COMPANY RESEARCH AND ANALYSIS REPORT

TANABE CONSULTING GROUP CO., LTD.

9644

Tokyo Stock Exchange Prime Market

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FISCO Ltd. Analyst
Yuzuru Sato

FISCO Ltd.
https://www.fisco.co.jp

Index

Summary

Earnings continue to grow through one-stop support for large- and mid-size companies, from strategy formulation through to management implementation and operations

TANABE CONSULTING GROUP CO., LTD. <9644> (hereafter, also "the Company") is a management consulting pioneer in Japan in its 66th 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). A feature and a strength is that it is expanding its customer base and realizing long-term contracts through a top management approach.

On October 1, 2022, the Company transitioned to a pure holding company structure and at the same time, it changed its corporate name to the TANABE CONSULTING GROUPCO. LTD., while it continues to be listed on the Tokyo Stock Exchange (TSE) Prime Market. All of the management consulting businesses that were managed by the Company have been taken over by TANABE CONSULTING GROUP CO., LTD., the Company's newly established, wholly owned subsidiary. Also, Leading Solutions Co., Ltd., which provides digital shift support for B-to-B companies' sales, joined the Group in in October 2019; Growin' Partners Inc., which provides overall M&A assistance including for cross-border deals, and DX assistance to back-office departments, such as BPR (Business Process Re-engineering) and ERP (Enterprise Resource Planning), joined in January 2021; and JAYTHREE, Inc., a provider of branding, CX (customer experience) design, and marketing DX services, joined in December 2021, and the synergies generated by these companies are increasing through expanding the consulting menu and mutually sending customers to each other. Also, in February 2023, the Company announced a capital and business alliance with Kartz Media Works, Inc., whose strengths include strategic PR for large companies including foreign-affiliated companies, overseas PR, and support for digital marketing strategy formulation and operations.

The Tanabe Consulting Group's new structure

Source: The Company's results briefing materials

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1. Overview of the FY3/23 1H results

In the FY3/23 1H (April to September 2022) consolidated results, net sales increased 18.7% year-on-year (YoY) to ¥5,386mn and operating profit rose 102.9% to ¥601mn to set new record highs. So the results were excellent and exceeded the Company forecasts (net sales of ¥5,015mn and operating profit of ¥300mn). The main factors behind the higher sales and profits were that for net sales, progress was made in acquiring new customers by becoming able to respond to various consulting needs through synergies between Group companies, and also as the sales scale per company grew. All five management consulting domains (Strategy & domain, Digital and DX, HR, Finance and M&A, and Branding and marketing) achieved double-digit sales increases, and in particular, inquiries increased from large, listed companies, mid-size companies, and local governments.

2. FY3/23 results outlook

For the FY3/23 results outlook, based on the progress made up to the end of 1H, the Company upwardly revised the initial forecasts (net sales of ¥11,250mn and operating profit of ¥1,015mn) to net sales to increase 10.7% YoY to ¥11,700mn and operating profit to rise 24.1% to ¥1,150mn. In the 3Q, the Company will transition to a pure holding company structure and conduct branding and promotion investment, including in relation to its 65th anniversary, while it also plans to accelerate investment in human resources, but these investments will be absorbed by the effects of the higher sales. Despite the growing sense of uncertainty about the future of the economy, the situation at the current time is that inquiries continue to be active, so it seems likely that the forecasts will be achieved.

3. Medium-term business plan

The Company's results targets in its medium-term business plan are net sales of ¥15bn and operating profit of ¥1.8bn in FY3/26. It intends to utilize its strengths, of a management consulting value chain that provides one-stop support, from the management consulting upstream (strategy formulation) through to the midstream and downstream (management implementation and operations at work sites that utilize digital technologies), and providing services rooted in local communities from its business bases in 10 major cities nationwide, in order to expand all five management consulting domains. In particular, in the DX domain, in which demand is strong, it is considered to be accelerating growth by further strengthening its M&A strategy, while its policy for human-resources recruitment is to strengthen recruitment centered on mid-career hires. The number of employees will increase from 519 people at the end of September 2022 to 800 people in FY3/26. The synergies generated by the M&A are also starting to appear in results, so going forward as well, at FISCO, we think it is highly likely that the Company's earnings growth will accelerate and it will achieve its medium-term results targets.

