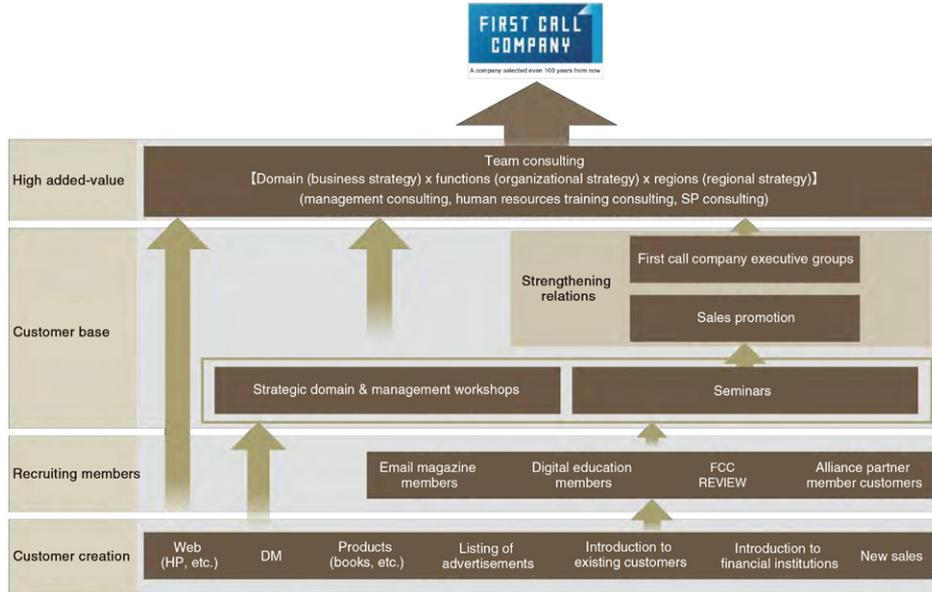
(1) Management consulting business

Sales in the management consulting business are grouped by service content into the following areas: team-consulting management cooperation, human resource training and education, seminars (president workshops, the First Call Company Forum, succession training for executives, etc.), various workshops and groups (strategic domain & management workshops and first call company executive groups), alliances & members, and team consulting management cooperation. From these, more than 50% of sales is provided by team consulting management cooperation.

As its business model, the Company started from customer creation (WEB, DM, introduction of financial institutions, new sales, etc.) targeting medium-sized companies and SMEs in Japan, and some of these activities became member services, such as for email magazine members, digital education members, and FCC REVIEW members (about 40,000 companies). Also, through holding events like strategic domain & management workshops and seminars, it acquires companies with various management issues as customers, which ultimately leads to them concluding contacts for team consulting services.

Business overview

Business model



Source: The Company's results briefing materials

In team consulting management cooperation, the Company provides a variety of consulting services, including for the formulation of business-model strategies and medium-term management plans, and for business succession (creating a next-generation management structure), mainly to medium-sized companies and SMEs. Recently, the needs of customer companies have increased for M&A with the objective of business diversification, and the Company also plans to incorporate a fully-fledged M&A consulting service into its service menu from FY3/18.

(2) SP (sales promotion) consulting business

The SP consulting business consists of SP consulting for customer companies, from the planning and proposal of promotions strategies through to their implementation and progression, and SP design tools for the planning and development of original and novelty items and OEM products that are created by the Company's designers. It also consists of the planning and sales of SP tools (novelty items) and of BD (business schedulers and calendars). The customers range from regional SME that want to improve their brand power to major companies, and the Company provides services and products to more than 3,000 companies a year.

Recently, it has been focusing on consulting targeting "the children and child-rearing families markets," and the needs of customer companies are great from the viewpoints of the possibilities for this market, in which customers can be expected to be found in the future, and also for CSR. The Company is also progressing alliances in its management consulting business, and its management consultants support its customer companies' business and organizational strategies. There have also been cases where its SP consultants have been requested to provide support for the development of a product's overseas sales channels and for the formulation of CI. While management consulting remains the mainstay business, a strength of the Company is that unlike other consulting companies, it is equipped with design functions and sales functions and so is able to also provide SP consulting.

