COMPANY RESEARCH AND ANALYSIS REPORT

TANABE CONSULTING GROUP CO., LTD.

9644

Tokyo Stock Exchange Prime Market

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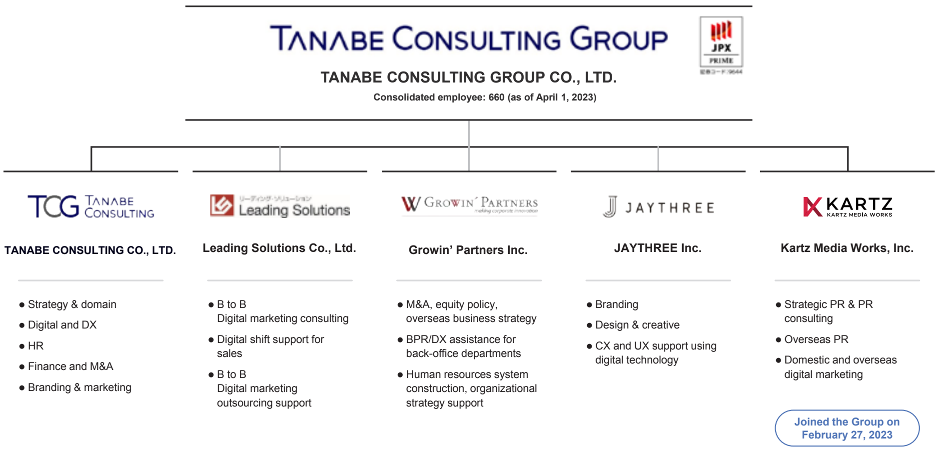
Summary

Doing well in domains including vision formulation, human capital, finance and M&A. Additionally, the Company will strengthen new domains including digital technology, DX, strategic PR, and the public sector, and aim to achieve higher net sales and profit for the third year in a row

TANABE CONSULTING GROUP CO., LTD. <9644> (hereafter, also “the Company”) is a management consulting pioneer in Japan in its 66th year since its establishment. It has a broad range of customers from major corporations to mid-size companies. It is characterized by building a management consulting value chain rooted in local regions nationwide that is able to provide one-stop support for customer companies to address diverse management challenges from formulating strategies (upstream) through to management implementation and operations (midstream and downstream) at work sites by using digital technologies. Its key feature is that it is expanding its customer base and realizing long-term contracts through a top management approach, which also serves as its strength.

On October 1, 2022, the Company transitioned to a pure holding company structure and at the same time, it changed its corporate name to TANABE CONSULTING GROUP CO. LTD., while it continues to be listed on the Tokyo Stock Exchange (TSE) Prime Market. All of the management consulting businesses that were managed by the Company have been taken over by TANABE CONSULTING CO., LTD., the Company’s newly established, wholly owned subsidiary. Also, Leading Solutions Co., Ltd., which provides digital shift support for B-to-B companies’ sales, joined the Group in October 2019; Growin’ Partners Inc., which provides overall M&A assistance including for cross-border deals, and DX assistance to back-office departments, such as BPR (Business Process Re-engineering), joined in January 2021; JAYTHREE, Inc., a provider of branding, CX (customer experience) design, and marketing DX services, joined in December 2021, and Kartz Media Works, Inc., which handles strategic PR, PR consulting, and support for social media and owned media for domestic and foreign companies, joined in February 2023. The synergies generated by these companies are increasing through expanding the consulting menu and mutually sending customers to each other.

The Tanabe Consulting Group’s outline



Source: The Company’s results briefing materials

1. Overview of the FY3/23 results

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In the Company's FY3/23 consolidated results, net sales increased 11.2% year-on-year (YoY) to ¥11,759mn and operating profit rose 24.4% to ¥1,152mn, posting double-digit net sales and profit growth for the second year running. Demand for consulting has been brisk, with themes such as formulating and progressing medium- to long-term vision, implementation of SDGs and human capital management, changing to a holding company structure, M&A, and branding and marketing support, which led the Company to post record-high net sales two years in a row. With regard to operating profit, the sales growth effect absorbed increases in personnel, hiring, and education expenses associated with strengthening its work force and branding investment expenses including a TV commercial. The number of employees is increasing steadily, up by 71 from a year earlier to 566 (including 32 employees of Kartz Media Works) at end-FY3/23. Group synergies are also steadily emerging, with acquired subsidiaries performing strongly and the number of collaboration projects on the increase.

2. FY3/24 results outlook

For the FY3/24 results outlook, the Company forecasts a 6.3% YoY increase in net sales to ¥12,500mn and 6.8% rise in operating profit to ¥1,230mn. Despite the continued sense of uncertainty about the future of the economy, order trends remain strong for themes that were popular in FY3/23, especially human capital management, for which demand is robust regardless of company size. Order growth in also forecast in the government and public sectors, which the Company began targeting in earnest in FY3/23, because organizations are strengthening their human resource (HR) structures by hiring specialist personnel and other means. Given that the Company can also expect synergies with new Group company Kartz Media Works, which engages in strategic PR support and overseas PR support, at FISCO, we think it is likely to surpass its FY3/24 forecast provided the market environment does not change suddenly, such as a rapid economic downturn.

3. Medium-term business plan

The Company's results targets in its medium-term business plan are net sales of ¥15.0bn and operating profit of ¥1.8bn in FY3/26. Progress has been strong through FY3/23, with results surpassing plan target two years running. It intends to utilize the strengths of a management consulting value chain that provides one-stop support, from the management consulting upstream through to the midstream and downstream, and providing services rooted in local communities from its business bases in 10 major cities nationwide, to expand all five management consulting domains (Strategy & domain, Digital and DX, HR, Finance and M&A, and Branding & marketing). To this end, it will also continue with its M&A strategy. In February 2023, the Company announced a change in its shareholder return policy to ensure that it achieves its medium-term business plan target of return on equity (ROE) of 10%. Specifically, it will maintain stable dividends based on a total return ratio of 100% (dividend on equity of over 6%) and implement share buybacks as appropriate. Based on this policy, the Company plans to increase dividend per share by ¥2.0 YoY to ¥44.0 (total return ratio of 147.6%) in FY3/24, and announced an increase in the maximum number and value of treasury shares for repurchase and an extended repurchase period (to purchase up to 800,000 shares for up to ¥0.4bn by December 31, 2023).