Key Points

- Continues to grow based on its strength of a management consulting value chain able to provide one-stop assistance to company management
- In the FY3/23 1H results, sales increased by double digits in all the management consulting domains, and sales and profits rose and exceeded the initial forecasts.
- Has upwardly revised the FY3/23 results forecasts and the outlook is for net sales to achieve a new record high
- Is making steady progress toward the achieving the FY3/26 targets of net sales of ¥15bn and operating profit of ¥1.8bn

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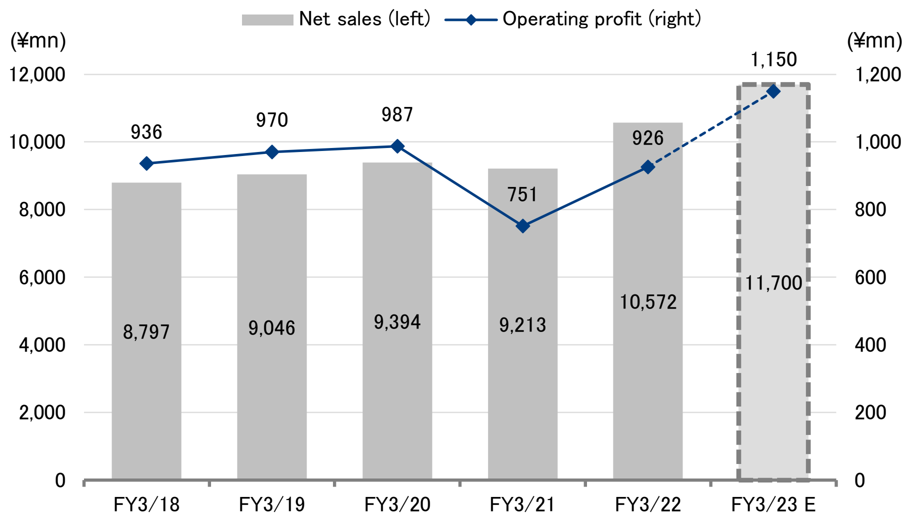
Performance trends



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

Business overview

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

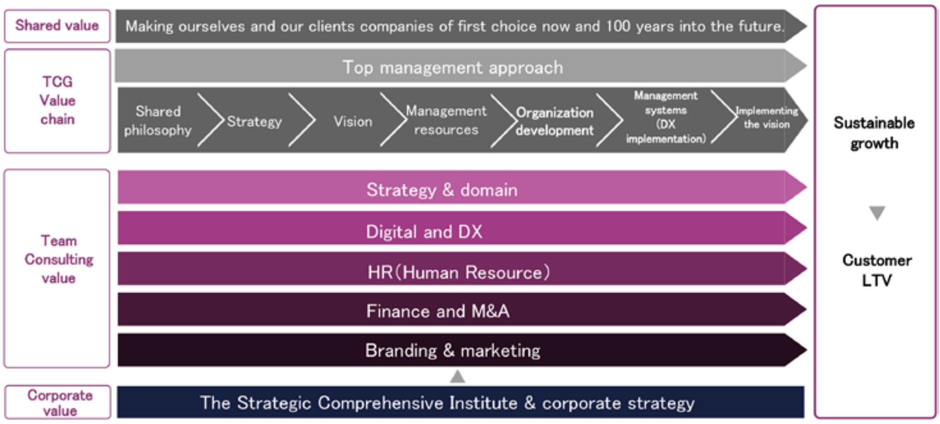
1. Company overview

The Company, which was founded in 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.

The main targets customers are the top management (presidents and managers) of large- and mid-size companies, and features of the Group are that in the domains of "Strategy & domain," "Digital and DX," "HR," "Finance and M&A," and "Branding and marketing," it provides one-stop support, from strategy formulation through to management implementation and operations, and realizes improvements to customers' lifetime value (LTV)*. In terms of its consulting style, it provides "team consulting" in which multiple professional consultants are selected and a team is formed that is tailored to the management issues facing each individual company.

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

The Company's management consulting value chain



Source: 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 management consulting services tailored to each region. Moreover, by establishing the Strategic Comprehensive Institute, which plans and directions 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 importance of digital marketing is increasing in the B-to-B business area as well, 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.

* 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.

