

COMPANY RESEARCH AND ANALYSIS REPORT

Tanabe Consulting Co., Ltd.

9644

Tokyo Stock Exchange First Section

1-Oct.-2020

FISCO Ltd. Analyst

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FISCO Ltd.

<http://www.fisco.co.jp>

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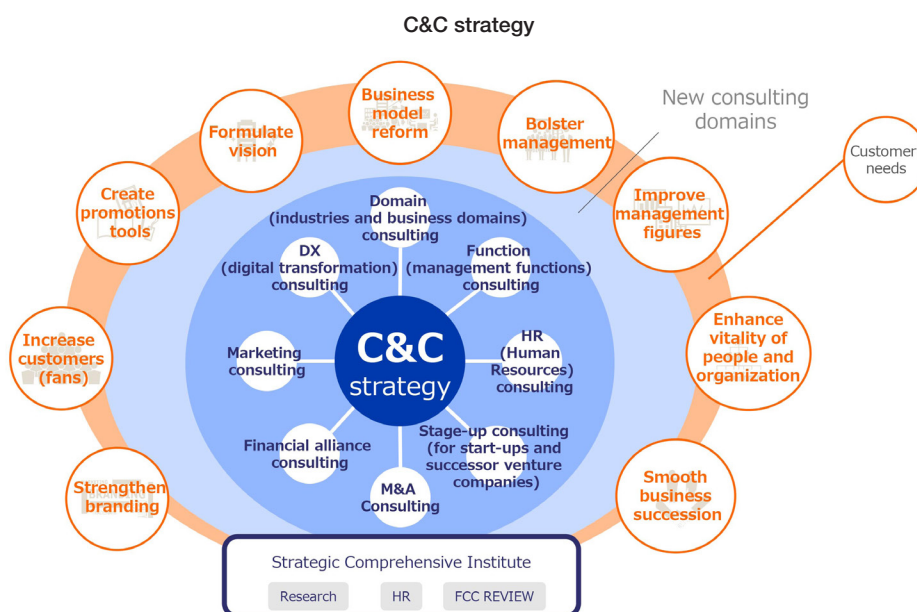
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Summary

Newly launched the DX consulting service, aiming to capture demand in a high-growth market

Tanabe Consulting Co., Ltd. <9644> (hereafter, also “the Company”), which is approaching the 63rd anniversary of its foundation, is a pioneer in 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 provides “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 (industries and business domains) × function (management functions) × region” for medium-sized companies (mainly those with net sales in a range of ¥5bn to ¥100bn), including listed companies, nationwide. It is the only company in the industry to conduct its business from offices in the 10 main cities nationwide tailored to each region. For its medium-term business strategy, the Company is promoting a “C&C (Consulting & Conglomerate) strategy” (diversification of consulting domains) and a “consulting platform strategy” (provision of high-quality consulting value in every region nationwide). In October 2019, it made a subsidiary of Leading Solutions Co., Ltd. which provides digital-marketing support for B-to-B companies, and it started disclosing consolidated results from FY3/20.



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

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Summary

1. Overview of the FY3/20 results

In the FY3/20 consolidated results, compared to the non-consolidated results in the previous fiscal year, net sales increased 3.8% year-on-year (YoY) to ¥9,394mn and operating profit rose 1.8% to ¥987mn, and the results were basically in line with the Company forecasts. The main reasons for the higher sales and profits were that in the mainstay Management Consulting Business, the number of management consulting contracts steadily increased, for an average during the period of 487 contracts (461 contracts in the previous period), and also that the unit price per contract rose. The average number of team consulting* contracting companies during the period, which is a main KPI for the Company, increased by 25 on the previous period to 616 companies, while net sales also rose 8.1% to ¥4,313mn, a new record high. The effects amounts from Leading Solutions, which entered the scope of consolidation from the 3Q, were to add ¥257mn to net sales and ¥5mn to operating profit (¥13mn before the amortization of goodwill).

* Team consulting = management consulting + made-to-order education (training) + sales promotions consulting (monthly contracts) (all are the average number of contracts during the period)

2. FY3/21 results outlook

The outlook for FY3/21 is that net sales will increase slightly YoY to ¥9,395mn and operating profit will decrease 29.1% to ¥700mn. The main factor will be the decline in earnings in the 1Q due to the impact of the novel coronavirus (COVID-19) pandemic. In the Management Consulting Business, there occurred postponements and suspensions on a single-monthly basis for management consulting and made-to-order education (training), while there also occurred postponements and suspensions of some training, including set-type training and strategy domain & function workshops. Also, in the SP (Sales Promotions) Consulting Business*, various types of events were cancelled, which had the effect of reducing sales, such as of promotional goods associated with these events. However, at the current time, the Company's policy is to aim to recover results from the 2Q onwards through implementing emergency management measures and workstyle reforms, including introducing teleworking, and by steadily capturing needs that are increasing, such as for consulting on the theme of M&A and the establishment of FCC Academies (in-house corporate universities) that utilize digital education contents.

* From FY3/21, changed the segment name to the "Marketing Consulting Business"

3. Growth strategy

The Company is aiming to achieve sustainable growth by diversify its consulting domains (expanding the consulting menu) through the "C&C strategy" and by making a platform of these domains to realize the provision of value-added services that are of the same high quality on a nationwide scale. In particular, recently it has been actively introducing digital technologies into management, and consulting needs are increasing for digital transformation (hereafter, DX) to realize sales expansion and productivity improvements. It is thought that the Company is aiming to realize further growth by capturing these needs while utilizing the expertise in digital-marketing support and other areas possessed by its subsidiary, Leading Solutions Co., Ltd. It is supporting the activation of regional economies by leveraging its strength, of having business offices nationwide specialized in each region, and promoting the implementation of DX in regional companies while combining the real and online, and we shall be paying attention to the Company's developments in the future.

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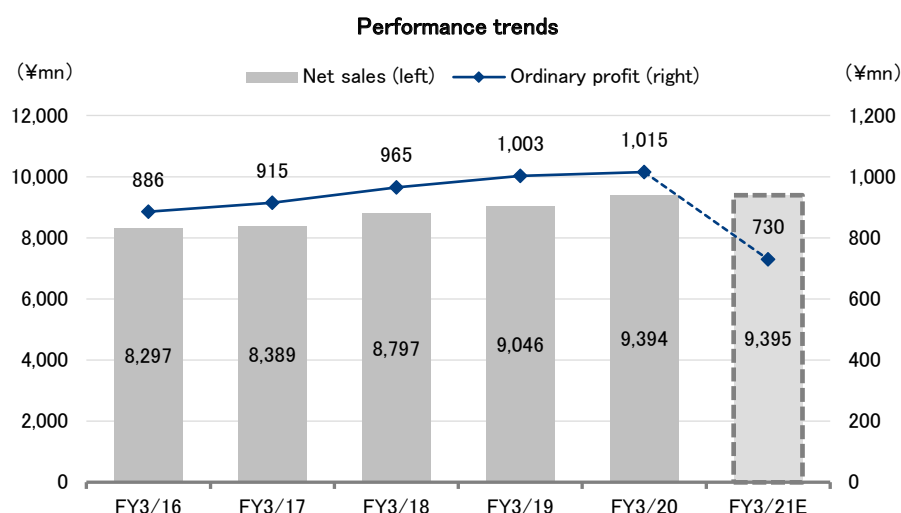
Summary

4. Shareholder returns policy

For its shareholder returns policy, the Company pays dividends and provides gifts to shareholders. It considers the dividend amount targeting a dividend payout ratio of 60%, while also taking into account results and other factors. In FY3/21, it plans to pay a dividend of ¥43.0 (dividend payout ratio, 75.6%), which is unchanged YoY even though profits are forecast to decline. The Company also provides a gift of its original Blue Diary scheduler (worth ¥3,000) to shareholders holding 100 or more shares at the end of September in each year. Based on the share-price level on August 4, 2020 (¥1,300), the dividend yield is 3.3% and when including the shareholder gift, the investment yield is 5.6%.