Key Points

- Double-digit net sales and operating profit growth for second year in a row in FY3/23, due in part to contribution of group synergies
- Targeting record net sales and operating profit again in FY3/24 by focusing on government and public sectors and PR business
- Strong progress toward FY3/26 targets of ¥15.0bn in net sales and ¥1.8bn in operating profit
- Aiming to fulfill criteria to maintain listing on TSE Prime Market with total payout ratio of 100%, DOE over 6%, and timely share buybacks through FY3/26 to ensure it achieves ROE of 10%

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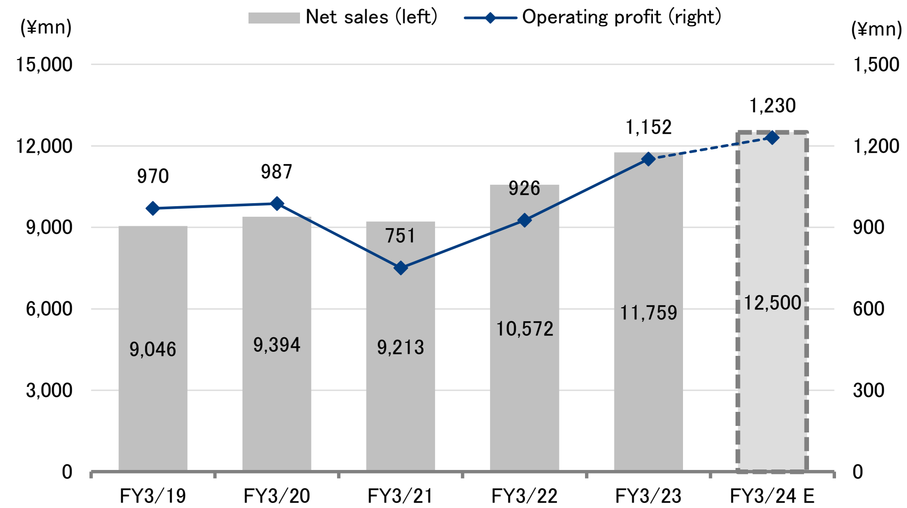
Performance trends



Note: Consolidated values from FY3/20
Source: Prepared by FISCO from the Company's financial results

Business overview

Continues to grow based on its strength of a management consulting value chain able to provide one-stop assistance to top management of large- and mid-sized companies

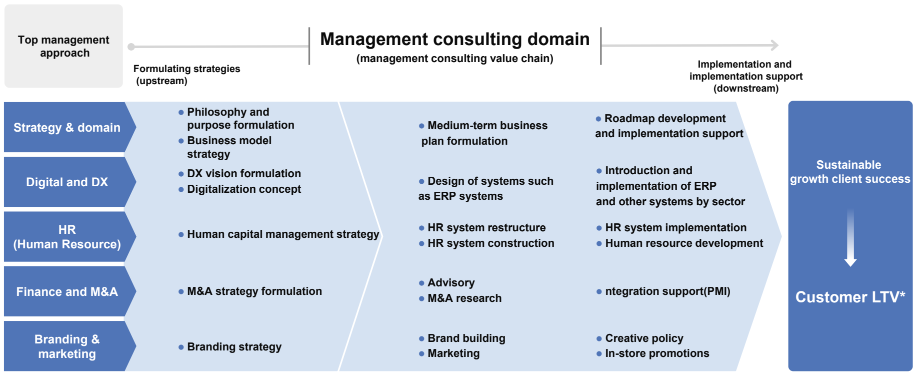
1. Company overview

The Company, which was founded in 1957, is a pioneer and one of the major players in the management consulting industry in Japan. In order to meet the specialized and diversifying management needs of its customers, it is promoting a "C&C (consulting & conglomerate) strategy" over a wide range of management consulting domains and assisting its customers' sustainable growth by providing high quality consulting value to all its customers nationwide.

The main target customers are top management (presidents, executives, and leaders) of large and mid-size companies, and government and public sector organizations. The Company provides management consulting services in areas that pose management challenges for these main customers: Strategy & domain, Digital and DX, HR, Finance and M&A, and Branding and marketing. In these areas, the Company provides one-stop support from the upstream (purpose and strategy formulation) to midstream and downstream (support for operations at work sites driven by digital technology), and realizes improvements to customers' lifetime value (LTV)*. In terms of its consulting style, it provides "team consulting" in which multiple professional consultants are selected and a team formed that is tailored to the management issues facing each individual company.

* LTV (Lifetime value): A business model in which long-term relationships are built with customers.

The Company's management consulting value chain



* LTV (Lifetime Value: A business model in which long-term relationships are built with customers).

Source: The Company's results briefing materials

It conducts its business long-term from its offices in 10 major cities nationwide, from Hokkaido to Okinawa. The features and strengths of the Company include that it is the only company in this industry that develops business offices where management consultants are stationed in major cities nationwide. Moreover, by establishing the Strategic Comprehensive Institute, which plans and directions various consulting services, analyzes management information collected from consulting sites and elsewhere, and disseminates information, and also from the IR, SR, PR, human resources recruitment, M&A and alliance and other corporate functions in both the Osaka and Tokyo head offices, the Company is aiming to enhance its support functions to companies nationwide.

The Company has recently been conducting M&A as one of its growth strategies, and four companies with which synergies are expected have joined the Group. In October 2019, Leading Solutions was made a subsidiary (investment ratio, 60.0%). It carries out KPO (Knowledge Process Outsourcing) work* for digital marketing in the B-to-B area and website construction, and since it was founded in 2004, it has provided assistance to more than 300 companies, mainly listed and medium-sized companies. The importance of digital marketing is increasing in the B-to-B business area as well, and in this situation, the Group will develop and provide new services with high added-value by combining Leading Solutions' knowledge and expertise in B-to-B digital marketing assistance with the Company's management consulting services. For existing customers as well, they are working on improving the value of the services provided to the customers of both companies through joint consulting and personnel exchanges.

* A one-stop service for digital-marketing, from formulating strategy through to planning and implementing measures, and PDCA.

Growin' Partners was made a subsidiary in January 2021 (investment ratio, 50.1%). It has many accountants and financial advisors, and its main businesses are providing overall M&A assistance including for cross border deals, and providing BPR/DX assistance (assistance to introduce ERP, RPA, etc.) into the back offices (such as the accounting and finance departments) of listed corporate groups. Amid growing demand for M&A and management DX, the Company is strengthening existing services and developing new ones by combining its management consulting knowledge with Growin' Partners' knowledge and know-how in M&A and DX. As a result, it aims to add value to services delivered to customers of both companies through joint consulting and personnel exchange.

JAYTHREE was made a subsidiary in December 2021 (investment ratio, 96.2%). It has professional human resources including directors, creators, and designers, and its strengths include the creation of new value, such as for branding, CX design, and marketing DX for customers that range from major companies to medium-sized companies. They are working to strengthen the functions of existing services and to launch new services by combining the Company's management consulting knowledge and expertise it has cultivated over many years, with JAYTHREE's knowledge and expertise on branding, CX design, and marketing DX that it has provided to more than 500 companies since it started in business in 1986. Moreover, they are conducting a strategy of opening-up the markets for brand & design consulting and marketing DX nationwide by strengthening the business foundations of both companies.

