

Tanabe Consulting Co., Ltd.

9644

Tokyo Stock Exchange First Section

11-Mar.-2022

FISCO Ltd. Analyst

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FISCO Ltd.

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

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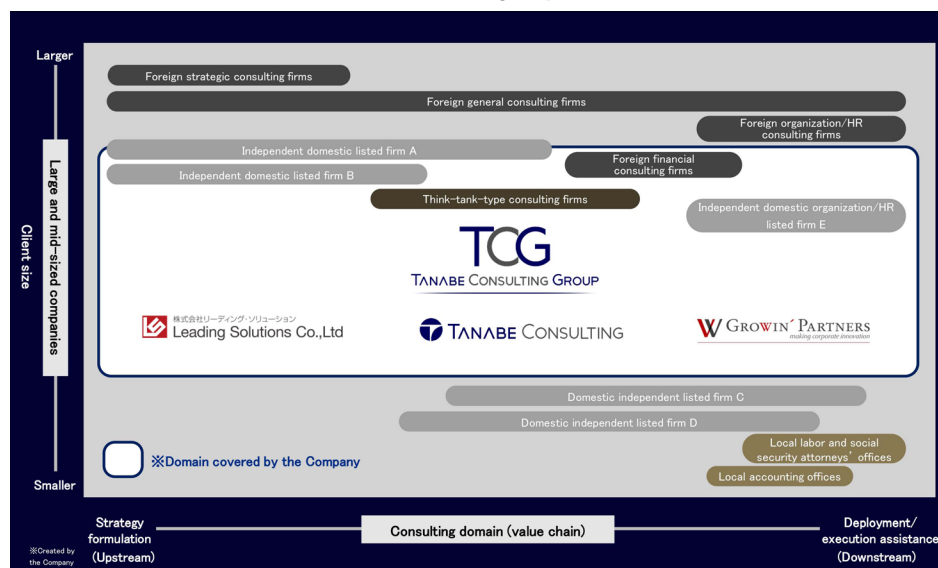
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Summary

Building a one & only management consulting value chain; system in place for pursuing double-digit annual growth

Tanabe Consulting Co., Ltd. <9644> (hereafter, also “the Company”) is a comprehensive management consulting pioneer in Japan in its 64th year since establishment with a mission of “Delivering resolve to be the First Call Company that will be selected even 100 years from now.” It is characterized by “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 (by industry and by business domain) × function (management functions) × region.” Drawing on proven strategic methods cultivated during its over 60 years of history, the Company supports mid-sized companies (mainly those with net sales in a range of ¥5bn to ¥100bn) to large companies nationwide, which constitute its core customer base. The Company stations consultants long-term at business sites in 10 major cities nationwide and is the only firm in the industry with operations to assist client companies closely in local areas. It has built operations for one-stop provision of upstream to downstream consulting processes as the Tanabe Consulting Group (TCG) with additions to the Group of Leading Solutions Co., Ltd., which provides digital marketing assistance for B-TO-B companies, in October 2019, Growin’ Partners Inc., which provides overall M&A assistance (including cross-border deals) and back-office digital transformation (DX) assistance, in January 2021, and JAYTHREE, Inc., a provider of branding, customer experience (CX) design, and marketing DX services, in December 2021.

Positioning Map



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

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Summary

1. Overview of the FY3/22 1H results

In its FY3/22 1H consolidated results, the Company reported ¥4,536mn in net sales (+13.6% YoY) and ¥296mn in operating profit (+89.2%), exceeding its initial forecasts of ¥4,530mn in net sales and ¥230mn in operating profit. Net sales increased owing to an increase in strategic consulting and DX consulting contracts related to companies' business model reforms, which accelerated with the spread of the novel coronavirus (COVID-19) pandemic, and to the addition of sales from Growin' Partners, which became a subsidiary in January 2021. The gain in operating profit is attributable to the increase in sales as well as an improved gross margin from changes in the sales mix, which included growth in team consulting brands (TCB), consulting services with high added value.

2. FY3/22 results outlook

For FY3/22, the Company kept the initial forecasts unchanged with net sales of ¥10,200mn (+10.7% YoY) and operating profit of ¥900mn (+19.7%). By developing and promoting joint consulting products with Growin' Partners and Leading Solutions, the Company intends to capture diverse consulting needs. Regional mid-sized companies in particular are behind in management DX, and there is a great deal of latent demand. Along with DX consulting, demand is also increasing for M&A consulting for business succession, etc. and SDGs consulting, and the Company intends to capture orders by proposing optimal services. With regard to M&A as well, the Company will continue moving forward with considerations with DX companies in human resources, public relations, and global marketing, etc. as its target.

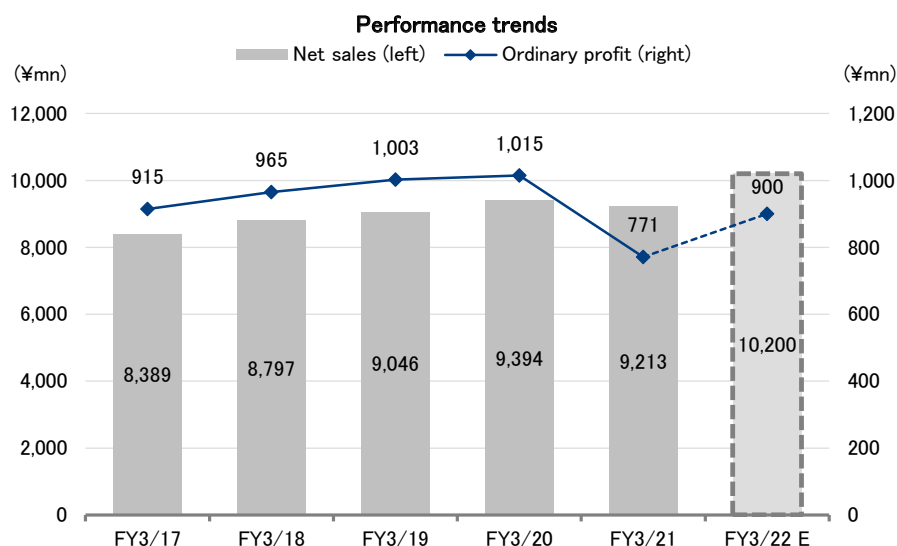
3. Medium-term business plan

The Company announced TCG Future Vision 2030 (creation of TCG as a one & only consulting Group), a five-year medium-term business plan (2021-2025) that started in FY3/22. The plan sets FY3/26 goals of ¥15bn in net sales and ¥1.8bn in operating profit through expansion of the consulting menu and reinforcement of DX consulting, including acquisitions, putting five-year average growth rates at 10.2% in net sales and 19.0% in operating profit, as the Company intends to accelerate its pace of growth. With management DX evolving, the Company will build a value chain that covers from management strategy formulation, an upstream process, to onsite deployment and execution assistance, a downstream process. As the one & only consulting firm capable of providing locally rooted services through business offices in major cities nationwide, high growth is expected going forward.

