

Tanabe Management Consulting Co., Ltd.

9644

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Summary

Ongoing expansion of management consulting services bodes well for continued steady growth in the future

Tanabe Management Consulting <9644> (hereafter, also “the Company” or “Tanabe”), which was founded in 1957 and celebrated its 60th anniversary last year, 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 “assist in the creation of “first call companies” that will be selected even 100 years from now. By combining the perspectives of domain (business strategy), including food and food services, healthcare, and home and lifestyle; function (organization strategy), such as organizations and human resources, finance, and promotions; and region (regional strategy), made up of bases developed in 10 major cities nationwide from Hokkaido to Okinawa, the Company is realizing stable growth by expanding its “domain x function x region team consulting,” in which it forms teams from selecting optimum consultants 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. FY3/18 1H results

The Company reported higher sales and higher earnings in FY3/18 1H, with net sales rising 6.9% YoY to ¥3,947mn and ordinary profit rising 2.5% to ¥442mn. Logging gains at both its management consulting business and sales promotion (SP) consulting business, the Company finished comfortably ahead of its initial forecast of ¥3,750mn for net sales and ¥330mn for ordinary profit. At its management consulting business, growing demand for consulting services in areas such as medium-term management plan (vision) formulation and implementation, personnel recruitment, training, and development, business succession planning, and training for next-generation management team (junior boards), led to an increase in consulting contracts with the average number of contracts during the period rising to 445, an increase of 11 versus the same period in FY3/17. At its sales promotion consulting business, the Company saw strong growth on wins of large consulting contracts covering everything from promotion and branding strategy formulation to strategy execution support, and also including the high value-added services of its sales promotion design team (which specializes in the design of premium novelty goods).

2. FY3/18 outlook

The Company made no change to its full-year forecast for net sales of ¥8,550mn (+1.9% YoY) and ordinary profit of ¥945mn (+3.3%). However, with demand for consulting services still running in Q3, it is highly likely, in our view, the Company will finish the year ahead of its current forecast. In this relation, we note that the Company has increased the range of strategic domains and management topics it covers at its seminars, and now offers seminars on a total of 25 different topics versus 20 the previous year. As these seminars are attended by people from companies that have a serious interest in the subject covered at a specific seminar, they are a good place for Tanabe consultants to make contact with potential clients. By increasing the range of seminars offered and the number of seminars, Tanabe will increase the number of opportunities it has to make contact with potential clients, which in turn should lead to more management consulting contracts. New consulting services the Company is counting on to help drive growth in the future include support services for establishing FCC academies (corporate universities), which began in earnest this fiscal year, and web promotion consulting, which will start up during the second half of the current fiscal year. The Company is also planning to make use of its extensive ties with regional financial institutions and other members of its alliance partner network to help it expand in the areas of growth-oriented M&A consulting and alliance consulting.

Summary

3. Medium-term outlook

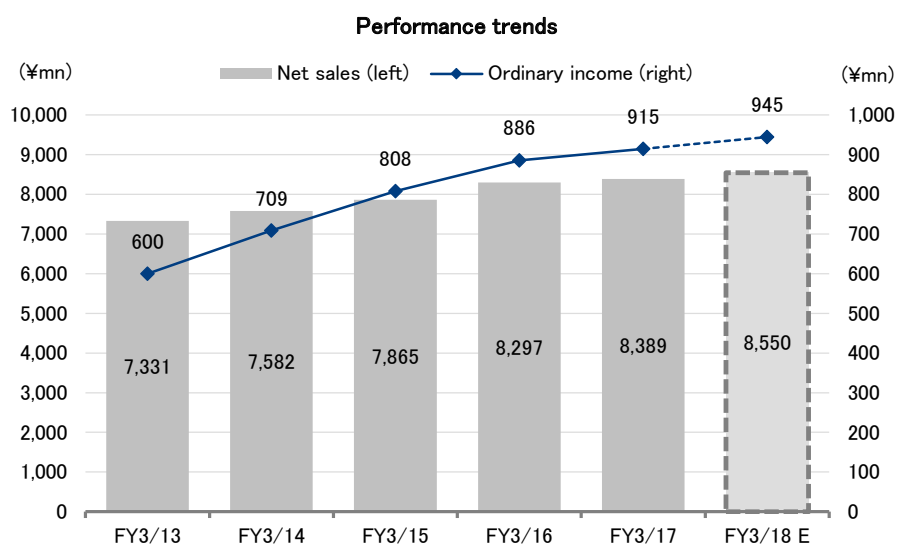
Along with its medium-term business strategy of promoting the previously mentioned C&C strategy, the Company is strengthening its recruitment and training of consultants. It plans to increase consultant numbers from 215 at the end of FY3/17 to 254 by the end of FY3/20. In order to acquire highly professional 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 professionalism. And, because there is a growing need for consulting services related to products and services targeted at women, the Company also intends focus on hiring and training more female consultants. Under its current medium-term business plan, Tanabe is targeting net sales of ¥9,000mn and ordinary profit of ¥1,000mn in FY3/20. However, if the Company is able to expand steadily in growth-oriented M&A consulting and other new areas, we believe there is a good chance it will surpass these targets.

4. Shareholder return policy

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 sales, profits and dividends in the future. 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 2.3% and the investment return was around 4% including the shareholder gift, based on the share price of January 30, 2018 (¥1,796).