In the SP consulting business, BD sales, which constitute approximately 30% of total sales, are concentrated in Q3, so the quarterly revenue trend in a typical year peaks in Q3.

Business overview

Description of the SP consulting business

SP strategy consulting



- | Promotion strategy proposal and promotion
- | Merchandising planning and promotion
- | Branding and PR strategy planning and promotion
- | Event/Internet promotion planning and promotion

60 SP consultants nationwide provide optimal promotions that address company issues and aims. They deliver total solutions that range from SP strategy formulation to promotion.

SP design tools



- | Premium and novelty planning and production
- | Communication tool planning and production (catalogs, store SP, POP, etc.)
- | Planning and production of products for sale

Makes tools and products needed for sales promotion activities with ideal planning and design and provides them to over 3,000 companies per year. Handles over 100,000 items through alliances with 800 domestic and overseas companies.

Blue Diary (BD)



- | Diary (scheduler) planning and production
- | Calendar planning and production
- | Original scheduler and calendar planning and production

Sells 3mn copies per year as prizes for season sales promotion campaigns and introduction gifts. Planned, designed, and produced a total of more than 180mn schedulers and calendars in the 57 years since beginning sales.

Creative design



- | Design and production of sales promotion tools and products for sale
- | Website design and production

"SP Design Lab" design-team experts research sales promotion strategies and share successful examples with SP consultants. Produces effective creative designs for over 2,000 promotional activities a year.

Source: Company materials

Result trends

Achieved higher sales and profits in FY3/17 for the seventh consecutive fiscal year against the backdrop of the increase in demand for consulting

1. FY3/17 results overview

In the FY3/17 results, net sales increased 1.1% YoY to ¥8,389mn, operating income rose 2.6% to ¥878mn, ordinary income grew 3.3% to ¥915mn, and net income increased 9.6% to ¥638mn. This was a new record high for net sales and the seventh consecutive fiscal year of higher sales and profits (for operating income and ordinary income).

FY3/17 results

	FY3/16		Initial forecast	FY3/17			
	Results	Ratio to sales		Results	Ratio to sales	YoY change	Versus the plan
Net sales	8,297	-	8,500	8,389	-	1.1%	-1.3%
Gross profit	3,852	46.4%	4,038	3,931	46.9%	2.1%	-2.6%
SG&A expenses	2,996	36.1%	3,173	3,052	36.4%	1.9%	-3.8%
Operating income	856	10.3%	865	878	10.5%	2.6%	1.6%
Ordinary income	886	10.7%	900	915	10.9%	3.3%	1.7%
Extraordinary losses	-4	-0.1%	-	-2	-0.0%	-	-
Net income	582	7.0%	590	638	7.6%	9.6%	8.2%

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

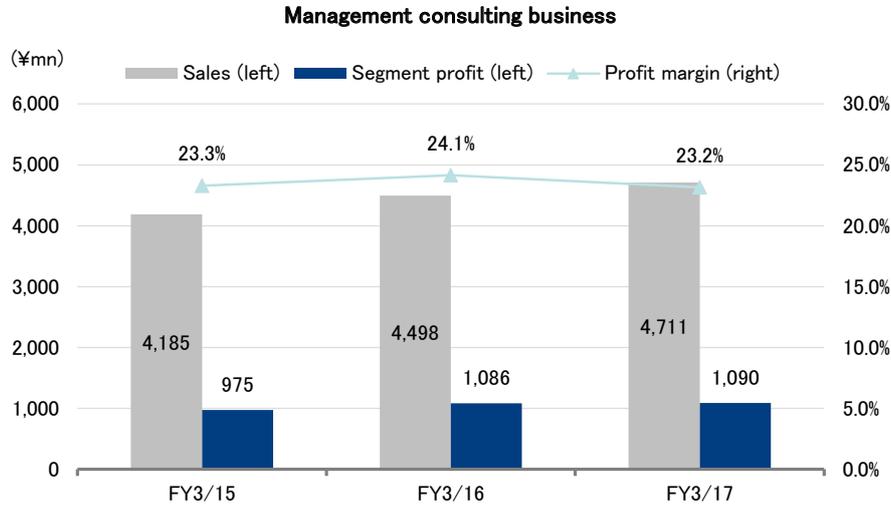
Net sales declined 3.2% YoY in the SP consulting business, but they trended strongly in the management consulting business, rising 4.7%, and overall the increase in sales was maintained. The result was 1.3% lower than the Company forecast, but the main reason for this was that it conducted sales measures emphasizing profitability in the SP consulting business. In terms of profits, within SG&A expenses, it recorded expenses of ¥40mn to ¥50mn relating to the relocation of the Kyushu headquarters and the relocation and integration of Chubu headquarters and the Nagoya sales office. But this was absorbed by the increase in gross profit and operating income rose 2.6%. In the comparison with the forecasts, the performance of the SP consulting business was a factor behind the results exceeding the forecast. In addition, the rate of increase of net income grew larger following the reduction in the effective tax rate.