Key Points

- In the FY3/22 1H consolidated results, double-digit increases in sales and profit with strong performances from strategy consulting and DX consulting
- Targeting high double-digit annual growth through leveraging strength in being able to provide one-stop consulting services from upstream to downstream processes
- Working to build a one & only management consulting value chain by expanding professional DX services

Summary



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

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. The Company is promoting the “Group C&C Strategy” (diversification of consulting business) and assists clients in achieving sustainable growth through provision of high-quality consulting value to all clients nationwide. It advocates a mission of “Delivering resolve to be the First Call Company and top choice even in 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)

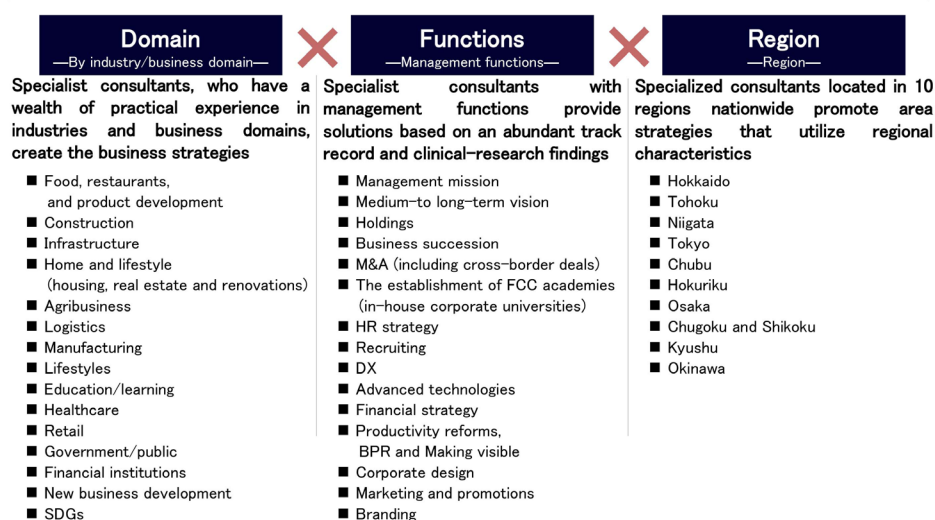
Source: Prepared by FISCO from the Company's financial results briefing materials

Business overview

As a business doctor for executives, mainly to mid-sized to large companies nationwide including listed companies, the Company offers a full range of management consulting services that extends from formulation of corporate philosophy and mission and management strategies to organizations and personnel, financial matters, BPR, DX, M&A, and business succession and human resource (HR) consulting that covers constructing and operating a personnel system that incorporates work-style reforms, establishing FCC Academy (in-house corporate university), providing customized education (training), and cultivating executives and successors to new employees. The Company also delivers brand & design consulting to mid-sized to large companies with scope from brand strategy proposals to implementing and advancing promotion strategies, and assistance in planning, designing, and producing corporate original goods. 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 (by industries and by business domains) × function (management functions) × region.”

Team consulting

Forming optimal teams through the three viewpoints



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

It conducts its business long-term from its offices in 10 major cities nationwide, from Hokkaido to Okinawa. The features and strengths of the Company include that it is the only company in this industry that 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.

Business overview

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 and purpose of acquiring Group companies is an effort to offer a line-up of digital marketing assistance and further boost the added value and strengthen competitiveness of consulting services amid the prospect of an expanding market for digital marketing assistance in B-to-B business and growing corporate need for DX-related consulting. Specific initiatives are development of new consulting services that combine services from the two companies and start of provision in FY3/21 and improvement of value in services provided to mutual clients through joint consulting at existing clients and personnel exchanges. Additionally, the Company is dispatching management personnel to Leading Solutions with the aim of strengthening management capabilities, assisting sales activities and administrative work, building mutual cooperative operations in hiring and training, and reinforcing the business foundation in mutual digital marketing areas.

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

Furthermore, the Company added Growin' Partners as a Group company (50.1% stake) in January 2021. Growin' Partners mainly provides general M&A assistance (including cross-border deals) and assists DX and productivity enhancement in accounting, financial, and other back-office work through deployment and utilization of digital technologies (such as ERP and RPA) for listed corporate groups. According to disclosed materials, FY6/20 results were ¥1,075mn in net sales and ¥99mn in operating profit with growing demand for M&A and DX assistance in back-office operations as drivers. The executive team has many people who previously worked at auditing firms and just under half of the 81 employees (as of November 2021; including 13 certified public accountants and one tax accountant) are consultants. Clients are mainly listed companies. Going forward, Growin' Partners' strategy is to leverage this M&A and DX knowhow to recruit projects for business succession, business revitalization assistance, back-office DX solution projects, and other areas and expand business with its customer base (mid-sized companies nationwide) and network of alliances with financial institutions and others. Synergies are manifesting quickly, including joint orders with the Company for business succession and overseas business, among others.

Moreover, the Company announced on December 27, 2021 that it will acquire a 96.2% stake in JAYTHREE to form a capital alliance and bring the company into the Group. JAYTHREE has a total of around 30 professionals, including directors, creators, and designers, and has strength in brand building, CX design, marketing DX, increasing brand value, and creating new value for mid-sized to large companies. By combining the management consulting knowledge and know-how cultivated over many years by the Company and the branding, CX design and marketing DX knowledge and know-how that JAYTHREE has provided to over 500 companies since beginning business in 1986, the Company's strategy is to further strengthen brand & design consulting and marketing DX functions, with both companies pursuing further growth by contributing to the growth and development of companies nationwide.

Business description

Creative business	Development of brand stories and brand concepts, various types of design for CX (websites, corporate profiles, advertising, movies), CI/VI development, message development, etc.
Marketing gross business	Digital marketing via social media, etc., media communications, promotions, CRM/MA tool deployment, effect measurement, etc.
Research consulting business	From identification of issues through consumer research, data analysis, and brand surveys, etc. to formulating brand strategies, establishing personas, creating customer journey maps, etc.

