COMPANY RESEARCH AND ANALYSIS REPORT

# Tanabe Consulting Co., Ltd.

## 9644

Tokyo Stock Exchange Prime Market

21-Sept.-2022

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# Summary

## Will transition to a holding company structure on October 1, 2022, and is aiming for growth as a global one & only management consulting group

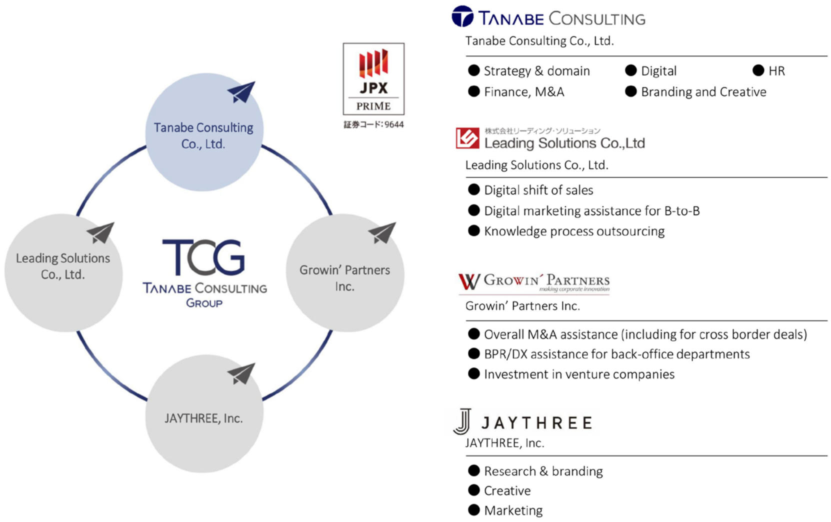
Tanabe Consulting Co., Ltd. <9644> (hereafter, also “the Company”) is a management consulting pioneer in Japan in its 65th year since its establishment with the management mission of “making ourselves and our clients first-call companies - companies of choice now and 100 years into the future.” It is characterized by building a management consulting value chain rooted in local regions nationwide that is able to provide one-stop support for companies’ management to address the specific and diversifying management issues of its customer companies, from formulating strategies (upstream) through to management implementation and operations at work sites where digital technologies are used (midstream and downstream).

On October 1, 2022, the Company will transition to a pure holding company structure. Alongside this, the company name will be changed to Tanabe Consulting Group Co., Ltd. and it will continue to be listed on the Tokyo Stock Exchange (TSE) Prime Market. In addition, all of the management consulting business currently conducted by the Company will be succeeded by Tanabe Consulting Co., Ltd. that will be newly established through a 100% investment by the Company.

TCG (Tanabe Consulting Group) creates teams of professionals from its more than 570 employees, and it utilizes its experience and proven methods in management consulting with more than 11,000 companies since establishment, to provide every kind of management consulting service to the top management of companies throughout the country, from major companies through to medium-sized companies.

Leading Solutions Co., Ltd., which provides digital marketing assistance to B-to-B companies, joined the Group in October 2019; Growin’ Partners Inc., which provides overall M&A assistance including for cross-border deals, BPR (Business Process Re-engineering) and DX assistance to back-office departments, joined in January 2021; and JAYTHREE, Inc., a provider of branding, CX (customer experience) design, and marketing DX services, joined in December 2021. In the future also, the Company’s policies are to actively conduct M&A of companies that are strong in the digital domain and to strengthen the development of the management consulting business.

Tanabe Consulting Group Overview




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

### 1. Overview of the FY3/22 results

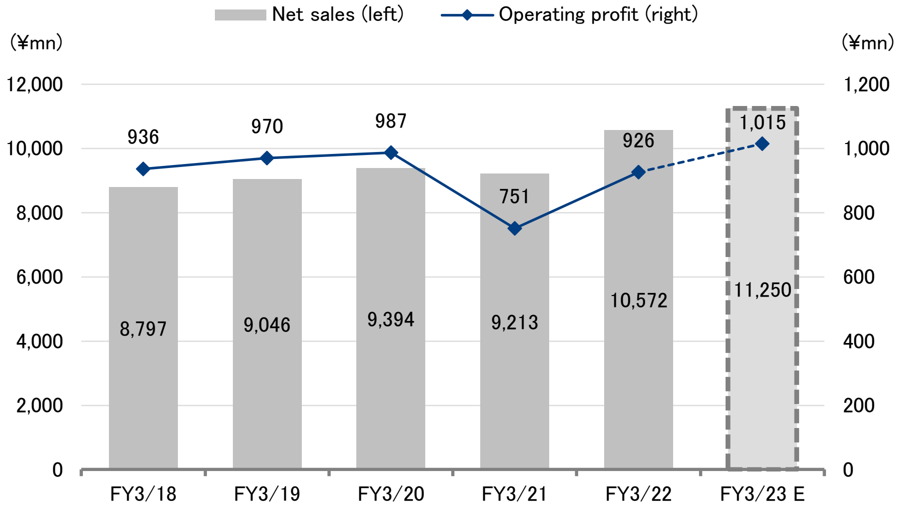
In the FY3/22 consolidated results, sales and profits both increased for the first time in 2 periods, with net sales ¥10,572mn (+14.7% YoY) and operating profit ¥926mn (+23.2%), and results were also higher than the Company forecasts (net sales of ¥10,200mn and operating profit of ¥900mn). The main factors behind the higher sales were the increases in the sales unit price and the number of contracts, including for the Company's strategy consulting and DX consulting, and also the full-year contribution to sales of Growin' Partners that was made a subsidiary in January 2021 and the addition of five months of sales of JAYTHREE that was made a subsidiary in December of the same year*. In profits, in addition to the effects of the higher sales, the improved productivity at the Company and Leading Solutions was a profit-increase factor. The number of collaborative projects between the Company and the Group companies is increasing, and it seems that this is leading to higher sales and profits through the creation of synergies.

* JAYTHREE was made a subsidiary in December 2021, but the deemed acquisition date was October 31, 2021, and therefore five months of its sales, from November 2021 to March 2022, were included in the consolidated results.