2. Segment trends

(1) Management consulting business

In the management consulting business, net sales increased 4.7% YoY to ¥4,711mn, and segment income rose 0.4% to ¥1,090mn. Sales increased mainly from team consulting management cooperation, but profits rose only slightly because of the higher expenses following the recruitment of additional consultants and from the expenses relating to the relocation of the Kyushu and Chubu headquarters. At the end of FY3/17, the number of management consultants (including human resources training consultants) had increased by 23 on the end of the previous fiscal year to 154 consultants. These additional consultants were mainly from the transfers from the SP consulting business and from the recruitment of new graduates and mid-career hires.

Result trends



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

Looking at the sales trends by product and service, net sales grew steadily in the mainstay team consulting management cooperation, increasing 7.3% YoY. There was a rise in cases of contracts being concluded through attending the strategy domain & management workshops and seminars, and the average number of contracts during the period rose by 20 from the previous fiscal year to 436 contracts. Among the customer companies, there was an increase in the ratio of medium-sized companies with net sales on a scale of ¥5,000mn to ¥100,000mn, and in addition, net sales per customer rose following the enhancement of the service menu. The Company also increased its consulting themes, as in addition to the previous themes of “medium-term management plan and vision formulation,” “consulting by domain (business strategy),” “business succession consulting,” and “human resources recruitment, training, and activities consulting,” it newly added the themes of “support for the establishment of academies (in-house universities),” “three-board (next board, junior board, and vision board) consulting,” and “strategy camp.” Strategy camp is a service in which company managers and executives are provided with opportunities to formulate medium-term management plans and visions, and also business strategies, by attending a short-term intensive camp in which they receive instruction from the Company's consultants.

In human resources training and education, net sales decreased 7.1% YoY. This was because while level-specific training services to customer financial institutions trended strongly, order-made education (training) services by company decreased due to the strengthening of proposals for team consulting management cooperation.

Seminar net sales increased 8.9% YoY, as the number of people attending the Executive Candidates School held in 10 major cities nationwide, and the New Employees Education and Practical Training Seminar held in April 2016, exceeded the previous fiscal year. Additional factors behind the higher sales were that the number of attendees of the Management Strategy Seminars held nationwide from November to December 2016 also trended steadily and exceeded 2,500 people, and in total, the number of attending companies rose by 524 to 3,986 companies.

