

Tanabe Consulting Co., Ltd.

9644

Tokyo Stock Exchange First Section

25-Mar.-2020

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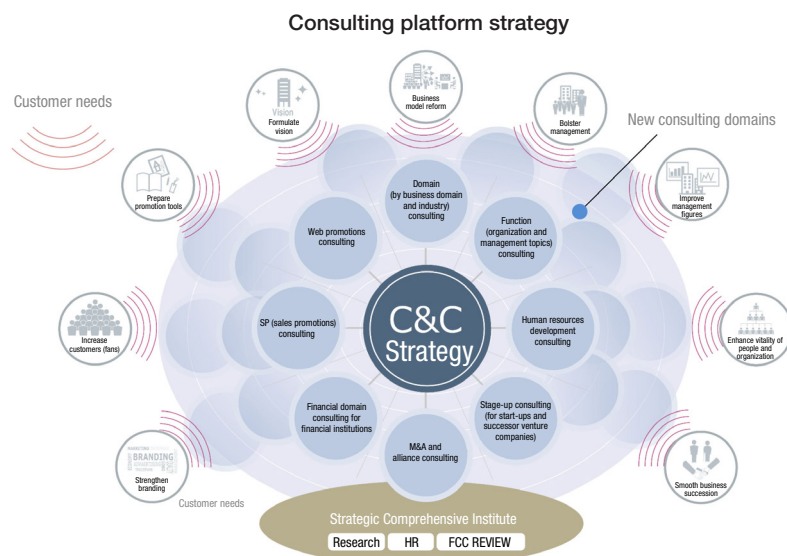
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Summary

Aiming for 10th consecutive year of higher sales and profits due to the growth in team consulting

Tanabe Consulting Co., Ltd. <9644> (hereafter, also “the Company” or “Tanabe”), which is approaching the 63rd anniversary of its foundation, is a pioneer and a major presence in private sector management consulting in Japan. Its corporate mission is to “assist in the creation of ‘first call companies’ that will be selected even 100 years from now.” It is aiming to realize sustainable, stable growth by providing “team consulting” tailored to the management issues facing each customer company, in which it selects several optimal specialist consultants to be members of the team from the three viewpoints of “domain (business domains and industries) x function (organizations and management topics) x region,” mainly to medium-sized companies including listed companies. As its medium-term business strategy, the Company is promoting a Consulting and Conglomerate (C&C) strategy,” and it has evolved its strategy from “a strategy to diversify consulting domains” that it has implemented up to the present time, to “a consulting platform strategy” to expand its bases in 10 major cities nationwide.



Source: The Company materials

Summary

1. FY3/20 1H results

In the FY3/20 1H (April 2019 – September 2019) results, net sales increased while profits decreased, but results exceeded the Company's guidance (net sales of ¥4,100mn; operating profit of ¥340mn), with net sales rising 1.5% YoY to ¥4,145mn and operating profit declining 22.6% to ¥345mn. In net sales, the mainstay Management Consulting and Sales Promotion (SP) Consulting grew steadily, leading to a YoY increase in net sales for the eighth straight 1H. On the other hand, profit declined mainly due to the increase in both personnel costs and hiring costs resulting from the aggressive hiring of personnel, primarily consultants. There were 256 consultants at the end of 1H, which was 23 more than at the end of FY3/19, as hiring has progressed smoothly vis-à-vis the fiscal year plan (increase by 38 consultants). For the main KPI, the average number of team consulting* contracting companies during the period increased by 13 YoY to 610 companies, and net sales were also solid, growing 1.5% YoY to ¥2,082mn.

* Team consulting = management consulting + human resources development consulting + SP consulting (monthly contract type)

2. FY3/20 outlook

The outlook for FY3/20 has been left unchanged, with the Company forecasting net sales to increase 2.8% YoY to ¥9,300mn and operating profit to rise 3.1% to ¥1,000mn. Defining its team consulting method, which includes the establishment of FCC academies (in-house corporate universities), junior boards (next-generation management team development), growth M&A, and sales promotion consulting (which have high added value and for which corporate client needs are strong) as the "team consulting brand (hereafter, TCB)," the Company's strategy is to increase the number of team contracting companies and net sales by creating patterns that allow young consultants to promote this know-how. Also, in October 2019, the Company announced that it had made Leading Solutions Co., Ltd., which provides digital marketing support services, a subsidiary (60% stake). The aim of this is to strengthen its consulting function in the area of digital marketing services for BtoB companies, and this marked the Company's first M&A activity in its 62-year history. As a result, from FY3/20 Q3 the Company will disclose consolidated results, and plans to revise its results forecasts at that time. There are robust consulting needs in the digital marketing field, so synergistic effects are expected going forward.

3. Medium-term business plan

In the medium-term business plan, Tanabe Vision 2020 (2018–2020), the Company's policy is to aim to achieve sustainable growth by expanding its consulting menu under the "C&C Strategy" and creating a platform to provide high added value services of the same quality on a nationwide scale. With the introduction of the open innovation promotion tax system* from FY2020, investments in start-up companies, and consulting needs related to M&A alliances, are expected to increase. The FY3/21 results targets are net sales of ¥9,600mn and operating profit of ¥1,040mn, and steady growth is expected with an average annual growth rate of approximately 3%. The number of consultants, who will be the driving force behind growth, is forecast to increase by about 25%, from 233 at the end of FY3/19 to 291 at the end of FY3/21. In addition to recruiting new graduates, the Company is aggressively recruiting mid-career, professional personnel who are well-versed in various industries. Thus, for the time being, the profit margin is forecast to remain around the same level, as the Company will be conducting upfront investment in human resources, and improved profitability is expected once these human resources become active in the field.

* A system that allows large companies that invest ¥100mn or more (or small- and medium-sized companies that invest ¥10mn or more) in startups (independent companies that have been established within the past 10 years) to deduct 25% of the amount they invest from their taxable income. The aim of this system is to promote financial support for promising startups, create new industries, and increase international competitiveness by encouraging investment by large companies.

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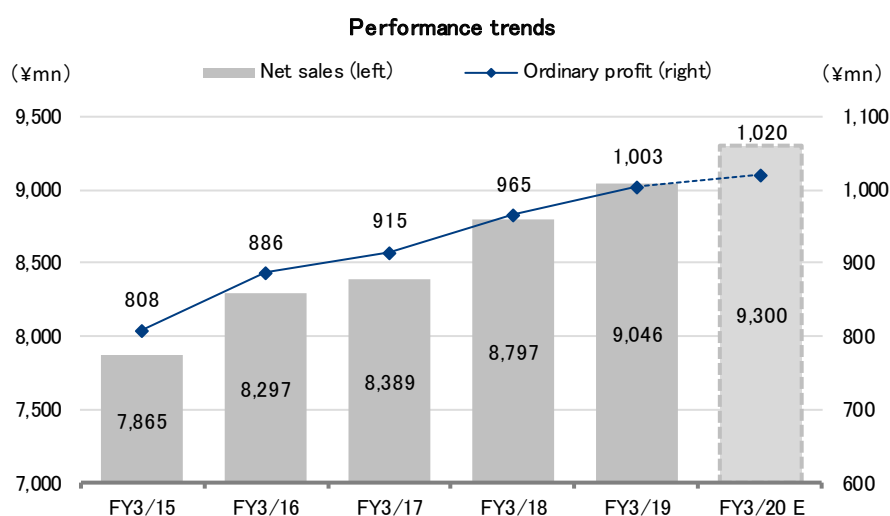
Summary

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 FY3/20 it plans to increase the dividend by ¥1.0 to ¥43.0 (for a payout ratio of 52.9%), for the eighth consecutive fiscal year of higher dividends. In addition, the Company provides a gift of its original Blue Diary scheduler (worth about ¥3,000) to shareholders holding 100 shares or more as of the end of September every year. The dividend yield was about 3.3% and the investment return was around 5.6% including the shareholder gift, based on the share price of February 5, 2020 (¥1,294).