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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, they are conducting a strategy of opening-up the markets for brand & design consulting and marketing DX nationwide by strengthening the business foundations of both companies

Kartz Media Works, which is scheduled to be made a subsidiary in February 2022 (planned investment ratio, 55.0%) has many employees who previously worked in the media and global human resources who serve as "PR consultants," and its strengths include strategic PR for large companies including foreign-affiliated companies, overseas PR, and support for digital marketing strategy formulation and operations. As strategic issues for top management, needs are increasing more and more for strategy formulation and implementation in the "publicity and PR" and "branding" domains, and in this situation, the policy is to combine the Company's findings and expertise in management consulting with Kartz Media Works' findings and expertise in domestic and overseas PR consulting and domestic and overseas digital marketing, and to work to strengthen the functions of existing services and to launch new services.

Forming the Group from these four companies strengthens TCG's management consulting value chain, and this constitutes a greater level of strength, and one 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, CX design, and various consulting needs, such as domestic and overseas PR, which are expected to accelerate going forward, and with its target customer range expanding from large companies to mid-size 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.

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" (providing team consulting methods that resolve the strategic and management issues facing presidents and top management), which is likely what is responsible for its high continuation rate.

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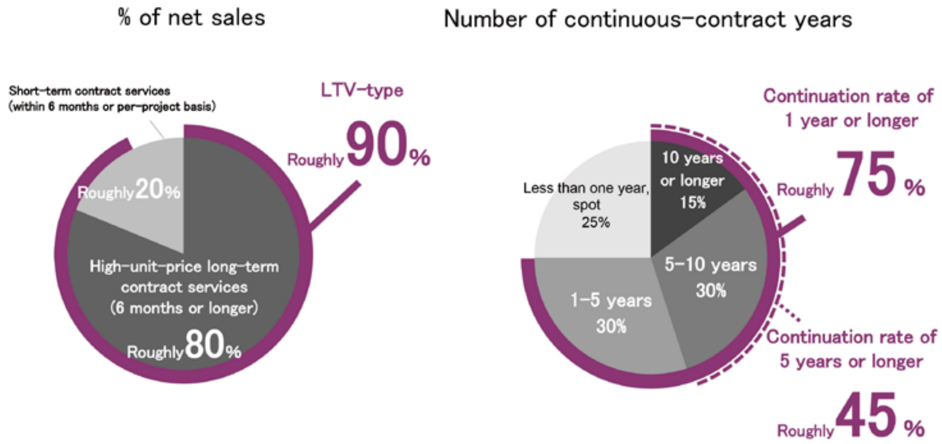
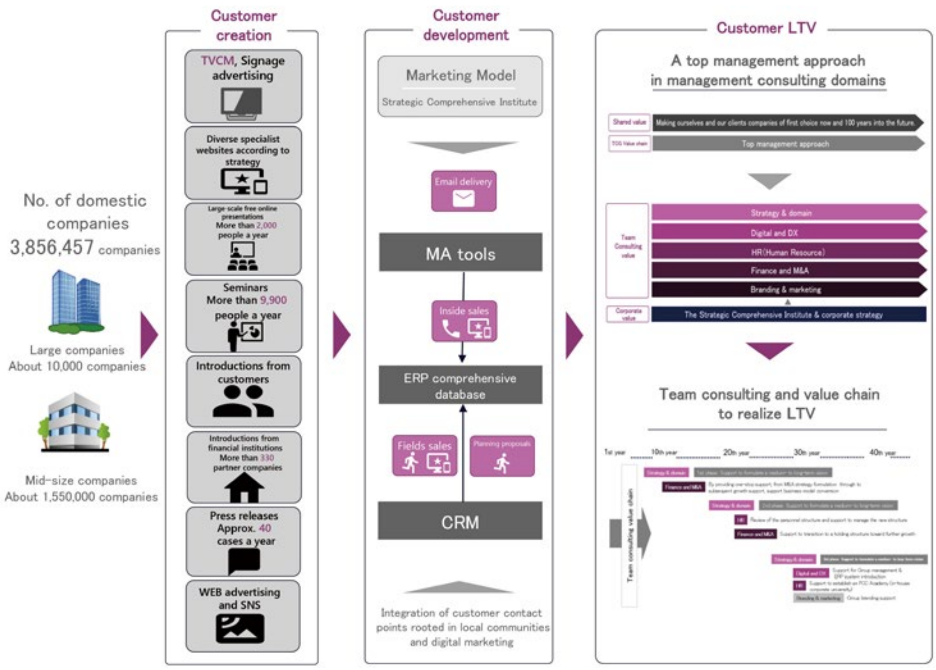
Model of stable earnings and growth