Kartz Media Works, which was made a subsidiary in February 2023 (an investment ratio of 55.0%), has many employees who previously worked in the media and global human resources who serve as "PR consultants," and its strengths include strategic PR for large companies including foreign-affiliated companies, overseas PR, and support for digital marketing strategy formulation and operations. As strategic issues for top management, needs are increasing more and more for strategy formulation and implementation in the "publicity and PR" and "branding" domains, and in this situation, the policy is to combine the Company's findings and expertise in management consulting with Kartz Media Works' findings and expertise in domestic and overseas PR consulting and domestic and overseas digital marketing, and to work to strengthen the functions of existing services and to launch new services.

Forming the Group from these four companies strengthens TCG's management consulting value chain, and this constitutes a greater level of strength, and one not possessed by other companies. The Group will be able to accommodate needs nationwide related to business succession, business model transformation and business rebuilding, DX and productivity improvement, CX design, and various consulting needs, such as domestic and overseas PR, which are expected to accelerate going forward, and with its target customer range expanding from large companies to mid-size companies. The Company has announced a policy of focusing on expanding business with the government and public sectors by taking advantage of its nationwide network of business bases. We therefore believe its growth potential has increased substantially.

Company to sustain growth by building up a customer base for services on high unit price, long-term contracts, which account for approx. 80% of net sales

2. Earnings growth model

The Company's business model is characterized by having long-term contract services as its growth base, which allows it to achieve sustainable growth by accumulating new customers for these services while adding in spot-type products and services. Long-term customers that the Company has been doing business with for 5 or more years account for roughly 45% of the total, with high unit price/long-term contract (6 months or longer) type services accounting for about 80% of total net sales and projects with a continuation rate of over 70% for 90% of net sales. It is thought that providing a team consulting method that solves strategy and management issues for the president and other members of the management team as a "Business Doctor" contributes to its high continuation rate.

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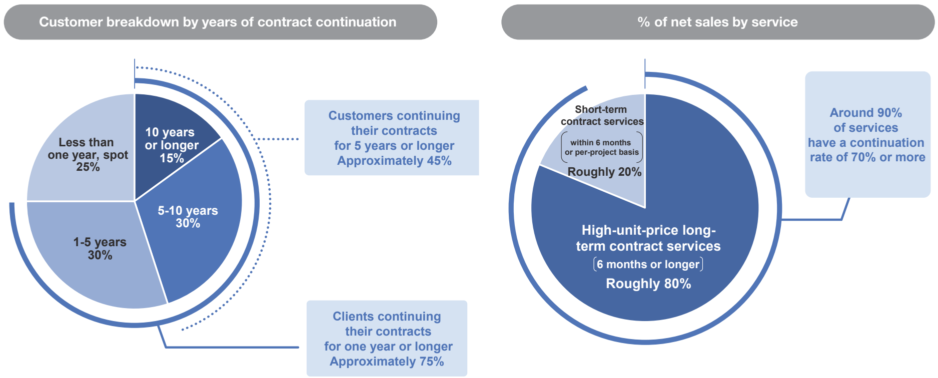
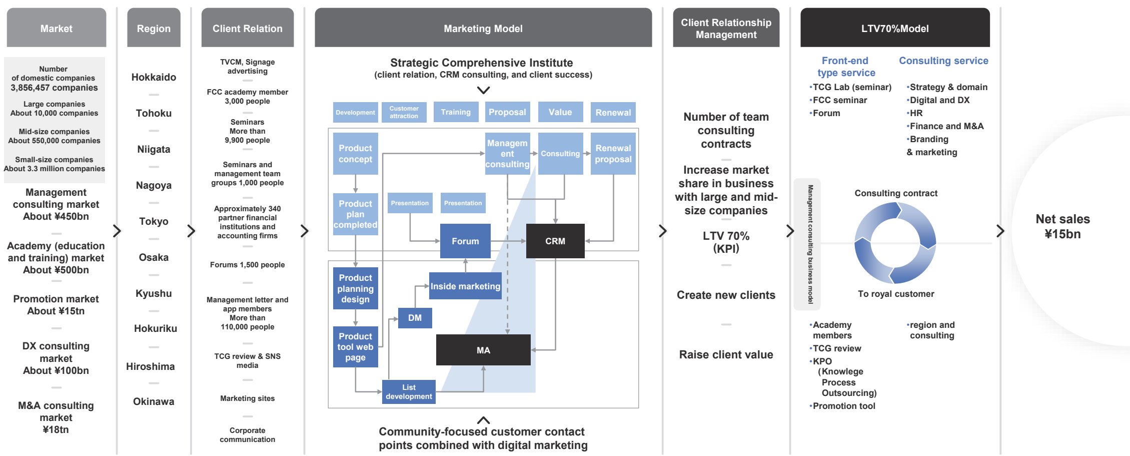
Model of stable earnings and growth



Source: The Company's results briefing materials

As the customer creation model, in addition to introductions from its existing customers and partner financial institutions, the Group creates contact points with new customers including providing digital marketing and holding large-scale free online presentations, and as well as providing team consulting services, it continuously provides services such as to the participants in human resources development seminars by industry and management themes and by employee level, which becomes a flow that creates loyal customers. Among the new customers for team consulting services, it seems that approximately 60% of them are companies that have participated in these workshops and various seminars. Moreover, since FY3/22 as the marketing strategy for the Group as a whole, it has been launching specialist marketing websites to solve customer problems and using them to acquire leads (potential customers). Specifically, it has launched specialized information websites for long-term vision/medium-term business plan formulation, digital/DX strategy formulation and implementation, HR for management teams and HR divisions, finance and M&A, and business succession and M&A as well as a specialized website for government and public sector services. It is acquiring leads through these websites and cases leading to a management consulting contract are also increasing. Group synergies are also being generated, for example Group company Leading Solutions is responsible for developing the marketing website, while JAYTHREE is responsible for developing some of its content. In addition, the Group companies are actively holding joint presentations.

TCG marketing model



Source: The Company's results briefing materials

Result trends

Double-digit net sales and operating profit growth for second year in a row in FY3/23, due in part to contribution of group synergies

1. FY3/23 results overview

In FY3/23 consolidated results, the Company's net sales totaled ¥11,759mn (up 11.2% YoY), operating profit, ¥1,152mn (up 24.4%), ordinary profit, ¥1,163mn (up 24.9%), and net profit attributable to owners of parent, ¥724mn (up 19.9%). The Company posted double-digit growth in net sales and operating profit, and record-high net sales two years in a row. Results were robust, exceeding the upwardly revised Company forecast announced in November 2022 despite recording expenses associated with strengthening the work force such as personnel, hiring, and education expenses, and branding investment-related expenses such as a TV commercial.