Key Points

- SP Consulting Business performing well, with 10% YoY increase in net sales, Management Consulting Business also performing well
- Carried out first M&A since its founding, aiming for 10th consecutive year of higher net sales and profits in FY3/20
- Steady progress being made on medium-term business plan, the M&A alliance consulting strategy may accelerate due to the introduction of the open innovation promotion tax system from FY2020



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

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Business overview

Growth from the expansion of "team consulting that optimizes Domain x Function x Region"

1. Company overview

The Company, which was founded in Kyoto in 1957, is a pioneer and a major private-sector management consulting firm in Japan. It aims to achieve sustainable growth together with its customers by providing them with new consulting value through promoting its Consulting and Conglomerate (C&C) strategy (consulting platform strategy). Its corporate mission is to "assist in the creation of first call companies that will be selected first even 100 years from now" through creating more value.

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)

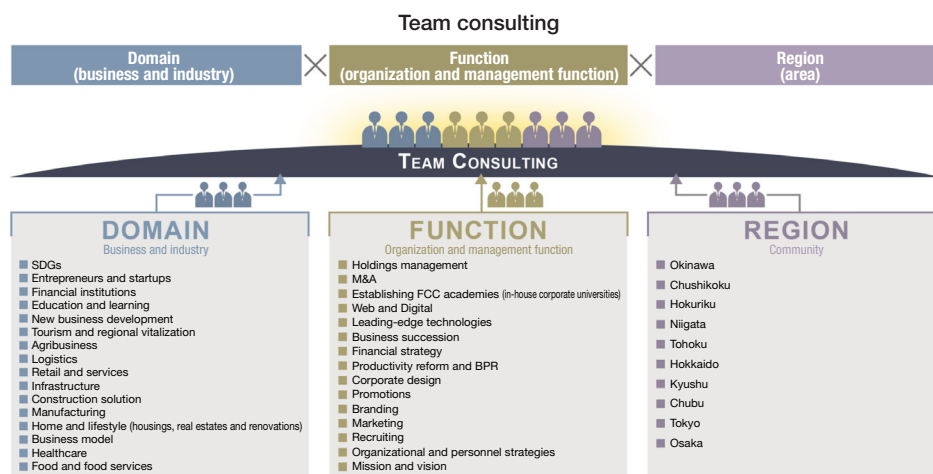
Source: Prepared by FISCO from the Company's results briefing materials

As the "strategic partner," the Company provides consulting for management as a whole, from planning business strategies through to designing organizations, constructing management systems, and building next-generation management structures, to medium-sized companies including listed companies nationwide. In addition, it provides consulting for human resources development, to develop employees ranging from managers and business successors to new recruitments, through the establishment of in-house corporate universities, made-to-order education and seminars; and SP consulting to provide support from a one-stop service, from the planning of promotions and branding strategies through to creative and design work, to major corporations and listed companies as well as medium-sized companies. A feature of the Company is that, it provides services as "team consulting" tailored to the management issues facing each customer company, in which it selects several, optimal specialist consultants to be the members of the team from the three viewpoint of "domain (business domains and industries) x function (organization and management topics) 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 in a business firm format and only it can provide consulting services tailored to each specific region. Moreover, by establishing IR, SR, 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 in both Tokyo and Osaka head offices, the Company is aiming to supplement its customer service nationwide and achieve further growth.

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Business overview

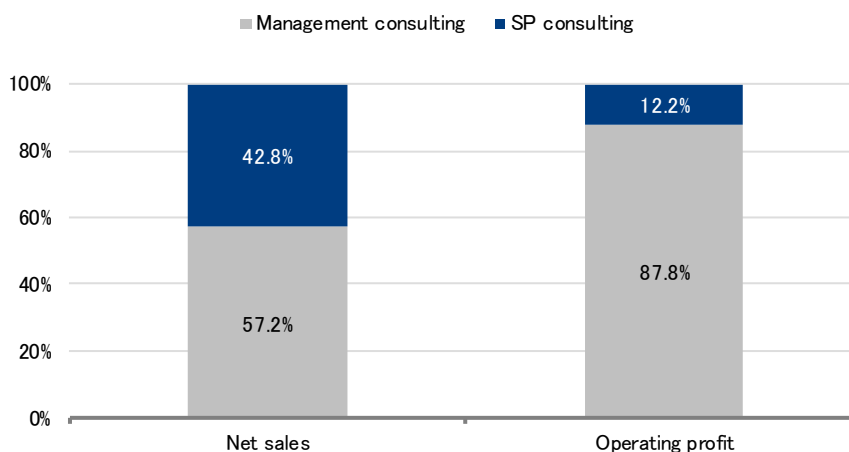


Source: The Company materials

2. Business details

The Company has two business segments: the Management Consulting Business and the SP (Sales Promotion) Consulting Business. As their percentages of total net sales (FY3/19), the Management Consulting Business provided 57.2% and the SP Consulting Business 42.8%, but for operating profit, the Management Consulting Business provided 87.8%. The operating profit margin is 26.3% in the Management Consulting Business, but 4.8% in the SP Consulting Business, which is mainly due to the fact that it includes sales of purchased goods, such as promotion products. However, in the last few years, the Company has focused on the SP consulting domain that has high added value, so the operating profit margin has also been trending upward.

Sales breakdown by segment (FY3/19)



Note: Operating profit is before deducting headquarters management expenses

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

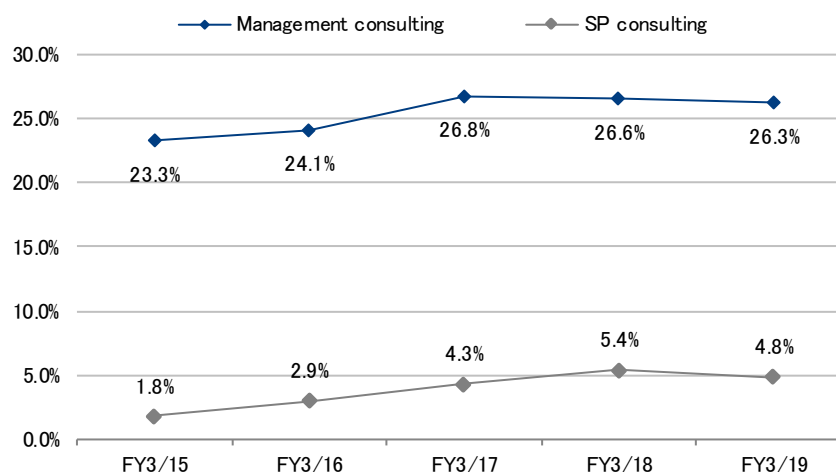
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Business overview