Key Points

- In FY3/20, sales and profits increased despite the impact of the COVID-19 pandemic at the end of the period
- In the Management Consulting Business, the key to growth will be to what extent can the Company capture the strong demand for M&A consulting and DX consulting
- Although it has lowered the results targets in the medium-term business plan, is making steady progress with its business strategy, and at FISCO, we expect sales and profits to once again increase from FY3/22 onwards



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

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Business overview

Continues to grow from its strength of providing consulting services from high quality teams formed from the three viewpoints of “domain × function × region”

1. Company overview

The Company, which was founded in Kyoto in 1957, is a pioneer and one of the major players in the management consulting industry in Japan. It aims to achieve sustainable growth together with its customers by providing them with new consulting value through promoting its “C&C strategy” (diversification of consulting domains) and “consulting platform strategy” (providing high quality consulting value in every region nationwide). Its corporate mission is to “assist in the creation of first call companies that will be selected first even 100 years from now.”

The conditions to achieve the aim of being first call companies

- 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 a brand business)
- Determination to establish a robust corporate structure (a financial structure with an ordinary profit margin of 10% and debt-free management in practical terms)
- A free and broadminded organization (teams that can self-reform and an organization that leverages development capabilities)
- Management techniques for business succession (100 year management that passes on the corporate spirit to the next generation)

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

The Company, as “business doctors” who work closely with company managers, provide consulting that covers all of management, from planning business strategy through to designing the organization, constructing management systems, and building next-generation management structures, mainly to medium-sized companies, including listed companies, nationwide. It also provides human resources development consulting, of “establishing FCC Academies (in-house corporate universities)” and providing made-to-order education (training) for human resources ranging from managers and business successors through to new employees. In addition, it provides SP consulting to offer companies ranging from major companies and listed companies through to medium-sized companies with support from a one-stop service, from planning promotions and branding strategy through to creative- and design-related. Features of the Company include that it provides “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 viewpoints of “domain (industries and business domains) × function (management functions) × region.”

It conducts its business from its offices in 10 major cities nationwide, from Hokkaido to Okinawa. The features and strengths of the Company include that it is the only company in this industry that conducts business in a firm format rooted in each region and it is able to provide consulting services tailored to each region. Moreover, by establishing the Strategic Comprehensive Institute, which plans and produces various consulting services, analyzes management information collected from consulting sites and elsewhere, and disseminates information, and also from the IR, SR, PR, human resources recruitment, M&A and alliance and other functions in both the Osaka and Tokyo head offices, the Company is aiming to enhance its support functions to companies nationwide.

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Business overview

Team consulting



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

Also, in October 2019, the Company made a subsidiary of Leading Solutions (investment ratio, 60%), which conducts KPO (Knowledge Process Outsourcing) work* for digital marketing in the B-to-B domain and constructs websites. Therefore, the Company has started disclosing consolidated results from FY3/20. The background to and the aims of making it a subsidiary is that the market for digital-marketing support services in the B-to-B business is expected to grow and that companies' consulting needs for DX are increasing, and that in this situation, by making it part of the Group, the Company intends to integrate the strengths of the respective companies, which including Leading Solution's menu of digital-marketing support services, and to further improve the added value of its consulting services and strengthen its competitiveness. In terms of the specific measures for this, it will develop new services by combining the services of both companies, while for existing customers, it will increase the value of the services provided to the customers of both companies through joint consulting and exchanges of personnel. Also, the Company will dispatch management-level personnel to Leading Solutions to provide support, including to strengthen the management structure and for sales activities and administrative work. In addition, the policy is to build a mutually cooperative structure for the recruitment and training of human resources and to strengthen the business foundation in the digital-marketing field for both companies.

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

Leading Solutions Co., Ltd.'s business results

	FY3/17	FY3/18	FY3/19	FY3/20
Net sales	308	328	403	443
Operating profit	26	10	45	46
Net profit	20	8	32	33
Net assets	70	79	111	138
Total assets	133	163	216	251

Note: has 14 personnel, its main customers are B-to-B companies, and the investment rate is 60%

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

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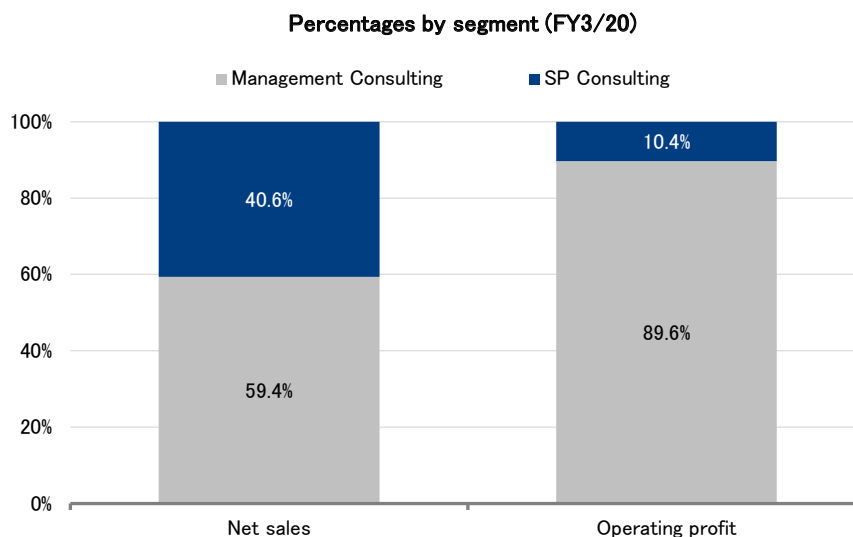
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Business overview

A business model in which long-term contract services, which provide around 50% of sales, constitute the earnings base, and sales of spot-type products and services are accumulated

2. Business description

The Company's discloses results for two business segments, the Management Consulting Business and the SP (Sales Promotions) Consulting Business. In the percentages of total net sales (in FY3/20), the Management Consulting Business provided 59.4% and the SP Consulting Business 40.6%, while for operating profit, the Management Consulting Business provided the majority, of 89.6%. The operating profit margin of the Management Consulting Business is 26.3%, but in the SP Consulting Business, it is at the low level of 4.4%, which is mainly because it includes purchase-product sales, such as of promotional products. But the last few years, the Company has been focusing on the high added-value SP consulting domain and working to improve the profit margin.



Note: operating profit is before the deduction of head office administrative expenses
Source: Prepared by FISCO from the Company's financial results

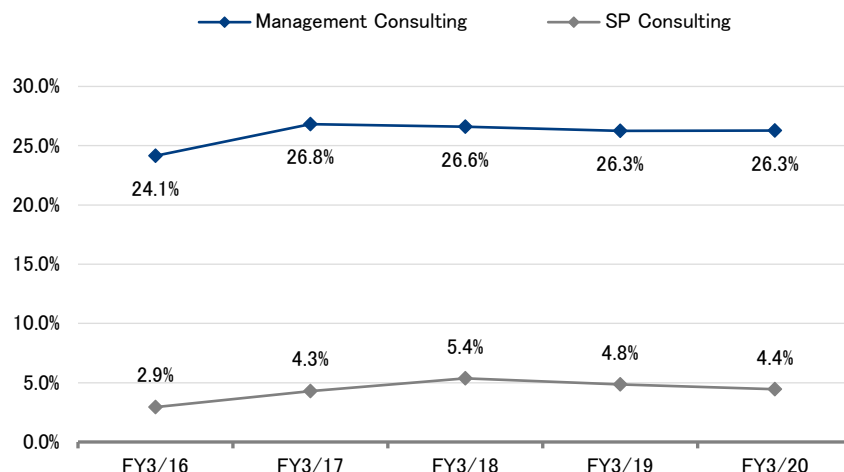
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Business overview