FY3/23 results

(¥mn)

	FY3/22		FY3/23					
	Results	Ratio to sales	Initial forecasts	Revised forecasts*	Results	Ratio to sales	YoY	vs. revised forecast
Net sales	10,572	-	11,250	11,700	11,759	-	11.2%	0.5%
Gross profit	4,785	45.3%	5,080	5,400	5,202	44.2%	8.7%	-3.7%
SG&A expenses	3,859	36.5%	4,065	4,250	4,050	34.4%	4.9%	-4.7%
Operating profit	926	8.8%	1,015	1,150	1,152	9.8%	24.4%	0.2%
Ordinary profit	931	8.8%	1,015	1,150	1,163	9.9%	24.9%	1.2%
Extraordinary loss	3	0.0%	-	-	7	0.1%	-	-
Net profit attributable to owners of parent	604	5.7%	640	720	724	6.2%	19.9%	0.6%

*Revised values announced in November 2022
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Due to factors including sharply rising energy prices and price increases triggered by heightened geopolitical risk in Ukraine and accelerating yen depreciation, the environment has been one of growing uncertainty about the outlook for corporate earnings. However, net sales increased in all the management consulting domains, including planning and promoting growth strategies to respond to the with- and after-COVID-19 eras, formulation and implementation of DX strategies, implementation of human capital management, M&A, and branding support. We at FISCO think that initiatives for growth that the Company has been working on for the past year or two have produced results, including joint development of management consulting menus and mutual customer transfer by group companies and attracting potential customers via specialized marketing websites. In particular, the Company has seen an increase in inquiries from major listed companies, mid-tier companies, and local governments. Winning multiple large projects that were not factored into the initial Company forecast also contributed to earnings growth.

Looking at net sales, sales from team consulting contracts increased 26.7% YoY to ¥7,768mn and the average number of contracted companies in FY3/23 was up 14.6% to 971—both record highs. Sales from team consulting contracts accounted for 66.1% of net sales in FY3/23, up from 58.0% in FY3/22. Net sales and contracted companies of existing business corporations recorded a solid increase, although the addition of JAYTHREE also contributed. The average unit sales per team consulting contract rose 10.5% YoY to ¥800mn, boosted by winning several large projects.

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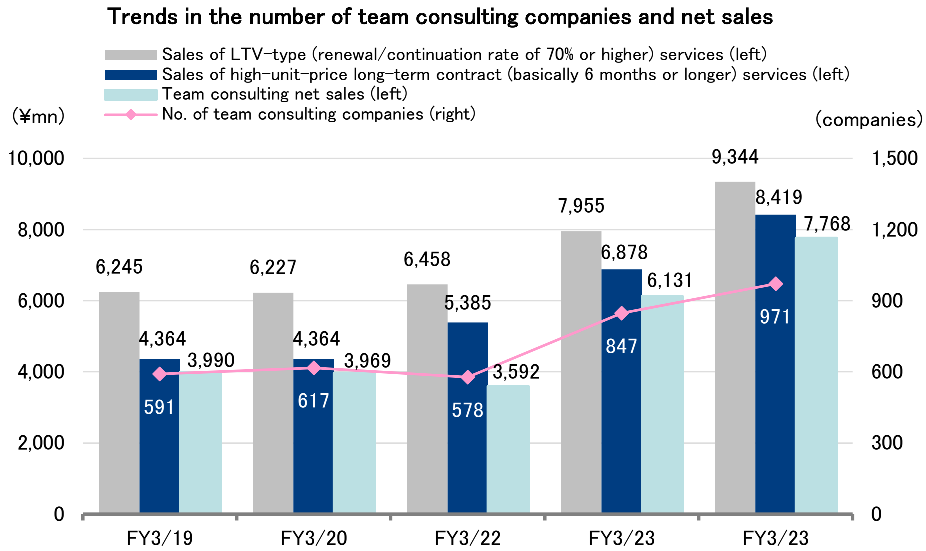


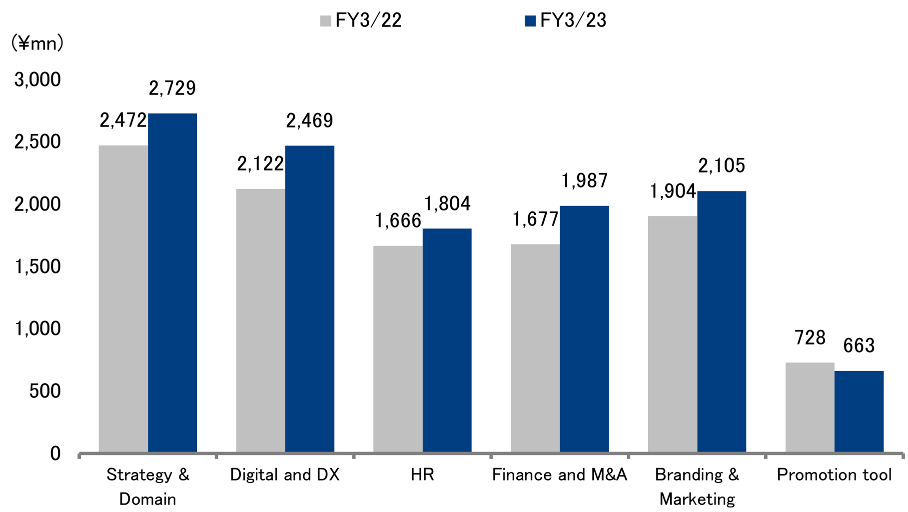
Note: Team consulting = consulting (domain & function, HR, M&A, regional, DX, brand, design) (monthly contracts) (all average number of contracts during the fiscal period)
Leading Solutions results included in consolidation since FY3/21
Growin' Partners results included since FY3/22, and JAYTHREE since FY3/23
Source: Prepared by FISCO from the Company's financial results briefing materials

The gross profit margin dropped from 45.3% in FY3/22 to 44.2% in FY3/23 due to a reclassification of personnel expenses for subsidiaries' consultants from SG&A expenses to cost of sales and an increase in outsourcing expenses. SG&A expenses were up ¥191mn YoY due to investment in human capital and branding. Factors affecting operating profit broke down into a ¥436mn increase in human capital investment (personnel expenses and hiring expenses) and ¥103mn rise in SG&A expenses such as expenses associated with the transition to a holding company structure, commemorating its 65th anniversary, and branding (including airing a TV commercial), absorbed by the sales growth effect. As a result, the operating margin improved from 8.8% in FY3/22 to 9.8% in FY3/23.

The three subsidiaries also recorded steady earnings growth with the help of the collaboration effect. Leading Solutions posted record-high net sales again. Growin' Partners also contributed to earnings, because it won cross-border deals and an M&A deal for a domestic startup as well as an ERP implementation project. JAYTHREE's earnings are still modest, but they appear to be on track. Kartz Media Works, which became a subsidiary in February 2023, will be reflected in consolidated results from FY3/24. The rate of increase is smaller for net profit attributable to owners of parent than for ordinary profit, because the increase in these subsidiaries' earnings resulted in profit attributable to non-controlling interests expanding from ¥18mn in FY3/22 to ¥45mn in FY3/23.