Source: Prepared by FISCO from the Company's materials

Business overview

The specific content of the business alliance are the following four points.

- a) Strengthen existing service functions and launch new services by combining the management consulting knowledge and know-how of the Company with the knowledge and know-how of JAYTHREE related to branding, CX design and marketing.
- b) Through joint consulting for existing customers and personnel exchanges, increase the value of services provided to the customers of both companies.
- c) Strengthen the management structure by seconding personnel to JAYTHREE to serve as company officers.
- d) The Company will support JAYTHREE's customer-creation activities and in addition, by building a mutual cooperation structure for human resources recruitment and training with an aim to strengthen the business foundations of both companies, they will capture demand in the nationwide brand & design consulting and marketing, and the DX market.

As a result of forming the Group from these three companies, the Company, as TCG, is able to supply consulting services on a one-stop basis, from upstream processes like formulating management strategy to midstream and downstream processes like onsite deployment and execution, so its value chain has been reinforced, and this constitutes a strength not possessed by other companies. The Group will be able to accommodate needs nationwide related to business succession, business model transformation and business rebuilding, DX and productivity improvement, and CX design, etc., which are expected to accelerate going forward, and with its target customer range expanding from the unique market of mid-size companies (net sales of ¥5bn to ¥100bn) to large companies, in FISCO's view, its growth potential has risen sharply.

Developing business in four areas: strategic consulting, DX consulting, brand & design consulting, and sales promotion products

2. Business description

The Company until FY3/21 had disclosed results in business segments divided into the Management Consulting Business and Marketing Consulting Business, but with consulting needs diversifying, there had been an increase in projects that cut across these business segments, so in order to make its business easier to comprehend, beginning in FY3/22 the Company will disclose results in a single business segment and provide only sales figures for its different consulting domains. Specifically, the Company is dividing its business into three consulting domains, strategic consulting, DX consulting, and brand & design consulting, and four sales promotion products. Of the sales promotion products, sales of diaries and calendars are concentrated in the third quarter, so looking at quarterly results, net sales and operating profit both peak in the third quarter. On average over the most recent five fiscal periods, 33.0% of net sales and 48.1% of operating profit have been earned in the third quarter (total 3Q results divided by total full-year results over the past five fiscal periods).

Business overview

Main activities of each consulting domain

Strategic consulting
<ul style="list-style-type: none"> Domain (by industry and by business domain) & function (management function) consulting HR consulting M&A alliance consulting (including Growin' Partners) Regional (local) consulting*
DX consulting
<ul style="list-style-type: none"> Digital marketing (Leading Solutions) Management DX assistance (Growin' Partners) FCC Academy cloud (digital education content)
Brand & design consulting
<ul style="list-style-type: none"> Brand promotions (assistance for devising and executing marketing strategies) Design & creative Web promotions Sales DX
Sales promotion products
<ul style="list-style-type: none"> Planning and production of promotional merchandise Planning, design and production of blue diaries (planners) Planning, design and production of calendars

*Regional (local) consulting is the total of each branch office's sales in domain & function consulting and HR consulting
Source: Prepared by FISCO from the Company's financial results briefing materials

(1) Strategic consulting

Domain & function consulting, the main service in strategy consulting, includes team consulting on themes such as corporate mission and medium/long-term vision formulation, business strategy by industry, financial strategy, and productivity reforms, as well as strategy domain & function workshops intended to lead to management consulting contracts.

HR consulting is a consulting service for solving issues related to human resources, from talent recruitment to training, utilization and integration, and includes corporate training services and rank-based HR development seminars.

M&A alliance consulting is an area where future growth is expected. With Growin' Partners becoming a subsidiary, the Company is now able to provide every consulting service related to M&A, from M&A strategizing, including cross-border deals, to target selection, advisory services, due diligence, and post-merger integration. There are many cases of customers being referred by the Company's around 100 alliance partners, which include regional financial institutions and accounting offices.

Regional consulting provides consulting services related to domain & function and HR on a local basis with consultants permanently assigned to regional offices in Hokkaido, Tohoku, Niigata, Hokuriku, Chushikoku (Chugoku and Shikoku) and Okinawa. When there are projects in these regions in other consulting domains like DX consulting, sales are recorded in the respective domains.

(2) DX consulting

This consulting service assists customers with digital transformation. It includes the digital marketing services of Leading Solutions, back-office DX assistance of Growin' Partners, and FCC Academy cloud (digital education content), a cloud-based in-house corporate university provided by the Company. Going forward, there is expected to be buoyant demand in this domain as well, so it is an area where the Company will aggressively expand its business base, including through M&A.

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Business overview

(3) Brand & design consulting

This team consulting service provides assistance for marketing strategy development, branding, design, creative, web promotions, sales DX, etc.

(4) Sales promotion products

This category includes the purchase and sale of giveaway merchandise for events and other promotional activities as well as sales of blue diaries (planners), calendars, etc.

Company to sustain growth by building up a customer base for services on long-term contracts, which account for approx. 75% of net sales

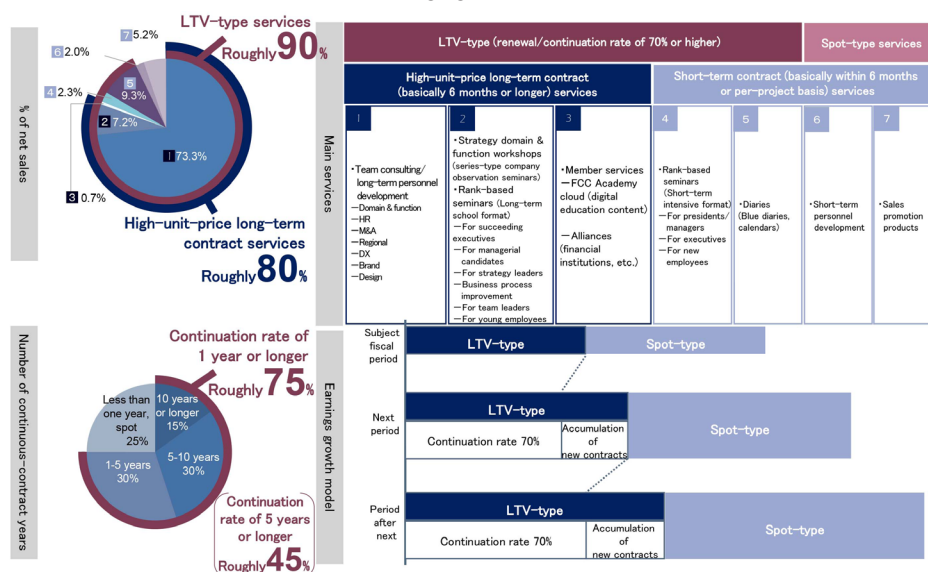
3. Earnings growth model

The Company's business model is characterized by having long-term contract services as its growth base, which allows it to achieve sustainable growth by accumulating new customers for these services while adding in spot-type products and services. Approximately 90% of total net sales are LTV-type* (renewal/continuation rate of 70% or higher) services and 80% are high-unit-price long-term contract services (generally six months or longer), and this is a reason for the Company's high level of earnings stability. High-unit-price long-term contract services consist mainly of team consulting services as well as regularly held strategy domain & function seminars and member services, etc.