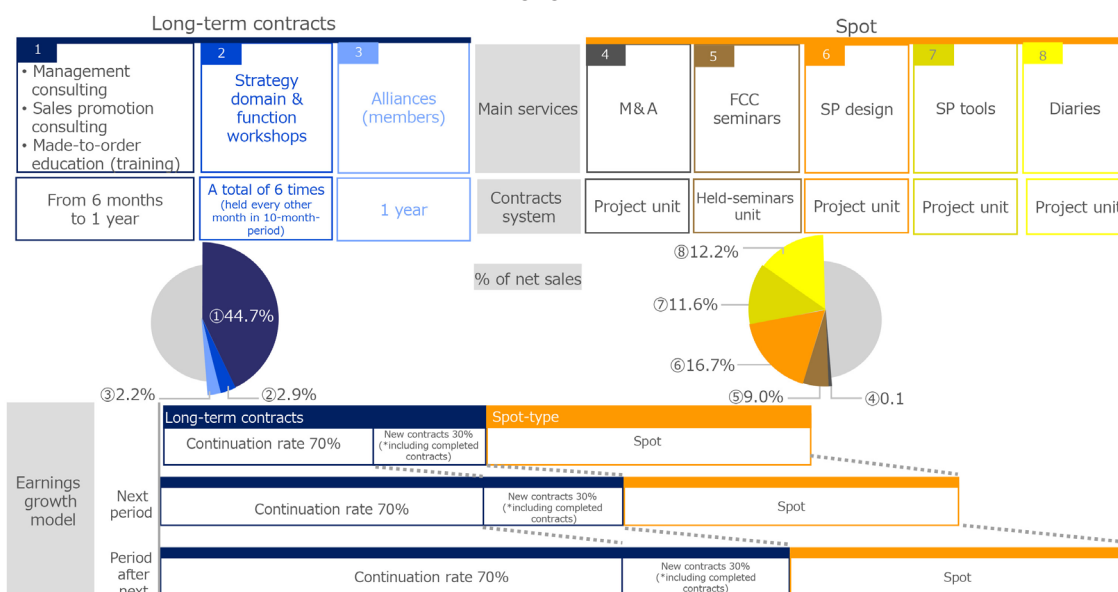
Operating profit margin by segment



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

As the earnings model, the Company realizes sustainable growth through a stable earnings base from long-term contract services and accumulating sales of spot-type products and services. The continuation rate for consulting services, which constitute the majority of long-term contract services that provide around 50% of net sales, is approximately 70%, with sales accumulating from the remaining approximately 30% from completed contracts and added extra from new contracts. Of the team consulting contracts (616 contracts in FY3/20), the percentage of contracts of a length of 5 years or more is high, at around 45%. For these contracts, it is considered that the Company's "business doctors" who work closely with company managers come to understand the customer companies' management as a whole and provide them with high quality services, and this continuously produces results and leads to the high continuation rate.

Earnings growth model

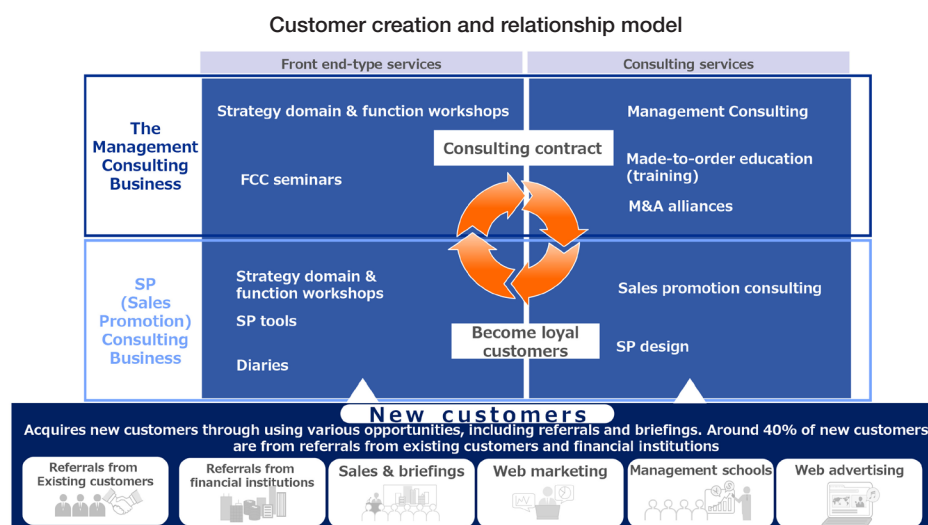


Source: Prepared by FISCO from the Company's results briefing materials

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Business overview

The Company's customer creation model is to not only receive referrals from existing customers and partner financial institutions, but also to have various points of contact with new customers, including conducting Web marketing and holding free briefing presentations. It creates loyal customers through their continuous use of services, not only of consulting services, but also their participation in the strategy domain & function workshops and the FCC seminars. Over the last few years, the Company has expanded the themes for the strategy domain & function workshops, and around 60% of the new customers for consulting services are companies that attended these workshops and seminars.



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

(1) The Management Consulting Business

The Management Consulting Business mainly targets medium-sized companies, including listed companies. The service content is divided into management consulting and human resources development consulting, and also the digital consulting provided by the subsidiary Leading Solutions.

Management consulting, which provides approximately 70% of net sales in this business, includes management consulting on the themes of "human resources recruitment, development and activities," "the formulation and promotion of medium-term business plans (visions)," "organizational design and support for activating the organization," and "marketing and branding strategies." It also includes services such as "junior boards (next-generation management team development)," "the establishment of FCC Academies (in-house corporate universities)," "strategy domain & function workshops" that guide potential customers to management consulting contracts, and "M&A consulting" provided in cooperation with the partner financial institutions and others.

For human resources development consulting, which provides approximately 25% of net sales in this business, the Company provides a one-stop service for solutions that meet a wide range of needs, including made-to-order education (training) services and FCC seminars that serve as education and training programs according to the employee level, from managers and business successors through to new recruits.

Digital consulting includes the KPO work relating to digital marketing and website construction of Leading Solutions. Leading Solutions' business content is in the SP consulting domain, but going forward, the plan is to integrate the expertise that it has accumulated in the digital-marketing field with the Company's management consulting expertise to support the implementation of DX for management as a whole as a high added-value consulting service. Therefore, it is included in the Management Consulting Business.

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Business overview

(2) SP (Sales Promotions) Consulting Business

The SP Consulting Business provides SP consulting that supports work, from planning through to the implementation and progression of promotions and branding strategies for companies nationwide, for companies ranging from major companies and listed companies through to medium-sized companies (including SP design, such as specialist consultants who design premium novelties and other content, and study groups in the SP domain). It is also comprised of work like the planning and sales of SP tools (novelties for which it conducts name-insertion processing on regular-sale items) and the planning and sales of diaries (business planners and calendars). There are a wide range of customer groups, from regional medium-sized companies that want to have strong brand power through to large companies, and the Company has provided products and services to more than 3,000 companies. The percentages of total net sales are that SP consulting provides approximately 54%, SP tools around 18%, and diaries approximately 28%.

Also, in this business, the Company provides consulting that targets “the children and child-raising families market.” Demand from customer companies is high from perspectives such as the possibilities for this market that can be expected to create customers in the future and also SDGs. It is also focusing on Web promotions consulting for the many regional B-to-B companies that have issues, mainly in the branding area. Recently, it has been progressing the alliance with the Management Consulting Business, in which management consultants support the business and organizational strategies of customer companies, while the work of the SP consultants also includes expanding product sales channels and branding, formulating corporate identities, and holding promotional events, such as anniversary promotions, to attract customers, and the number of cases of such support is increasing. While management consulting remains the mainstay service, a strength of the Company is that, unlike other consulting companies, it is equipped with design and product-sales functions that enable it to provide SP consulting.

Sales of diaries are concentrated in the 3Q, so on looking at the quarterly results in a typical year, this is a seasonal factor causing earnings to be concentrated in the 3Q. In the average for the most recent 3 years, 33% of net sales and 47% of operating profit were earned in the 3Q.

Result trends

In FY3/20, achieved higher sales and profits, despite the impact of the COVID-19 at the end of the period

1. FY3/20 results summary

In the FY3/20 consolidated results, sales and profits increased compared to the non-consolidated results in the previous fiscal year, with net sales growing 3.8% to ¥9,394mn, operating profit rising 1.8% to ¥987mn, ordinary profit climbing 1.2% to ¥1,015mn, and net profit attributable to owners of parent increasing 0.2% to ¥696mn. Due to the impact of the COVID-19 pandemic, from February 2020 onwards, there occurred postponements and suspensions on a single-monthly basis of management consulting and made-to-order education (training), while there also occurred postponements and suspensions of some FCC seminars and strategy domain & function workshops, and sales of promotional goods for events and other uses declined. However, the impact was limited to this period and was covered by the strong performance of management consulting services and other services up to that time, and therefore the results were basically in line with the Company forecasts.

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Result trends

Sales and profits also increased in the non-consolidated results for the 10th consecutive fiscal period, with net sales rising 1.0% YoY to ¥9,137mn and operating profit growing 1.3% to ¥982mn. The effect amounts from Leading Solutions, which entered the scope of consolidation from the 3Q, were to add ¥257mn to net sales and ¥5mn to operating profit (¥13mn before the amortization of goodwill). Below, all the values show the comparison between the FY3/19 non-consolidated results and the FY3/20 consolidated results.