Looking at results on a half-yearly basis, in 2H FY3/23, net sales grew 5.6% YoY whereas operating profit fell 12.6% to ¥550mn for a ¥79mn profit decline. This is due to one-time expenses being concentrated in 2H, such as those associated with the transition to a holding company structure and commemorating its 65th anniversary, branding and personnel/hiring expenses, as well as higher personnel expenses due to an expanded work force.

Management consulting sales by domain



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

(1) Strategy & domain

In Strategy & domain, net sales increased 10.4% YoY to ¥2,729mn. The number of team consulting contracts increased, centered on themes such as formulating and progressing a medium- to long-term vision, business strategy by industry sector (including global strategy) and business model restructuring, and implementing SDGs. In particular, the increase in large-scale contracts for major companies, listed companies (in the construction, infrastructure, logistics, foods, and SaaS businesses) and local governments was noticeable, and by theme, formulating and progressing a medium- to long-term vision increased a brisk 12.7% YoY while implementing SDGs grew a steep 84.0%. For regional local governments, the Group has been forming specialist teams at the Strategic Comprehensive Institute to conduct sales activities with business bases around the country since FY3/23. As a result, it has won consulting contracts for regional industry promotion projects, tourism vision formulation, and public services.

As new consulting services, the Group developed and promoted consulting support for building a CX strategy and consulting support for formulating an equity story toward an IPO, and as measures to acquire leads, it launched a marketing website for long-term vision and medium-term business plan formulation.

(2) Digital and DX

In the Digital and DX domain, net sales grew 16.4% YoY to ¥2,469mn. The number of team consulting contracts increased overall, mainly in the areas of DX vision and digitalization concept formulation, digital marketing, introduction and implementation of ERP and other systems by sector, and branding DX (websites, social media, etc.)." In particular, ERP replacement projects and BPO projects (support for financial administration work, such as financial results reporting and disclosure processes) for large companies and listed companies in the healthcare, manufacturing, and specialist trading house sectors, and government organizations, and branding support such as website production for regional listed and mid-size companies and government organizations performed strongly.

As new consulting services, the Group developed and is advancing DX Cloud, an ERP system, for the logistics industry in collaboration with LOGISTEED, Ltd. It also launched a marketing website for digital and DX strategy and implementation to work on attracting leads.

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(3) HR

In the HR domain, net sales increased 8.3% YoY to ¥1,804mn. The number of contracts increased amid heightened interest in human capital management, mainly for themes such as HR system restructure, HR system implementation, Academy (company's internal university) establishment, and Junior Board (fostering next-generation management teams) partly as a result of acquiring leads from large and listed companies via marketing websites. Of these, human capital management implementation projects were brisk, including strategic HR, post-merger personnel integration, succession planning, and talent management (including system installation) projects for listed companies and mid-size companies in the manufacturing, SaaS, beauty, logistics, and finance businesses, while Academy establishment grew 11.0% YoY, with over 150 companies signing up.

Academy is a cloud-based online employee training and education service. Demand is growing, because students can attend anytime, anywhere, which shortens the training period compared with in-person training and education courses. It also makes companies more attractive to potential recruits.

(4) Finance and M&A

In the Finance and M&A domain, net sales increased 18.5% YoY to ¥1,987mn. The number of leads acquired from large companies and listed companies increased via marketing websites, mainly for business succession, group management system construction, support for creating a holding structure, and M&A (from strategy formulation to financial advisory, due diligence, and PMI), resulting in an overall rise in team consulting contracts. In particular, large-scale contracts increased, including those for creating a holding structure and group management support for regional, listed, mid-size companies, management restructure of mid-size regional companies, strategic reorganization of overseas businesses for large regional companies, and building a consolidated financial system for large companies and listed companies in the infrastructure, real estate, foods, and other sectors, contributing to net sales growth.

(5) Branding & marketing

In the Branding & marketing domain, net sales grew 10.5% YoY to ¥2,105mn. The number of overall team consulting contracts increased, mainly for brand building, CX design, creative, and recruitment branding. Results were strong for creative and design for large companies (in the beauty and cosmetics, healthcare, pharmaceutical, and food industries) and educational institutions, and branding and marketing (online x offline hybrid support, from social media marketing of products and services through to store promotions) for regional, listed, mid-size companies. As well, total promotions for listed major companies' SDGs events targeting children and government/public sector educational events for children were brisk.

The Company developed and progressed new team consulting services such as strategic branding & PR support consulting and anniversary project support consulting.

(6) Promotion products

Sales of promotion products fell 9.0% YoY to ¥663mn. The Group revised prices to absorb raw material price increases, but an overall drop in promotion product orders associated with various event cancellations had a negative impact. Sales of promotion products which serve as tools to support companies' promotion activities were down 29.2% to ¥124mn. Progress is as expected, however, despite the sales decline, because the Company is prioritizing profit over net sales. Typically, sales of promotion products (especially Blue Diary notebooks) are concentrated in 3Q, but the intention is to level them out by taking steps such as pushing forward the period of ordering activities.

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Healthy financial standing with effectively debt-free management

2. Financial condition and management indicators

At the end of FY3/23, total assets increased ¥586mn from the end of the previous period to ¥14,410mn. Looking at the main change factors, in current assets, cash, deposits and securities increased ¥174mn. In non-current assets, there were increases of ¥69mn in property, plant, and equipment, ¥82mn in intangible assets, and ¥87mn in investments and other assets. Goodwill increased ¥50mn from the end of the previous period to ¥735mn as a result of making Kartz Media Works into a subsidiary.

Total liabilities increased ¥392mn from the end of the previous period to ¥2,700mn. There were increases of ¥88mn in income taxes payable, ¥46mn in provision for bonuses, ¥40mn in interest-bearing debt, ¥34mn in advanced received, and ¥46mn in deferred tax liabilities. Net assets increased ¥193mn from the end of the previous period to ¥11,710mn. Although there was a dividend payment of ¥428mn and share buyback totaling ¥90mn, net profit attributable to owners of parent of ¥724mn was recorded, which was the main factor contributing to the increase.

Looking at the management indicators, the equity ratio was 78.8%, slightly lower than in FY3/22, but the Company continues to maintain it at a high level, while it also has an abundance of cash, deposits, and securities of more than ¥8.0bn and maintains effectively debt-free management, so it can be judged to be highly financially sound. In terms of profitability and management efficiency, indicators increased two years running, with the operating margin at 9.8%, ROE at 6.4%, and ROA at 8.2%. There is room for improvement for ROE, because the Company is targeting around 10.0% in FY3/26 (the final year of the medium-term business plan). With an abundance of cash, the Company plans to allocate funds to investing for growth (including M&A) to improve profitability while also expanding the business and maintaining robust shareholder returns to raise ROE.