Key Points

- 1H sales and earnings finish up YoY and ahead of initial forecast, Company sees full-year sales and earnings rising on the back of continued growth in demand for consulting services
- Pushing ahead with its C&C strategy, the Company sees growth being driven by consulting in new areas including support for establishing FCC academies (corporate universities), web promotion consulting, growth-oriented M&A consulting, and business alliance 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

■ 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 Japan 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 “assist in the creation of the first call companies” 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.”

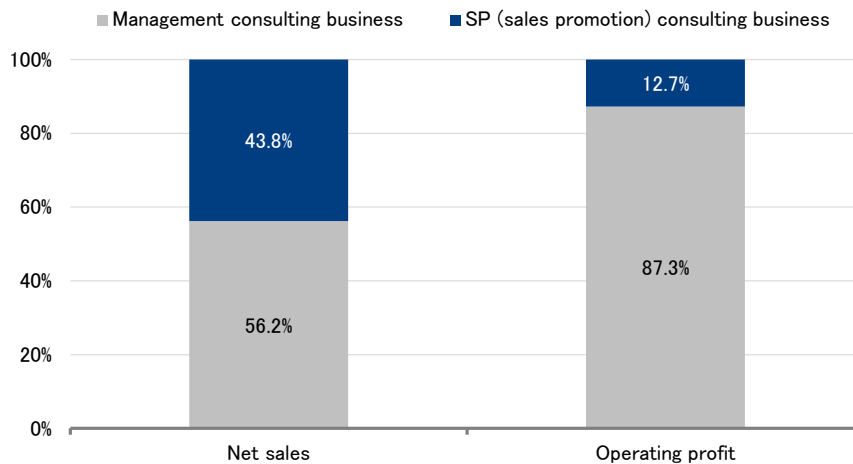
It conducts its business from its bases in 10 major cities nationwide, from Hokkaido to Okinawa. The features and strengths of the Company include that, within its industry, only it conducts a nationwide business and only it can provide consulting services tailored to each specific region. Also, in April 2017 it raised the status of the Tokyo Headquarters to the Tokyo Head Office. By establishing a dual head office structure with the Tokyo Head Office responsible for IR and PR, recruitment, and M&A functions, as well as the Strategic Comprehensive Institute, which plans and produces various consulting services, analyzes information from consulting sites and elsewhere, and disseminates information to member companies and society, the Company is aiming to supplement its customer service nationwide and achieve further growth.

Business overview

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.

Breakdown by segment (FY3/17)

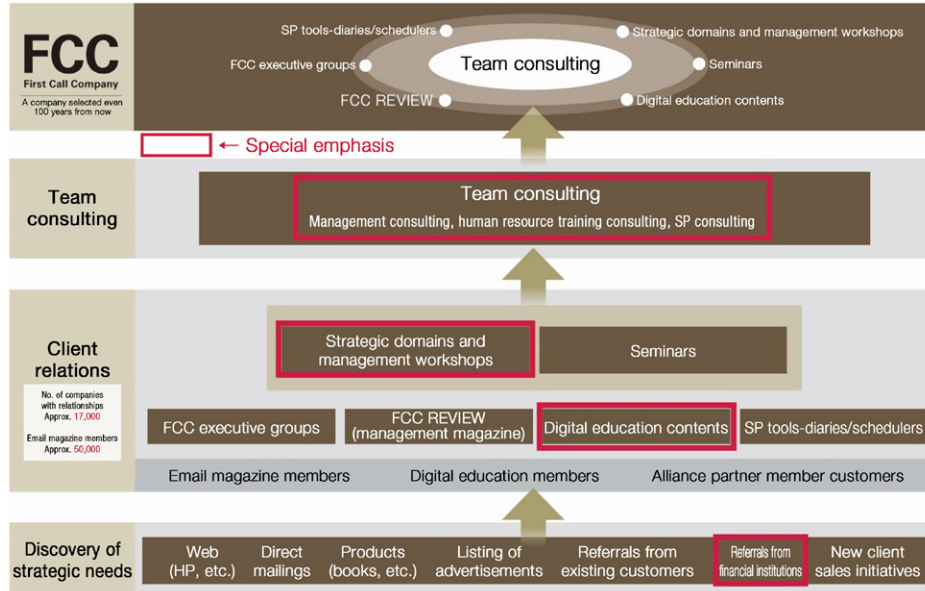


Note: Operating profit shows the value prior to deduction of headquarters management costs.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

The Company's business model starts with client development. Here, the Company mainly targets medium-sized and smaller companies through a variety of means including online advertising, direct mailings, referrals from financial institutions, and new client sales initiatives. Some of these activities resulted in winning subscription of member services, such as its email magazine, digital education services, and its FCC REVIEW magazine (covering management-related topics). By conducting seminars on various strategic domains and management topics, Tanabe is also able to attract potential client companies that are facing these particular management issues and these contracts often lead to team consulting contracts (with the team including specialists in management consulting, human resource development, and sales promotion). Ultimately, Tanabe's aim is to get clients to use its various consulting services and become the "first call companies." Thanks in part to its efforts in recent years to broaden the range of topics covered by its strategic domains and management seminars, Tanabe currently gets about 70% of its new client from the ranks of those attending one of its FCC workshops or seminars. Between 20% and 30% of the remaining new clients are acquired through referrals from financial institutions and roughly 10% are acquired by other means.

Business overview

Client development model



Source: The Company's results briefing materials

(1) Management consulting business

Under its management consulting business, the Company breaks down sales into the following categories: management consulting, human resource development consulting (including customized education programs and human resource development programs for alliance partners such as partner financial institutions and accounting firms), seminars (targeting audiences from current managers, to next-generation managers, all the way to new employees), FCC workshops (workshops covering various strategic domains and management topics, “first call company” executive groups), and alliances. Of these, management consulting services account for more than 50% of segment sales.