Source: The Company's results briefing materials

As the customer creation model, in addition to introductions from its existing customers and partner financial institutions, the Group creates contact points with new customers including providing digital marketing and holding large-scale free online presentations, and as well as providing team consulting services, it continuously provides services such as to the participants in human resources development seminars by industry and management themes and by employee level, which becomes a flow that creates loyal customers. Among the new customers for team consulting services, it seems that approximately 60% of them are companies that have participated in these workshops and various seminars. Moreover, since FY3/22 as the marketing strategy for the Group as a whole, it has been launching specialist marketing websites to solve customer problems and using them to acquire leads (potential customers). Specifically, it has been launching a variety of specialist websites for DX, long-term vision and medium-term business plan formulation, HR, business succession and M&A, corporate finance and M&A, SDGs management, and TCG REVIEW. It is acquiring leads through these websites and cases leading to a management consulting contract are increasing. Group synergies are also being generated, for example Group company Leading Solutions is responsible for developing the marketing website, while JAYTHREE is responsible for developing some of its content. In addition, the Group companies are actively holding joint presentations.

From customer creation through to LTV realization



Source: The Company's results briefing materials

Result trends

The FY3/23 1H results were excellent, with sales increasing by double digits in all management consulting domains and higher sales and profits that exceeded the initial forecasts

1. FY3/23 1H results overview

In FY3/23 1H consolidated results, the Company's net sales totaled ¥5,386mn (+18.7% YoY), operating profit, ¥601mn (+102.9%), ordinary profit, ¥606mn (+102.0%), and net profit attributable to owners of parent, ¥386mn (+78.4%). The results were excellent, setting new record highs and every item being higher than the initial Company forecast.

FY3/23 1H results

(¥mn)

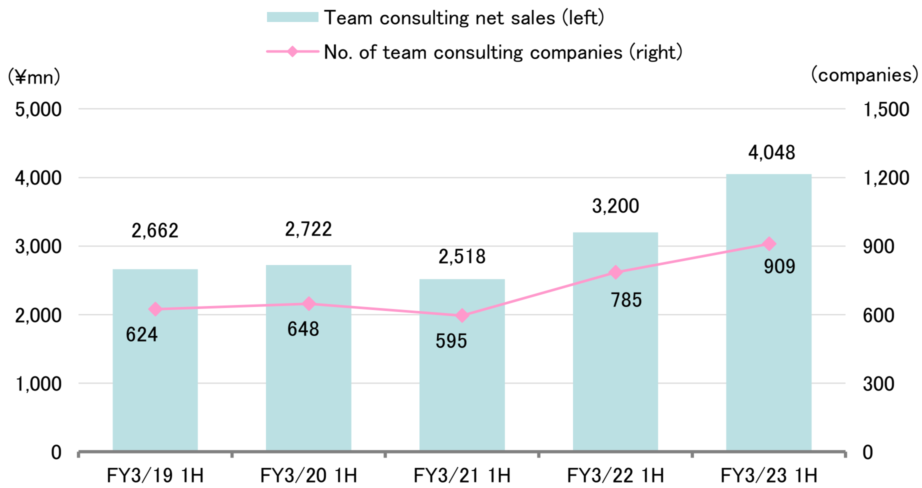
	FY3/22 1H		FY3/23 1H				
	Results	Ratio to sales	The Company forecasts	Results	Ratio to sales	YoY	vs. forecast
Net sales	4,536	-	5,015	5,386	-	18.7%	7.4%
Gross profit	2,141	47.2%	-	2,478	46.0%	15.8%	-
SG&A expenses	1,844	40.7%	-	1,877	34.9%	1.8%	-
Operating profit	296	6.5%	300	601	11.2%	102.9%	100.4%
Ordinary profit	300	6.6%	300	606	11.3%	102.0%	102.1%
Profit attributable to non-controlling interests	-16	-	-	26	-	-	-
Net profit attributable to owners of parent	216	4.8%	195	386	7.2%	78.4%	98.3%

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

Due to factors including the sharply rising energy prices and price increases triggered by the increase in geopolitical risk in Ukraine and the acceleration of the weak yen, the environment has been one in which the sense of uncertainty about the future of corporate earnings has increased. However, the Group planned a business strategy to respond to the with- and after-COVID-19 eras and progressed a DX strategy, and net sales increased by double digits in all the management consulting domains, including M&A support. It seems that the effects appeared of the initiatives conducted in the last one or two years towards growth, including the joint development of a management consulting menu and mutually sending customers between the Group companies, and acquisitions of potential customers through the specialist marketing websites. In particular, the increase in inquiries from large listed companies, mid-size companies, and local governments was noticeable.