### 2. FY3/23 results outlook

For the FY3/23 results, the outlook is that the higher sales and profits will continue, with net sales to increase to ¥11,250mn (+6.4% YoY) and operating profit to grow to ¥1,015mn (+9.6%). The sense of uncertainty about the future is strengthening, including due to the novel coronavirus pandemic (hereafter, "COVID-19") and the geopolitical risk in Europe. But the Company is aiming for profit growth by utilizing the comprehensive strength of the Group in the management consulting domains of "Strategy & domain," "Digital and DX," "HR," "Finance, M&A," and "Branding & marketing" to meet the strong-rooted consulting needs such as formulating a medium- to long-term vision and growth strategy, conducting M&A and business succession, HR, and DX.

Performance trends




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

### 3. Medium-term business plan

The Company has set net sales of ¥15bn and operating profit of ¥1.8bn in FY3/26 as the results targets in the medium-term management plan, while with the FY3/22 results as the starting point, it is aiming for four-year compound annual growth rates (CAGR) of 9.1% for net sales and 18.1% for operating profit. Through a proactive M&A strategy, it is building a structure able to provide a one-stop service, from strategy formulation in the management consulting upstream through to management implementation and operations at work sites that use digital technologies in the midstream and downstream. At the same time, it is establishing business bases in the main cities nationwide and utilizing its strength of being able to provide services that are rooted in local regions, and the Group is expected to achieve high growth in the future.

Net sales forecasts by management consulting domain

(¥mn)

| TCG Tanabe Consulting Group | FY3/23 plan | | FY3/26 plan | Growth rate |
|---|---|---|---|---|
| Net sales | 11,250 | | 15,000 | 133.3% |
| Strategy & domain | 2,750 | | 3,000 | 109.1% |
| Digital | 2,450 | | 5,000 | 204.1% |
| HR | 1,550 | | 2,200 | 141.9% |
| Finance, M&A | 1,900 | | 2,100 | 110.5% |
| Branding & marketing | 2,050 | | 2,200 | 107.3% |
| Promotion tool | 550 | | 500 | 90.9% |

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

**Key Points**

- In the FY3/22 results, achieved double-digit increases in sales and profit with a contribution from M&A effects
- Will transition to a holding company structure in October 2022 and is strengthening initiatives to realize "One & Only- Creation of TCG, the New Globally Unrivaled Consulting Group"
- Is focusing management resources into five management consulting domains and is targeting net sales of ¥15bn and operating profit of ¥1.8bn in FY3/26

# Business overview

## Continues to grow based on its strength of a management consulting value chain able to provide one-stop assistance to company management

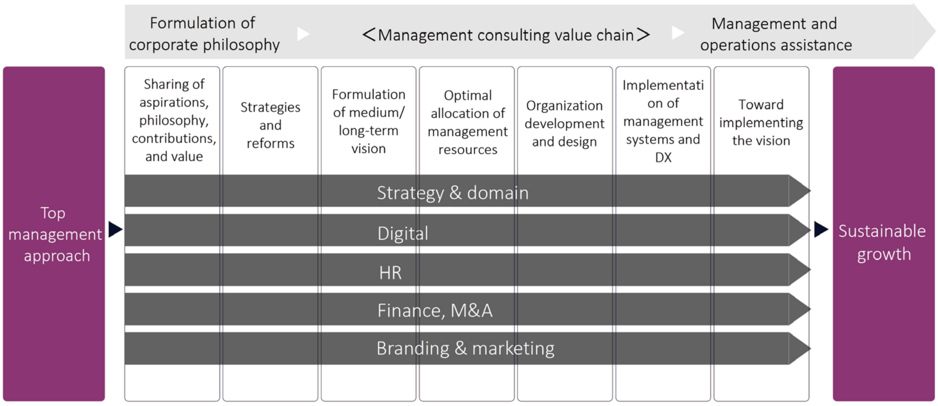
### 1. Company overview

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. In order to meet the specialized and diversifying management needs of its customers, it is promoting a "C&C (consulting & conglomerate) strategy" over a wide range of management consulting domains and assisting its customers' sustainable growth by providing high quality consulting value to all its customers nationwide. Its management mission is "making ourselves and our clients first-call companies - companies of choice now and 100 years into the future."

The Company is a "business doctor" that forms close relationships with the top management of its customer companies, which range from major companies through to medium-sized companies in every type of industry. It is building a "management consulting value chain" that is rooted in local regions nationwide and that is able to provide one-stop assistance, from "management strategy," including formulating new visions and reforming business models, through to implementation, including in the "Digital," "HR (human resources)," "Finance, M&A," and "Branding & marketing" domains.

A feature of the consulting style is that services are provided as "team consulting" through the "management consulting value chain," in which multiple professional consultants are selected and a team formed that is tailored to the management issues facing each individual company.

Management consulting value chain




Source: Prepared by FISCO from the Company's 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 management 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 corporate functions in both the Osaka and Tokyo head offices, the Company is aiming to enhance its support functions to companies nationwide.

The Company has recently been conducting M&A as one of its growth strategies, and three companies with which synergies are expected have joined the Group. In October 2019, Leading Solutions was made a subsidiary (investment ratio, 60.0%). It carries out KPO (Knowledge Process Outsourcing) work* for digital marketing in the B-to-B area and website construction, and since it was founded in 2004, it has provided assistance to more than 300 companies, mainly listed and medium-sized companies. The digital marketing assistance market for B-to-B businesses is forecast to grow and companies' consulting needs for DX are increasing, and in this situation, the Group will develop and provide new services with high added-value by combining Leading Solutions' knowledge and expertise in B-to-B digital marketing assistance with the Company's management consulting services. For existing customers as well, they are working on improving the value of the services provided to the customers of both companies through joint consulting and personnel exchanges. Moreover, the Company is dispatching managers to Leading Solutions and providing assistance to strengthen its management structure and for customer-creation activities. In addition, they are building a mutual, collaborative structure for the recruitment and development of human resources, aiming to strengthen both companies' business foundation in the digital marketing domain.

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

Growin' Partners was made a subsidiary in January 2021 (investment ratio, 50.1%). It has many accountants and financial advisors, and its main businesses are providing overall M&A assistance including for cross border deals, and providing BPR/DX assistance (assistance to introduce ERP, RPA, etc.) into the back offices (such as the accounting and finance departments) of listed corporate groups. The background to and objective of it joining the Group are to strengthen the functions of existing services and to launch new businesses by combining the Company's management consulting knowledge with Growin' Partners' knowledge and expertise in M&A and DX amid growing demand for M&A and management DX. For existing customers as well, they are aiming to improve the added-value of the services provided to the customer companies of both companies through joint consulting and personnel exchanges. Moreover, the Company is dispatching managers to Growin' Partners and providing assistance to strengthen its management structure and for customer-creation activities. In addition, they are building a mutual, collaborative structure for the recruitment and development of human resources, aiming to strengthen both companies' business foundation in the M&A consulting and DX domain.