Tanabe’s management consulting services are aimed mainly at medium-sized and smaller companies, and address a broad range of strategic and management issues including medium-term management plan (vision) formulation and implementation, personnel recruitment, training, and development, business succession planning, and training next-generation management teams (junior boards). In response to the growing needs for M&A consulting services among client companies looking to diversify, Tanabe has recently added a full-fledged M&A consulting service to its service menu and is looking to further expand its consulting business in growth-oriented M&A with the help of referrals from its extensive network of alliance partners among Japanese financial institutions.

Business overview

(2) SP (sales promotion) consulting business

The Company's sales promotion consulting business includes sales promotion consulting (covering everything from helping clients establish promotion strategies to support for the execution of those strategies, as well as SP designs by consultants specializing in premium novelty goods), the planning and sales of SP tools (novelty goods created by adding the client company's name to a standard item), the planning and sales of "diaries" (business planners, calendars). Tanabe is currently working with over 3,000 companies (providing services as well as promotional goods) that are looking to boost their brand image, including not only medium-sized and smaller companies but also large companies as well.

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 customers in other domains in the future, and also for CSR. It is also planning full-fledged web promotion consulting for BtoB companies in regions with branding problems. Furthermore, it is progressing alliances with the management consulting business, in which management consultants support customer companies' business and organization strategies while SP consultants support the development of product sales channels, branding and a corporate identity. While management consulting remains the mainstay business, a strength of the Company is that, unlike other consulting companies, it is equipped with design and sales functions, enabling it to provide SP consulting.

In the SP consulting business, diary 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

Sales promotion consulting team will work to accelerate sales growth with total service package from strategy proposals to execution support



SP consulting

Ready to provide client companies with the right promotion to meet their needs and goals with 60 sales promotion consultants nationwide providing top-flight support for everything from planning to execution.

- Promotion strategy proposal and execution
- Merchandising planning and promotion
- Branding and PR strategy planning and promotion
- Event/web promotion planning and execution



SP design

Planned and designed sales promotion tools and promotional goods for more than 3,000 client companies, handled more than 100,000 items with the help of alliances with some 800 companies in Japan and overseas.

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



Blue Diary (BD)

Planned, designed, and produced more than 180mn schedule books and calendars since first introduced 58 years ago. Sell some 3mn copies a year for use as gifts and as part of seasonal sales campaigns.

- Diary planning and production
- Calendar planning and production
- Original scheduler and calendar planning and production



Creative design

The team of experts at our Design Lab carefully studies sales promotion strategies and shares success stories with our sales promotion consultants. Tanabe's design team produces effective designs for more than 2,000 promotional campaigns a year.

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

Source: Company materials

Result trends

Underpinned by rising demand for consulting services, sales and earnings continue to rise

1. FY3/18 1H results overview

In the FY3/18 1H results, net sales increased 6.9% YoY to ¥3,947mn, operating profit rose 5.0% to ¥426mn, ordinary profit grew 2.5% to ¥442mn, and net profit increased 2.8% to ¥303mn. Each result exceeded the initial Company forecast, and this was the sixth consecutive half of higher sales and profits.

FY3/18 1H results

	FY3/17 1H		Forecast	FY3/18 1H			
	Results	Ratio to sales		Results	Ratio to sales	YoY	vs. forecast
Net sales	3,692	100.0%	3,750	3,947	100.0%	6.9%	5.3%
Gross profit	1,835	49.7%	-	1,963	49.8%	7.0%	-
SG&A expenses	1,428	38.7%	-	1,537	38.9%	7.6%	-
Operating profit	406	11.0%	320	426	10.8%	5.0%	33.4%
Ordinary profit	431	11.7%	330	442	11.2%	2.5%	34.2%
Net profit	295	8.0%	225	303	7.7%	2.8%	34.8%

Note: Based on the Company's initial forecast

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

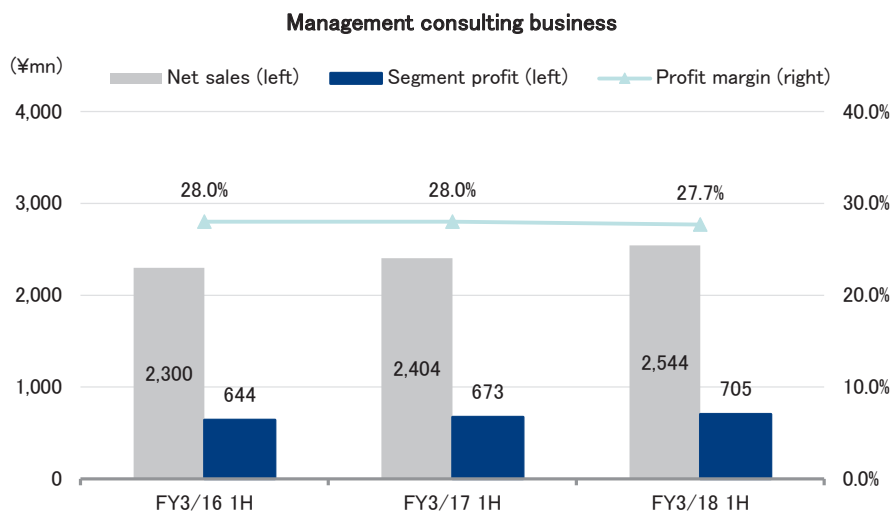
Aided by the slow-but-steady recovery in the domestic economy, 1H net sales finished up 5.8% YoY at the management consulting business and were up 9.0% at the sales promotion consulting business. Driving growth at the management consulting business was growing demand for consulting in the areas of business strategy, business succession planning, and human resource development. Sales promotion consulting benefited from an ongoing increase in companies looking for expert advice and assistance to grow sales and improve their branding. Operating profit rose 5.0% as benefits stemming from strong top-line growth absorbed expenditures for recruiting new consultants, investments in IT, and other strategic investments. As of the end of September 2017, the Company had a total of 330 employees, an increase of 26 over September 2016.