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

Looking at a breakdown of continuous-contract years, contracts one year or longer account for around 75%, and contracts of five years or longer, for around 45%, so the Company is characterized by a high percentage of customers with which it has built long-term relationships. It generally directs itself toward top management as a "business doctor" (meaning it mainly draws close to executives and company leaders, works to understand the overall management of the client company from an executive's perspective, and contributes to various management-related decisions and solutions to management issues), which is likely what is responsible for its high continuation rate.

Earnings growth model



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

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business overview

In addition, regarding its customer creation model, the Company not only receives referrals from existing customers and allied financial institutions but also generates contacts with new customers through digital marketing and holding free presentations, etc. and builds customer loyalty using its consulting services as well as continuing services like strategy domain & function workshops and FCC seminars. Around 60% of its new customers for consulting services are companies that participated in these workshops and seminars.

Result trends

FY3/22 1H sales and profits increased by double-digits on strong performances from strategic consulting and DX consulting

1. FY3/22 1H results overview

In FY3/22 1H consolidated results, the Company's net sales totaled ¥4,536mn (+13.6% YoY), operating profit, ¥296mn (+89.2%), ordinary profit, ¥300mn (+77.0%), and net profit attributable to owners of parent, ¥216mn (+47.8%), for double-digit increases in sales and profits compared to 1H the previous fiscal period, which was weighed down by the COVID-19 pandemic. Net sales and all profit figures exceeded initial forecasts. The impact of Growin' Partners, which was added to the scope of consolidation from the fourth quarter of FY3/21, was ¥350mn on net sales and a slight loss at the level of operating profit, so even when this factor is excluded, both sales and profits increased. Growin' Partners invested aggressively in human resources, so it recorded a slight loss, but its progress is in line with initial plans.

FY3/21 1H results overview

	FY3/21 1H			FY3/22 1H			
	Results	Ratio to sales	The Company forecasts	Results	Ratio to sales	YoY	vs. forecast
Net sales	3,993	-	4,530	4,536	-	13.6%	0.1%
Gross profit	1,719	43.1%	2,050	2,141	47.2%	24.5%	4.5%
SG&A expenses	1,563	39.1%	1,820	1,844	40.7%	18.0%	1.4%
Operating profit	156	3.9%	230	296	6.5%	89.2%	28.9%
Ordinary profit	169	4.2%	230	300	6.6%	77.0%	30.5%
Net profit attributable to owners of parent	146	3.7%	150	216	4.8%	47.8%	44.5%

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

Against a backdrop of mounting demand for corporate business model reforms, which accelerated during the pandemic, there was growth in team consulting contracts, primarily for strategic consulting aimed at business model and strategy formulation and reform and also DX consulting, which was a factor behind the sales and profit increases. Looking at the factors responsible for the change in operating profit, profit increased by ¥233mn on the increase in sales and ¥187mn owing to improvement in the gross margin while absorbing a ¥281mn increase in SG&A expenses (¥130mn increase in personnel expenses, ¥40mn increase in recruitment expenses, ¥19mn in amortization of goodwill).

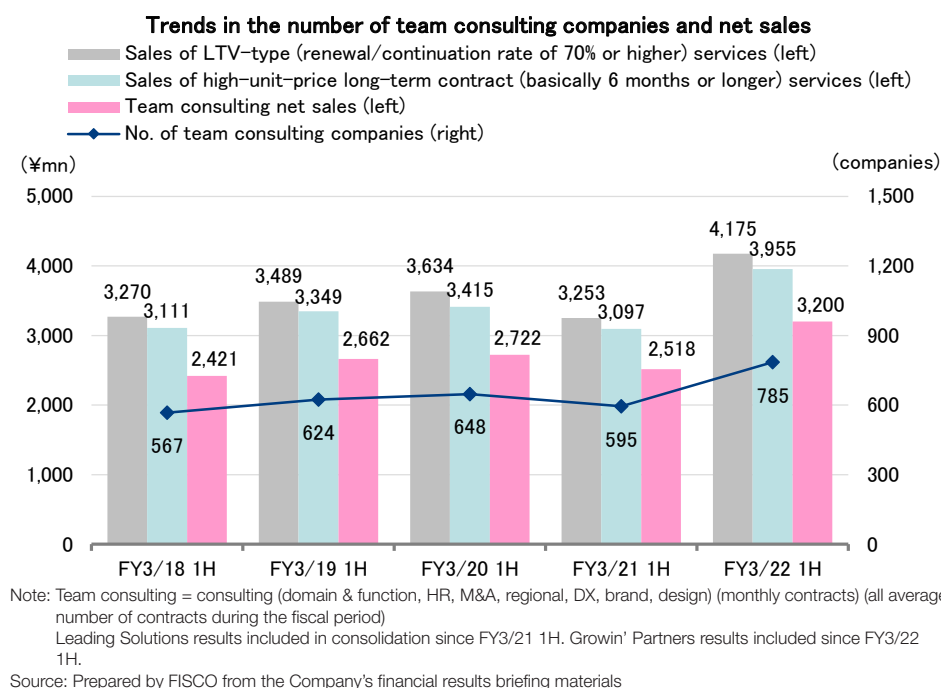
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Result trends

The gross margin improvement was heavily impacted by changes in the sales mix. In FY3/21 1H, the Company recorded sales of ¥420mn from special pandemic-related demand for sales promotion products for infection prevention, but sales of these products in FY3/22 1H declined to ¥25mn. At the same time, high value-added team consulting sales increased ¥3,200mn (+27.1% YoY), contributing to the gross margin increase. Sales from LTV-type services and sales from high-unit-price long-term contract services both increased by double-digits at ¥4,175mn (+28.3%) and ¥3,955mn (+27.7%), respectively. Team consulting contracts (the average for the fiscal period) increased by 190 companies to 785 companies, a new record high. Even when excluding the 85 contracts of Growin' Partners, it was the Company's highest level ever.