Operating income margin by segment



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

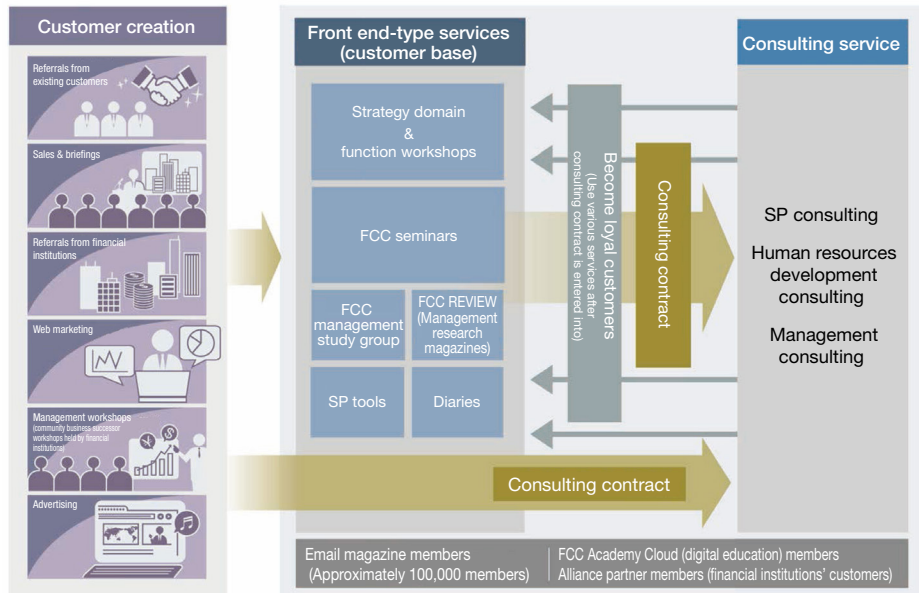
As a profit model, the Company has a base of stable growth based on services that have a relatively long contract period, and has built up sales of spot-type products and services, enabling the Company to achieve sustainable growth. The continuation rate of consulting contracts, which account for about 50% of sales within the base, is about 70%, and the remaining 30% of expiring contracts and plus alpha will be added with new contracts.

The Company's customer creation model is to not only receive referrals from existing customers or partner financial institutions, but to have various points of contact with new customers, including web marketing and new sales cultivation, and to hold strategy domain & function workshops and FCC seminars for them, thereby attracting companies with various management issues, leading to contracts for team consulting (management consulting, human resource development consulting, and SP consulting), which in turn leads to the creation of loyal customers. Over the last few years, the Company has expanded the topics for its strategy domain & function workshops, and around 60% of new customers for consulting services are companies that attended these workshops and seminars.

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Business overview

Customer creation and relations model



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

(1) Management Consulting Business

The Management Consulting Business is divided into management consulting and human resource development consulting according to the service content. Management consulting constitutes approximately 60% of total sales, and mainly targets medium-sized companies including listed companies. In addition to management consulting for "human resources recruitment, development and activities," "the formulation and promotion of medium-term business plans (visions)," "business models and growth strategies," "business succession and the construction of post-succession structures" and "marketing and branding strategies," the Company's services include "strategy domain & function workshops," which guide the participating companies toward concluding management consulting contracts; "FCC management study group," which are study meetings targeting managers in regions; and "M&A consulting" in collaboration with its partner financial institutions and others.

In human resource development consulting, which accounts for approximately 30% of total sales in the Management Consulting Business, the Company provides one-stop solutions that meet a wide range of needs for human resource development. In addition to made-to-order education (training) services, and FCC seminars, which are education and training programs tailored to the employee group, from managers and business successors through to new recruits.

(2) SP Consulting Business

The Company's SP Consulting Business includes SP consulting (covering everything from helping clients establish promotion and branding strategies to support for the execution of those strategies, as well as SP designs by consultants specializing in premium novelty goods and workshops in the SP domain) that targets nationwide customers ranging from large corporations and other listed companies to medium-sized companies, 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 companies but also large companies as well. In terms of the composition of sales, SP consulting constitutes approximately 40% and SP tools and diaries approximately 30%.

Business overview

In the SP Consulting Business, it has also been focusing on consulting targeting the “children and child-rearing families markets.” From the perspectives of potential future customers, the SDGs, etc., demand from customer companies is strong. It also focuses on 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’ businesses and organization strategies while SP consultants support the development of product sales channels and branding, formulation of corporate identity, and holding promotional events, such as anniversary promotions, etc., to attract customers. While management consulting remains the mainstay service, 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, are concentrated in Q3, so the quarterly revenue trend in a typical year peak in Q3.

Result trends

FY3/20 1H net sales and profits slightly exceeded the Company’s guidance despite the decline in profit due to aggressive hiring of human resources

1. FY3/20 1H results overview

In the FY3/20 1H results, net sales increased 1.5% YoY to ¥4,145mn, operating profit declined 22.6% to ¥345mn, ordinary profit fell 22.0% to ¥360mn, and net profit fell 13.7% to ¥276mn. Net sales and all profit lines slightly exceeded the Company’s initial forecasts.

FY3/20 1H results

	FY3/19 1H		Forecast	FY3/20 1H			
	Results	Ratio to sales		Results	Ratio to sales	YoY	vs. forecast
Net sales	4,083	-	4,100	4,145	-	+1.5%	+1.1%
Gross profit	1,919	47.0%	1,890	1,972	47.6%	+2.7%	+4.4%
SG&A expenses	1,473	36.1%	1,550	1,626	39.2%	+10.4%	+4.9%
Operating profit	446	10.9%	340	345	8.3%	-22.6%	+1.6%
Ordinary profit	461	11.3%	350	360	8.7%	-22.0%	+3.0%
Extraordinary income/loss	0	-	-	35	-	-	-
Net profit	320	7.8%	235	276	6.7%	-13.7%	+17.6%

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

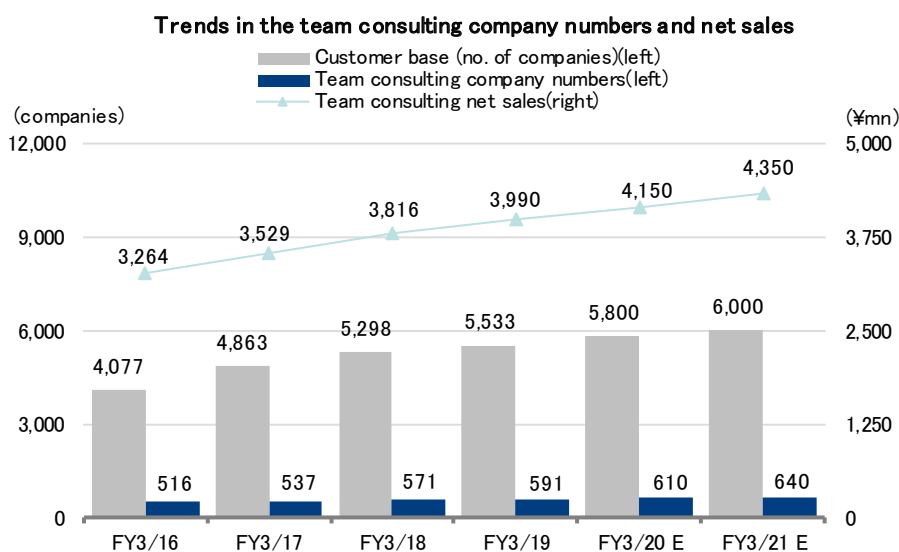
As the macroeconomic prospects become increasingly uncertain, in the consulting industry, as companies’ personnel shortages become increasingly serious and companies ramp up their efforts with respect to human resources development and active participation, work style reforms, and digital transformation, consulting needs remain robust, and the Company’s net sales have been strong, particularly for team consulting services. For key KPI, the major customer base was 2,930 companies, which was lower than the 3,405 companies in the same period of the previous fiscal year, but the average number of team consulting contracting companies during the period increased by 13 YoY to 610 companies, and net sales also steadily grew, up 1.5% to ¥2,082mn. The major customer base declined temporarily, but the impact on results was minimal and the Company plans on a recovery in 2H.