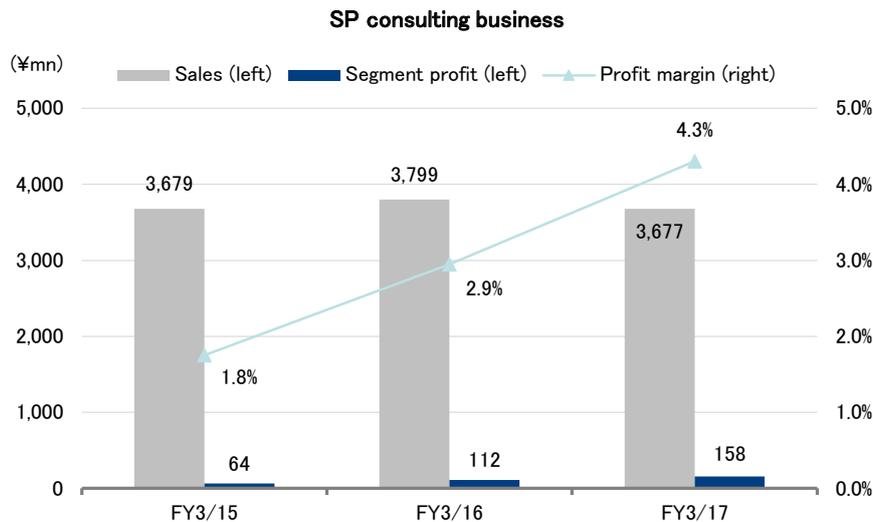
Result trends

Workshop services net sales grew significantly, up 47.0% YoY. In the “strategy domain & management workshops,” from September 2016 the Company added 5 new themes of “strategic agriculture innovation,” “wellness innovation,” “overseas business growth strategy,” “accountant firms’ business model innovation,” and “companies that utilize and develop people,” for a total of 20 themes. It also increased the number of times the workshops were held, including the updated “first call company executive groups.” The number of attending companies rose greatly, up 272 YoY to 877 companies, which resulted in the higher sales.

Alliance & members net sales decreased 4.0% YoY, mainly due to the decline in the number of members for member services, and that at the end of the period, the number of alliance partners, including regional financial institutions and accounting firms, had fallen by 7 on the end of the previous fiscal year to 148.

(2) SP (sales promotion) consulting business

In the SP consulting business, net sales decreased 3.2% YoY to ¥3,677mn and segment income increased 41.2% YoY to ¥158mn. Although sales fell due to the Company focusing on acquiring orders for high added-value projects, the gross profit margin rose. Also, the productivity of personnel was improved, including by transferring some of the SP consultants to the management consulting business, and the segment income margin climbed from 2.9% in the previous fiscal year to 4.3%. At the end of FY3/17, the number of SP consultants had decreased by 11 on the end of the previous fiscal year, to 61 consultants.



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

Looking at the sales trends by product and service, SP consulting net sales declined 35.9% YoY. The reason for this was that the Company focused on “the children and the child-rearing families market” and actively provided proposals, such as for the “Kodomo ga Mannaka (Children in the Middle) PROJECT” for kindergarten and child-care-related businesses and markets, and it worked to acquire orders while prioritizing high added-value projects.

Net sales of SP design tools, which the Company is advancing together with SP consulting, increased steadily, up 12.1% YoY. This was thanks to the fact that the planning and development proposal capabilities of its designers, and the original novelty items were favorably received by customers. Total net sales for SP consulting and SP design tools increased 3.9% and the gross profit rose 8.7%, for higher sales and profits.

Result trends

Net sales of SP tools (novelty items) decreased 13.0% YoY, as although orders continued to be stable, the Company strengthened high value-added design tools in customer development. Conversely, sales of BD (schedulers and calendars) were steady, up 0.3%, as orders remained stable.

3. Financial position and management indicators

At the end of FY3/17, total assets were up ¥444mn on the end of the previous fiscal year to ¥12,531mn. The main change factors were that current assets decreased ¥56mn, mainly due to a decline in marketable securities, but fixed assets rose ¥501mn from an increase in long-term deposits. Combining the long and the short term, cash and deposits and securities are continuing to rise, up ¥422mn to ¥8,422mn, and their percentage of total assets was 67%.

Total liabilities were up ¥156mn on the end of the previous fiscal year to ¥2,409mn. This was mainly because in current liabilities, accrued income taxes increased ¥84mn and advances received rose ¥58mn. Total net assets were up ¥288mn to ¥10,122mn. Retained earnings increased ¥308mn, with the main factors being the recording of net income (¥638mn) and the dividends payment (¥329mn).

The equity ratio was 80.8% and remained at a level above 80%, and moreover the Company has no interest-bearing debt, so it can be judged to be continuing to maintain an extremely strong financial structure. For the indicators of profitability also, ROE was 6.4% and the operating income margin was 10.5% both rising YoY, while ROA was 7.4% and maintained the level of the previous fiscal year. It would appear that profitability is also steadily rising alongside the increase in profits.