For the Group's overall marketing strategy, along with a marketing site for the HR domain, the Company launched a marketing site for the business succession and M&A domain, and it held six free large-scale webinars to acquire potential customers.



Looking at sales trends by consulting domain, strategy consulting sales totaled ¥2,831mn (+26.7% YoY). In domain & function consulting and HR consulting, sales increased 23.5% YoY against the backdrop of an increase in companies engaged in business model reforms during the pandemic and consulting contracts on themes such as medium/long-term vision and HR system rebuilding (work style reforms, job-based employment) increased. In M&A alliance consulting, sales rose significantly by 88.5% YoY due to increases in the Company's contracts as well as Growin' Partners' sales in this area. In regional consulting as well, the Company's locally rooted consulting model demonstrated its strength as consulting contracts increased in every region and resulted in a sales gain of 23.3%.

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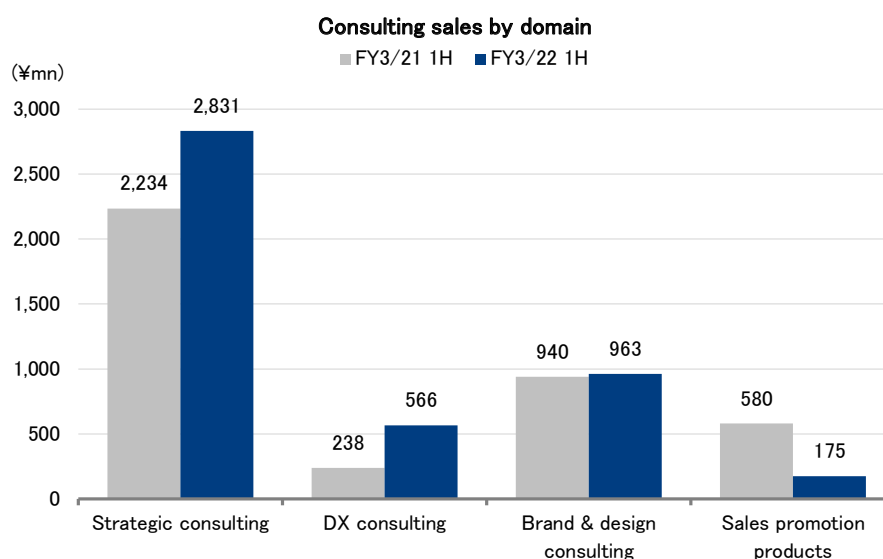
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Result trends

DX consulting sales totaled ¥566mn (+137.3% YoY). Along with one-stop consulting from digital marketing strategy formulation to deployment and improvement, there was an increase in consulting contracts for such services as back-office digital shift assistance (help with deploying ERP, etc.) provided by Growin' Partners. In addition, the number of companies introducing the FCC Academy cloud, a cloud-based in-house corporate university for personnel development, increased by 120 companies at the end of the previous fiscal period to 130 companies, so steady progress is being made toward the Company's immediate goal of 300 companies. There are also an increasing number of cases in which introduction of FCC Academy cloud services has led to consulting services related to HR system changes and recruitment.

Brand & design consulting sales were ¥963mn (+2.4% YoY). Like the previous fiscal period, sales were affected by events, etc. being canceled or postponed because of the pandemic, but this was offset by increases in team consulting contracts and design and creative projects, including marketing, branding, web promotions and sales DX for robust industries.

Sales of sales promotion products were ¥175mn (-69.7% YoY). As already mentioned, sales were impacted by a negative rebound in infection prevention products and telework-related products, which had increased with special demand caused by the pandemic.



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

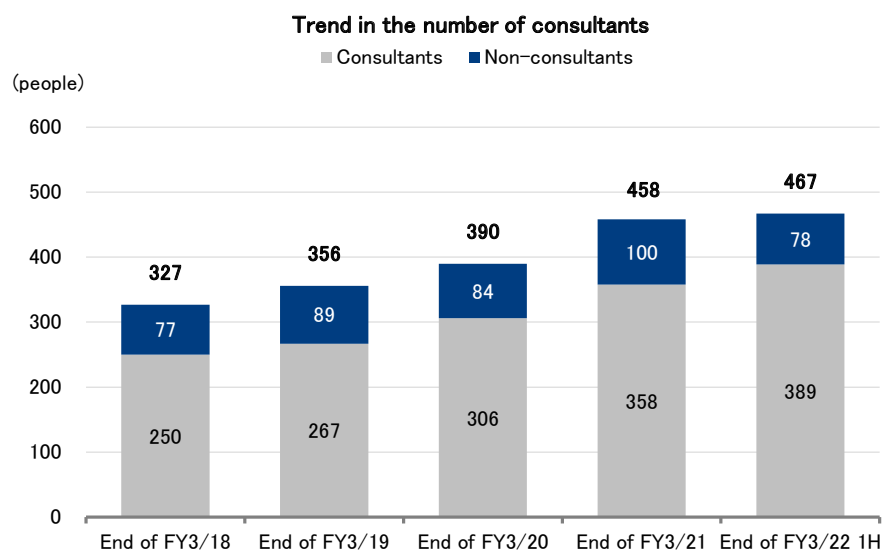
The number of consultants increased by 31 from the end of the previous fiscal period, to 389. Professional personnel have steadily increased over these past few years as a result of reinforcing recruitment by promoting the "Group C&C (Consulting & Conglomerate) Strategy" (diversification of consulting business) and conducting M&A (Leading Solutions, Growin' Partners). In addition, the Company in FY3/22 established a new CRM Consulting Dept. and deployed professional personnel for the purpose of building long-term relationships (LTV) with customers and raising productivity.

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Result trends



Note: The number of non-consultants at the end of FY3/22 1H includes approximately 20 consultant staff hired for the new CRM Consulting Dept. established in FY3/22

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

Healthy financial standing with debt-free management and an equity ratio in the 80% range

2. Financial condition and management indicators

At the end of FY3/22 1H, total assets were down ¥199mn from the end of the previous fiscal period to ¥13,206mn. Looking at the breakdown of the main change factors, in current assets, cash and deposits and securities decreased ¥194mn. In non-current assets, long-term deposits and investment securities decreased ¥100mn. The total of both long-term and short-term cash and deposits and securities was ¥8,402mn, down ¥294mn from the end of the previous fiscal period, but its percentage of total assets was maintained at the high level of 63.6%.