2. Segment trends

(1) Management consulting business

The management consulting business posted 1H net sales of ¥2,544mn (+5.8% YoY) and segment profit of ¥705mn (+4.8%). Both sales and segment profit were above plan, though the segment profit margin slipped 0.3ppts as personnel expenses rose in conjunction with recruitment (including human resource development consultants), increasing the number of employees by 8 to 163 at the end of September 2017.

Result trends



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

Within the management consulting business, the Company posted a solid 3.5% increase in sales for its mainstay management consulting services. In addition to a steady flow of new consulting contracts for work on medium-term management plan (vision) formulation and implementation, personnel recruitment, training, and development, business succession planning, and next-generation management team training, the Company did more consulting work in other areas such as consulting support for the establishment of academies (corporate universities), business model design, branding, and redesigning workflows (to boost productivity). This boosted the average number of management consulting contracts during the period to 445, up 11 versus the same period the previous year and a new high for the Company.

Sales from human resource development consulting rose 9.0% YoY, driven by growing demand among client companies for the training of future executives and customized workshops for current executives. The Company's alliance partners among financial institutions and accounting firms also contracted for additional employee training to give their people the consulting skills necessary to help the companies they finance and advise grow and prosper.

Sales from business seminars rose 9.0% YoY as the number of participants rose as a result of the opening of new venues for Tanabe's Startup Academy for new employees in April 2017 and the opening of several more new venues for its Team Leader School between July and September. With help from the opening of these new venues, the number of companies participating in Tanabe's seminars rose to 2,506, an increase of 320 over the same period of the previous year.

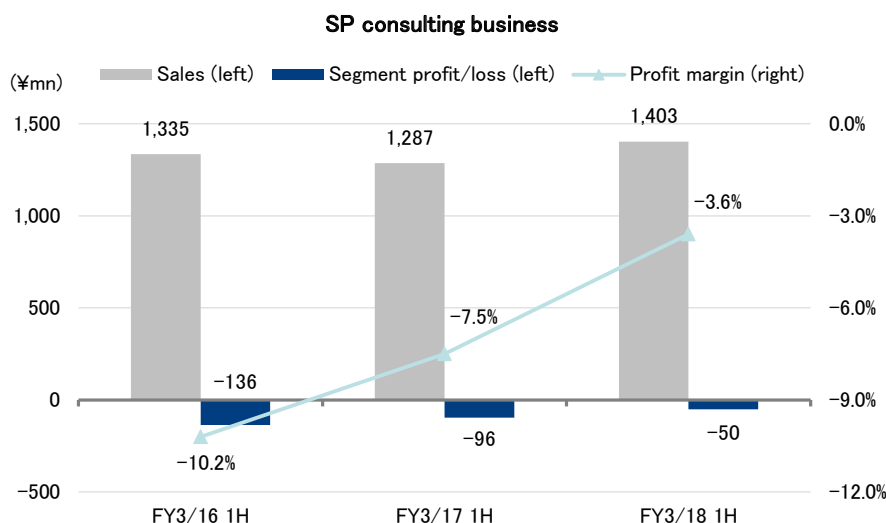
Sales from FCC workshops continued to growth at a rapid pace, rising 17.0% YoY, though are still relatively small. The growth was aided by the addition of three more topics (on leading-edge technologies, new business development, and the education/tutorial business) to its series of seminars on strategic domains and management topics, which together with the existing lineup of topics increased the total number of workshops held during the period. People from a total of 761 different companies attended the workshops held during 1H. This was an increase of 61 companies over the same period the previous year, contributing not only to the sales in this area but also leading to a number of new management consulting contracts.

Result trends

Sales from alliance services declined 3.3% YoY as efforts to provide management workshops to the financial institutions and accounting firms that are already alliance partners and provide new, original training programs and services designed to support medium-sized and smaller companies were offset by a decline in the number of alliance partner companies, which declined by 5 to 143. Sales were also hurt by a decline in the number of members in various organizations subscribing to Tanabe’s magazine that cover various management-related topics.

(2) SP (sales promotion) consulting business

The sales promotion consulting business posted 1H sales of ¥1,403mn (+9.0% YoY) and a segment loss of ¥50mn versus a ¥96mn loss during the same period in FY3/17. As diary sales are highly seasonal and concentrated in the October–December quarter (Q3), it is normal for the sales promotion consulting business to post a loss for the first half of the fiscal year. That said, the fact that loss in 1H was smaller this year tells us the segment’s profitability is improving as it builds up its consulting business in this area. At the end of September 2017, the segment had 62 consultants versus 61 at the end of September 2016.