Within the net sales, team consulting contract net sales increased 26.5%YoY to ¥4,048mn, and the average number of contracting companies during the period rose 15.8% to 909 companies. Both were new records highs and its percentage of total net sales increased from 70.5% in the same period in the previous fiscal year to 75.2%. This was partially from the effect of the new addition of JAYTHREE, but also from the effects of the growth of net sales and the numbers of contracting companies in the existing business companies as well, and every KPI was higher than in the same period in the previous year.

Trends in the number of team consulting companies and net sales



Note: team consulting = monthly contract-type consulting (Strategy & domain, Digital and DX, HR, Finance and M&A, and Branding and marketing), while the number of companies is the average number of contracting companies during the period
Leading Solutions results included in consolidation since FY3/21 1H
Growin' Partners results included since FY3/22 1H
JAYTHREE results included since FY3/23 1H
Source: Prepared by FISCO from the Company's financial results briefing materials

The gross profit margin declined from 47.2% in the same period in the previous fiscal year to 46.0%, but this was mainly because a subsidiary that had previously recorded consultant labor costs (approximately ¥90mn) in SG&A expenses changed to recoding them as sales costs, and in actual terms it is considered to have risen. SG&A expenses increased ¥32mn YoY due to the investments in human capital and branding.

Due to the effect of the higher sales, the operating profit margin rose considerably, from 6.5% in the same period in the previous year to 11.2%. The 1H operating profit margin exceeded 10% for the first time in four periods, since FY3/19. At that time, the results were standalone values and subsequently the profit margin temporarily declined in the processing of increasing subsidiaries through M&A, but it appears that the subsidiaries' profitability has improved from the effects of the synergies. At both Leading Solutions and Growin' Partners, sales and profits increased in line with the Company forecasts, while in JAYTHREE also, which was made a subsidiary in December 2021, it seems results trended in line with the forecasts. As a result of the growth of earnings in these subsidiaries, profit attributable to non-controlling interests improved to ¥26mn (a loss of ¥16mn in the same period in the previous year), which was the main reason why the increase rate of net profit attributable to owners of parent was below that of ordinary profit.

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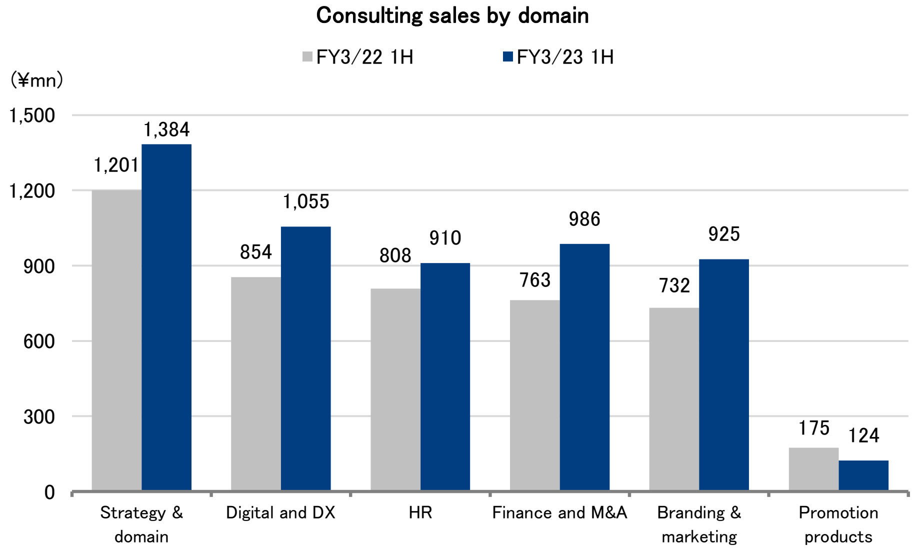

Source: Prepared by FISCO from the Company's financial results

(1) Strategy & domain

In Strategy & domain, which supports the formulation of business strategies and visions, the innovation necessary for sustainability management, SDGs, and optimized business model reforms such as for new businesses, net sales increased 15.2% YoY to ¥1,384mn. In terms of the strongly performing order themes, "Formulating and progressing a medium- to long-term vision" increased 17.8% and "Implementing SDGs" rose 12.3%, and in particular, the increase in large-scale contracts for large companies, listed companies, and regional local governments was noticeable. For regional local governments, since FY3/23 the Group has been forming specialist teams to actively work on initiatives, and as a result, it has obtained consulting projects for regional industrial promotion projects and public services. The Group's policy is to utilize its strength, of developing business bases in the major cities nationwide, to further strengthen in the public field in the future as well.