Balance sheet and management indicators

	End-FY3/13	End-FY3/14	End-FY3/15	End-FY3/16	End-FY3/17	From end of previous fiscal year
	(¥mn)					
Current assets	5,372	6,051	5,960	6,967	6,911	-56
(Cash/deposits and marketable securities)	4,465	4,905	5,016	6,021	5,984	-37
Fixed assets	5,362	5,338	5,832	5,118	5,620	501
(Long-term time deposits and investment securities)	1,690	1,935	2,640	1,977	2,437	459
Total assets	10,735	11,389	11,792	12,086	12,531	444
Current liabilities	1,410	1,484	1,697	1,682	1,844	161
Non-current liabilities	546	562	542	570	564	-5
Total liabilities	1,957	2,046	2,240	2,253	2,409	156
Net assets	8,778	9,343	9,552	9,833	10,122	288
(Management indicators)						
Equity ratio	81.8%	82.0%	81.0%	81.4%	80.8%	
ROA	5.7%	6.4%	7.0%	7.4%	7.4%	
ROE	3.7%	8.6%	3.3%	6.0%	6.4%	
Operating margin	7.6%	8.9%	9.7%	10.3%	10.5%	

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

Business outlook

Forecasts are for higher sales and profits in FY3/18 from promoting the C&C strategy

1. Outlook for FY3/18 results

The forecasts for the FY3/18 results are for the higher sales and profits to continue, with net sales to increase 1.9% to ¥8,550mn, operating income to rise 4.1% to ¥915mn, ordinary income to grow 3.3% to ¥945mn, and net income to increase 1.1% to ¥645mn. By business segment, sales and profits are forecast to rise in both the management consulting business, with net sales increasing 2.3% and operating income growing 0.7%, and in the SP consulting business, with net sales climbing 1.4% and operating income growing 5.1%. In the management consulting business, the gross profit margin will rise from the increase in the number of team consulting management cooperation contracts and the improvement in value-added, which will absorb the higher personnel expenses, including to recruit and train consultants. Also, the Company's policy for the SP consulting business is to work to raise value and improve profitability by continuing to strengthen proposals for SP consulting and SP design tools.

In 1H, the forecasts are for higher sales but lower profits, with net sales to increase 1.6% YoY but operating income to decrease 21.3%. But this will be mainly due to the rise in expenses relating to the recruitment of consultants, which mainly takes place in 1H. The Company plans to increase the number of consultants by 19, from a Company-wide total of 215 at the end of the previous fiscal year to 234 consultants. It increased their number by 12 in the previous fiscal year.

FY3/18 outlook

	FY3/17		FY3/18			
	Full-year results	YoY change	1H forecast	YoY change	Full-year forecast	YoY change
Net sales	8,389	1.1%	3,750	1.6%	8,550	1.9%
Gross profit	3,931	2.1%	-	-	4,155	5.7%
SG&A expenses	3,052	1.9%	-	-	3,240	6.1%
Operating income	878	2.6%	320	-21.3%	915	4.2%
Ordinary income	915	3.3%	330	-23.6%	945	3.3%
Net income	638	9.6%	225	-23.8%	645	1.1%
Earnings per share (¥)	73.66		25.97		74.45	

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

Realizing sustainable and stable growth through five priority measures

2. Medium-term business strategy

(1) Promoting the C&C strategy

In FY3/18, the Company is continuing to promote the C&C strategy. In addition to expanding the domain (business strategy) & functions (organizational strategy) workshop themes, it is focusing on consulting to support the establishment of FCC academies (in-house universities), and consulting for marketing to capture customers in the children and child-rearing families markets.

Business outlook

The themes for the domain & functions workshops have been increased from 20 in the previous fiscal year to 25, while 1 theme has been updated. In the context of the increasing interest in lifelong learning, it added “education and learning,” and also in the context of the severe market environment, it added “financial institutions” as a workshop on the growth models for regional financial institutions in the future, to the domain (business strategy) themes. Also, in the functions (organizational strategy) themes, it added “new business development,” which is a workshop on the expertise for developing new businesses, and “leading-edge technologies,” which takes the theme of state-of-the art technologies like AI and robots. In addition, it newly established “food sales promotions” and “promotions to attract customers in the housing market” as workshops from the viewpoint of SP consulting.

In the C&C strategy, is increasing the themes of the domain & functions workshops



- The themes for the various domains (business strategy) & functions (organizational strategy) workshops to solve social problems in the future were increased from 20 to 25, including 1 updated theme.