FY3/20 results

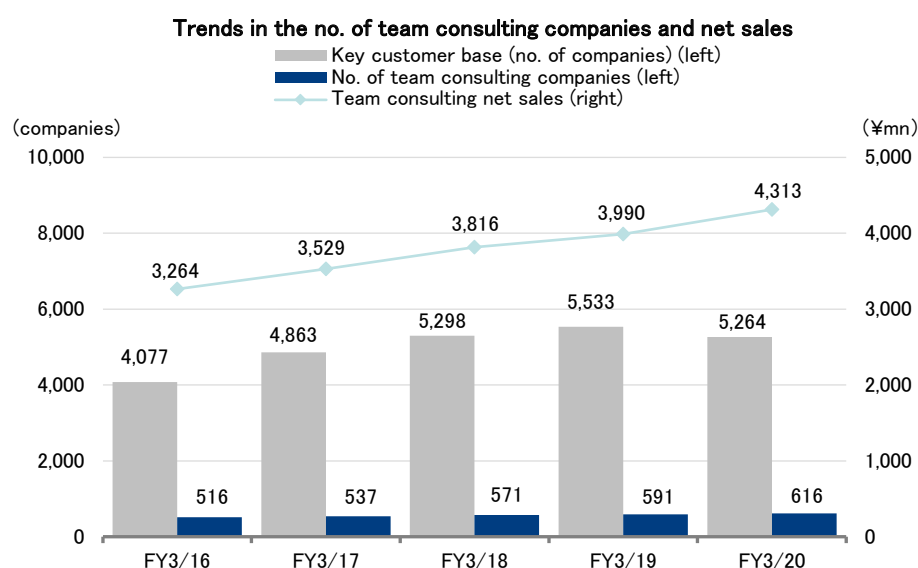
	FY3/19 non-consolidated		The Company forecasts*	FY3/20 consolidated				FY3/20 non-consolidated results	
	Results	Ratio to sales		Results	Ratio to sales	YoY	vs. forecast	Results	YoY
Net sales	9,046	-	9,500	9,394	-	3.8%	-1.1%	9,137	1.0%
Gross profit	4,050	44.8%	4,266	4,294	45.7%	6.0%	0.7%	-	-
SG&A expenses	3,080	34.1%	3,276	3,306	35.2%	7.3%	0.9%	-	-
Operating profit	970	10.7%	990	987	10.5%	1.8%	-0.2%	982	1.3%
Ordinary profit	1,003	11.1%	1,010	1,015	10.8%	1.2%	0.6%	1,009	0.6%
Net profit attributable to owners of parent	694	7.7%	700	696	7.4%	0.2%	-0.5%	711	2.5%

* The Company forecasts are the vales announced in February 2020

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

The number of major customer base* companies, which is a KPI for the Company, declined 4.9% YoY to 5,264 companies, including due to the impact of the COVID-19 pandemic. But the average number of team consulting contracting companies during the period rose 4.2% to 616 companies, net sales steadily increased, rising 8.1% to ¥4,313mn, and the average unit price per contract also continues to trend upward, from ¥6.3mn in FY3/16 to ¥7.0mn in FY3/20. It seems that the main factors behind this include the increase in the number of customers of comparatively large scale and the rise in demand for “the establishment of FCC Academies (in-house corporate universities)” for which the order amounts are large.

* Key customer base = strategy domain & function workshops + the number of FCC seminars



Note: team consulting = management consulting + human resources development consulting (made-to-order education (training)) + sales promotions consulting (monthly contracts) (all are the average number of contracts during the period)
Source: Prepared by FISCO from the Company's financial results briefing materials

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Result trends

The gross profit margin rose 0.9 of a percentage point (PP) on the previous fiscal period to 45.7%. This was mainly because the percentage of total sales provided by the Management Consulting Business, which has a high profit margin, increased (rising 2.2pp YoY to 59.4%), and also that within the SP Consulting Business, the percentage of sales provided by high added-value SP consulting (monthly contracts for sales promotions consulting and SP design) rose and this business' gross profit margin improved 1.1pp.

Conversely, the SG&A expenses ratio increased 1.1pp to 35.2%. This was mainly because personnel expenses, recruitment expenses and promotions expenses increased, as the Company actively recruited middle-office and corporate human resources in order to establish a structure in which consultants can focus more on consulting work, and also from the increase in personnel expenses and the recording of amortization of goodwill of ¥8mn following the addition to the Group of Leading Solutions.

Sales and profits continued to increase in the Management Consulting Business, but sales and profits decreased in the SP Consulting Business

2. Trends by business segment

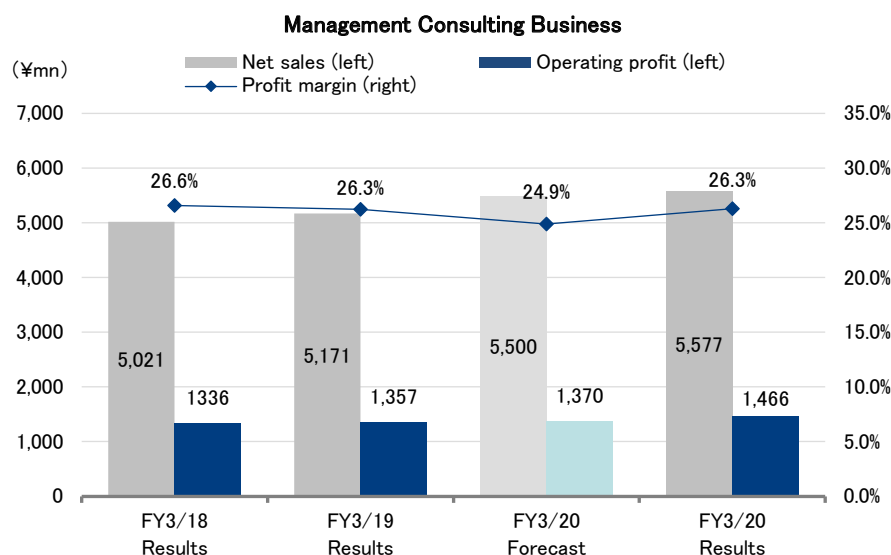
(1) The Management Consulting Business

In the Management Consulting Business, sales and profits continued to increase, with net sales rising 7.9% YoY to ¥5,577mn and operating profit growing 8.0% to ¥1,466mn. The results were also above the Company forecasts (net sales of ¥5,500mn and operating profit of ¥1,370mn) revised in February 2020. Results trended steadily in the mainstay management consulting, while Leading Solutions being made a subsidiary also contributed to the higher sales and profits. In May 2019, the Company concluded a business alliance agreement with Works ID Co., Ltd (formerly Q&A WORKS), which develops the RoboRoid service to support the introduction of RPA, and jointly they have started developing and providing Robo Working, which is work-improvement consulting service that utilizes RPA, and they have received dozens of orders for it. On a non-consolidated basis at the end of the period, the number of consultants (management consultants and human resources development consultants) had risen by 5 on the end of the previous fiscal year to 181 consultants. As orders are strong in Leading Solutions, its number of personnel has been increased from 14 from before it was made a subsidiary to 21 personnel.

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Result trends



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

Looking at how sales trended by field, in the mainstay management consulting, they increased 6.3% YoY to ¥3,923m. This was mainly because the average number of team-consulting contracts during the period increased 5.6% to 487 contracts and also as the average unit price rose. Orders were strong for services with high unit prices, including “the formulation and promotion of medium-term business plans (visions)” and “the establishment of FCC Academies (in-house corporate universities),” and 17 FCC academies were newly opened for a cumulative total of 97 companies for which academies have been established.

Conversely, for the strategy domain & function workshops, new research themes were added, including “Implementing ‘growth M&A’” and “human resources development,” and the Company actively progressed measures such as visits for overseas companies for the “number one brand” and the “agribusiness model” workshops. However, sales declined due to the suspension of study groups in February and March because of the impact of the COVID-19 pandemic. For alliances, although consulting projects increased from client referrals, including from the partner financial institutions nationwide, for the “management school” study groups, which aim to provide customer support for the partner financial institutions, sales decreased due to a decline in the number of members and cancellations and postponements because of the impact of the COVID-19 pandemic.

In human resources development consulting, sales decreased 6.4% to ¥1,368mn. Sales of made-to-order education (training) decreased, including from the effects of promoting consulting to establish FCC academies. Conversely, for FCC seminars, the number of participants in seminars that aim to develop candidates for the next generation of leaders decreased, but the number of participants in seminars for new employees and team leaders increased. Also, due to the impact of the COVID-19 pandemic, some set-type seminars were postponed and cancelled, but this was covered by the other areas, including that the Company focused on the development and provision of Web seminars, so net sales were secured at basically the same level YoY.