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

Forming the Group from these three companies strengthens TCG's management consulting value chain, and this constitutes a strength not possessed by other companies. The Group will be able to accommodate needs nation-wide 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.

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

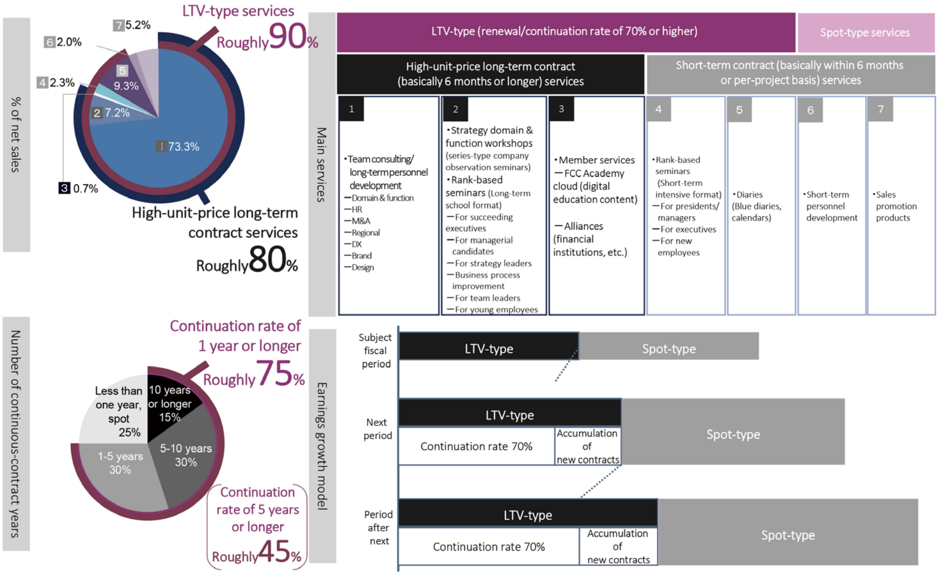
### 2. Earnings growth model

The Company's business model is characterized by having long-term contract services as its growth base, which allows it to achieve sustainable growth by accumulating new customers for these services while adding in spot-type products and services. 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 a reason for the Company's high level of earnings stability. High-unit-price long-term contract services consist mainly of team consulting services.

* 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 approach as a "business doctor" (meaning it mainly draws close to executives and company leaders, works to understands 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

Also, as its customer-creation model, the Company not only receives referrals from existing customers and allied financial institutions, but it also generates contacts with new customers through digital marketing and holding free presentations and other events, and it builds customer loyalty using its team consulting services as well as continuing services like strategy domain & function workshops and FCC seminars. Around 60% of its new customers for team consulting services are companies that participated in these workshops and seminars. Moreover, as the marketing strategy for the Group as a whole, in FY3/22 it launched specialized marketing sites and is acquiring leads (potential customers) through them. Specifically, it has launched marketing sites in the HR domain and the business succession and M&A domain, and is acquiring leads from these sites, while it is also acquiring leads through initiatives including holding large-scale free online presentations and presentations held jointly with Group companies. The marketing sites were developed by Leading Solutions, a Group company, while the contents also leverage Group synergies, such as partially being the responsibility of JAYTHREE, and going forward also, the plan is to launch a marketing site for each management consulting domain.

# Result trends

## FY3/22 sales and profits increased by double-digits with contribution from M&A effects

### 1. FY3/22 results overview

In FY3/22 consolidated results, the Company's net sales totaled ¥10,572mn (+14.7% YoY), operating profit, ¥926mn (+23.2%), ordinary profit, ¥931mn (+20.7%), and net profit attributable to owners of parent, ¥604mn (+21.2%), for increases in sales and profits for the first time in two years. Net sales and all profit figures exceeded the Company's forecasts.

**FY3/22 results**

(¥mn)

| | FY3/21 | | FY3/22 | | | | |
|---|---|---|---|---|---|---|---|
| | Results | Ratio to sales | The Company forecasts | Results | Ratio to sales | YoY | vs. forecast |
| Net sales | 9,213 | - | 10,200 | 10,572 | - | 14.7% | 3.6% |
| Gross profit | 4,107 | 44.6% | 5,270 | 4,785 | 45.3% | 16.5% | -9.2% |
| SG&A expenses | 3,355 | 36.4% | 4,370 | 3,859 | 36.5% | 15.0% | -11.7% |
| Operating profit | 751 | 8.2% | 900 | 926 | 8.8% | 23.2% | 2.9% |
| Ordinary profit | 771 | 8.4% | 900 | 931 | 8.8% | 20.7% | 3.5% |
| Extraordinary loss | 56 | 0.6% | - | 3 | 0.0% | - | - |
| Net profit attributable to owners of parent | 498 | 5.4% | 570 | 604 | 5.7% | 21.2% | 6.0% |

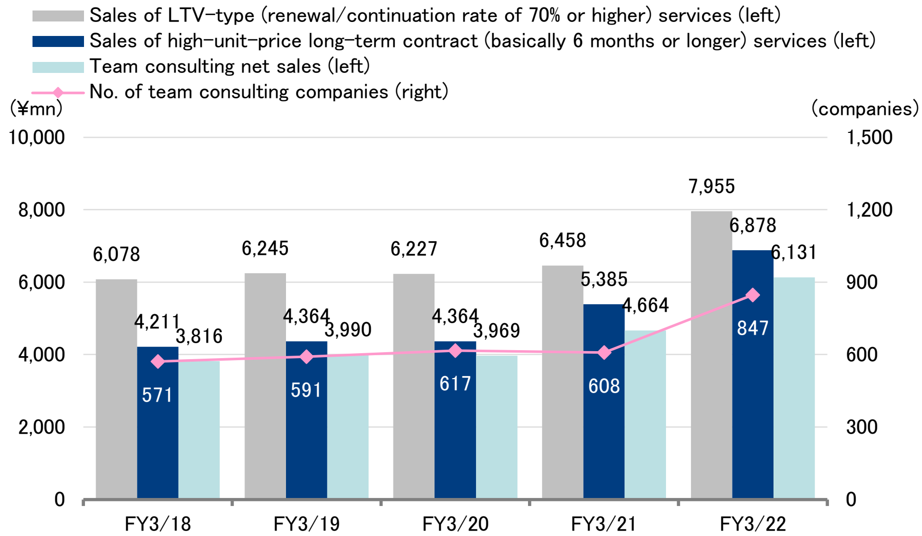
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Against the backdrop of companies' rising needs for business-model reforms, which has been accelerated by COVID-19, the number of companies with team consulting contracts and the order unit price both increased in domains including strategic consulting to build and reform business models and strategies, and DX consulting, and this was a factor behind the increase in sales. Other sales-increase factors were the contribution of the full-fiscal year net sales of Growin' Partners and the addition of five months of net sales of JAYTHREE after it newly entered the scope of consolidation, and the majority of the sales increase amount was as a result of the M&A. Net sales on a standalone basis increased to ¥9,072mn (+7.0%).