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Result trends



Note: major customer base = strategy domain & function workshops + FCC seminars

Team consulting = management consulting + human resources training consulting (tailor-made education (training)) + SP consulting (monthly contracts) (both are the average number of contracts during the period)

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

The gross profit margin increased 0.6 percentage points (PP) YoY to 47.6%. This was mainly because the gross profit margin of the SP Consulting Business improved 2.3 PP due to the establishment of the division of labor and specialized domains, resulting in a higher sales ratio of high-added-value SP consulting (monthly contract-type sales promotion consulting and SP design). Meanwhile, the SG&A expense ratio increased 3.1 PP, and increased 10.4% on a monetary basis, becoming a reason for the decline in operating income. The reasons for this included the increase in personnel costs associated with aggressive hiring of middle-office staff and corporate staff in order to establish a system that allows consultants to focus more on consulting work, and the increase in hiring costs and promotion costs on a company-wide basis. SG&A expenses were higher than the Company initially forecasted due to the increase in personnel costs, hiring costs, and promotion costs.

Management Consulting Business performed solidly, and SP Consulting Business was strong with a 10% increase

2. Segment trends

(1) Management Consulting Business

In the Management Consulting Business, net sales increased 0.7% YoY to ¥2,661mn, and segment profit fell 1.3% YoY to ¥707mn, as sales slightly increased and profit slightly decreased. Operating profit declined mainly due to the increase in personnel expenses resulting from the aggressive hiring of consultants and middle-office staff. Still, results were slightly higher than the Company's initial guidance (net sales of ¥2,650mn and segment profit of ¥655mn). For the number of consultants (management consultants, human resource development consultants) at the end of FY3/20 1H, there were 185 consultants (up 6 consultants YoY).

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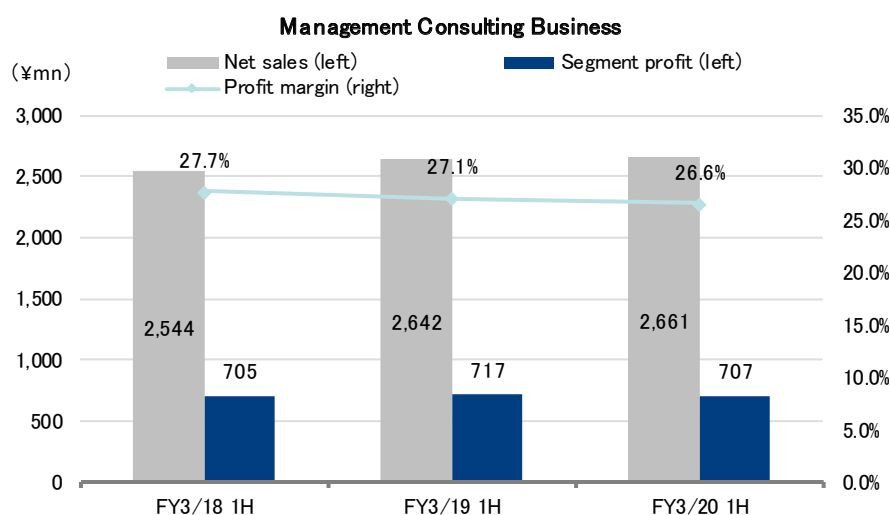
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Result trends

Looking at how sales trended by service, net sales in management consulting increased 2.3% YoY to ¥1,930mn (2.1% higher than guidance). In team consulting of management consulting, the average number of contracts during the period increased by 9 YoY to 482 contracts and sales increased. The monthly average unit price also increased due to the increase in orders for medium-term business plan (vision) formulation support, the establishment of FCC academies (in-house corporate universities) and other high-unit-price services. The number of FCC academies established reached approximately 90 companies on a cumulative basis (approximately 80 companies at the end of FY3/19). Also, for the strategy domain & function workshops, in addition to adding “stage up” and “human resource development” as new training themes, visits of overseas companies were carried out for “number one brand” and “agribusiness model” workshops, as the number of workshops was increased, resulting in an increase in sales. Meanwhile, for alliances, sales declined due to a decrease in the number of customer (companies receiving financing, etc.) members of partnering financial institutions around the country. The higher-than-forecast sales were due to the increase in the average number of contracts during the period for management consulting and the increase in the number of participants in overseas visits.

In human resource development consulting, net sales decreased 4.6% YoY to ¥718mn (4.9% lower than the forecast). The main reason for the decline was the absence of growth in the number of orders for the Company’s mainstay made-to-order education (training) as a result of the Company enhancing its promotion of FCC academies. For FCC seminars, although the number of participants in seminars for senior management candidates declined, this was offset by the increase in the number of participants in seminars for newly-hired employees and the team leader school, so net sales were basically flat YoY. The main reasons for net sales being lower than the forecast were the decline in the number of made-to-order education contracts and the decrease in the number of participants in seminars for senior management candidates.

Net sales for other consulting increased 224.2% YoY to ¥13mn (197.0% higher than forecast). The increase was due to the posting of net sales (success fees received) for M&A consulting projects.



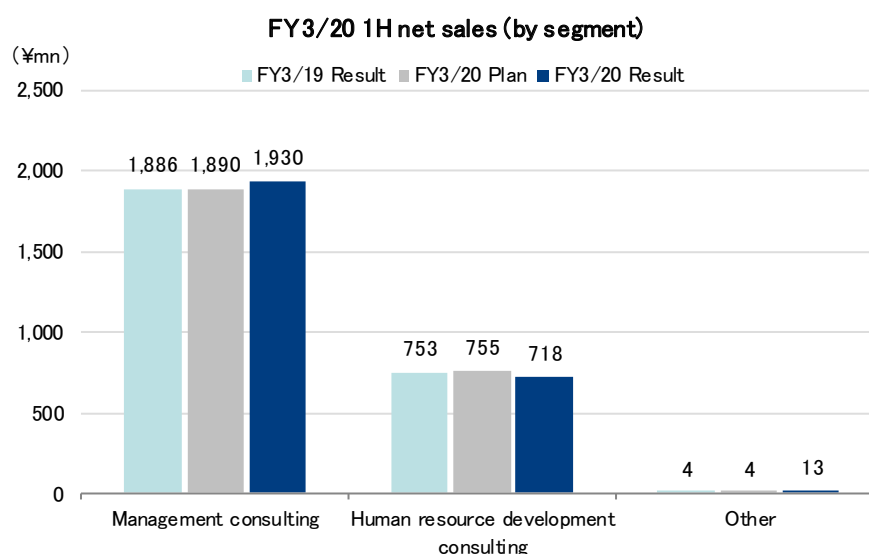
Source: Prepared by FISCO from the Company’s financial results

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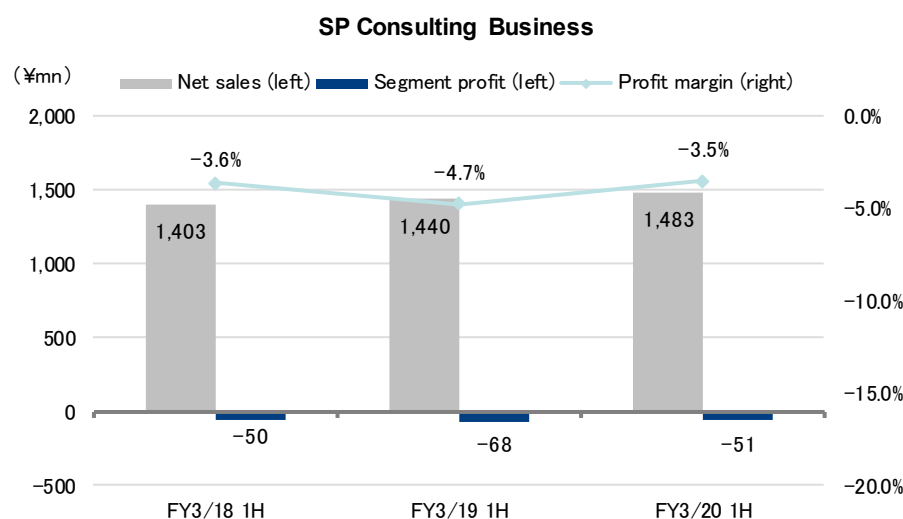
Result trends



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

(2) SP Consulting Business

In the SP (Sales Promotion) Consulting Business, net sales increased 2.9% YoY to ¥1,483mn and segment loss was ¥51mn (segment loss was ¥68mn in the year-earlier period). The operating loss was due to seasonal factors. Gross profit increased 11.6% YoY to ¥433mn. The increase in both sales and profit was due to the strong net sales in SP consulting with high value-added, despite the increase in personnel expenses due to the increase in the number of consultants and middle-office staff. Results outperformed the initial Company forecasts (net sales of ¥1,450mn and segment loss of ¥60mn). At the end of FY3/20 1H, there were 71 SP consultants (up 13 consultants YoY), and the Company already has more consultants than it planned to have at the end of FY3/20.