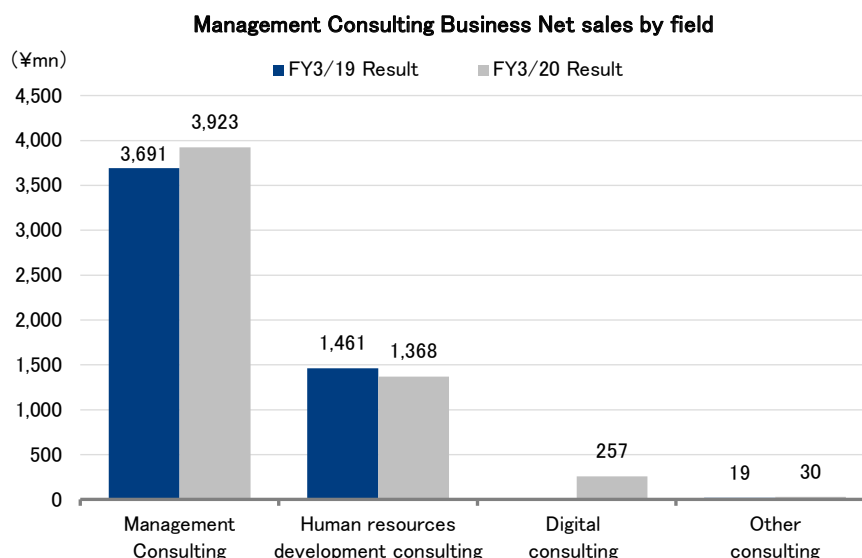
Net sales of the newly added digital consulting were ¥257mn, while net sales for other consulting increased 59.9% to ¥30mn due to the recording for the first time of M&A success fees. Demand is expected to increase in the future as one solution toward eliminating labor shortages, reforming workstyles, and improving productivity in medium-sized companies and SMEs.

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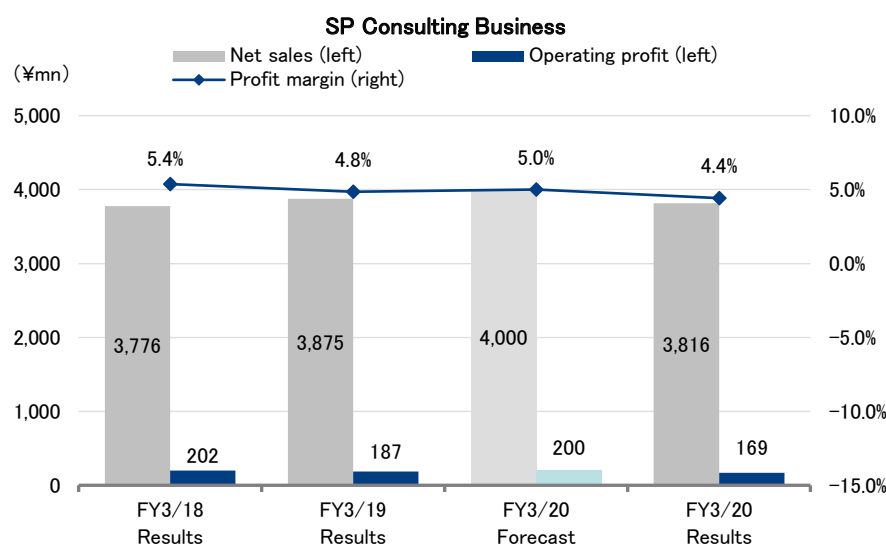
Result trends



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

(2) SP (Sales Promotions) Consulting Business

In the SP Consulting Business, net sales decreased 1.5% YoY to ¥3,816m and operating profit declined 9.8% to ¥169mn, while both results were also below the Company forecasts (net sales of ¥4,000mn and operating profit ¥200mn). The main factors included that due to the impact of the COVID-19 pandemic, various types of events were cancelled and sales of promotional goods and other goods decreased, while personnel expenses increased due to the rise in the number of consultants. The gross profit margin increased 1.1pp YoY to 30.1% due to the growth of SP consulting, and gross profit rose ¥25mn, but profits still decreased because SG&A expenses increased ¥43mn. At the end of the period, the number of marketing consultants has increased by 7 on the end of the previous period to 64 consultants.



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

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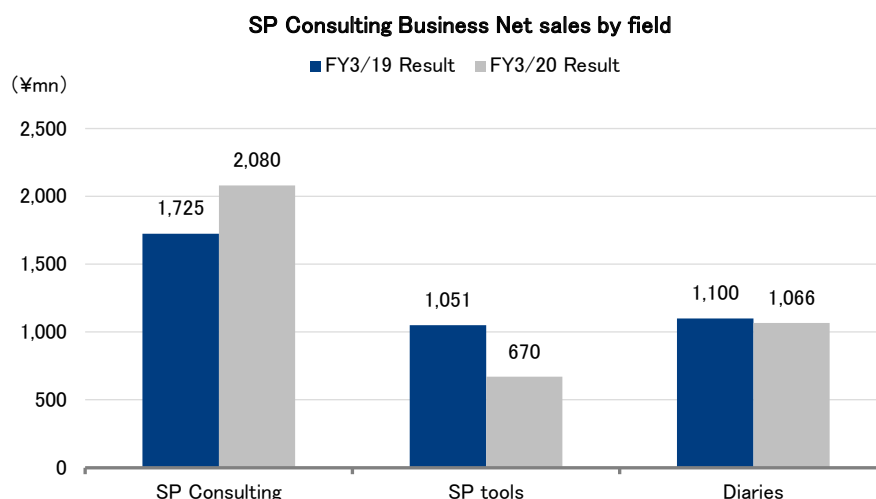
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Result trends

Looking at how sales trended by field, they trended strongly in SP consulting (monthly contracts for sales promotions consulting + SP design), increasing 20.6% YoY to ¥2,080mn. Of this, for monthly contracts for sales promotions consulting, due to the alliances with the Management Consulting Business and external partners, orders for highly specialized consulting grew and the number of contracts also increased. Inquiries were particularly strong for services such as branding consulting and recruitment promotions consulting. For SP design, by improving the levels of expertise and originality by forming large teams and the collaboration with the Company's Strategic Comprehensive Institute's design lab, the Company was able to provide highly specialized and original proposals by industry and by theme, and together with sales promotions consulting, both the number of orders and net sales grew.

Sales of SP tools declined 36.2% YoY to ¥670mn. This was because although orders remained stable, the Company is strategically focusing on high added-value SP consulting, so sales are continuing to trend downward.

Sales of diaries decreased 3.0% YoY to ¥1,066mn. The Company rebranded the Blue Diary, released in 2019 to mark the 60th anniversary of publications, and its sales were maintained at the same level in the previous fiscal year, but orders slumped for calendars, which are a highly spot-type product, so sales decreased.



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

Practices debt-free management and has an abundance of cash on hand, and its financial condition is excellent

3. Financial condition and management indicators

At the end of FY3/20, total assets were up ¥200mn on the end of the previous fiscal period to ¥12,969mn. The main change factors were that in current assets, cash and deposits and securities increased ¥797mn, while notes and accounts receivable decreased ¥56mn. In non-current assets, goodwill of ¥160mn was recorded following Leading Solutions being made a subsidiary, but long-term deposits and investment securities declined ¥275mn. The total of both short- and long-term cash and deposits and securities rose ¥522mn on the end of the previous fiscal period to ¥9,115mn to constitute 70.3% of total assets and continues to be maintained at a high level.

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Result trends

Total liabilities were down ¥35mn on the end of the previous fiscal period to ¥2,018mn. In current liabilities, the provision for bonuses decreased ¥114mn and accounts payable declined ¥33mn, while income taxes payable increased ¥28mn and advances received rose ¥40mn. Net assets were up ¥235mn on the end of the previous fiscal period to ¥10,951mn, as although dividend payments were ¥361mn, net profit attributable to owners of parent of ¥696mn was recorded.

Looking at the management indicators, the equity ratio was 83.9% and continues to be maintained at above 80%, while the Company also has an abundance of cash and deposits and securities, of more than ¥9bn. Therefore, it can be judged to be maintaining a sound balance sheet that is able to withstand an economic recession due to the impact of the COVID-19 pandemic. It uses the cash on hand for investment, such as within the Company to invest in human resources towards growth and for workstyle reforms, including to upgrade offices, and for digital investment. It also considers M&A and alliances as one strategy option, and the Company's policy is to continue to proactively investigate projects if they will contribute to growth.