As new consulting services, the Group is developing and promoting "Consulting support for building a CX strategy" and "Consulting support for formulating an equity story toward an IPO," and as measures to acquire leads, it has launched the "SDGs specialist website" and also the "Vision and medium-term business plan formulation specialist website."

(2) Digital and DX

In the Digital and DX domain, which provides supports from the formulation of a DX strategy and vision to the specific implementation and execution of four DX domains (business models, marketing, management, and HR), net sales increased 23.5% YoY to ¥1,055mn. As well as the new addition of JAYTHREE's sales, sales trended strongly at Growin' Partners and the other business companies. BPO (support for financial work, such as financial statements) and ERP replacement projects for large listed companies and government organizations, and projects for the planning of branding strategies for large listed companies, regional listed mid-size companies, and government administrative corporations, and also for producing branding websites as the output of this planning, performed well.

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In terms of the strongly performing order themes, “Management DX (DX vision, ERP replacement, etc.)” increased 13.6% YoY and “Marketing DX (digital marketing website production, etc.)” rose 10.2%. Among mid-sized and smaller companies, there remain many companies that have still not introduced ERP while only a few of such companies have IT human resources, so the potential demand in this area is huge and the busy business conditions are continuing. As new consulting services, the Group has developed and is progressing “Consulting for building a DX vision & roadmap” and “Consulting to support concepts to introduce IT.”

Four DX domains

Business model DX	Earnings model reforms through the DX of business models themselves, including the subscription model, and labor saving and automation in the value chain
Marketing DX	In order to discover and develop leads, implementation of webpage production and advertising management, SEO, ABM, MA tools, etc. (digitalization of customer-creation activities)
Management DX	Data analysis and utilization using AI, work reforms through implementing RPA, strengthening the in-company infrastructure and labor saving including through constructing an integrated database by introducing ERP
HR DX	Improving efficiency and realizing increased elaboration through systemizing human resources data, and optimizing performance and engagement through data management

Source: The Company’s results briefing materials

(3) HR

In the HR domain, which defines the human resources portfolio (the optimal distribution of human capital, decisions on organizational development, etc.) based on the HR vision and provides a strategic human resources system and education and training services derived from recruitment, development, activities, and employee retention, net sales increased 12.7% YoY to ¥910mn. Leads from large companies and listed companies increased via the “HR strategy specialist website,” while results were strong for the implementation of human capital management, which includes human capital strategic human resources and succession plans for large companies and mid-size listed companies, and talent management. The number of team consulting contracts also grew.

As the strongly performing orders, “Building a human resources system” increased 28.8% while “Establishing an academy (in-house corporate university)” grew significantly, increasing 89.4%. Amid the chronic labor shortage, the situation is that recruiting, training, and retaining employees has become a major issue for companies’ management and each company is strengthening measures to improve their employee engagement, so demand is strong in the HR domain as well. “Academies (in-house corporate universities)” are a cloud-based service that makes it possible to educate and train company employees online, and demand from companies is increasing as it has appeal points for the recruitment aspect (it has been introduced by more than 150 companies).

Other than the above, approximately 1,800 people participated in the human resources seminars “First Call Company Forum 2022” through holding on-demand events in the metaverse format. Also, approximately 800 managers and executives participated in the “Next Leader Candidates Training School.”

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(4) Finance and M&A

In this domain, which provides one-stop services relating to business succession, strategic business expansion, financial advisory (FA) including cross border, and M&A including due diligence and PMI, net sales increased 29.2% YoY to ¥986mn. The number of leads acquired from large companies and listed companies increased via the “business succession and M&A strategy specialist website,” while the total number of team consulting contracts also steadily rose. In particular, large-scale contracts increased, including for creating a holding structure and group management support for regional, listed, mid-size companies, the strategic reorganization of overseas businesses for large regional companies, and building a consolidated financial system for large companies and listed companies, which contributed to the increase in sales. Also, needs for “Overseas business development strategy (including cross-border M&A)” in collaboration with alliance partners such as financial institutions, and business succession and M&A seminars in collaboration with regional local governments, steadily increased. In terms of the strongly performing orders, “Creating a holdings structure and group management” increased 4.8% and “M&A (from strategy formulation through to FA, due diligence, and PMI)” rose 15.5%.