Total liabilities declined ¥42mn from the end of the previous fiscal period, to ¥1,932mn. In current liabilities, income taxes payable increased ¥64mn and accounts payable-trade increased ¥21mn, and in non-current liabilities, provision for retirement benefits for directors (and other officers) decreased ¥208mn. Net assets declined by ¥156mn from the end of the previous fiscal period, to ¥11,274mn. This was due to the Company recording net profit attributable to owners of parent of ¥216mn, but paying out ¥369mn in dividends.

Looking at management indicators, the Company continues to have a high equity ratio at 83.3% and maintain debt-free management with over ¥7bn in cash and deposits and securities, so its finances continue to be very sound. Going forward, the Company intends to invest in growth through M&A, etc. using its ample cash on hand.

Result trends

Balance sheet

	End of FY3/19	End of FY3/20	End of FY3/21	End of FY3/22 1H	Change
(¥mn)					
Current assets	7,027	7,732	8,889	8,757	-131
(cash, deposits, and securities)	6,138	6,936	8,078	7,884	-194
Non-current assets	5,742	5,237	4,516	4,448	-67
(long-term deposits and investment securities)	2,453	2,178	618	518	-100
Total assets	12,769	12,969	13,405	13,206	-199
Current liabilities	1,679	1,642	1,418	1,615	197
Non-current liabilities	374	375	556	316	-239
Total liabilities	2,054	2,018	1,975	1,932	-42
Net assets	10,715	10,951	11,430	11,274	-156
(management indicators)					
Equity ratio	83.8%	83.9%	83.1%	83.3%	0.2pt

Note: Consolidated values from FY3/20

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

Business outlook

Intends to restore sales and profit increases at double-digit levels in FY3/22 with support from manifestation of M&A-driven synergies

1. FY3/22 results outlook

In FY3/22, the Company is projecting a return to sales and profit increases, forecasting net sales of ¥10,200mn (+10.7%YoY), operating profit of ¥900mn (+19.7%), ordinary profit of ¥900mn (+16.6%), and net profit attributable to owners of parent of ¥570mn (+14.4%). The progress rate against full-year plans to 1H was 44.5% for net sales and 32.9% for operating profit, so the progress on profit was somewhat low compared to the past average, but the 2H results for achieving the full-year plans are an 8.5% increase YoY in net sales and a 1.5% increase in operating profit. Diaries and calendars, whose sales are concentrated in 3Q, are expected to maintain the same level as the previous fiscal period, and considering the status of recent orders, etc., FISCO believes these levels are achievable. Regarding 2H expenses, the Company expects an increase in recruitment costs.

FY3/22 results outlook

	FY3/21 full year results	FY3/22					
		1H results	2H plan	YoY	Full-year plan	YoY	1H progress
Net sales	9,213	4,536	5,663	8.5%	10,200	10.7%	44.5%
Operating profit	751	296	603	1.5%	900	19.7%	32.9%
Ordinary profit	771	300	599	-0.4%	900	16.6%	33.4%
Net profit attributable to owners of parent	498	216	353	-0.4%	570	14.4%	38.0%
Earnings per share (yen)	28.94	12.57	20.52		33.09		

Note: Earnings per share based after 1:2 share split conducted on September 30, 2021

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

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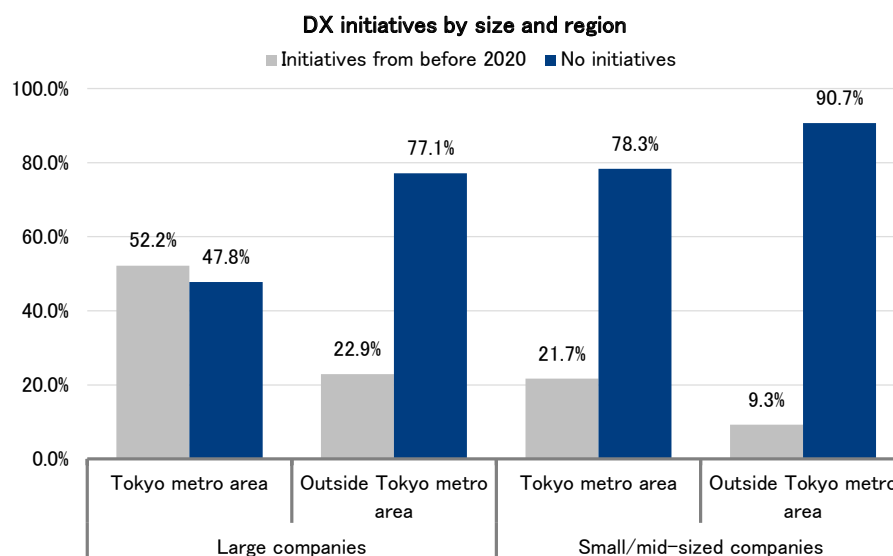
11-Mar.-2022
<https://www.tanabekeiei.co.jp/en/>

Business outlook

The Company's business policies for FY3/22 are as follows. Under a slogan of "One & Only- Creation of TCG, the New Globally Unrivaled Consulting Group," the Company has said it will pursue a one-stop assistance system for corporate management. With consulting demand growing related to DX and M&A that helps companies achieve business transformation during and after the COVID-19 pandemic, the Company will promote the following initiatives.

(1) DX consulting

In terms of its DX strategy, the Company will work to unearth the DX needs of regional companies. Among local companies outside major metropolitan areas, there is still very little interest in DX, and initiatives are significantly behind. By raising awareness among top management of the importance of DX through seminars, workshops, and other events, the Company intends to uncover latent DX demand. At the same time, the Company's strategy is to enhance its menu of DX services (midstream to downstream deployment and execution assistance), including joint development with Group companies, in order to capture diverse DX needs. The joint development products it has launched include consulting to help raise sales productivity and consulting to assist with ERP deployment. It has also begun providing digital marketing, management DX (ERP deployment, etc.), and other services for regional companies. FISCO sees this as a good opportunity for the Company, which has already built a locally rooted sales system in major regions nationwide, to increase its contract numbers.



Source: Prepared by FISCO from "Information and Communications in Japan White Paper 2021," Ministry of Internal Affairs and Communications, Japan

(2) M&A alliance consulting

In its M&A strategy, the Company will strengthen coordination with Growin' Partners and work to further expand its M&A domain, including cross-border deals, and also work to further activate regional companies and economies. For this reason, going forward, joint projects with Growin' Partners are also expected to increase, and the Company will steadily review its alliance agreements with financial institutions, accounting offices, and other partners. Growin' Partners did not previously have a network with regional financial institutions, so going forward, it is expected that financial, advisory, service, and other projects through such alliance partners will increase. Personnel PMI consulting is one of the joint development products that has already been launched.