Balance sheet and management indicators

(¥mn)

	End of FY3/20	End of FY3/21	End of FY3/22	End of FY3/23	Change
Current assets	7,732	8,889	9,329	9,674	344
(Cash, deposits, and securities)	6,936	8,078	8,199	8,373	174
Non-current assets	5,237	4,516	4,495	4,734	239
(Long-term deposits and investment securities)	2,178	618	555	437	-117
Total assets	12,969	13,405	13,824	14,410	586
Current liabilities	1,642	1,418	1,856	2,154	298
Non-current liabilities	375	556	451	545	94
Total liabilities	2,018	1,975	2,307	2,700	392
(Interest-bearing debt)	-	120	149	190	40
Net assets	10,951	11,430	11,517	11,710	193
(Management indicators)					
Equity ratio	83.9%	83.1%	81.0%	78.8%	-2.2pt
ROA	7.8%	5.9%	6.8%	8.2%	1.4pt
ROE	6.4%	4.5%	5.4%	6.4%	1.0pt
Operating margin	10.5%	8.2%	8.8%	9.8%	1.0pt

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

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Business outlook

Targets record-high net sales and operating profit in FY3/24 by continuing to strengthen the management consulting domain for top management and focusing on digital and DX, strategic PR, and government and public sectors

1. FY3/24 results outlook

For the FY3/24 consolidated results, the Company forecasts increased profit and sales for the third consecutive period, with net sales to increase to ¥12,500mn (up 6.3% YoY), operating profit to grow to ¥1,230mn (up 6.8%), ordinary profit to rise to ¥1,230mn (up 5.7%), and profit attributable to owners of parent to increase to ¥760mn (up 4.9%). It will continue human capital investment and branding investment, as well as digital investment, while aiming for record highs in net sales and operating profit.

FY3/24 results outlook

(¥mn)

	FY3/23 Full-year results	FY3/24			
		1H plan	YoY	Full-year plan	YoY
Net sales	11,759	5,645	4.8%	12,500	6.3%
Operating profit	1,152	610	1.4%	1,230	6.8%
Ordinary profit	1,163	610	0.6%	1,230	5.7%
Net profit attributable to owners of parent	724	360	-6.9%	760	4.9%
Earnings per share (yen)	42.25	21.11		44.56	

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

The economic outlook is one of growing uncertainty as the war in Ukraine and power struggle between the US and China continue. Nonetheless, orders remain strong for the Company centered on themes that performed well in FY3/22. We at FISCO can say that the market environment is favorable, with consulting demand related to human capital management being especially robust among companies regardless of size. The Company launched a marketing website for government and public sector services consulting, targeting these sectors, which it began in earnest in FY3/23. It will continue to acquire leads via its websites as well as strengthening its workforce by hiring specialist personnel to expand net sales. It will focus on consulting domains such as regional industry promotion, regional revitalization, SDGs, DX, branding, and HR training and performance, providing solutions that cover the whole process from strategy formulation to implementation support. The Company has a long track record of providing a consulting service rooted in local regions from its 10 business bases around the country. It plans to leverage this strength to raise the sales share of this customer segment to 3% quickly.

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We also expect sales growth in Branding and marketing and Digital and DX domains through collaboration with Kartz Media Works, which became a Group company in February 2023. The Company plans to strengthen group synergies further by harnessing Kartz Media Works' strategic PR support know-how and Global PR Wire, a press release delivery service for overseas media. This allows the Company to propose new consulting services to companies seeking to strengthen their branding, and those planning to do business overseas or expand their overseas operations, with overall group synergies contributing to earnings. The FY3/24 company net sales plan calls for flat YoY earnings of existing businesses. We think it is likely to surpass its FY3/24 forecast provided the market environment does not change suddenly, such as a rapid economic downturn.

Looking at priority initiatives for each management consulting domain, in Strategy & domain, the Company aims to increase the number of contracts with large companies and listed companies centered on formulating and progressing a medium- to long-term vision, and strengthen the consulting functions for global strategy, business model reform, and ESG/SDGs. In the Digital and DX domain, the Company aims for double-digit annual growth by progressing consulting in the area of DX vision and digitalization concept formulation, as well as expanding its alliance network and enhancing and strengthening professional DX services for each industry sector. In the HR domain, the Company plans to expand and enhance its total consulting service, which improves the value of customer companies' human capital. Specifically, this entails identifying the human capital-related challenges for each customer, such as wage increase, productivity improvement, and Diversity and Inclusion (D&I). It will deliver the best solution to the problems clarified in the process of a thorough discussion with the management team. In addition, the Company has received positive feedback from customer companies by extending management training for executives to middle managers and younger employees. It plans to differentiate itself with its Academy (company internal university) establishment proposals to boost orders.

In the Finance and M&A domain, the Company plans to focus on holding company/group management and cross-border M&A as well as progress corporate value vision consulting to make sustainability management a reality for customer companies. It is also actively leveraging the knowledge of Growin' Partners in M&A deals. In the Branding & marketing domain, the Company plans to strengthen functions from brand strategy formulation through to supporting promotion of products and services at work sites, as well as progressing strategic PR consulting, which connects these functions, in Japan and overseas in collaboration with Kartz Media Works.

Steady progress toward FY3/26 targets of ¥15.0bn in net sales and ¥1.8bn in operating profit

2. Overview of the medium-term business plan

The Company in FY3/22 has started a five-year medium-term business plan (2021-2025), "TCG Future Vision 2030." The Company intends to upgrade services that assist customers with management strategies (upstream) —upstream that have been a traditional strength—further reinforce onsite management deployment and operation (midstream to downstream) in the form of professional DX services that utilize digital technologies, continue to build a one & only management consulting value chain capable of all-around integrated support for corporate management, and accelerate growth.

The Company's numerical results targets for FY3/26, the plan's final fiscal year, are net sales of ¥15bn, operating profit of ¥1.8bn, ROE of 10%, and ROA of 15%, while with the FY3/23 results as the starting point, the targets for the three-year CAGR are 8.5% for net sales and 16.0% for operating profit. The plan calls for accelerating profit growth in FY3/25 onward. The Company's strategy is to become more profitable by strengthening group synergies mainly in team consulting services (which have high added value) while growing its business. Progress has been ahead of target in FY3/22 and FY3/23. We at FISCO believe this is due to capturing demand from the growing number of companies investing more in DX and human capital, engaging in M&A, and working on SDGs by harnessing group synergies.

We at FISCO see potential for the Company to grow net sales further, because we expect demand related to these themes to persist in the coming years, and with the addition of new business with the government and public service sectors and in new business areas such as strategic PR and overseas PR, and by continuing M&A. The Company is considering as M&A targets companies with a global business and consulting companies with a track record in the government and public sectors. The Company assumes that future Group companies will generate roughly ¥1.0bn of the ¥15.0bn net sales target in FY3/26. It plans to add to its four new Group companies to expand and enhance its consulting services further, as well as increase the number of team consulting contracts by mutual customer transfer and attract larger projects. We at FISCO think the Company's FY3/26 earnings targets are well within reach if these strategies prove to be effective.