There were no major changes to ROA, ROE, and the operating profit margin compared to in the previous fiscal year, indicating that it has a highly stable earnings structure. Around 50% of net sales are provided by long-term contracts for consulting services, which is the main factor behind it having a stable customer base. Conversely, the ROE level of 6.4% is slightly below the average for companies listed on the 1st section of the TSE (excluding financial companies) of 6.7%. This is because although the net profit margin on sales is 7.4%, which is higher than the average of listed companies of 3.6%, the total assets turnover rate (net sales ÷ total assets) and the financial leverage (total assets ÷ shareholders' equity) are low. According to the FY2018 results of the Basic Survey of Company Activities published by the Ministry of Economy, Trade and Industry, the average total assets turnover rate of companies in all industries was 0.98 times and the financial leverage was 2.37 times, so especially for financial leverage, the Company's level is less than half the average level. This can be said to be the other side of the coin of conducting solid management, while the fact that its price book value ratio is only a valuation of around 1 time is also a factor. An issue going forward will be how will the Company utilize its abundance of cash on hand to realize growth alongside profitability, but growth is expected in the digital consulting field through making Leading Solutions a subsidiary.

Balance sheet

	(¥mn)				
	FY3/17	FY3/18	FY3/19	FY3/20	Change
Current assets	6,911	7,006	7,027	7,732	705
(cash, deposits, and securities)	5,984	6,294	6,138	6,936	797
Non-current securities	5,620	5,797	5,742	5,237	-505
(long-term deposits and investment securities)	2,437	2,396	2,453	2,178	-275
Total assets	12,531	12,804	12,769	12,969	200
Current liabilities	1,844	1,778	1,679	1,642	-36
Non-current liabilities	564	591	374	375	0
Total liabilities	2,409	2,369	2,054	2,018	-35
Net assets	10,122	10,434	10,715	10,951	235
(management indicators)					
Equity ratio	80.8%	81.4%	83.8%	83.9%	0.1pt
ROA	7.4%	7.6%	7.9%	7.8%	-0.1pt
ROE	6.4%	6.6%	6.6%	6.4%	-0.2pt
Operating profit margin on sales	10.5%	10.6%	10.7%	10.5%	-0.2pt
Net profit margin on sales	7.6%	7.7%	7.7%	7.4%	-0.3pt
Total asset turnover rate	0.67	0.69	0.71	0.72	0.01 times
Financial leverage	1.24	1.23	1.19	1.18	-0.01 times

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

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Business outlook

The FY3/21 results forecasts were set assuming that the impact of the COVID-19 pandemic would settle down by around the summer

1. FY3/21 results outlook

The outlook for the FY3/21 consolidated results is that earnings will change direction and decline, with net sales to be unchanged YoY at ¥9,395mn, operating profit to decrease 29.1% to ¥700mn, ordinary profit to fall 28.1% to ¥730mn, and net profit attributable to owners of parent to decline 29.6% to ¥490mn. This is because results are expected to decline in the 1Q due to the impact of the COVID-19 pandemic. On a fiscal half-year basis, the forecasts are cautious, that in the 1H operating profit will decrease 76.8% YoY to ¥80mn, and that in the 2H it will recover compared to the 1H and decrease only 3.5% YoY to ¥620mn.

FY3/21 results outlook

	FY3/20		FY3/21					
	full-year results	YoY	1H forecast	YoY	2H forecast	YoY	Full-year forecast	YoY
Net sales	9,394	3.8%	4,120	-0.6%	5,275	0.5%	9,395	0.0%
Gross profit	4,294	6.0%	1,680	-14.8%	2,210	-4.8%	3,890	-9.4%
SG&A expenses	3,306	7.3%	1,600	-1.6%	1,590	-5.4%	3,190	-3.5%
Operating profit	987	1.8%	80	-76.8%	620	-3.5%	700	-29.1%
Ordinary profit	1,015	1.2%	95	-73.6%	635	-3.1%	730	-28.1%
Net profit attributable to owners of parent	696	0.2%	63	-77.2%	427	1.7%	490	-29.6%
Earnings per share (EPS) (¥)	80.86		7.31		49.58		56.89	

* The FY3/21 1H increase-decrease rates are comparisons with the non-consolidated results in the previous fiscal year
Source: Prepared by FISCO from the Company's financial results

Looking at the Company's measures in response to the impact of the COVID-19 pandemic up to June 2020, in the Management Consulting Business, there occurred postponements to the start periods and cancellations on a single-monthly basis for management consulting and made-to-order education (training). Conversely, for emergency management measures, new consulting needs were generated, including to support workstyle reforms, such as to introduce teleworking, for management strategies for corporate regeneration, and for M&A. In addition, inquiries increased for the "establishment of FCC Academies (in-house corporate universities)" utilizing digital education content that is being promoted by the Company, and it is responding to these needs through online consulting and other services.

It has cancelled holding real events for the FCC seminars and strategy domain & function workshops and is providing replacement services, including Live Delivery and On-demand Delivery using online communication tools. It also plans to restart holding real events after implementing infection-prevention measures.

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Business outlook

For the Marketing Consulting Business*, on the one hand it cancelled various types of events, so sales of promotional goods and other goods decreased, but on the other hand inquiries have been active for solutions products that are used for COVID-19 infection-prevention measures (masks, disinfectants, etc.) and for various types of teleworking goods, and the Company is responding to this demand by utilizing the channels of its partners, of contract-production companies. Moreover, in a situation in which face-to face sales are restricted, the number of companies conducting EC is increasing, so consulting needs are also rising in the digital-marketing field.

* The name of the SP Consulting Business was changed to the "Marketing Consulting Business" from FY3/21. Similarly, sales promotions became "brand promotions" and SP design became "design promotions." From this section, the new segment names will be used.

Looking by industry, corporate earnings are deteriorating due to the impact of the COVID-19 pandemic in industries such as the restaurant, retail, lodging, and automotive industries, and ordering conditions have become severe. However, in the construction and other industries, its impact has been comparatively minimal. Demand is expected to recover from the summer onwards, and the Company intends to recovery results at an early stage by steadily capturing the new consulting needs that will be generated in the post- COVID-19 period.

The reasons why the forecasts are for net sales to be unchanged YOY but for gross profit to decline 9.4% are from the effects of postponing and cancelling events including training and various types of seminars, that net sales from high added-value team consulting are forecast to decline 2.6% YoY to ¥4,200mn due to the fall in the number of contracting companies (down 6 YoY to 610 companies), and that personnel expenses are expected to increase due to the rise in the number of consultants. The plan is to increase the number of consultants by 15 on the end of the previous fiscal period to 260 consultants. Conversely, SG&A expenses are forecast to decline 3.5% YoY due to the reduction in systems-investment expenses. Up to the previous period, the Company conducted measures including introducing an ERP package and a company-wide teleworking environment, so in FY3/21, systems-investment expenses will decrease.

In the Management Consulting Business, the key to growth will be to what extent it can capture the strong demand for M&A consulting and DX consulting.

2. Outlook by business segment

Results outlook by segment

	FY3/20 full year results	FY3/21			
		1H forecast	2H forecast	Full-year forecast	YoY
Net sales	9,394	4,120	5,275	9,395	0.0%
Management Consulting Business	5,577	2,720	2,975	5,695	2.1%
Marketing Consulting Business (formerly the SP Consulting Business)	3,816	1,400	2,300	3,700	-3.0%
Operating profit	987	80	620	700	-29.1%
Management Consulting Business	1,466	520	705	1,225	-16.4%
Marketing Consulting Business (formerly the SP Consulting Business)	169	-90	210	120	-29.0%
Head office administrative expenses	-647	-350	-295	-645	-0.3%

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

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Business outlook

(1) The Management Consulting Business

The forecasts for FY3/21 are for net sales to increase 2.1% YoY to ¥5,695mn and operating profit to decrease 16.4% to ¥1,225mn. For the mainstay management consulting, although there are occurring postponements and cancellations on a single-monthly basis, the impact of the cancellations and lowered unit prices will be only minimal. Assuming that the impact of the COVID-19 pandemic will settle down around the summer, a gradual recovery in sales is anticipated from the 2Q onwards, so the forecast is for a slight increase in sales for the full fiscal year.