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

Within the sales promotion consulting segment, revenues from sales promotion consulting work was up 31.2% YoY. In addition to working extensively with client companies participating in the nationwide “Kodomo ga Mannaka (Focus on Children) Project” and making promotion proposals for this market, the business was also able steadily grow the number of contracts for sales promotion consulting with the help of collaboration the Company’s management consulting business. The success of many high value-added sales promotion design proposals also helped to boost the top line as it served to win large-scale projects.

Sales of SP tools (novelty goods created by adding the client company’s name to a standard item) finished down 14.6% YoY. The Company said there were still many repeat orders but that its efforts to convince client companies to switch to higher value-added designs was responsible for the decline in sales of SP tools.

Result trends

Sales of “diaries” (business planners, calendars) were up 26.8% YoY despite 1H being the slow season in which sales are inherently small. Even though sales of business planners were flat, it was corporate calendars that drove sales growth during the period. During 1H the Company also moved ahead with the rebranding of its Blue Diary to mark the popular scheduler’s 60-year anniversary in 2019 and, in conjunction with this, the Company also changed its logo, the production of its branding book, and gave its website a new look.

3. Financial position and management indicators

At the end of FY3/18 1H, the Company’s balance sheet showed total assets of ¥12,332mn, a ¥198mn decline versus the end of FY3/17. The major drivers behind the decline were a ¥393mn decline cash/deposits and marketable securities to facilitate payment of the dividend on the Company’s common stock. This reduced the balance of current assets, but there was also a ¥30mn decline in non-current assets stemming from the sale of investment securities. This brought down the combined value of cash/deposits and securities holdings by ¥423mn, to ¥7,998mn, or 64.9% of total assets.

Total liabilities of ¥2,269mn were down ¥139mn versus the end of FY3/17. Under current liabilities we find a ¥60mn decline in accounts payable and ¥58mn decline in income taxes payable. Under non-current liabilities we find a ¥10mn increase in provision for directors’ retirement benefits. The combined impact of this left net assets at ¥10,062mn, down ¥59mn versus the end of FY3/17. With ¥303mn in net profit versus ¥346mn in dividend paid to common stockholders, retained earnings declined by ¥43mn. The rest of the decline in net assets reflected a ¥18mn decline in valuation difference on available-for-sale securities.

With the equity ratio above 80%, at 81.6%, and no interest-bearing debt on its balance sheet, the Company still has an extremely strong financial position. Profitability is also high and very stable, with the 1H operating margin holding comfortably above 10%, at 10.8%.

Balance sheet

	F3/15	F3/16	F3/17	F3/18 1H	(¥mn) From end of previous fiscal year
Current assets	5,960	6,967	6,911	6,665	-246
(Cash/deposits and marketable securities)	5,016	6,021	5,984	5,591	-393
Non-current assets	5,832	5,118	5,620	5,667	47
(Long-term time deposits and investment securities)	2,640	1,977	2,437	2,407	-30
Total assets	11,792	12,086	12,531	12,332	-198
Current liabilities	1,697	1,682	1,844	1,682	-162
Non-current liabilities	542	570	564	587	22
Total liabilities	2,240	2,253	2,409	2,269	-139
Net assets	9,552	9,833	10,122	10,062	-59
(Management indicators)					
Equity ratio	81.0%	81.4%	80.8%	81.6%	
ROA	7.0%	7.4%	7.4%	-	
ROE	3.3%	6.0%	6.4%	-	
Operating margin	9.7%	10.3%	10.5%	10.8%	

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

Business outlook

Expect higher sales and earnings for the full year, with both above finishing above plan

1. Outlook for FY3/18

The Company has made no changes to its original forecast for the full fiscal year, and is still forecasting net sales of ¥8,550mn (+1.9% YoY), operating profit of ¥915mn (+4.1%), ordinary profit of ¥945mn (+3.3%), and net profit of ¥645mn (+1.1%). It is highly likely, in our view, that sales and earnings will exceed the Company's forecast as demand for consulting services are still running strong and there have been no real changes in the market environment since the start of Q3. We also note that sales and earnings were running ahead of where they usually are at the end of 1H, with 1H sales equal to 46.2% of the Company's full-year target and operating profit equal to 46.7% versus the average over the past five years of 43.3% and 41.3%, respectively. On the expense front, the Company has budgeted another ¥200mn for personnel expenses over last year to reflect its plans to continue hiring new employees to serve as consultants.

FY3/18 outlook

	FY3/17		FY3/18			
	Full-year results	YoY	1H results	YoY	Full-year forecast	YoY
Net sales	8,389	1.1%	3,947	6.9%	8,550	1.9%
Management consulting business	4,711	4.7%	2,544	5.8%	4,820	2.3%
SP consulting business	3,677	-3.2%	1,403	9.0%	3,730	1.4%
Gross profit	3,931	2.1%	1,963	7.0%	4,155	5.7%
SG&A expenses	3,052	1.9%	1,537	7.6%	3,240	6.1%
Operating profit	878	2.6%	426	5.0%	915	4.2%
Management consulting business	1,261	-	705	4.8%	1,270	0.7%
SP consulting business	157	-	-50	-	165	5.1%
Headquarters management costs	-540	-	-227	-	-520	-
Ordinary profit	915	3.3%	442	2.5%	945	3.3%
Net profit	638	9.6%	303	2.8%	645	1.1%
Earnings per share (¥)	73.66		35.02		74.45	

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

The YoY change in segment profit has not been calculated for FY3/17 owing to changes in the method used to allocate corporate overhead.