Source: The Company's results briefing materials

In the consulting to support the establishment of FCC academies (in-house universities), for each customer company the Company supports the speedy establishment of an in-house university through building an education system, introducing a cloud education system, and providing workshop services and seminars. A feature of its cloud education system is that in addition to more than 80 educational contents created by the Company's consultants, it manages the talent at the customer companies to digitize the expertise of excellent employees and technicians. Since everyone can use digital devices to study anywhere and at any time, it realizes “reforms to way of working” through “reforms to ways of learning.” As a result, regardless of their industry, scale, or region, companies can quickly establish an in-house university. For medium-sized companies and SMEs, this also has the advantage of leading to effective PR for recruitment activities, as they have their own in-house university (a human resources training program), and many companies have indicated their intention to introduce it. It has already been adopted by 20 companies, and the Company is aiming for it to have been introduced by 50 companies by March 2018 and 100 companies at an early stage.

In consulting for marketing to capture customers in the children and child-rearing families markets, the Company is participating in the “Kodomo ga Mannaka (Children in the Middle) PROJECT,” in which approximately 8,000 nationwide private kindergartens are involved. It is acting exclusively as a bridge between the kindergartens and companies and providing companies with total support, from the planning and proposals of promotions and the development of contents and products, through to support for the implementation of promotions. The scale of the children and child-rearing families market is around 4 million people, including children in kindergartens, PTA members, and teachers and staff, and for companies it is an area in which the effects of promotions are high. Therefore, it is thought that going forward, the Company will actively work to capture order proposals, which will lead to an increase in SP consulting sales.

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Business outlook

(2) Promoting the domain strategy

Within the domain & functions workshop themes, the Company has incubated as business units (established specialist departments within the Tokyo Head Office) the three fields of “food and food services,” “healthcare,” and “home and lifestyle” that customer companies are highly interested in. In the future, it will develop methods of solving highly specialized problems in each of these fields. While enhancing the contents menu and increasing the number of consultants, it will build a structure that makes it easy to provide customers with support nationwide, which will lead to an increase in the number of team consulting management cooperation contracts.

(3) Promoting the regional FCC (first call consulting firm) strategy

The Company has built a total support structure in which management consultants, human resources training consultants, and SP consultants are formed into one team that provides companies with total support, from their business organization and human resources training through to their promotions strategy, branding strategy, and product development, and it is working to support the growth of regional medium-sized companies and SMEs. It can be said in its industry, only the Company is able to implement this strategy, which utilizes its strength of having 10 business bases nationwide.

(4) Promoting the alliance strategy

In addition to the educational services that it has provided from the past to (approximately 100) alliance partner financial institutions, the Company is working on new collaborations and consulting for M&A and other areas. It will clarify the services fees and related previously set on an individual basis and sequentially switch to comprehensive contracts, including for M&A consulting, with the alliance partner financial institutions. Basically, the Company's customers become the buying side, and the selling side is introduced from the contracted financial institutions. The Company is working to capture consulting needs, from support for the proposal and implementation of an M&A strategy through to support for PMI (post-merger integration). For financial institutions also, this will result in new opportunities to acquire earnings, so these collaborations are expected to contribute to earnings in the future.

(5) Strengthening Web promotions and promoting Web consulting

In Web promotions, the Company is introducing marketing automation tools; managing as potential customer those companies (about 40,000 companies) that visit its homepage from DM, listed advertisements, and mail magazines; and conducting measures to create and develop actual customers by using methods such as team consulting contracts, workshop services, and seminars. At the same time, it is collaborating with external partners and the plan is for the Company to also provide customers with Web consulting.

3. Medium-term business plan

Each year, the Company announces the three-year rolling medium-term management targets. It has set the targets for FY3/20 of net sales of ¥9,000mn, operating income of ¥980mn, ordinary income of ¥1,000mn, and net income of ¥680mn. Looking at the average growth rates up to FY3/20, it plans to achieve steady growth of 2.4% for net sales and 3.0% for ordinary income.

Looking at the average growth rates by business segment also, the forecasts are for sales growth of around 2% in both the management consulting business and the SP consulting business, and for operating income growth of 7.9% in the management consulting business and 3.4% in the SP consulting business. Profitability is expected to improve in the management consulting business as the consultants that were actively recruited in FY3/17 and FY3/18 are deployed in operations and so contribute to profits.