(5) Branding & marketing

In the branding and marketing domain, which provides one-stop services based on the purpose and management strategy, from planning a communication strategy in order to improve CX at customers through to implementation support and creative, net sales increased 26.2% YoY to ¥925mn.

Results were strong for creative and design for large companies (the beauty and cosmetics industry, food industry, educational institutions, etc.), and branding and marketing (online x offline hybrid support, from SNS marketing of products and services through to store promotions) for regional, listed, mid-size companies, and the number of team consulting contracts also increased. In terms of the strongly-performing themes, “Creative & design (SNS marketing, planning of character tie-ups, etc.)” increased 8.5%.

(6) Promotion products

In promotion products, which provides tools to support companies’ promotion activities, net sales decreased 29.2% YoY to ¥124mn. The Group is conducting sales activities that prioritize profits so sales decreased, but progress was made basically as planned. For promotion products’ net sales, in a typical year, sales of the Blue Diary (notebook) tend to be concentrated in 3Q, but going forward, the intention is to level-out sales, including by pushing forward the period of ordering activities.

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 FY3/23 1H, total assets had increased ¥274mn on the end of the previous period to ¥14,099mn. Looking at the main change factors, in current assets, cash, deposits, and securities (including deposit monies) increased ¥206mn and accounts receivable-trade decreased ¥57mn. In non-current assets, property, plant, and equipment increased ¥15mn and goodwill decreased ¥29mn.

Total liabilities increased ¥145mn on the end of the previous period to ¥2,452mn, Non-current liabilities decreased ¥28mn, but advances received increased alongside the rise in consulting contracts. Net assets increased ¥128mn on the end of the previous period to ¥11,646mn. Although there was a dividend payment of ¥274mn, net profit attributable to owners of parent of ¥386mn was recorded, so retained earnings increased ¥112mn.

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Looking at the management indicators, the equity ratio was 80.2% and the Company continues to maintain it a high level, while it also has an abundance of cash, deposits and securities of more than ¥7.6bn and is maintaining effectively debt-free management, so it can be judged to be highly financially sound. In terms of the uses of the cash on hand, the Company's policy is to allocate it to investment for growth (including M&A) and to returns to shareholders.

Consolidated balance sheet

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23 1H	Change
Current assets	7,732	8,889	9,329	9,594	264
(cash, deposits, and securities)	6,936	8,078	8,199	7,605	-593
Non-current assets	5,237	4,516	4,495	4,502	6
Total assets	12,969	13,405	13,824	14,099	274
Current liabilities	1,642	1,418	1,856	2,030	174
Non-current liabilities	375	556	451	422	-28
Total liabilities	2,018	1,975	2,307	2,452	145
(Interest-bearing debt)	-	120	149	134	-15
Net assets	10,951	11,430	11,517	11,646	128
(management indicators)					
Equity ratio	83.9%	83.1%	81.0%	80.2%	-0.8pt

Note: FY3/23 1H cash, deposits and securities includes deposit monies of ¥800mn
Note: Consolidated values from FY3/20
Source: Prepared by FISCO from the Company's financial results

Business outlook

Has upwardly revised the FY3/23 results forecasts and net sales is expected to set a new record high

1. FY3/23 results outlook

For the FY3/23 consolidated results, the outlook has been revised upward from the initial plan, with net sales to increase to ¥11,700mn (+10.7% YoY), operating profit to grow to ¥1,150mn (+24.1%), ordinary profit to rise to ¥1,150mn (+23.4%), and profit attributable to owners of parent to increase to ¥720mn (+19.1%). Net sales are forecast to once again set a new record high.

FY3/23 results outlook

(¥mn)

	FY3/22 Full-year results	FY3/23				1H progress
		Initial plan	Revised plan	YoY	Revised amount	
Net sales	10,572	11,250	11,700	10.7%	450	46.0%
Operating profit	926	1,015	1,150	24.1%	135	52.3%
Ordinary profit	931	1,015	1,150	23.4%	135	52.7%
Net profit attributable to owners of parent	604	640	720	19.1%	80	53.7%
Earnings per share (yen)	35.06	37.13	41.97			