At its management consulting business, the Company sees demand continuing to grow in 2H particularly in the areas of support for establishing FCC academies (corporate universities), productivity enhancement consulting, business model design consulting, and next-generation management support consulting. In the area of human resource development consulting, the Company also expects to see continued growth in demand for customized executive education programs for current and next-generation managers. At its FCC workshops, the Company is adding additional workshops to cover new strategic domains and management topics. With the addition of workshops in financial institutions, food sales promotion, and housing market promotion, the Company will be offering workshops on a total of 25 different topics with the ultimate goal of connecting with potential clients and bringing in more consulting contracts. On the expense front, the Company expects personnel-related expenses to continue to rise as it continues making new hires for its consulting businesses.

Business outlook

Expanding topics for the C&C strategy's domain and function workshops



- Offers 25 topics for the various domain (business strategy) and function (organization strategy) workshops to solve social problems in the future.
- In FY3/19, the Company plans to add more workshops, including one on apparel and one on digital technology services.

Source: The Company's results briefing materials

At its sales promotion consulting business, the Company sees more contracts for its mainstay sales promotion consulting services coming in thanks to closer coordination with its management consulting arm and, in the area of sales promotion design work, is looking to increase sales of promotion tools that incorporate more original design work. With regard to SP tools, as the Company intends to focus more on high value-added promotion tools that make use of its design services, overall sales of SP tools are expected to continue to decline. In contrast, diary sales are expected to grow in response to the Company's rebranding of its popular Blue Diary. Meanwhile, on the expense front, the Company sees lower costs stemming from efficiency gains underpinning further improvements in the profit margin.

Realizing sustainable and stable growth through four priority measures

2. Business strategy

As the Company pursues continued growth over the medium term, its business strategy will focus on the following four areas.

(1) Promoting the C&C (Consulting and Conglomerate) strategy

The Company will continue to promote the C&C strategy as the core of its growth strategy. In addition to expanding domain (business strategy) and function (organization strategy) workshop topics, it will focus on consulting in the areas of support for establishing FCC academies (corporate universities), marketing to capture customers in the children and child-rearing families markets, and web promotion consulting.

The range of topics covered by the Company's domain and function workshops will be expanded in the year ahead, with most of the new topics related to solutions for future societal problems or areas where future growth can be expected. More specifically, during FY3/19 the Company plans workshops on the apparel industry and on digital technology services. As always, the Company's underlying strategic aim in running these workshops is to create a setting that will lead to more consulting contracts.

Business outlook

In consulting to support the establishment of FCC academies (corporate universities), the Company supports the speedy establishment of a corporate university for each customer company 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 tracks created by the Company's consultants, it utilizes the talent at the customer companies to digitize the expertise of excellent employees and technicians. Since everyone can use smartphones, tablets and other digital devices to study anywhere and at any time, this system reforms working by revolutionizing learning. As a result, regardless of their industry, scale, or region, companies can quickly establish a corporate university. For medium-sized companies and SMEs, having their own corporate university (human resource training program) also proves beneficial in PR for recruitment activities, and many companies have indicated their intention to introduce it. It has already been adopted by 30 companies, and the Company is aiming for 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 (Focus on Children) 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 3.19 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. Moreover, an increasing number of companies are joining the project as part of their CSR initiatives. Therefore, the Company will actively work to capture orders from such companies going forward, which will lead to an increase in SP consulting sales.

The Company also started to offer a new consulting service for web promotion under its sales promotion consulting business in the latter half of FY3/18. Partnering with Google Japan G.K. and Yahoo Japan Corporation <4689>, Tanabe will analyze existing web trends with the aim of helping client companies design the most effective web promotion for their business. Towards this end, the Company plans to hire more personnel with expertise in designing and creating web pages and websites, copywriting, and other Internet-related skills. With regard to its target market for these services, while many companies operating in Japan's major metropolitan areas already have web promotion initiatives in place, the Company notes that regional B2B companies are far less advanced in this area and many do not even have an in-house web specialist. With its extensive network of consulting offices stretching all the way from Okinawa to Hokkaido, Tanabe is looking to take advantage of its strong regional ties and focus on developing web promotion consulting clients among regional companies.



Source: The Company's results briefing materials

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Business outlook

(2) Promoting the domain strategy

Within the domain and function workshop topics, 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 management consulting contracts. Currently, Tanabe has fewer than 10 full-time consultants in these three areas combined.

(3) Promoting the alliance strategy

With regard to its alliance strategy, Tanabe has long been providing educational services to some 100 financial institutions that are its alliance partners with the ultimate goal of creating opportunities to get consulting business from some of the roughly 1.5mn medium-sized and smaller companies that these financial institutions count as their customers. Tanabe is now looking to build on this and make additional partnership arrangements that will help it expand its business in the area of M&A consulting. Tanabe has provided individual companies with M&A consulting in the past, but it is now actively gearing up to push further into M&A consulting or, more specifically, consulting on mergers and acquisitions that are aimed at helping the client company achieve its growth strategy, using its network of partner financial institutions. In general, Tanabe is assuming that its consulting client will be the acquirer and that the target company will be found with the aid of one of its partner financial institutions. Tanabe is looking to differentiate itself from competitors by becoming a one-stop shop for M&A consulting services, providing support for everything from the initial formulation of the client company's M&A strategy, to due diligence research, to post-merger integration. Because regional banks are also anxious to diversify sources of income and are already trying to get more involved in the M&A business, Tanabe believes that such a partnership will contribute to earnings growth in the future.

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

The Company aims to build an integrated support structure in which management consultants, human resource training consultants, and SP consultants are formed into one team that provides companies with total support, from the development of their business, organization and human resources through to their promotion 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.