Business outlook

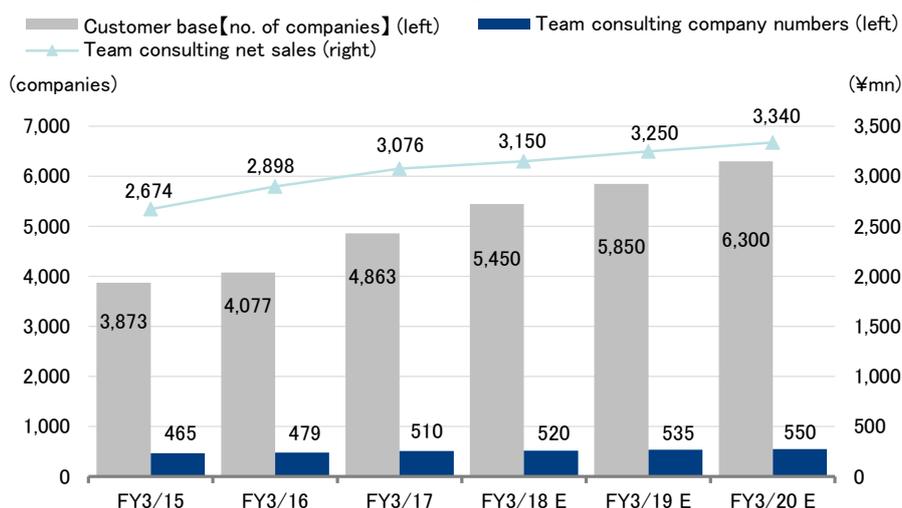
Segment earnings outlook

	FY3/17	FY3/18 E	FY3/19 E	FY3/20 E	Three-year average growth rate
Sales	8,389	8,550	8,750	9,000	2.4%
Management consulting business	4,711	4,820	4,950	5,100	2.7%
SP consulting business	3,677	3,730	3,800	3,900	2.0%
Operating income	878	915	950	980	3.7%
Management consulting business	1,261	1,270	1,320	1,370	7.9%
SP consulting business	157	165	170	175	3.4%
Headquarters management costs	-540	-520	-540	-565	-
Ordinary income	915	945	970	1,000	3.0%
Ordinary income margin	10.9%	11.1%	11.1%	11.1%	-
Net income	638	645	660	680	2.1%
ROE	6.4%	6.4%	6.4%	6.3%	6.30%

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

The main KPI are net sales and the number of customer companies for team consulting (the total of management consulting, human resources training consulting, SP consulting), and their respective targets are to increase from ¥3,076mn and 510 companies in FY3/17 to ¥3,340mn and 550 companies in FY3/20. Expanding the customer base (the number of companies attending the strategic domain & management workshops and seminars) from 4,863 to 6,300 companies will lead to an increase in the number of team consulting contracts. The team consulting net sales growth rate is forecast to be 2.8% per annum, but because the annual growth rate was 7.3% over the last two fiscal years, the impression is that this forecast is conservative. Particularly when considering that M&A consulting and other services will develop in the future, at FISCO we think that growth can exceed this forecast and expect that if team consulting sales increase, the profit margin will also rise even further.

Trends in the team consulting company numbers and net sales



*1: team consulting = management consulting + human resources training consulting + SP consulting

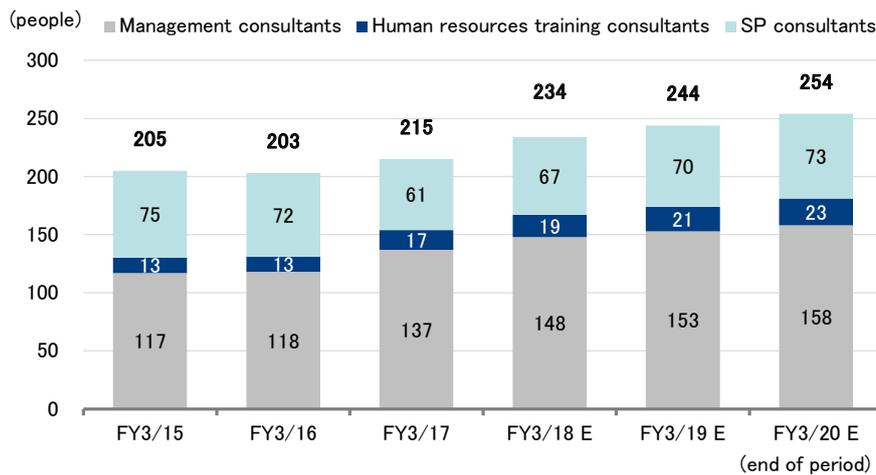
*2: customer base = no. of attendees of the strategic domain & management workshops + no. of seminar attendees