The gross profit margin increased from 44.6% in the previous period to 45.3% due to changes to the sales composition ratio. Due to COVID-19 in the previous period, among sales promotion products, there was special demand for products to prevent infections, which was recorded as net sales of ¥617mn. However, in FY3/22, these net sales declined greatly to ¥73m, but team consulting net sales, which have high added value, to ¥6,131mn (+31.5% YoY), and this was a factor behind the increase in the profit margin. By company, the profit margins of the Company on a standalone basis and of Leading Solutions rose. Gross profit was 9.2% below the Company forecast, but this was because at the initial-forecasts stage, subsidiary expenses were grouped together and recorded in SG&A expenses, and the amount that gross profit was below the Company forecast was basically the same as this increase amount of SG&A expenses. The main reasons for the increase in SG&A expenses included subsidiary expenses due to the M&A and also as amortization of goodwill increased ¥30mn. In addition, looking on a fiscal-quarter basis, in the 4Q (January to March 2022), operating profit decreased 19.4% YoY, but this was because of the increase in the allowance for bonuses and also the implementation of upfront investment.

Looking at net sales by type of contract, net sales of LTV-type services increased to ¥7,955mn (+23.2% YoY), while net sales of high-unit-price long-term contract services rose to ¥6,878mn (+27.7%), so both achieved double-digit sales growth. The number of companies with a team consulting contract (average during the period) increased by 239 to 847 companies and set a new record high. The increase in the number of companies with a team consulting contract was mainly from the contributions of Group companies such as Growin' Partners, but the number was also a new record high on a Company standalone basis. As previously explained, as a marketing strategy for the Group as a whole, marketing sites were newly opened and large-scale free online presentations and presentations held jointly with Group companies were held, which is considered to be one reason why many leads were acquired. The large-scale online presentations were held nine times and in total more than 1,200 people participated in them. The themes of the jointly held presentations included DX and cross border M&A, and they proved popular.

**Trends in the number of team consulting companies and net sales**




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

**(1) Strategic consulting**

Looking at how sales trended by management consulting domain, in Strategic consulting, net sales increased to ¥5,940mn (+18.5% YoY). Within it, in domain & function consulting, needs were strong for themes such as "Building and progressing a medium- to long-term vision" and "Building a business model and growth strategy," and also for "SDGs businesses," "Strategies for overseas business development and withdrawing from overseas," and "Reviewing the earnings structure," and the total number of team consulting contracts grew.

In HR consulting, inquiries increased from major companies and listed companies for themes including "Rebuilding the human resources system (work style reforms and job-based employment)," and "Establishing an FCC Academy (in-house corporate university)," and the number of team consulting contracts grew. In M&A and alliance consulting, sales increased because the Company's M&A consulting performed strongly and also from the contributions of the full fiscal year net sales of Growin' Partners and the conclusion of contracts for large scale projects. In alliance consulting, collaborations with major financial institutions are accelerating and customer creation is progressing favorably. In regional consulting, the Group is leveraging its strength of having a consulting model that is rooted in local regions, and the number of contracts with major companies and with excellent medium-sized companies increased in every region and results were excellent.

**(2) DX consulting**

In DX consulting, net sales increased to ¥1,308mn (+107.6% YoY). In addition to one-stop consulting, from the formulation of a digital marketing strategy through to its implementation and improvement, projects increased including DX assistance for back-office work, such as conceptual assistance for introducing IT and assistance for introducing ERP, so net sales grew. The contribution of the full fiscal year sales of Growin' Partners in the relevant fields and also the addition of five months of sales of JAYTHREE were also sales-increase factors.

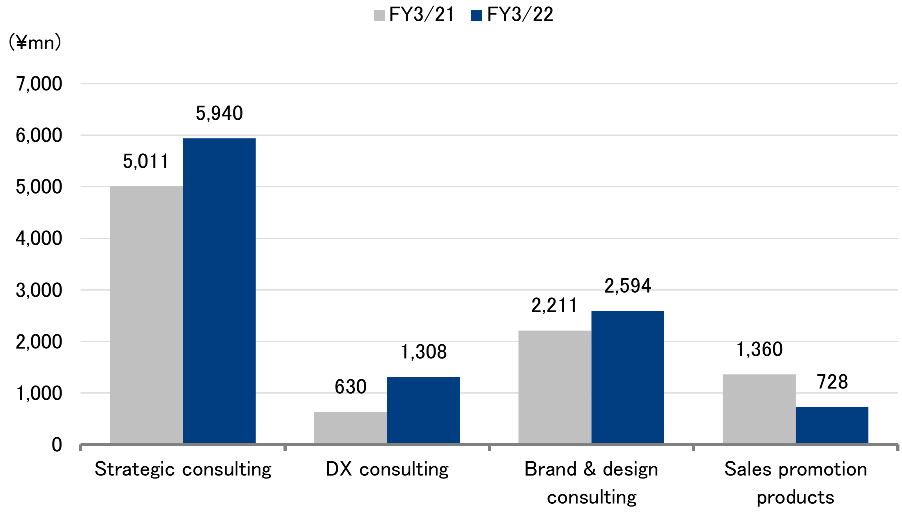
**(3) Brand & design consulting**

In Brand & design consulting, net sales increased to ¥2,594mn (+17.3% YoY). The same as in the previous period, sales were impacted by the cancellations and postponements of events during the COVID-19 pandemic. However, the number of team consulting contracts, including for branding for strongly performing industries, SNS marketing for large companies, Web promotions, the number of CX design, and creative projects, increased.