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 profit of ¥980mn, ordinary profit of ¥1,000mn, and net profit 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 profit.

Looking at the average growth rates by business segment also, the forecasts are for steady sales growth of around 2% in both the management consulting business and the SP consulting business, and for operating profit growth of 2.8% in the management consulting business and 3.7% in the SP consulting business.

Business outlook

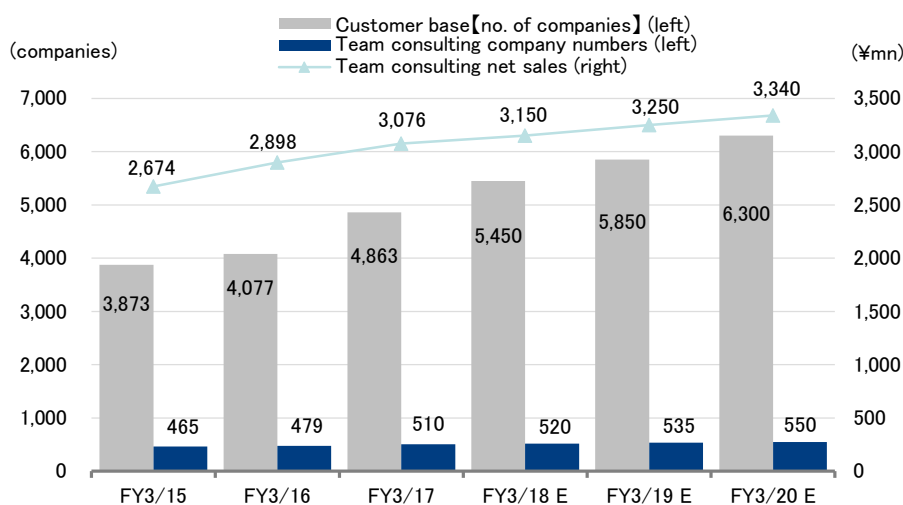
Numerical targets in the medium-term business plan

	FY3/17	FY3/18 E	FY3/19 E	FY3/20 E	Three-year average growth rate
Net 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 profit	878	915	950	980	3.7%
Management consulting business	1,261	1,270	1,320	1,370	2.8%
SP consulting business	157	165	170	175	3.7%
Headquarters management costs	-540	-520	-540	-565	-
Ordinary profit	915	945	970	1000	3.0%
Ordinary profit margin	10.9%	11.1%	11.1%	11.1%	-
Net profit	638	645	660	680	2.1%
ROE	6.4%	6.4%	6.4%	6.3%	-

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

As its key performance indicators, the Company focuses mainly on team consulting sales (total sales from management consulting, human resource development consulting, and sales promotion consulting) and the number of client companies served. Under its medium-term business plan, the Company is targeting consulting sales of ¥3,340mn and 550 client companies in FY3/20 versus sales of ¥3,076mn and 510 client companies in FY3/17. The growth in team consulting sales is expected to come mainly from increases in the number of client companies and, towards this end, Tanabe has set its sights on increasing the number of companies attending its workshops and seminars (on strategic domains and management topics) from 4,863 to 6,300. We believe Tanabe is being overly conservative when it comes to its target for team consulting sales. Although the average annual growth of 2.8% is slightly above the sales growth rate of the Company as a whole, in the last two years its team consulting sales have risen at an average rate of 7.3% per annum and in 1H were up 5.1% YoY. Taking into further consideration the Company's expansion into new consulting areas, including consulting related to the establishment of FCC academies (corporate universities), growth-oriented M&A consulting, and web promotion consulting, we believe team consulting sales will surpass the target set out by the Company in its medium-term business plan. Moreover, the increases in team consulting sales will also serve to increase the Company's overall profit margin.

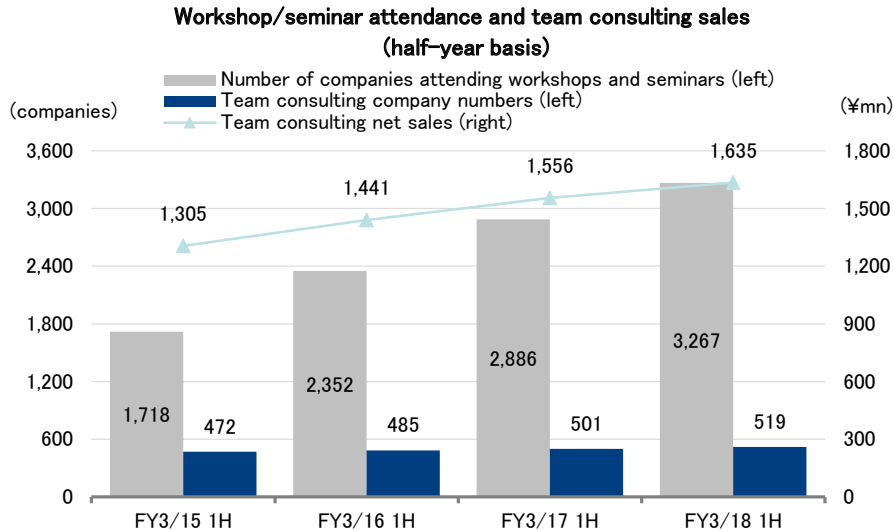
Trends in the team consulting company numbers and net sales