For made-to-order education (training), sales for the full fiscal year are forecast to decline, mainly due to the impact of the postponements and cancellations in the 1Q. Similarly, for the FCC seminars and strategy domain & function workshops, sales for the full fiscal year are expected to decrease because of the impact of the decline in the 1Q. Conversely, for M&A and alliances, consulting needs for M&A targeting growth are increasing, but because the situation is fluid up to the point in time that the contract is concluded, the Company has set a conservative forecast, of sales to remain unchanged YoY. For DX consulting, it plans to capture the strong demand for digital marketing, while Leading Solutions' net sales will also contribute for the full fiscal year, but it has still set a conservative forecast of sales of around the same as in the previous fiscal period. However, companies' interest in DX is high and it seems consulting needs are strong. In the 1H, the Company plans to release a consulting menu developed jointly with Leading Solutions, and at FISCO, we think it is fully possible that sales will increase.

The main reasons for the fall in profits will be the declines in sales for made-to-order education (training), FCC seminars, and the strategy domain & function workshops, and also the rise in personnel expenses due to the increase in the number of consultants. The plan is to increase the number of management consultants by 7 on the end of the previous fiscal period to 160 consultants, and the number of human resources development consultants by 2 to 30 consultants.

(2) The Marketing Consulting Business (formerly the SP Consulting Business)

The outlook for FY3/21 is for net sales to decrease 3.0% YoY to ¥3,700mn and operating profit to decline 29.0% to ¥120mn. In brand promotions consulting (formerly sales promotions consulting) (monthly contracts), the impact of cancellations, etc., is currently small, and sales are forecast to increase slightly for the full fiscal year. Sales of SP tools are strong, such as for products for COVID-19 infection-prevention measures and teleworking goods, so net sales for the full fiscal year are expected to increase. Sales of diaries are forecast to be around the same level as in the previous fiscal year.

The reasons for these forecasts of lower sales and profits is that in design promotions (formerly SP design), orders from a main customer were lost in the 1Q and therefore sales for the full fiscal year are expected to decline. Also, profits are forecast to decline due to the increase in personnel expenses, as the Company will increase the number of marketing consultants by 6 on the end of the previous fiscal period to 70 consultants.

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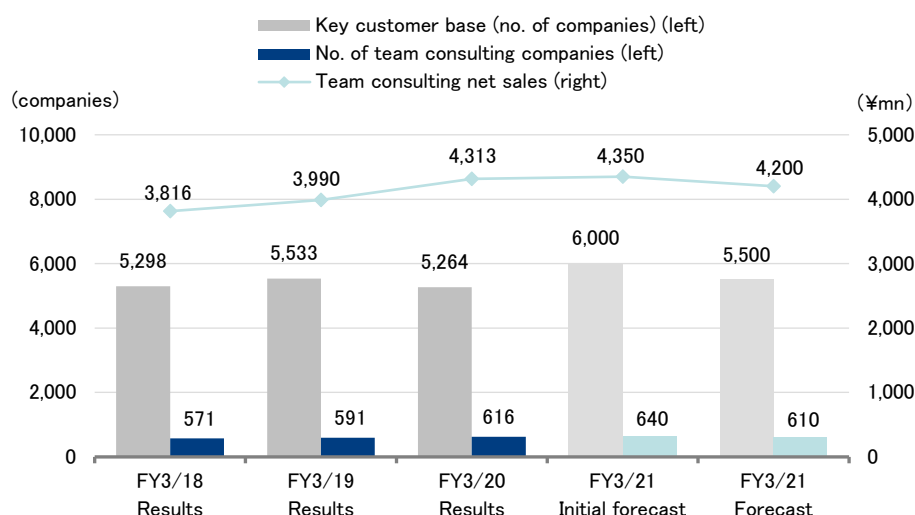
Business outlook

Although has lowered the results targets in the medium-term business plan, is making steady progress with the business strategy, and at FISCO we think sales and profits will once again increase from FY3/22 onwards

3. Medium-term business plan

In May 2018, the Company announced Tanabe Vision 2020 (2018 to 2020), its medium-term business plan under the slogan “From Change to Growth.” With the “C&C strategy” and “consulting platform strategy” as the basic strategies, it is working to build an earnings base capable of sustainable growth by diversifying its consulting domains, expanding the consulting menu, and creating a platform from these elements. In relation to the initial results targets for the plan’s final fiscal year of FY3/21 (net sales of ¥9,600mn and operating profit of ¥1,040mn), net sales were basically in sight of achieving their target, but due to the impact of the COVID-19 pandemic, the Company has lowered the net sales and operating profit targets. It also revised the initial targets for the number of consultants, net sales, and the number of team consulting contracting companies, which are a main KPI. The targets have been revised to more realistic figures, with the number of team consulting contracting companies being lowered from 640 companies to 610 companies and the number of consultants from 291 people to 260 people. In particular, the Company has actively strengthened its recruitment of consultants, which are the source of its competitiveness, mainly of professional human resources who are experts in their respective industries. But the pace of the increase in the number of personnel has been moderate, mainly due to the shortage of human resources in industry as a whole. But going forward, it will actively recruit human resources, including new graduates, mid-career professional human resources, and human resources wanting to conduct an I-turn or a U-turn in their careers, and there has been no change to its policy of supplementing its consultants. On the other hand, the Company basically made steady progress for its business strategy, which is described below. At FISCO, we forecast that results will change direction and sales and profits will once again increase from FY3/22 onwards, when the impact of the COVID-19 pandemic will have settled down.

Trends in the no. of team consulting companies and net sales



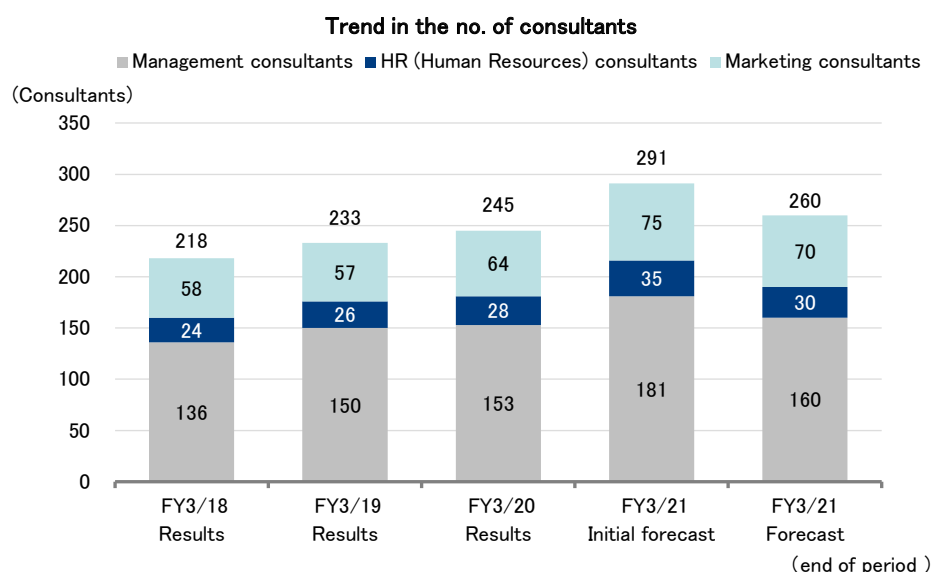
Note: Major customer base = strategy domain & function workshops + FCC seminars
Team consulting = management consulting + human resources development consulting (made-to-order education (training)) + brand promotions consulting (monthly contracts) (all are the average number of contracts during the period)
Source: Prepared by FISCO from the Company's financial results briefing materials

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Business outlook



Note: Excludes consultants in the Strategic Comprehensive Institute
Source: Prepared by FISCO from the Company's financial results briefing materials

(1) Regional doubling FCC (first call consulting firm) strategy

The Company is strengthening its system of business offices (the consulting menu) comprised of the offices and the branch offices it has nationwide other than the Osaka and Tokyo head offices, and is steadily progressing measures so it can provide the same level of high-quality value-added services to all its customer companies throughout the country. For advanced management issues, it has established a system for selecting and dispatching professional consultants in the relevant fields on a nationwide level. Also, for the DX consulting service currently being developed jointly with the subsidiary Leading Solutions, the plan is to release it in the 1H and deploy it nationwide. In measures to implement DX for management, the use of cloud services is spreading and have rapidly gained momentum in the last few years, and consulting needs for implementing DX are strong even among the Company's target customers, of medium-sized companies and regional companies. It is thought that it is leveraging its strength, of having business offices in the main cities nationwide, to uncover demand while utilizing the real and the online, which is considered to be leading to the expansion of its customer base.