Results targets

(¥mn)

	FY3/23		FY3/24		FY3/25 Plan	FY3/26 Plan	CAGR
	Initial plan	Results	Initial plan	Revised plan			
Net sales	11,250	11,759	12,300	12,500	13,500	15,000	8.5%
Operating profit	1,015	1,152	1,230	1,230	1,485	1,800	16.0%
Operating margin	9.0%	9.8%	10.0%	9.8%	11.0%	12.0%	
ROE	-	6.4%	-	-	-	10.0%	
ROA	-	8.2%	-	-	-	15.0%	
Number of employees (people)	560	566	640	640	720	800	12.2%

Note: FY3/23- FY3/26 average annual growth rates
Source: Prepared by FISCO from the Company's financial results briefing materials

FY3/26 sales plans for each management consulting domain show the largest forecast CAGR of 26.5% over three years for Digital and DX, because demand for DX implementation is robust regardless of company size, with substantial potential demand in the government and public sectors as well. The next largest forecast CAGR is for HR (6.8%). FY3/23 results were far higher than the company forecast at a time when strengthening human capital investment is a top management priority. Accordingly, we think the Company is likely to surpass its FY3/26 forecast as well. Net sales are also ahead of plan for Finance and M&A and Branding and marketing domains as well. In contrast, the Company has a conservative plan for promotion tools, which is a non-focus domain, forecasting a decline in net sales from ¥663mn in FY3/23 to ¥500mn in FY3/26, assuming flat or slightly lower Blue Diary sales.

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Sales plans by management consulting domain

(¥mn)

	FY3/23		FY3/26 plan	CAGR	Strengthening areas
	Initial plan	Results			
Net sales	11,250	11,759	15,000	8.5%	Expand scope of management consulting by harnessing M&A
Strategy & domain	2,750	2,729	3,000	3.2%	Formulate vision, new business/business model reform, global, crossover between strategic themes such as SDGs with community-focused strategy, etc.
Digital and DX	2,450	2,469	5,000	26.5%	Hybrid marketing, ERP system installation and operation, DX productivity reforms, UX/CX design, branding DX, recruitment marketing, supply chain management, etc.
HR (human resource development)	1,550	1,804	2,200	6.8%	Strategic personnel system linked directly to management strategy, employee engagement system, installation and operation of HR DX system, human capital management, Academy (company's internal university) establishment, Academy Cloud, etc.
Finance and M&A	1,900	1,987	2,100	1.9%	Development of business succession type holding company management model and group management model, business restructuring type M&A and cross-border M&A, etc.
Branding & marketing	2,050	2,105	2,200	1.5%	Purpose branding, customer communication model reforms from strengthening corporate branding (PR and IR) to CX improvement, creative support such as social media marketing
Promotion tool	550	663	500	-9.0%	Improve added value (profit margin)

Note: FY3/23-FY3/26 average annual growth rates
Source: Prepared by FISCO from the Company's financial results briefing materials

Progress five growth models and strengthen human capital to build earnings base for sustainable growth

3. Growth strategy

To achieve its goal of "One & Only- Creation of TCG, the New Globally Unrivaled Consulting Group," the Company intends to promote deployment of five growth models and M&A strategy and pursue corporate strategy that realizes sustainable growth.

(1) Implementing five TCG growth models

a) Professional DX service model

The Company is aiming to grow sales by deepening its "management strategy formulation function," which is its core value, and also by expanding the menu of "professional DX services" that utilize digital technologies for support at work sites, while also initiating collaborations between Group companies. The services being implemented in FY3/23 include DX Cloud (ERP system) for the construction industry, DX Cloud for the logistics industry, strategic branding and PR support consulting, and also engagement surveys and a personality and abilities judgment service for HR.

b) C&C development model

The Company is progressing a C&C (consulting & conglomerate) strategy, i.e., a diversification strategy for the management consulting business. It will develop and commodify a team consulting menu related to managerial needs and issues newly arisen as a result of changes in the social environment, etc., form a team consulting organization to provide that menu, and then gradually develop that organization into a consulting business. The Company has been expanding its consulting business in the past few years while progressing an M&A strategy. Its intention is to establish a one-of-a-kind management consulting value chain as it pursues specialization and all-round capabilities.

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c) Marketing model

Targeting approximately 40,000 large and mid-size companies (including listed companies), local governments, and other organizations, the Company will work to acquire customers through its locally rooted regional strategy and unique marketing model (acquiring potential customers via specialist websites according to management consulting domain, various seminars, workshops, etc.) It intends to achieve at least a 70% continuation rate for management consulting contracts and add new customers for 35% of its sales goal. The Company runs specialized management consulting websites for long-term vision/medium-term business plan formulation, digital/DX strategy formulation and implementation, HR, corporate finance and M&A, and business succession and M&A. The Company has attracted many potential customers via these websites, which has led to an increase in team consulting contracts. It is therefore planning to continue expanding and enhancing their content.

In addition to the above, the Group is working to discover new consulting demand by strengthening follow-ups to existing customers in the CRM consulting department. In FY3/23, this led to an increase in average net sales per company with a team consulting contract (up 10.5% YoY). For average net sales per customer, the Company will continue to target an annual increase rate of 10%.

d) Team-up and 100 partners model

Through collaboration with the C&C development model, the Company intends to build a management system (training program via the in-house corporate university, etc.) to find new leaders in existing organizations and teams and cultivate these leaders into partners and thereby increase the number of partner personnel from 50 people to 100 people (71 people as of end of FY3/23). Partner personnel refers to people who are capable of running a consulting team (5-10 people). Cultivation of 100 partner human resources means that the Company is capable of having 100 consulting teams. In particular, going forward it will enhance its workforce so it can work on expanding teams in local areas in order to contribute to the revitalization of local economies.

e) Academy model

In order to quickly develop professional human resources* (target of two years), the Group is expanding “TCG Academies,” which is an education and training system that combines the online and the real. It is already starting to produce results, including that after introducing an academy, the speed of training to become a chief consultant is reduced from the previous approximately five years to two to three years. In FY3/23, the Company established academies for specific subjects and domains such as the Leadership School, Strategy & Domain School, HR School, Corporate Finance School, Marketing School, CRM Consultant School, and Coordinator School, which it has made available to group companies. In this way, the Group is strengthening its whole personnel training program efficiently by utilizing the Academy model as a tool, because it is difficult to hire mid-career professional human resources.