**(4) Sales promotion products**

In Sales promotion products, net sales decreased to ¥728mn (-46.4% YoY). As previously explained, this decline was a rebound to the special demand in the previous period due to COVID-19 for products to prevent infections, while it was also because of the overall decline of promotions products, such as due to the cancelling of events. Sales of blue diaries also decreased slightly.

**Management consulting sales by domain**




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

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

### 2. Financial condition and management indicators

At the end of FY3/22, total assets had increased ¥418mn on the end of the previous period to ¥13,824mn. The main change factors were that in current assets, cash, deposits, and securities increased ¥120mn and accounts receivable-trade rose ¥252mn due to the increase in consulting contracts. In non-current assets, assets related to retirement benefits increased ¥55mn, but there were decreases of long-term deposits and investment securities of ¥62mn, goodwill of ¥23mn, and property, plant and equipment of ¥14mn. The total of long-term and short-term cash, deposits and securities increased ¥58mn on the end of the previous period to ¥8,755mn and their percentage of total assets is 63.3% and continues to be maintained at a high level.

Total liabilities increased ¥332mn on the end of the previous period to ¥2,307mn. In current liabilities, there were increases of accounts payable-trade of ¥90mn, income taxes payable of ¥115mn, and advances received of ¥119mn. In non-current liabilities, long-term borrowing rose ¥29mn following the increase in subsidiaries, but the provision for retirement benefits for directors (and other officers) decreased ¥208mn. Net assets increased ¥86mn on the end of the previous period to ¥11,517mn, as although net profit attributable to owners of parent of ¥604mn was recorded, there were expenditures of ¥490mn for dividend payments and ¥63mn to acquire treasury shares.

Looking at the management indicators, the equity ratio was 81.0% and the Company continues to maintain it a high level, while it also has an abundance of cash, deposits and securities of more than ¥8bn and is maintaining effectively debt-free management, so it can be judged to be highly financially sound. In the indicators of profitability, ROE, ROA, and the operating margin all changed direction and increased YoY, although they have not yet recovered to the levels of two periods ago. It seems that this was due to the profitability of the subsidiaries that joined the Group through M&A being low compared to the Company's standalone profitability. In fact, looking at the operating margin on a standalone basis, it was 10.8% in FY3/20 and by FY3/22 it had recovered to almost the same level at 10.3%. Among the subsidiaries, it appears Growin' Partners' contribution to profits in FY3/22 was small because it invested in human resources. Going forward, the Company has clarified its policy that it will conduct around two more M&As and it is possible that profitability will change depending on these projects. But if looking in the medium term, at FISCO we expect profitability to further improve through the creation of Group synergies.

Balance sheet and management indicators

(¥mn)

| | End of FY3/19 | End of FY3/20 | End of FY3/21 | End of FY3/22 | Change |
|---|---|---|---|---|---|
| Current assets | 7,027 | 7,732 | 8,889 | 9,329 | 439 |
| (cash, deposits, and securities) | 6,138 | 6,936 | 8,078 | 8,199 | 120 |
| Non-current assets | 5,742 | 5,237 | 4,516 | 4,495 | -20 |
| (long-term deposits and investment securities) | 2,453 | 2,178 | 618 | 555 | -62 |
| Total assets | 12,769 | 12,969 | 13,405 | 13,824 | 418 |
| Current liabilities | 1,679 | 1,642 | 1,418 | 1,856 | 437 |
| Non-current liabilities | 374 | 375 | 556 | 451 | -105 |
| Total liabilities | 2,054 | 2,018 | 1,975 | 2,307 | 332 |
| (Interest-bearing debt) | - | - | 120 | 149 | 29 |
| Net assets | 10,715 | 10,951 | 11,430 | 11,517 | 86 |
| (management indicators) | | | | | |
| Equity ratio | 83.8% | 83.9% | 83.1% | 81.0% | -2.1pt |
| ROA | 7.9% | 7.8% | 5.9% | 6.8% | 0.9pt |
| ROE | 6.6% | 6.4% | 4.5% | 5.4% | 0.9pt |
| Operating margin | 10.7% | 10.5% | 8.2% | 8.8% | 0.6pt |
| Operating margin (standalone) | - | 10.8% | 8.3% | 10.3% | 2.0pt |

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

# Business outlook

## Will transition to a holding company structure on October 1, 2022. Intends to grow earnings and maximize the Group's enterprise value by building a structure that can leverage Group synergies to the greatest possible extent

### 1. FY3/23 results outlook

For the FY3/23 consolidated results, the outlook is that the higher sales and profits will continue for the second consecutive period, with net sales to increase to ¥11,250mn (+6.4% YoY), operating profit to grow to ¥1,015mn (+9.6%), ordinary profit to rise to ¥1,015mn (+9.0%), and profit attributable to owners of parent to increase to ¥640mn (+5.9%). These forecasts are the same as the numerical results targets in the medium-term management plan announced in May 2021. The sense of uncertainty about the future of business conditions in Japan is strengthening due to the rises in energy and food prices trigged by the Ukraine crisis. In this situation, to a certain extent these risk factors were incorporated into the forecasts in the 1H, and the Company is somewhat conservatively estimating that operating profit will increase 1.2% YoY. But needs for management consulting are strong rooted for themes such as formulating a medium-term vision and DX, developing human resources and reforming the personnel system, and M&A, and the Company's policy is to utilize its strength, of being to provide a one-stop service to companies' management, from strategy formulation (upstream) through to management implementation and operations at work sites that utilize digital technologies (midstream and downstream), to capture these demands and grow earnings. Sales of diaries in FY3/22 are forecast to be at the same level as in the previous fiscal year following their renewal and price revision.