(2) Domain and function consulting strategy

While conducting scrap & build, the Company is enhancing the research themes for the strategy domain & function workshops, which guide potential customers to management consulting contracts, and in FY3/20, there were 29 themes (an increase of 4 themes compared to FY3/18). It also increased the strategy leaders for each of the workshops from 16 people in FY3/18 to 28 people, further strengthening relations with customers in the workshops. Going forward also, the Company's strategy is to anticipate the new consulting needs that will be created through changes to the social environment in the post-COVID-19 period and to capture demand originating from the workshops, which will lead to acquisitions of management consulting contracts.

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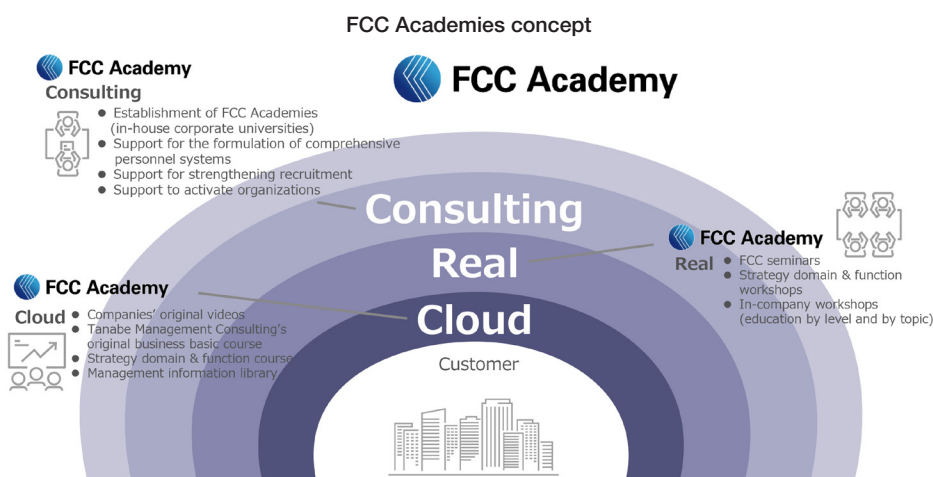
Business outlook

(3) HR (Human Resources) consulting strategy

For HR consulting, the Company is promoting the spread of the establishment of FCC Academies (in-house corporate universities) as the platform for human resources development for companies who want to be “first call companies (FCC) that will be selected first even 100 years from now.” It is also increasing the number of companies introducing services through the provision of a one-stop solution from three services; Academy Consulting, to support aspects including building an educational system, developing educational content, and producing in-house instructors; Academy Cloud, which enables students to choose the time and the place to study the original digital education content of various companies; and Real, which is provided through combining FCC seminars, which are able to train personnel ranging from new employees up to company presidents, and made-to-order education tailored to each individual company. In human resources development services, various companies provide e-learning and talent management systems, but they all only provide partial services, and the Company’s strength is that it is one of only a very few companies that are able to provide a total solution that meets all of a company’s human resources development needs.

The total number of companies introducing services increased from 80 companies at the end of March 2019 to 97 companies at the end of March 2020 and is expected to exceed the initial target of 100 companies. In FY3/20, the sales scale was still small at around ¥1.3bn, but in the future, stock-type cloud-service usage fees will accumulate from the increase in the number of companies introducing services, and they are expected to contribute stable earnings. In particular, due to the impact of the COVID-19 pandemic, it is not possible to conduct set-type employee training, so the situation is that the strengths of remote education are being reconsidered and the Company is actively receiving inquiries, so growth is expected in the future.

As new functions on the Cloud, the Company will add multilingual compliance and VR functions and respond to needs to train foreign workers, and in addition, it is anticipated that VR will be utilized to train workers at manufacturing sites and other sites, and the number of companies introducing it is expected to further increase. Moreover, as a future concept, the Company is considering building platforms according to industry that will connect the companies in the same industry that have introduced “FCC Academy Cloud.”



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

Business outlook

(4) M&A and alliance consulting strategy

In M&A and alliance consulting, through its alliances with approximately 100 financial institutions (with approximately 5,000 branch offices) and other partners, the Company is capturing projects for “growth M&A consulting” and related. It is mainly providing services from consulting that takes the position of the buyer through to due diligence and PMI after the M&A has been completed.

There are many regional medium-sized companies and SMEs that want to utilize M&A to grow, and the Company is meeting their needs by utilizing its strength of having business offices in the main cities nationwide. In FY3/20, the number of referrals from financial institutions and accounting firms increased by 173 YoY to 306 referrals, of which, 51 led to the recording of sales (including cases of only consulting and due diligence).

(5) Marketing consulting strategy

In the Marketing Consulting Business, the Company aims to improve customer value by utilizing digital technologies to provide comprehensive support for marketing activities in order to realize customer companies’ management philosophies, visions, and missions. It will also 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. Therefore, it is concentrating management resources in the Osaka and Tokyo head offices, and it intends to integrate the Chubu office into the Osaka head office.



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

(6) Corporate strategies

For corporate strategies, the Company is working on the themes of “workstyle reforms and productivity reforms investment” and “human resources recruitment, development, and activities.”

a) Workstyle reforms and productivity reforms investment

The Company is conducting digital investment and office investment to facilitate reforms of employees workstyles and to improve productivity. Among the measures already implemented, it has introduced a new video conferencing system and all employees are supplied with an iPhone, and it has also built a teleworking environment and introduced a new ERP package. The new ERP package, which has been fully operational since April 2020, is expected to improve the productivity of the sales division and the work efficiency of consultants through strengthening the CRM systems’ functions and coordinating with MA (marketing automation) tools. Currently also, the Company is working on measures including office upgrades, the company-wide integration of the home page, and AI research (surveys, selections of partner companies, test introductions), while it is also progressing an investigation on introducing work automation systems (chat bots and RPA).

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Business outlook

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

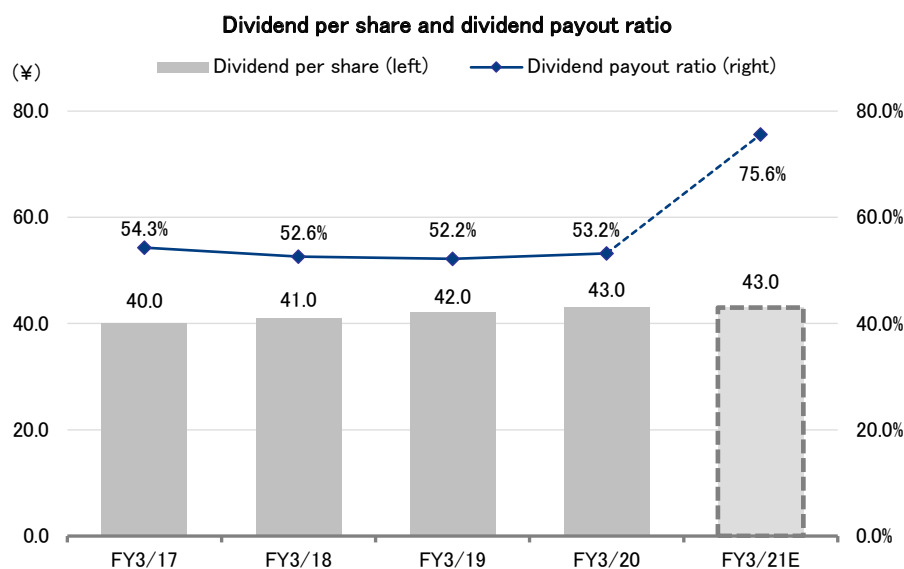
By bolstering its hiring of professional personnel and utilizing the Tanabe FCC Academy and junior board management system, the Company is working to create a system allowing it to quickly develop personnel and have them actively participate.

Shareholder return policy

Targets a dividend payout ratio of 60%

Based on its shareholder returns policy, of stably and continuously paying dividends in accordance with earnings growth, the Company pay dividends and also provides shareholders with gifts. For the dividend amount, it targets a dividend payout ratio of 60%, while also taking into account results and other factors (excluding special factors). For FY3/21, even though it is forecasting that profits will decline, it plans to pay a dividend of ¥43.0 (dividend payout ratio 75.6%), which is unchanged YoY.

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 August 4, 2020 (¥1,300).



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

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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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