Business outlook

(3) Brand & design consulting

The Company will focus on new branding promotion assistance using digital technologies (including online service provision) and also work to further strengthen specialization in robust industries (consumer goods, logistics, beauty products, etc.) and increase contract numbers.

(4) Others

In its new CRM consulting division, the Company will reinforce follow-up with existing customers and capture new consulting needs. It will also move forward on development of “consulting tech” (consulting methods combined with digital technologies) in order to raise consulting value for customers and improve consultant productivity.

Pursuing high, double-digit annual growth through its strength in being able to provide one-stop management consulting services from upstream to downstream processes

2. Overview of the medium-term business plan

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

The plan’s results goals for FY3/26, the final year of the plan, are net sales of ¥15,000mn, operating profit of ¥1,800mn, ROE of 10% and ROA of 15%. In terms of average annual growth rate over the five years, net sales is 10.2% and operating profit is 19.1%, so the Company is targeting double-digit growth. Regarding profitability as well, the Company is planning to raise its operating margin from 8.2% to 12.0% and ROE from 4.5% to 10.0%. The strategy is to raise profitability by growing primarily around team consulting services with high added value. The Company’s average annual growth rate over the five years from FY3/15, before the pandemic, to FY3/20 was 3.6% for net sales and 5.3% for operating profit, which suggests the plan emphasizes growth.

Results goals

	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25	FY3/26	CAGR
Net sales	9,213	10,200	11,250	12,300	13,500	15,000	10.2%
Operating profit	751	900	1,015	1,230	1,485	1,800	19.1%
Operating margin	8.2%	8.8%	9.0%	10.0%	11.0%	12.0%	-
ROE	4.5%	-	-	-	-	10.0%	-
ROA	5.9%	-	-	-	-	15.0%	-
Number of employees (people)	457	480	560	640	720	800	-

Note: Five-year average annual growth rates

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

Business outlook

Looking at sales goals by consulting domain, the plan has DX consulting growing the most, from ¥648mn (FY3/21) to ¥3,800mn. However, ¥2,000mn of this is sales from companies to be added to the Group by way of M&A in the future (around three companies). However, even excluding this portion, the sales increase is large, and there is no doubt this domain will be key to achieving medium-term results plans. Also, in the area of M&A alliance consulting, the plan calls for a major increase from ¥392mn (FY3/21) to ¥1,320mn. In both cases, the strategy is to achieve high growth by enhancing synergies with Leading Solutions, Growin' Partners and JAYTHREE, which have been added to the Group.

Sales goals by consulting domain

	FY3/21	FY3/26	Increase	CAGR
(¥mn)				
Strategic consulting	5,014	7,490	2,476	8.4%
Domain & function	1,154	1,750	596	8.7%
HR (including Growin' Partners)	715	1,000	285	6.9%
M&A alliance (including Growin' Partners)	392	1,320	928	27.5%
Regional (branch offices)	2,753	3,420	667	4.4%
DX consulting	648	3,800	3,152	42.4%
Brand & design consulting	2,762	3,000	238	1.7%
Sales promotion products	809	810	1	0.0%

Note: DX consulting in FY3/26 includes ¥2,000mn in sales from companies to be added to the Group in the future
Source: Prepared by FISCO from the Company's financial results briefing materials

The two companies added to the Group make it possible to provide services not previously on the Company's consulting menu to its existing customers, and the reverse is also the case. Management consulting needs run the gamut, and the Company's advantage is being able to provide, as a Group, from downstream processes (management strategy formulation) to midstream and downstream processes (function deployment, operations assistance) on a one-stop basis. In particular, mid-sized companies targeted by the Company are lagging in workflow DX and offer robust consulting demand for management strategies during and after COVID-19 pandemic, DX strategy and other areas. They also have extensive needs for business succession and business revitalization. Given these conditions, FISCO believes it is possible for the Company to achieve double-digit annual growth by recruiting this demand. Furthermore, the absence of consulting companies targeting the same customer segment with the ability to deliver one-stop services covering upstream to downstream processes, similar to the Company, serves as its strength and provides the Company with an excellent opportunity to achieve robust growth.

Aiming to build a one & only management consulting value chain by expanding professional DX services

3. Growth strategy

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

Business outlook

(1) Implementing five growth models

a) TCG professional DX service model

The Company hopes to attain ¥10bn in sales through expansion of consulting value (strategy formulation function), its core value, and realize ¥15bn in sales by expanding “professional DX service (deployment and operation function),” a new field, through M&A. While the target scope of M&A is likely to be broad because professional DX services differ for each consulting domain, the Company plans to accelerate sales growth by quickly implementing M&A and reinforcing a continuous “management consulting value chain.”

For example, in the marketing area, the Company wants to formulate marketing strategy (upstream process) as a consulting service (core value), provide SFA, CRM, and assistance with the introduction of MA tools, etc. (downstream process) as professional DX services (new M&A strategy area), and enhance service value by working through the PDCA cycle. It aims to develop 10 professional DX service brands in the midstream to downstream processes annually and 50 brands over five years to build a one & only management consulting value chain and pursue high growth.

b) TCG C&C development model

In terms of its consulting domain development model, the Company will enhance teams in specialized areas for new management needs and issues, commercialize this under the team consulting brand (TCB), and form team consulting units through workshops and seminars (consulting segmentation). The next steps are conversion into consulting businesses and the creation of operating companies, including through M&A, in order to expand consulting domains and increase sales volume.

The Company currently has eight consulting segments (domain, M&A, function, HR, marketing, design, brand, and DX), and along with reinforcing training in each segment, the Company's goal is to expand its current four-company Group into an at least six-company Group by FY3/26. For its M&A targets, it will place high priority on companies offering DX consulting services in the HR, PR and global marketing domains.

c) TCG marketing model

For the roughly 80,000 large to mid-size companies (which include listed companies) that are the Company's target, the Company will work to acquire customers through its locally rooted regional strategy and unique marketing model (acquire potential customers through seminars and workshops, etc.). It intends to achieve at least a 70% continuation rate for consulting contracts and add new customers for 35% of its sales goal. In addition, the Company intends to identify new consulting demand through follow-up with existing customers in the CRM consulting division and raise its average sales per customer by 10%.

d) TCG team-up and 100 partners model

Through collaboration with the TCG C&C development model, the Company intends to build a management system (training program via the in-house corporate university, etc.) to find new leaders in existing organizations and teams and cultivate these leaders into partners and thereby double the number of partner personnel from 50 people to 100 people. Partner personnel refers to people who are capable of running a consulting team (5-10 people). Cultivation of 100 partner human resources means that the Company is capable of having 100 consulting teams. In particular, the Company aims to expand teams in local areas and strengthen human resources recruitment and training.