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

Business outlook

The key to sale growth will be to what extent the Company can increase the number of consultants and then how quickly it can deploy them in actual operations. It plans to increase consultant numbers from 215 at the end of FY3/17 to 254 by the end of FY3/20. In particular, it plans to greatly increase their number by 19 in FY3/18. In the last few years, recruiting consultants has been a problem for the Company, but in this fiscal year it has increased the number of recruitment agencies that it has concluded contracts with and is conducting active recruitment activities, and it seems that at the current point in time, it will increase consultant numbers as planned. Also, in order to increase the number of professional and highly skilled consultants in the future, it intends to change to a new personnel evaluation system from FY3/19. Previously, it introduced an annual-salary system for its management consultants, but from its strategy of working to improve the value-added from human resources training consultants and SP consultants also, it will introduce an annual-salary system for them and change to an evaluation system according to skills and achievements. Therefore, going forward the personnel expenses ratio is expected to rise slightly. The sales growth rate in the future appears low in comparison to the pace of increase of consultants, but this is because the net sales forecast is conservative and also due to there being a training period for recruited consultants. So we can expect the sales growth rate to rise as these consultants are deployed into actual operations.

Number of consultants



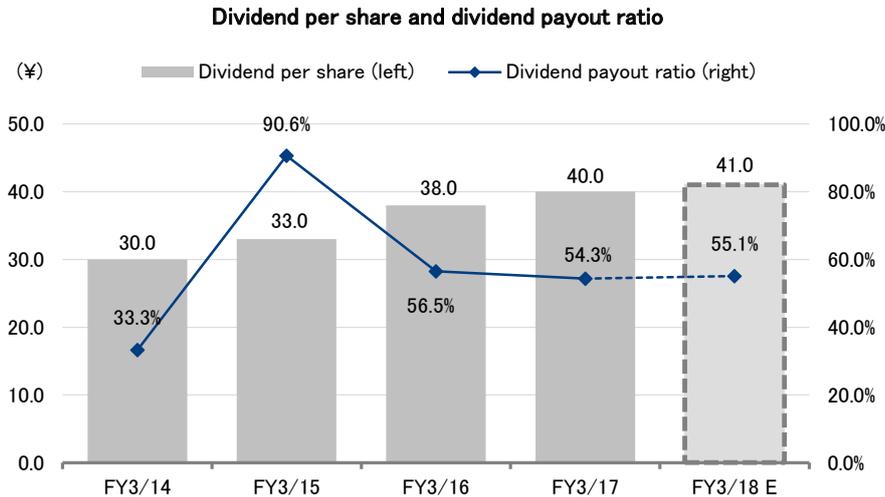
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Aims to increase dividends based on a benchmark payout ratio of 60%

Shareholder returns include dividends and shareholder gifts. Tanabe decides the dividend while taking into account earnings and other factors (excluding special items) with a goal of a 60% of dividend payout ratio. It plans to raise the dividend by ¥1.0 to ¥41.0 (55.1% payout ratio) in FY3/18, for a sixth straight fiscal year, and to continue lifting the dividend if profits expand.

It also provides a gift to shareholders on record as of end-September of its original Blue Diary scheduler (worth about ¥3,000). Dividend yield worked out to about 2.9% and investment return comes to roughly 5% including the shareholder gift, based on the share price from July 18 (¥1,418).



Note: The dividend payout ratio on a net income basis excluding special factors was 62.2% in FY3/14 and 55.1% in FY3/15.
Source: Prepared by FISCO from the Company's financial results and results briefing materials



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