FY3/23 results outlook

(¥mn)

| | FY3/22 Full-year results | FY3/23 | | | |
|---|---|---|---|---|---|
| | | 1H forecast | YoY | Full-year forecast | YoY |
| Net sales | 10,572 | 5,015 | 10.5% | 11,250 | 6.4% |
| Operating profit | 926 | 300 | 1.2% | 1,015 | 9.6% |
| Ordinary profit | 931 | 300 | -0.1% | 1,015 | 9.0% |
| Net profit attributable to owners of parent | 604 | 195 | -10.0% | 640 | 5.9% |
| Earnings per share (yen) | 35.06 | 11.31 | | 37.13 | |

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

In the 65th year since its establishment, the Company plans to transition to a holding company structure on October 1, 2022, to accelerate "One & Only- Creation of TCG, the New Globally Unrivaled Consulting Group." In this structure, Tanabe Consulting Group Co., Ltd., which will be the pure holding company, will be responsible for corporate head office functions and internal audit functions, while its subsidiaries will be Tanabe Consulting Co., Ltd., Leading Solutions Co., Ltd., Growin' Partners Inc., and JAYTHREE Inc. The objectives of establishing a holding company are to grow earnings and maximize Group enterprise value by the optimal allocation and efficient use of management resources across the Group and thereby to leverage synergies to the greatest possible extent. Toward achieving the targets in the medium-term management plan (2021 to 2025) "TCG Future Vision 2030," which is currently underway, the Company plans to conduct M&A in the future as well, and in this situation its policies are to build a structure for each business company to progress the business strategies, and also to improve the value of the human resources in the Group as a whole by targeting a top management structure that is required of companies listed on the Tokyo Stock Exchange (TSE) Prime Market and developing human resources to be the next generation of managers and leaders in each business company.

## Is focusing management resources in the Strategy & domain, Digital, HR, Finance, M&A, and Branding & marketing management consulting domains, targeting net sales of ¥15bn and operating profit of ¥1.8bn in FY3/26

### 2. Overview of the medium-term business plan

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

**Results goals**

(¥mn)

| | FY3/22 | | FY3/23 | FY3/24 | FY3/26 | CAGR |
|---|---|---|---|---|---|---|
| | Plan | Results | Plan | Plan | Plan | |
| Net sales | 10,200 | 10,572 | 11,250 | 12,300 | 15,000 | 9.1% |
| Operating profit | 900 | 926 | 1,015 | 1,230 | 1,800 | 18.1% |
| Operating margin | 8.8% | 8.8% | 9.0% | 10.0% | 12.0% | |
| ROE | - | 5.4% | - | - | 10.0% | |
| ROA | - | 6.8% | - | - | 15.0% | |
| Number of employees (people) | 480 | 495 | 560 | 640 | 800 | 12.8% |

Note: FY3/22- FY3/26 average annual growth rates
Source: Prepared by FISCO from the Company's financial results briefing materials

**Sales plans by management consulting domain**

(¥mn)

| | FY3/23 | FY3/26 | Increase | CAGR |
|---|---|---|---|---|
| Net sales | 11,250 | 15,000 | 3,750 | 10.1% |
| Strategy & domain | 2,750 | 3,000 | 250 | 2.9% |
| Digital | 2,450 | 5,000 | 2,550 | 26.8% |
| HR | 1,550 | 2,200 | 650 | 12.4% |
| Finance, M&A | 1,900 | 2,100 | 200 | 3.4% |
| Branding & marketing | 2,050 | 2,200 | 150 | 2.4% |
| Promotion tool | 550 | 500 | -50 | -3.1% |

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

The Company's numerical results targets for FY3/26, the plan's final fiscal year, are net sales of ¥15bn, operating profit of ¥1.8bn, ROE of 10%, and ROA of 15%, while with the FY3/22 results as the starting point, the targets for the four-year CAGR are 9.1% for net sales and 18.1% for operating profit. For profitability, it has raised the targets for FY3/22 from 8.8% to 12.0% for the operating margin and from 5.4% to 10.0% for ROE. Its strategy is to increase profitability through growth centered on team consulting services that have high added value. The five-year CAGR from FY3/15, which was before COVID-19, to FY3/20, were 3.6% for net sales and 5.3% for operating profit, and they continued to grow steadily. But since FY3/20, the strategy has been to accelerate growth by focusing on fields with high growth potential, such as DX assistance services, while also conducting an M&A strategy.

Since FY3/23, the Company has reorganized into six categories: five new management consulting domains of "Strategy & domain," "Digital," "HR," "Finance, M&A," and "Branding & marketing," in addition to "Promotion Tools." The domain that is forecast to achieve the greatest sales growth by FY3/26 is "Digital," with the target of approximately doubling net sales of ¥2,450mn in FY3/23 to ¥5,000mn. It is estimated that the "Digital" domain will work to provide nearly 70% of the total sales-increase amount. Conversely, the forecast for "Promotion tools" is for net sales to be basically unchanged, from ¥550mn in FY3/23 to ¥500mn. Each domain's business environment, sales forecast and strengthening points are described below.

**(1) Strategy & domain consulting**

In "Strategy & domain," steady growth is expected, with net sales to increase from ¥2,750mn in FY3/23 to ¥3,000mn in FY3/26 and CAGR of 2.9%. This domain involves management consulting services, including building medium- to long-term visions and business models, formulating management strategies such as for sustainability management, and constructing growth strategies for each business. It corresponds to the upstream part of the management consulting value chain, which is an area that the Company has excelled in since the past.

The sense of uncertainty about business conditions in the future is strengthening, and in this situation, companies are aware that themes such as building a medium- to long-term vision, strengthening the development of human resources, developing new businesses and services, and reforming business models are important management issues. So, the outlook is that consulting needs for these domains will tend strongly in the future as well. In this sort of environment, the Company is aiming to accumulate team consulting contracts by focusing on strategic themes, including building a management vision on themes like sustainability, developing new businesses, reforming business models, and SDGs, while it is also focusing on an industries x regions strategy.

**(2) Digital consulting**

In the "Digital" domain, high growth is forecast, with net sales to increase from ¥2,450mn in FY3/23 to ¥5,000mn in FY3/26, and CAGR of 26.8%. This domain provides various services, including formulating DX visions relating to management such as for business platforms and digital marketing (B-to-B and B-to-C), branding DX, CX design, recruitment websites, Academy Cloud, ERP & management, DX Cloud by industry, and operations DX. It also provides digital implementation and implementation promotion assistance services.

In the last few years, an increasing number of companies have been working on the DX of management. But in the regions, the situation is that companies working on DX are greatly lagging behind those in the metropolitan areas, and the Company is capturing this demand. It is an area in which the Company can utilize its strength, of operating 10 business offices nationwide, and at the same time it is an area in which it can leverage Group synergies, of referring these regional customer companies to Group companies such as Leading Solutions, Growin' Partners, and JAYTHREE. So, at FISCO, we think there remains plenty of room for growth in the future.