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

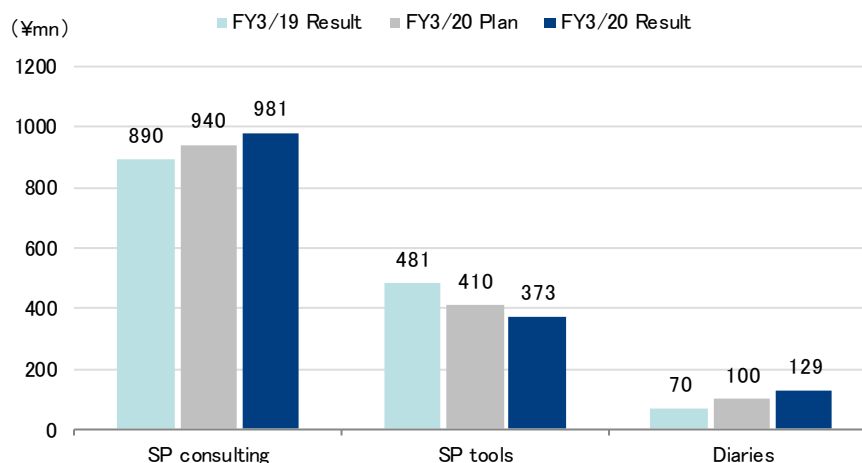
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Result trends

FY3/20 1H net sales (by segment)



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

Looking at the sales trends by service, SP consulting (sales promotion consulting (monthly contracts) + SP design) performed well, up 10.3% YoY to ¥981mn (4.4% higher than initial forecast). In monthly contract sales promotion consulting, due to collaboration with the Management Consulting Business and outside partners, there was an increase not only in sales promotion strategy planning, but also in consulting projects, such as online promotion and recruiting promotion consulting, and this resulted in an increase in both the number of contracts and net sales. In SP design, combined with sales promotion consulting, the number of project orders received and net sales increased due to the enhancement of specialization and originality, through the creation of large teams as well as the enhancement of design through the collaboration with the Company's Strategic Comprehensive Institute's design lab, while receiving large project orders such as commemorative products for major corporations and promotional tools for global fashion companies contributed to the increase in sales. Both monthly contract sales promotion consulting and SP design exceeded the Company's forecasts.

In SP tools, net sales declined 22.5% YoY to ¥373mn (9.1% less than the Company's forecast). Although orders for SP tools remained stable, the Company strategically focused on SP design with high added value, resulting in an ongoing decline in net sales.

Sales of diaries increased 84.9% YoY to ¥129mn (29.4% higher than forecast). The Company received stable, continued orders due to the promotion of the new Blue Diary, which marked its 60th anniversary since the start of publication, and September shipments increased due to the impact of the consumption tax hike, which helped results exceed the forecast. The Company is expecting net sales for the fiscal year to be as initially forecast, as it does not anticipate a recoil decline due to the consumption tax hike.

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Result trends

With debt-free management and an abundance of cash on hand, its financial position is excellent

3. Financial position and management indicators

At the end of FY3/20 1H, total assets were down ¥90mn compared to the end of the previous fiscal year to ¥12,679mn. Looking at the main change factors, current assets increased ¥281mn compared to the end of the previous fiscal year, as notes and accounts receivable declined ¥86mn, but cash, deposits and marketable securities increased ¥181mn. Non-current assets declined ¥372mn, mainly due to the complete cancellation of insurance reserves for directors and other officers, despite the ¥10mn increase in long-term borrowing and investment securities. Long-term and short-term adjusted cash and deposits and securities increased ¥192mn compared to the end of the previous fiscal year to ¥8,784mn, and they still accounted for a high percentage of total assets, at 69.3%.

Total liabilities were down ¥43mn compared to the end of the previous fiscal year to ¥2,010mn. In current liabilities, income taxes payable, accounts payable, and provision for bonuses declined by ¥14mn, ¥31mn, and ¥38mn, respectively. In non-current liabilities, provision for retirement benefits for directors and other officers declined by ¥11mn. Net assets were down ¥46mn compared to the end of the previous fiscal year to ¥10,688mn. This was because although net profit of ¥276mn was recorded, and valuation difference on available-for-sale securities increased ¥34mn, the ¥360mn in dividend payments led to the decline.

Looking at the management indicators, the equity ratio was 84.0% compared to 83.8% at the end of the previous fiscal year, remaining above 80%. The Company does not have any interest-bearing debt, so it can be judged that it continues to maintain an extremely sound financial condition. With respect to cash at hand, the Company plans to invest in human resources, in IT for workstyle reforms and productivity reforms, as well as in M&A, etc.

Balance sheet

	End-FY3/17	End-FY3/18	End-FY3/19	End-FY3/20 1H	Change
(¥mn)					
Current assets	6,911	7,006	7,027	7,308	281
(Cash/deposits and marketable securities)	5,984	6,294	6,138	6,320	181
Non-current assets	5,620	5,797	5,742	5,370	-372
(Long-term time deposits and investment securities)	2,437	2,396	2,453	2,464	10
Total assets	12,531	12,804	12,769	12,679	-90
Current liabilities	1,844	1,778	1,679	1,651	-28
Non-current liabilities	564	591	374	359	-15
Total liabilities	2,409	2,369	2,054	2,010	-43
Net assets	10,122	10,434	10,715	10,668	-46
(Management indicators)					
Equity ratio	80.8%	81.4%	83.8%	84.0%	0.2pt
ROA	7.4%	7.6%	7.9%	-	-
ROE	6.4%	6.6%	6.6%	-	-
Operating income margin	10.5%	10.6%	10.7%	-	-

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

Business outlook

Acquired company that provides digital marketing support to BtoB companies, and aims for 10th consecutive year of higher sales and profit in FY3/20

1. FY3/20 outlook

The outlook for the FY3/20 results is for higher sales and profits to continue for the 10th consecutive year, with net sales increasing 2.8% YoY to ¥9,300mn, operating profit rising 3.1% to ¥1,000mn, ordinary profit growing 1.6% to ¥1,020mn, and net profit climbing 0.8% to ¥700mn. Although the sense of uncertainty about the future of the Japanese economy is increasing due to factors such as the deterioration in corporate earnings, consulting needs should remain strong, including for human resources development, business reorganization, M&A, medium-term business plan (vision) formulation and execution, and branding promotion, so the Company's results are expected to be solid.