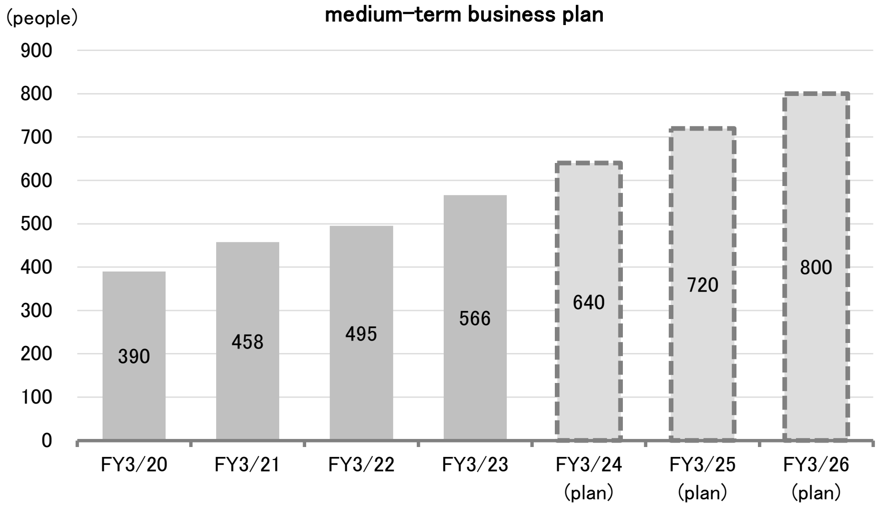
* Professional human resources are human resources who have served as a chief consultant for at least five companies and who are project leaders in a specific field.

(2) Human capital management

The Company is targeting 800 full-time consolidated employees by FY3/26, and going forward, it plans to strengthen its recruitment system and to increase the number of new graduate and mid-career recruits. For mid-career recruitment, its policy is to focus on recruiting people with practical experience who are well versed in the industry and to recruit career I-turn and U-turn hires in order to strengthen the structure of regional business offices. With a broader range of management consulting domains than previously, it can now recruit with more specific job descriptions, which has resulted in an increasing number of applicants with experience. After becoming a holding company, it formed a Group Management Team and has strengthened Group hiring. The Group hired around 70 mid-career employees and 15 new graduates in FY3/23. It plans to hire around 15 new graduates in FY3/24 and increase the number of mid-career hires. In the longer term, the Company aims to hire 30 new graduates and 70 mid-career employees each year as a consulting firm operating nationwide.

In the consulting business, sales are based on human resources, so it is no exaggeration to say that the key to achieving the mid-term results targets will be whether or not the increase in employees is progressed according to plan. The Company is aiming to achieve the target of 800 employees in FY3/26 by strengthening recruitment, working to improve the retention rate of excellent employees through efficient human resources development using TCG Academy Cloud and creating a work environment where diverse professionals can succeed. This entails the introduction of a job-based HR system and Smart DX investment to provide a positive work environment and improve productivity. The Company's current employee retention rate of 89.0% (three-year average) is at a high level in the consulting business.

Trend in the number of consolidated employees and targets in the medium-term business plan



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

(3) SDGs initiatives

Inquiries related to SDGs are increasing from many companies, and the Company is responding by developing products such as SDGs deployment consulting, SDGs workshops, and SDGs education to support its client companies' SDGs initiatives. The Company itself is working on environmental initiatives, such as reducing electricity consumption in business offices and going paperless, and in addition, it intends to progress health management (recognized in large enterprise category of 2023 Certified Health & Productivity Outstanding Organization) and to strengthen the corporate governance system. It is currently at the stage of specifying the materialities and setting the KPI, and going forward, it plans to engage in the SDGs as an important task of management.

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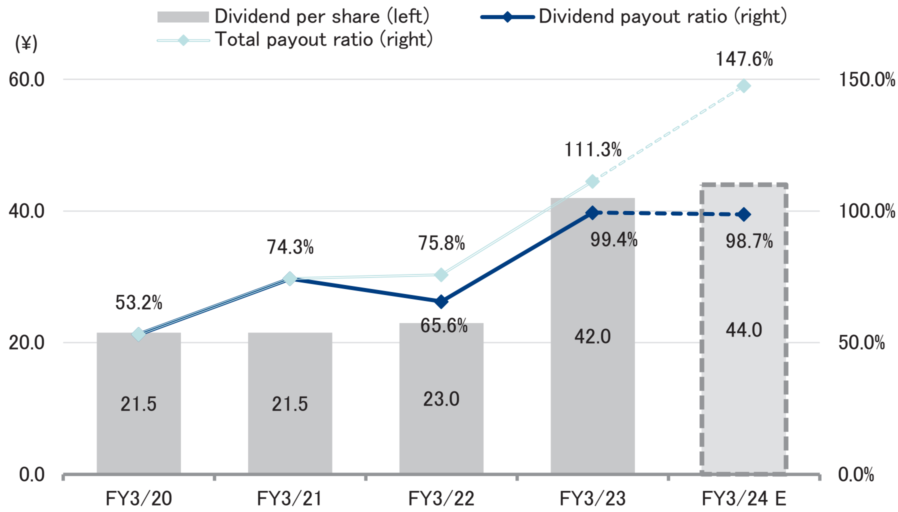
Shareholder return policy

Plans stable dividends based on consolidated total return ratio of 100% through FY3/26 and share buybacks as appropriate while aiming to clear Prime Market listing standards for corporate value and ROE

In February 2023, the Company announced a change in its shareholder return policy. Specifically, it will maintain stable dividends based on a total return ratio of 100% (dividend on equity of over 6%) and implement share buybacks as appropriate. Based on this policy, the Company plans to increase dividend per share for the third consecutive fiscal year, by ¥2.0 YoY to ¥44.0 (dividend payout ratio of 98.7%) in FY3/24 and announced an increase in the maximum number and value of treasury shares for repurchase and an extended repurchase period (to purchase up to 800,000 shares for up to ¥400mn by December 31, 2023). As of June 30, 2023, the Company had repurchased 160,000 shares for ¥142mn. The total return ratio (dividends plus share buyback) forecast is 123.9%. The Company aims to continue increasing the dividend going forward by solidly achieving its results targets.

Dividend per share and dividend payout ratio



Note: Past dividend values have been retroactively revised because of a 1:2 share split conducted at the end of September 2021
Source: Prepared by FISCO from the Company's financial results

Also, following the TSE's reorganization of its market categories in April 2022, the Company's listing was transferred to the Prime Market. However, on the transfer-standards reference date (June 30, 2021), the Company did not meet the standards for the tradable shares market capitalization amount (¥10.0bn) and the average daily trading value* (¥20mn). As of March 31, 2023, its tradable shares market capitalization amount cleared the standard at ¥10.46bn, while average daily trading value also cleared the standard at ¥22mn in January–March 2023. It intends to clear these standards by December 31, 2025 (improvement period) through earnings expansion by implementing its medium-term business plan and raising its profile by aggressive IR, SR, and PR activities. In FY3/23, the Company issued TCG Report, its first integrated report that includes information such as a chronology of its founding and growth stages so far, management strategy going forward and specific initiatives.

* Tradable shares market capitalization was ¥8.11bn and average daily trading value was ¥600mn.

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