**(3) HR consulting**

In the "HR" domain, high growth is forecast, with net sales to increase from ¥1,550mn in FY3/23 to ¥2,200mn in FY3/26 and CAGR of 12.4%. This domain provides services including for strategic personnel, group personnel systems, recruitment & career design, human resources assessments, top management, the Academy service (establishing an in-house corporate university), employee engagement, and human resources development according to the job level.

Developing human resources is an important management issue for companies, and in listed companies as well, disclosing information on "human capital" is likely to be required in the future. Therefore, it is forecast that management consulting needs will rise even further in the future for initiatives such as human resources development programs and to achieve a work-life balance. Therefore, this can be said to be an excellent opportunity for the Company to increase sales. In this sort of environment, its policy is to focus on formulating systems including a strategic personnel system directly linked to the management strategy and an employee engagement system, introducing and managing a HRDX system, and developing the Academy Cloud service. It also considers M&A to be one strategic option for the HRDX domain.

**(4) Finance, M&A consulting**

In the "Finance, M&A" domain, steady growth is expected, with net sales to increase from ¥1,900mn in FY3/23 to ¥2,100mn in FY3/26 and CAGR of 3.4%. This domain provides optimized financial consulting according to a company's growth stage with the aim of maximizing enterprise value. It also provides a one-stop service, from collaborations with alliance partners such as for business succession and to convert a business portfolio, and building an M&A strategy including cross border deals, through to advisory and PMI (Post Merger Integration) services.

In this domain's business environment, business owners are becoming older, and in this context, the business-successions needs of small- and medium-sized companies are increasing. In large companies as well, a movement toward business reorganization and integration is becoming more active and it seems that there is plenty of room for growth. However, the Company has set a conservative sales forecast because the fluid elements in this domain, such as concluding contacts for projects, are strong.

In this domain, the strategy is to increase synergies while mutually utilizing the resources of Growin' Partners, which targets large companies as its main customers, and the Company, which targets companies ranging from small businesses through to medium-sized companies. They are focusing on projects for which demand is forecast to increase, including for business succession-type holdings management models, business-reorganization-type M&A, and cross border M&A projects.

**(5) Branding & marketing consulting**

In the "Branding & marketing" domain, steady growth is forecast, with net sales to increase from ¥2,050mn in FY3/23 to ¥2,200mn in FY3/26, and CAGR of 2.4%. This domain provides a one-stop service, from planning a communications strategy that improves customer CX (customer experience value) based on the management strategy by utilizing every type of data such as on markets and customers, through to implementation assistance and services in the creative domain.

In this domain's business environment, improving brand power that will lead to the transaction prices of products and services being maintained and increased has been positioned as one important management strategy, so it is forecast that consulting needs will steadily increase in this domain in the future as well. Based on this, the Company is aiming to strengthen DX assistance services in the creative field, including for purpose branding (inner & outer), corporate communication (PR and IR), reforming customers' communication models to improve CX (customer experience value), metaverse advertisements, SNS marketing, and design promotions, and thereby improve added value. In addition, PR, branding, and global marketing will be proactively considered as target areas for M&A.

## Accelerating growth through five growth models

### 3. Growth strategy

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

**(1) Implementing five TCG growth models**

**a) Professional DX service model**

The Company is aiming to achieve net sales of ¥15bn by deepening "consulting value (strategy formulation function)," which is its core value, at the same as expanding the new domain of "professional DX services (implementation and operations functions)," while also utilizing M&A.

As the Company's track record of M&A, as was previously explained, Leading Solutions has joined the Group in the digital marketing domain; Growin' Partners has joined in the Finance, M&A, and business DX domains; and JAYTHREE has joined in the branding and CX design domains. In the future also, it has clarified its policy of having around two more companies join the Group in the priority domains, which include the HR and PR domain and the global marketing domain. It intends to build a one & only management consulting value chain by expanding the foundation of "professional DX services." Within the FY3/26 sales target of ¥15bn, the Company expects approximately ¥2bn to be from the effects of the M&A, but at FISCO, we actually think that their sales-increase effect will be even greater from realizing Group synergies.

**b) 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.

**c) 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, workshops, marketing sites, etc.). It intends to achieve at least a 70% continuation rate for management consulting contracts and add new customers for 35% of its sales goal. In addition, the Company intends to find new consulting demand through follow-up with existing customers in the CRM consulting division and raise its average sales per customer by 10%.

**d) 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.

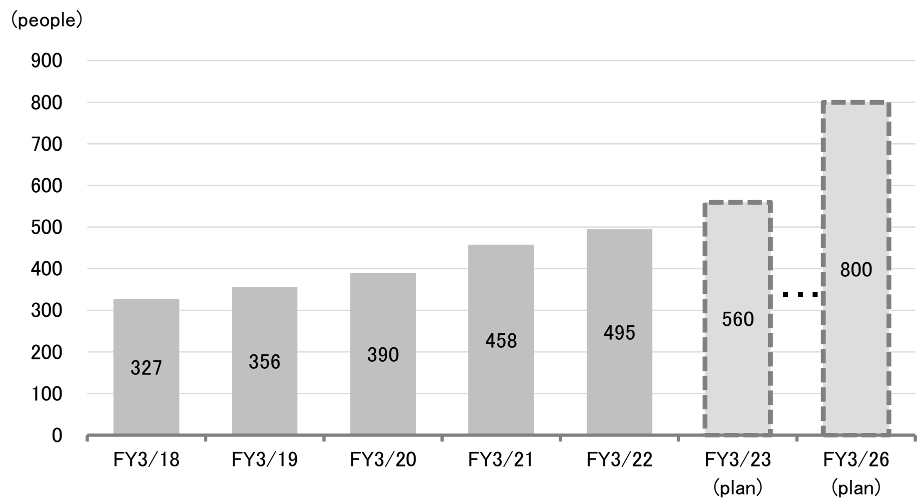
To double partner human resources over five years, the Company plans to strengthen hiring of external professionals, in addition to cultivation of human resources from inside the company, and has revised the personnel system to support this activity. FISCO thinks expansion of professional DX service 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) Academy model**

Through developing and supplementing the programs of "Tanabe FCC Academy," which is an education and training system that combines the online and offline and that was started as an in-house corporate university, the Company is working to update "TCG Academy" toward the early development of professional human resources (targeting two years). Also, as the Group strategy, in order to fully utilize the "TCG Academy," it is progressing initiatives including exchanges of human resources, sharing of programs, and adding an academy studio. Moreover, it plans to newly establish "TCG Leadership Academy" to develop partner human resources and "DX Academy" to develop digital human resources.