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

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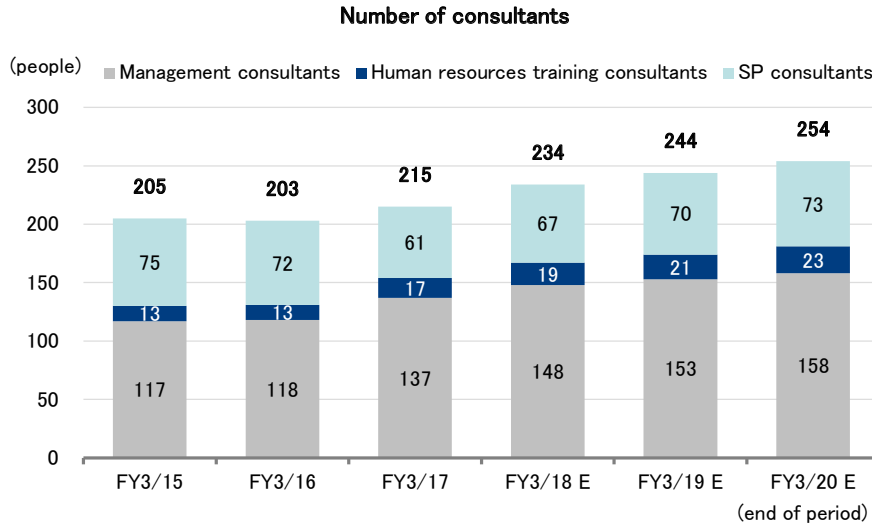
Business outlook



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

Personnel will be the key to growing sales, as much will depend how many new consultants Tanabe is able to hire and how quickly it can get them up and running. The medium-term business plan calls for increasing the size of the Company's consulting staff from 215 at the end of FY3/17 to 254 by the end of FY3/20. With 225 consultants at the end of FY3/18 1H, the Company is on track to meet its target of 234 consultants at the end of FY3/18 (representing an increase of 19 consultants over FY3/17). Although Tanabe has sometimes struggled to find enough people for consulting work in recent years, its decision to work with more personnel recruitment companies and step up its own recruiting efforts appear to be meeting with success.

Going forward, Tanabe is especially looking for people to work in M&A consulting, web designers and creators, and copywriters to support its web promotion consulting business, and also for consultants that want to work long-term in more rural districts (either because they are interested in returning to the area where they grew up or because they want to get out of the big city and enjoy life in the country). Growth in the markets for products and services for women also means Tanabe will be hiring more female consultants, who will be important in bringing a woman's point of view to certain types of consulting assignments involving products and services specifically for women. Tanabe also intends to move to a new compensation system in FY3/19 in favor of a system based more on skills and performance. The new system has already been applied to management consultants, and expansion is deemed necessary to help the Company recruit and retain the type of employees that will be able to add value to its growing businesses in the areas of human resource development consulting and sales promotion consulting. With the change in its compensation system, the Company expects personnel expenses as a percent of sales to rise slightly in the future. In this relation, we note that the growth rate currently projected for sales seems a bit low given the planned increase in the consulting staff. This is due to a combination of the Company's overly conservative outlook for sales growth and the training time needed to bring new hires up to speed as consultants. Once the new consultants are up and running, however, we expect to see the sales growth rate accelerate.



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

Shareholder return policy

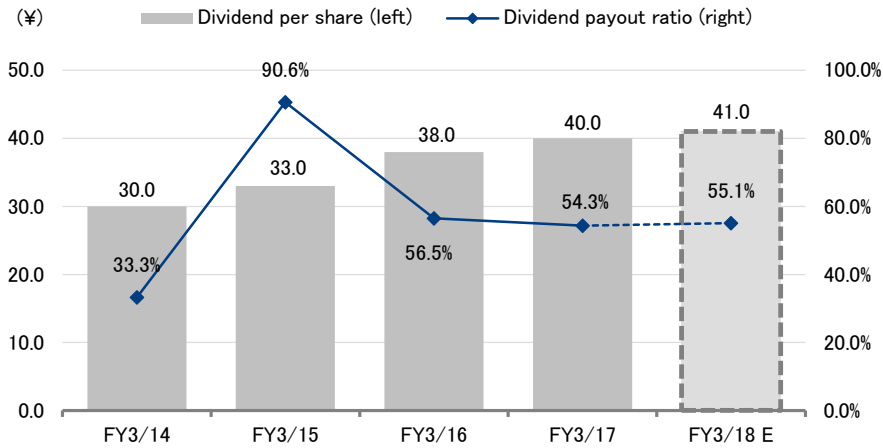
Aims to increase dividends based on a benchmark payout ratio of 60%

Shareholder returns include dividends and shareholder gifts. Tanabe decides the dividend while taking into account earnings and other factors (excluding extraordinary 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 2.3% and investment return comes to roughly 4% including the shareholder gift, based on the share price on January 30 (¥1,796).

Shareholder return policy

Dividend per share and dividend payout ratio



Note: The dividend payout ratio on a net profit basis excluding extraordinary factors was 62.2% in FY3/14 and 55.1% in FY3/15.

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

Information security policy

Tanabe uses the Internet to convey various services to members and send all kinds of management data to the financial institutions and other companies that are its alliance partners. The information security measures the Company has put in place to prevent system failure and quickly restore the system in case of a failure include firewalls and other measures to strictly control and monitor outside access, enhanced authentication measures, antivirus software, data backup systems, and server mirroring. To protect the client data on its system from unauthorized access and leaks, Tanabe has a strict data management system using both hardware and software, and constantly reminds employees about the importance of protecting client data.



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