FY3/20 outlook

	FY3/19			FY3/20		
	Full-year results	YoY	Ratio to sales	Full-year forecast	YoY	Ratio to sales
Net sales	9,046	2.8%	-	9,300	2.8%	-
Gross profit	4,050	-2.6%	44.8%	4,185	3.3%	45.0%
SG&A expenses	3,080	-4.4%	34.0%	3,185	3.4%	34.2%
Operating profit	970	3.6%	10.7%	1,000	3.1%	10.8%
Ordinary profit	1,003	4.0%	11.1%	1,020	1.6%	11.0%
Net profit	694	2.9%	7.7%	700	0.8%	7.5%
Earnings per share (¥)	80.48			81.27		

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

The Company is aiming to achieve stable growth by strengthening and expanding organizational functions toward realizing sustainable growth, building a structure that is able to meet consulting needs that are becoming more diverse and specialized, and advancing its "C&C (Consulting & Conglomerate) Strategy" (expansion of the consulting menu) and platform strategy. In particular, with respect to the areas that the Company has noted as important themes for companies' management issues, the Company has defined these as the team consulting brand (TCB), and by standardizing the team consulting method it has cultivated up until now, the Company will become able to provide high-quality and high-unit-price consulting by young consultants as well, and plans to increase the number of team consulting contracts and net sales. In FY3/20, the Company expects the average number of contracts for team consulting to increase by 19 companies YoY to 610 companies, and it forecasts that net sales will rise 4.0% YoY to ¥4,150mn. The operating profit margin is expected to rise 0.1 PP YoY to 10.8% due to a number of factors, including the effects of higher sales, the fact that personnel hired in 1H will start working in the field, as well as the improvement in the added-value rate from promoting TCB.

Business outlook

In October 2019, the Company announced that it had acquired 60% of the shares of Leading Solutions Co., Ltd., which provides digital marketing support services for BtoB companies, and entered into a capital and business alliance agreement with the company. This marked the Company's first M&A activity in its 62-year history. Leading Solutions has know-how in Knowledge Process Outsourcing (KPO) services that involve handling everything from drawing up digital marketing strategies to the planning, implementation and plan-do-check-act (PDCA) follow-up regarding such initiatives. These KPO services have earned high marks from customers ranging from large corporations and other listed companies to medium-sized companies.

The background and purpose of the acquisition are that the market for digital marketing support services in the BtoB business is expected to expand, and digital marketing support services will be included in the menu as consulting needs related to companies' digital transformation increase. Thus, the Company will combine both companies' strengths by bringing Leading Solutions into the group, and further enhance the added value of consulting services and become more competitive. As specific initiatives, the Company will combine the services of both companies to develop new services, and enhance the value of services provided to both companies' customers through joint consulting to existing customers and through personnel exchanges between the companies. In addition, the Company will dispatch management personnel to Leading Solutions to support the strengthening of the management system, sales activities, and management operations, build a mutual collaboration system for hiring and developing personnel, and bolster the base in both companies' digital marketing fields.

In FY3/19, the most recent year of results for Leading Solutions, net sales were ¥403mn, while operating profit was ¥45mn, with an operating margin above 10%. Leading Solutions has 17 employees (as of October 2019), and has enjoyed strong order flow recently. From FY3/20 Q3, the Company will disclose consolidated results, and plans to revise its results forecasts for the full FY3/20 at that time. There are robust consulting needs in the digital marketing field, so synergistic effects are expected going forward. The Company has indicated that it will continue to pursue M&A and capital and business alliances targeting companies that match with the C&C Strategy and for which synergies can be expected. It is noteworthy that the Company has moved a step past its historical strategy of achieving solid growth on its own.

Leading Solutions Co., Ltd.'s business results

	(¥mn)		
	FY3/17	FY3/18	FY3/19
Net sales	308	328	403
Operating profit	26	10	45
Net profit	20	8	32
Net assets	70	79	111
Total assets	133	163	216

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

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Business outlook

Aiming for increase in both the Management Consulting Business and the SP Consulting Business

2. Outlook by segment

(1) Management Consulting Business

The forecasts for FY3/20 are for net sales to increase 2.5% YoY to ¥5,300mn and segment profit to rise 1.7% to ¥1,380mn. The Company will aim for higher sales by advancing TCB to increase the number of consulting contracts, and aim for higher sales by increasing the number of participants in management strategy seminars in the area of FCC seminars. In terms of profits, the Company will strike a balance sales with the hiring of consultants. Also, the Company will enhance the middle-office division, thereby allowing consultants to focus more on their consulting work, thereby aiming to boost productivity and increase profits. At the end of FY3/20, the plan is to have increased the number of consultants including management consultants and human resource development consultants by 25 compared to the end of the previous fiscal year to 201 people.

(2) SP Consulting Business

The outlook for FY3/20 is for net sales to increase 3.2% YoY to ¥4,000mn and segment profit to rise 6.5% to ¥200mn. The Company will work to achieve an increase in monthly contract-type sales promotion consulting contracts by advancing TCB, and strive for higher sales by bolstering orders for SP design, promotion tools which have good design and have high added value. In terms of profits, in addition to realizing higher sales and making products and services have high added value (enhance gross profit margin), the Company will aim to increase profits while improving operating efficiency. The Company had planned to increase the number of SP consultants by 13 YoY to 70 consultants by the end of FY3/20, but it already had 71 consultants as of the end of FY3/20 1H. Going forward, the Company will likely hire talented personnel while keeping a good balance.

Steady progress being made on medium-term business plan, the M&A alliance consulting strategy may accelerate due to the introduction of the open innovation promotion tax system from FY2020

3. Medium-term business plan

In order to realize sustainable growth from 2020 onwards, the Company announced Tanabe Vision 2020 (2018-2020) as its medium-term business plan in May 2018, under the slogan of "From Change to Growth." It intends to advance the "creation of a consulting platform" on a nationwide scale and expand the customer base while collaborating with alliance partners, and aim for growth in sales by expanding services with a focus on team consulting that is high in quality and has high added value.

The results targets for FY3/21, which is the final fiscal year of the medium-term management plan, are for net sales of ¥9,600mn and operating profit of ¥1,040mn. The three-year annual average growth rates are 3.0% for net sales and 3.6% for operating profit, so the Company is aiming for solid growth. By business segment, it is forecasting growth in both businesses, with net sales to increase 3.1% and operating profit 2.1% in the Management Consulting Business, and net sales to rise 2.8% and operating profit 4.4% in the SP Consulting Business. The Company is just past the halfway point of the medium-term business plan, and results are generally progressing smoothly in line with the Company's forecasts as discussed above.

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Business outlook

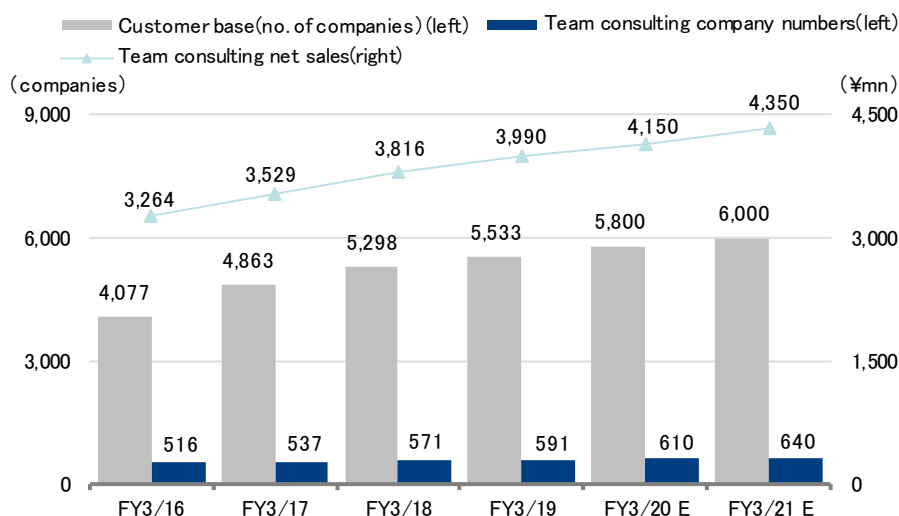
Numerical targets in the medium-term business plan