For employee recruitment in the future, the Company plans to progress recruitment at a pace of around 100 people a year. The recruitment of new graduates in 2022 was around 14 people, which is slightly less than in a typical year, but this was mainly due to COVID-19. However, it plans to further increase the number of recruits from 2023 onwards. Also, as the recruitment strategy after transitioning to a holding company structure, the policy is to strengthen recruitment capabilities through each business company conducting recruitment at the same time as starting Group recruitment. Through these initiatives, the plan is to increase the number of consolidated employees from 495 people in FY3/22 to 800 people in FY3/26.

**Trends in the number of employees**




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

**(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 promotion


**17 SDGs**

**Business actions: Solve social issues through consulting**

- 1: ① Productivity reform consulting (supply chain)
② New business development consulting
- 2: ① Productivity reform consulting (ICT utilization, etc.)
② BCP formulation consulting
- 4: ① FCC Academy (in-house corporate university) establishment consulting
② SDGs education (education for sustainable development (ESD))
- 5: ① D&I consulting
- 8: ① Domain consulting (business model and business strategy, longer-term vision, M&A strategy, etc.)
② HR consulting (personnel program, hiring, etc.)
- 9: ① FCC Academy (in-house corporate university) establishment consulting (training human resources to raise added value in manufacturing)
- 10: ① Domain consulting (business models and business strategy, longer-term vision, etc.)
② HR consulting (personnel system and wages)
③FCC Academy (in-house corporate university) establishment consulting
④ FCC seminars
- 11: ① Nationwide locality-based regional consulting (contribution to regional revitalization)
- 13: ① BCP (business continuity plan) formulation consulting
- 17: ① Co-creation innovation (promotion of alliances with companies and financial institutions)

**Corporate actions: Realization of sustainable management**

- 3: ① Promotion of sound management
- 4: ① Learning at the TCG FCC Academy
- 5: ① Promotion of TD&I (including wide-ranging utilization of women directors, executive officers, and managers)
- 8: ① Realization of high growth through promotion of the Group C&C strategy and TCB
② Productivity improvement and wage increases
③ Promotion of utilizing women and younger people
④ Reinforcement of personnel investments
- 10: ① Cultivation of human resources via the TCG FCC Academy, high wages and efficiency, rigorous commitment to performance and action
- 15: ① Greenification of the Osaka headquarters building

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

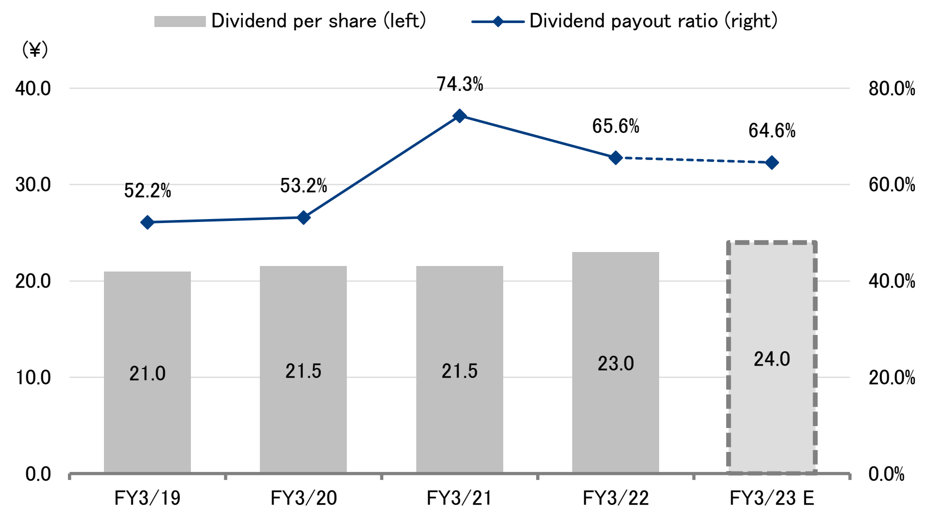
# Shareholder return policy

## Is planning diverse shareholder returns with a target payout ratio of 50%, and is also progressing measures to clear the standards to be listed on the Prime Market

The Company's shareholder returns policy from FY3/22 onwards is to target a total payout ratio of 50% while implementing growth investment and conducting diverse shareholder returns including not only dividends, but also buybacks of treasury shares. The Company implemented a 1:2 share split in October 2021 with the goals of improving share liquidity and expanding investor scope.

In FY3/22, the Company paid a ¥23.0 dividend (65.6% dividend payout), a ¥1.5 YoY increase, using share volume after the scheduled stock split. It plans to pay a ¥24.0 dividend (64.6% dividend payout) in FY3/23. 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.

Dividend per share and dividend payout ratio




Note: Consolidated values from FY3/20. Past dividend values have been retroactively revised because of a 1:2 share split conducted in October 2021
Source: Prepared by FISCO from the Company's financial results

Also, following the TSE's reorganization of its market categories, in April 2022 the Company's listing was transferred to the Prime Market. However, on the transfer-standards reference date (June 30, 2021), among the standards to maintain a listing on this market, the Company did not meet the standards for the tradable shares market capitalization amount and the average daily trading value*, so it is currently progressing measures to clear these standards in the future. It intends to clear the standard for the tradable shares market capitalization amount through achieving the targets in the medium-term management plan and also by working to raise the trading turnover rate, while its policy is to increase the daily average trading value by working on improving the trading turnover rate and name awareness. Toward improving the trading turnover rate, in FY3/22 the Company abolished the shareholder benefits program and alongside this, it increased the dividend (shareholder returns according to the number of shares held), introduced an interim dividend (enhancing opportunities for shareholder returns), conducted a share split (1:2), and conducted liquidity negotiations with holders of non-tradable shares, while in addition, in FY3/23 it plans measures including effectively utilizing treasury shares (introducing a transfer-limit share remuneration system for directors and employees). Toward improving name awareness, in FY3/22 the Company is working to proactively disseminate IR information by utilizing SNS and on strategic PR activities (PR, advertising, etc.). Also, in FY3/23 it is working on measures including the timely disclosure of materials, creating English versions of financial results and other materials, and creating quick transcripts of financial results briefing materials (in Japanese and English).

* The standard for the tradable shares market capitalization amount is ¥10bn and the Company's amount is ¥8.11bn, while the standard for the daily average trading value is ¥20mn and the Company's value is ¥6mn..

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