Business outlook

To double partner human resources over five years, the Company plans to strengthen hiring of external professionals, in addition to cultivation of human resources from inside the company, and has revised the personnel system to support this activity. FISCO thinks expansion of professional DX service by implementing new acquisitions and increase in partner human resources are vital to realization of medium-term results goals and therefore will be closely monitoring progress in these areas.

e) TCG academy model

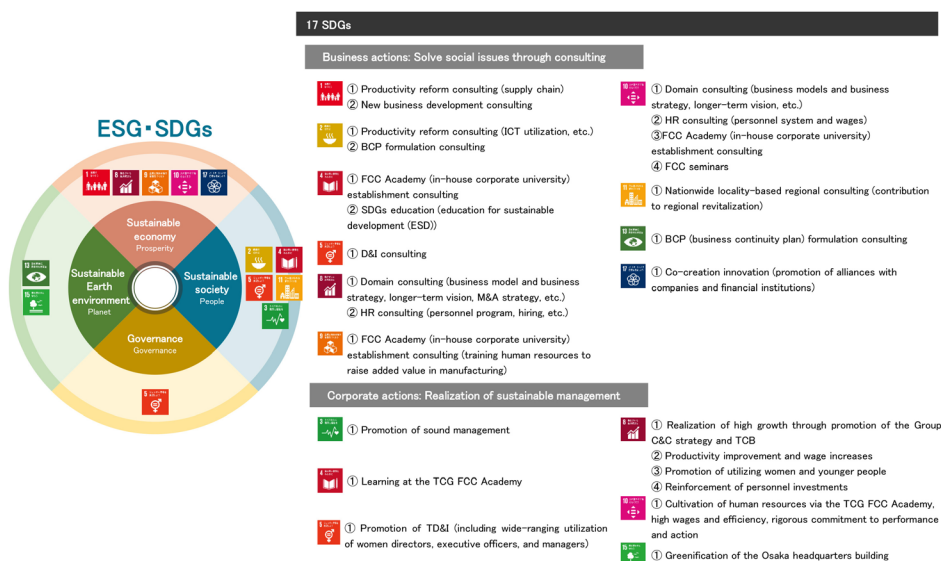
The Company plans to update the “Tanabe FCC Academy” education and training system that integrates online and real-world learning launched as an in-house corporate university to “TCG Academy” through program development and expansion and accelerate cultivation of professional human resources (this is a two-year goal). It also intends to promote human resource interaction, share programs, and increase academy studios in order to utilize TCG Academy as a Group strategy.

Furthermore, the Company intends to create the TCG Leadership Academy to cultivate partner human resources and the Digital Academy to cultivate and increase digital human resources. In hiring, it plans to add about 100 people annually and raise the percentage of new graduate hires from the original level of roughly 30% to roughly 40%. Just under 15 new graduates were hired in 2022 on a non-consolidated basis, due in part to the pandemic, which was somewhat less than a regular year, but beginning in 2023 the Company intends to step up its hiring. Regarding its hiring strategy, coordination within the Group is being promoted, and this seems to be enabling the Group’s companies to acquire high-quality talent.

(2) SDGs initiatives

Inquires related to SDGs are increasing from many companies, and the Company is responding by developing products such as SDGs deployment consulting, SDGs workshops, and SDGs education to support its client companies’ SDGs initiatives. The Company itself is at the stage of defining materiality and setting KPIs, and going forward, it plans to engage in the SDGs as an important task of management.

SDGs and ESG



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

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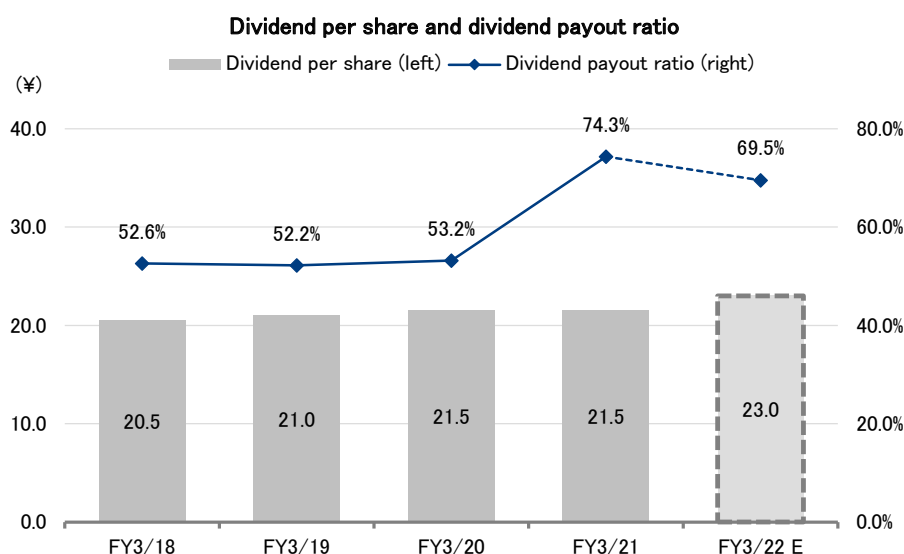
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Shareholder return policy

Planning diverse shareholder returns with a target payout ratio of 50%

The Company clarified a new shareholder return policy in the new medium-term business plan. It previously stably and actively implemented dividends in light of earnings and other factors with a target of 60% dividend payout (raising the dividend in eight straight fiscal periods through FY3/20). From FY3/22, it intends to proactively conduct shareholder return with a goal of a 50% gross return ratio, and has set a policy of conducting diverse shareholder returns including not only dividends but share buybacks as well. The Company implemented a 1:2 share split at the end of September 2021 with goals of improving share liquidity and expanding investor scope.

In FY3/22, the Company plans to pay a ¥23.0 dividend (69.5% dividend payout), a ¥1.5 YoY increase, using share volume after the scheduled stock split. One may project that if the dividend payout drops below 50%, the Company will raise the dividend or conduct share buybacks, but the Company is targeting a continual increase in dividends alongside earnings growth.



Note: Consolidated values from FY3/20. Past dividend values have been retroactively revised because of a 1:2 share split conducted at the end of September 2021

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

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