	FY3/18	FY3/19	FY3/20 E	FY3/21 E	Three-year average growth rate
Net sales	8,797	9,046	9,300	9,600	3.0%
Management Consulting Business	5,021	5,171	5,300	5,500	3.1%
SP Consulting Business	3,776	3,875	4,000	4,100	2.8%
Operating profit	936	970	1,000	1,040	3.6%
Management Consulting Business	1,336	1,357	1,380	1,420	2.1%
SP Consulting Business	202	187	200	230	4.7%
Headquarters management costs	-602	-575	-580	-610	-
Ordinary profit	965	1003	1,020	1,060	3.2%
Ordinary profit margin	11.0%	11.1%	11.0%	11.0%	-
Net profit	675	694	700	730	2.7%
ROE	6.5%	6.6%	6.6%	6.3%	-

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

Team consulting net sales, a main KPI, is forecast to increase from ¥3,816mn in FY3/18 to ¥4,350mn in FY3/21 for an annual average growth rate of 4.5%, which is slightly above the Company-wide average. Its percentage of total net sales will also rise from 43.4% in FY3/18 to 45.3%. In addition, the number of consultants, who will be the driving force behind growth, is expected to increase from 218 consultants at the end of FY3/18 to 291 consultants at the end of FY3/21. The initial forecast for FY3/19 was for 251 consultants, but the actual result was slightly below this, at 233 consultants. In FY3/20, the number of SP consultants will increase, and appears set to make up for the shortfall at the end of FY3/19. Between 35-40% of new hires are employees that work in regional offices, both employees who grew up in regional areas, then moved away to a major metropolitan area and then move back to the regional area they grew up in (U-turn), as well as employees who grew up in a major city and then go to work in a regional area (I-turn), as the Company is showing its advantageous position of having offices in key cities throughout Japan. But going forward, the Company will actively recruit consultants, including new graduates, mid-career professional human resources who are fully familiar with various industries, and human resources looking to make an I-turn or a U-turn in their careers, and its policy is to progress the expansion of consultants while also strengthening the structure of regional bases.

Trends in the team consulting company numbers and net sales



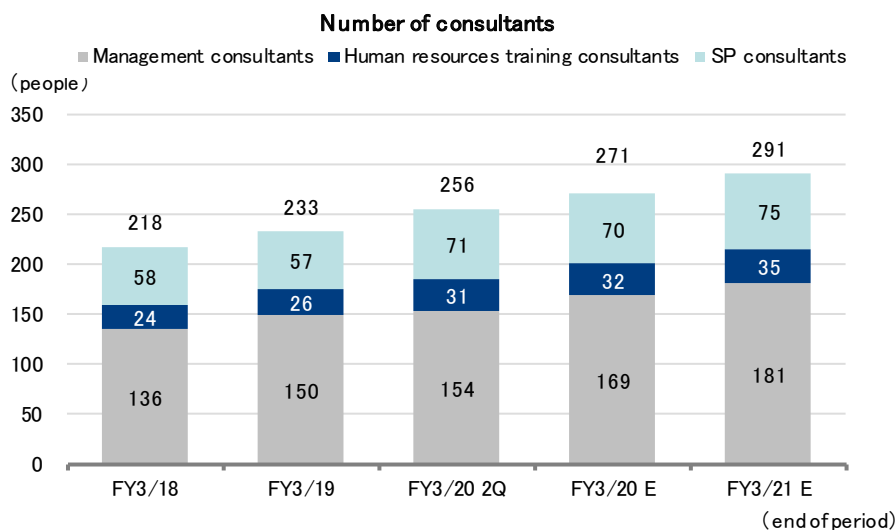
Note: major customer base = strategy domain & function workshops + FCC seminars

Team consulting = management consulting + human resources training consulting (made-to-order education (training)) + SP consulting (monthly contracts) (both are the average number of contracts during the period)

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

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Business outlook



Note: excludes the consultants belonging to the Strategic Comprehensive Institute
Source: Prepared by FISCO from the Company's results briefing materials

(1) Business strategies

With the Consulting & Conglomerate (C&C) Strategy as its base strategy, the Company plans to advance the following strategies.

a) Domain and function consulting strategy

In the “strategy domain (industry-specific consulting) & function (managerial challenge-specific consulting) workshops,” which guide participants toward concluding management consulting contracts, the Company intends to increase the number of research themes, including scrap & build, from the current 30 themes to 35 themes at an early stage. For the research themes, it is developing and holding workshops on themes that greatly meet the needs of the times. It has new themes for FY3/20, “human resource development,” “implementation of growth M&A,” and “SDGs business model.” At the same time as training the strategy leaders for each workshop, its strategy is to establish a consulting business model and to provide high-added-value services to customers throughout the country.

Business outlook

Domain and function consulting strategy



In addition, as an initiative for open innovation, together with business partner Daiwa Institute of Research Co., Ltd., the Company has developed and started offering "SDGs Implementation Consulting" to support effective utilization of SDGs for medium-sized companies, including listed companies, across Japan. The Company also announced that it joined the United Nations Global Compact* in October 2019.

In human resource development consulting, the Company is aiming to spread the introduction of “FCC academies (in-house corporate universities)” as a HR platform for companies intending to be “first-call companies (FCC).” The Company plans to increase the number of introducing companies by providing three services as a one-stop solution: “Academy Consulting” to support the establishment of a corporate university, “Academy Cloud” to use digital devices to provide a learning environment regardless of time and location, and “Real” to provide seminars and made-to-order training. In human resource development-related services, various companies provide e-learning and talent management services, but all are only partial services, and the Company’s strength is that it is one of the very few companies that are able to provide a total solution to meet all of a company’s human resource development needs.

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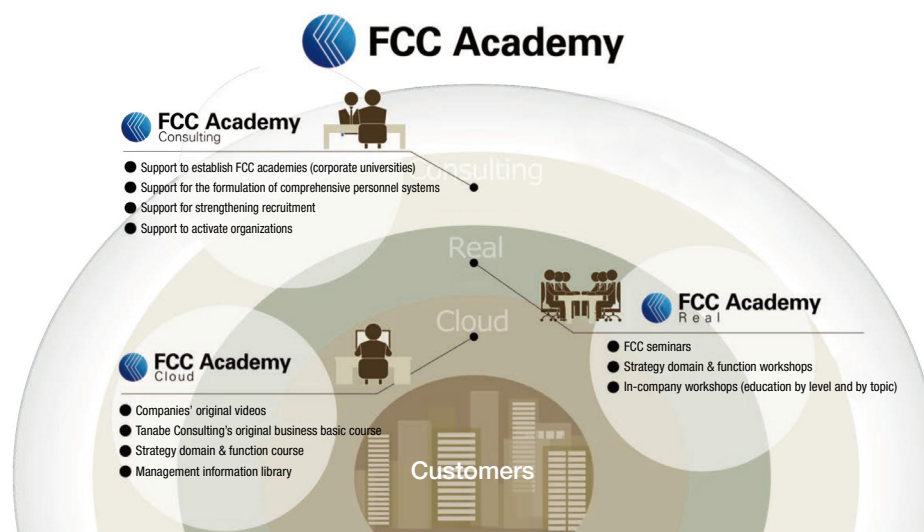
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The Company is aiming to increase the cumulative number of introducing companies from around 80 companies at the end of March 2019 to approximately 100 companies by the end of March 2020, and aims for net sales of approximately ¥300mn in FY3/20 (net sales are included in the Management Consulting segment). Currently, many of the introducing companies are medium-size companies, including listed companies, but going forward the Company intends to promote introductions by major corporations as well. For a company that has introduced the system, the establishment of an in-house corporate university not only enables it to efficiently strengthen its human resource development, but it also has an advantage in terms of positive PR effects for its recruitment of human resources. As new functions, the Company plans to add "multi-language support" and "VR" functions from January 2020. The former will be used for training needs for foreign workers, and "VR" is expected to be utilized in training for workers at manufacturing sites and other worksites, and the number of companies using them is expected to increase further. As a future plan, the Company is also considering building an open platform that connects companies that have introduced the "Academy Cloud" by industry.

Human resources development consulting strategy



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

c) M&A Alliance consulting strategy

In M&A alliance consulting, through alliances with approximately 100 partner financial institutions nationwide (around 5,000 branch offices), by developing and providing "Growth M&A Consulting" and "Start-ups First Consulting," the Company will work to support the growth of medium-sized companies and SMEs in regional areas (around 1.5 million companies), and to stimulate the regions.

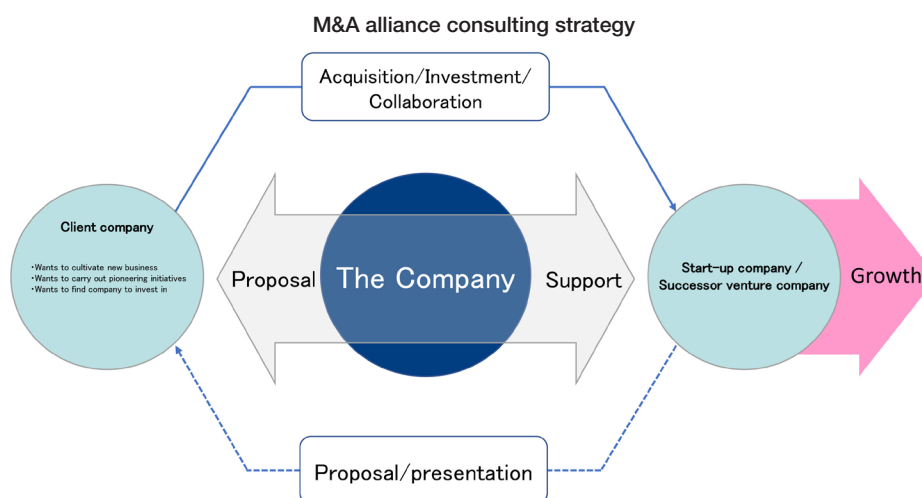
"Start-ups First Consulting" is a service that provides support to start-up companies and successor venture companies, as well as connects these companies to the Company's client companies (mainly medium-sized companies) (acquisitions, investment, and collaboration). As discussed above, the open innovation promotion tax system will be introduced from FY2020. This system is expected to invigorate investment in start-ups, and should be a business opportunity for the Company. In terms of specific measures, in May 2019 the Company announced that it had concluded an "ecosystem partnership" agreement in the "Brand & Retail" field with Plug and Play Japan Co., Ltd., a leading global venture capital and accelerator company. The Company joined the accelerator program* from June 2019, and is building relationships with start-ups in Japan and overseas.

* A program that is conducted for a limited time as part of open innovation with the aim of having major corporations

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

d) SP consulting strategy

The Company will review business processes from the perspective of “Industry x promotion theme” (promote work division), create highly-specialized teams, and provide one-stop, total support of client companies’ promotions and branding.

SP consulting strategy

Industry										
	B to B	Families raising children	Food	Housing	Healthcare	Dealer	Tourism	Agri	Distribution	Finance
Promotion theme	Sub-culture									
	Step up									
	Education/learning									
	Promotion									
	Branding / CI									
	Sales event									
	Media PR									
	Online									
	Creative									
Region	Design									
	SP design									
	Diary									
Region	Expansion									
	Osaka Tokyo Chubu									

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

(2) Corporate strategies

As its corporate strategies, the Company is working on workstyle reforms and productivity reform investment, as well as on hiring, developing and ensuring the active participation of personnel.

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Business outlook

a) Workstyle and productivity reform investment

The Company has been aggressively carrying out digital investments and office investments that can change the working styles of employees and increase productivity. As measures already implemented, the Company has updated the video conferencing system and all employees are supplied with an iPhone. For projects currently underway, the Company is introducing a new ERP package (expected to launch in April 2020), is renovating its offices including the headquarters, updating the website, introducing a flex-time system and a work-from-home system, and carrying out AI research (surveys, selection of partner companies, test introduction), among other projects. With respect to the introduction of the ERP package, it is expected to bolster functions that lead to improved productivity of the sales division and improved work efficiency by consultants by strengthening the CRM system's functions and through coordination with MA (marketing automation) tools. Elsewhere, as projects planned for the future, the Company will relocate the Niigata branch office in FY3/20 Q4, and is considering introducing work automation systems (chatbots and RPA). Investments related to these initiatives will peak in FY3/20, while depreciation and amortization expenses are expected to remain flat.

b) Hiring, developing and ensuring the active participation of personnel

By bolstering its hiring of professional personnel, and utilizing the Tanabe FCC Academy and junior board management system, the Company is working to create a system allowing it to quickly develop personnel and have them actively participate.

Shareholder return policy

Policy is to continuously increase the dividend, with a dividend payout ratio of 60% as the standard

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 ¥43.0 (52.9% payout ratio) in FY3/20, the eighth straight fiscal year for dividend increases, and to continue lifting sales, profits and the dividend.

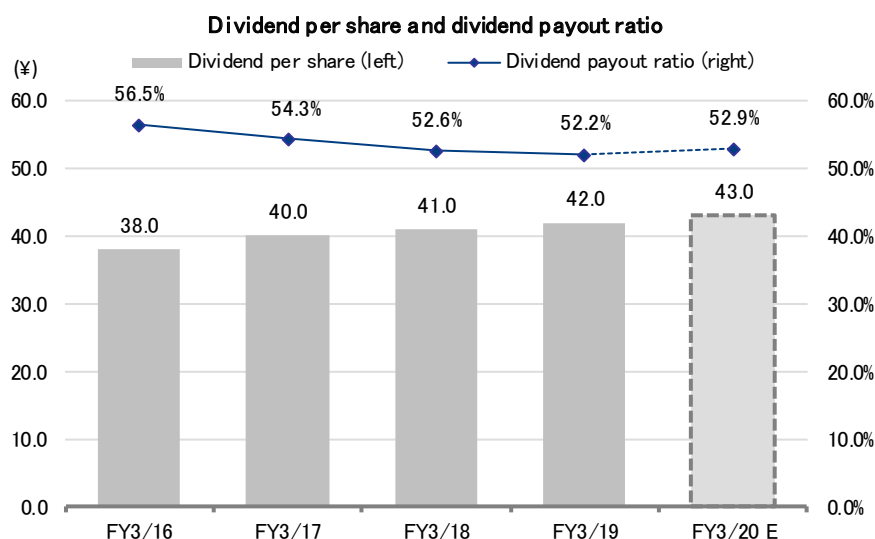
It also provides a gift, its original Blue Diary scheduler (worth about ¥3,000), to shareholders holding 100 shares or more as of the end of September every year. Dividend yield worked out to about 3.3% and investment return comes to roughly 5.6% including the shareholder gift, based on the share price on February 5, 2020 (¥1,294).

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Shareholder return policy



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

Information security policy

Tanabe uses the Internet to convey various services to member companies 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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