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

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The sense of uncertainty about the future of the Japanese economy is strengthening, but needs are strong for management consulting on themes including mid-term vision formulation and DX, human resources development and personnel system reforms, and M&A. So it forecast that in the 2H as well, that sales will continue to trend upward as the Group utilizes its strength of being able to provide one-stop support for company management, from strategy formulation (upstream) through to management implementation and operations at worksites that utilizes digital technologies (from midstream to downstream). The rates of progress at the end of 2Q toward achieving the full fiscal year forecasts were 46.0% for net sales and 52.3% for operating profit, which are above the average rates of progress for the most recent 3 years (43.4% for net sales and 30.0% for operating profit)*. The Company's results peak in the 3Q, which is when sales of the Blue Diary are concentrated, and in a typical year sales tend to be concentrated in the 2H. But in FY3/23 3Q, it plans to invest a total of ¥70mn to ¥80mn for branding and promotions for its 65th anniversary and for the transition to a pure holding company structure. It also plans to actively invest in human resources, and therefore the forecasts on a profits basis have been slightly kept down for the 2H.

* Average rates of progress = 1H results total ÷ full year results total for the most recent 3 periods

On October 1, 2022, the Company transitioned to a pure holding company structure. The structure is that TANABE CONSULTING GROUP, which became the pure holding company, is responsible for the corporate headquarters functions and internal audit functions, while the businesses are conducted by four companies of TANABE CONSULTING, Leading Solutions, Growin' Partners, and JAYTHREE as the business companies. The objectives of becoming a holding company are to aim for the optimal distribution and efficient utilization of management resources across the Group, to grow earnings by leveraging synergies to the greatest possible extent, and to maximize the Group's enterprise value. Toward achieving the targets in the medium-term business plan (2021 to 2025) "TCG Future Vision 2030," which is currently being progressed, going forward as well the Company's policy it to aim to improve the value of the human resources in the entire Group by progressing a growth strategy including M&A, building a top-management system required of companies listed on the TSE Prime Market, and developing the next generation of management and leaders in each of the business companies.

Is making steady progress toward achieving the FY3/26 targets of net sales of ¥15bn and operating profit of ¥1.8bn

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.

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. It increases 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 promoting an M&A strategy. As a result of the collaborative efforts by the subsidiaries that joined the Group through M&A, including the joint development of a consulting menu and mutually sending each other customers, the effects of Group synergies are also appearing in results, including leading to an increase in the number of team consulting contracts and a rise in net sales per customer. So the Group can be highly evaluated for making steady progress up to the current stage.

Results targets

(¥mn)

	FY3/22		FY3/23		FY3/24 Plan	FY3/26 Plan	CAGR*
	Plan	Results	Initial plan	Revised plan			
Net sales	10,200	10,572	11,250	11,700	12,300	15,000	9.1%
Operating profit	900	926	1,015	1,150	1,230	1,800	18.1%
Operating margin	8.8%	8.8%	9.0%	9.8%	10.0%	12.0%	
ROE	-	5.4%	-	-	-	10.0%	
ROA	-	6.8%	-	-	-	15.0%	
Number of employees (people)	480	495	560	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

As the breakdown of net sales, since FY3/23 the Company has categorized management consulting into 5 domains of "Strategy & domain," "Digital and DX," "HR," "Finance and M&A," and "Branding and marketing," to which it has added "Promotion products" to disclose sales for 6 categories. For the FY3/23 net sales, it has upwardly revised the initial net sales forecast by ¥450mn, upwardly revising the forecasts for all of the categories. Among them, it increased the sales forecast for the HR field by ¥170mn. It seems that the main reason for this is that amid the rise in companies progress sustainability management, consulting needs are increasing on the themes of establishing an environment to realize diverse workstyles and personnel system reforms. Also, it increased the promotion products forecast by ¥100mn, but the main reason for this was that it previously set a conservative forecast.

"Digital and DX" is the domain in which sales are forecast to increase the most by FY3/26, targeting an approximately double increase from ¥2,460mn in FY3/23 to ¥5,000mn. The other management consulting domains are forecast to achieve single digit growth as their average annual growth rate. But the potential demand in each domain is large, so depending on developments in the future, at FISCO we think it is fully possible that results will exceed the forecasts. Conversely, "Promotion products" is a field that the Company is not focusing on and its forecast is conservative, to decrease from ¥650mn in FY3/23 to ¥500mn, and the outlook is that Blue Diary sales will continue to trend from unchanged to a slight decrease. The business environments, sales forecasts, and strengthening points in each domain are described below.

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Sales target by management consulting domain

(¥mn)

	FY3/23			FY3/26 target	CAGR*
	Initial plan	Revised plan	Revised amount		
Net sales	11,250	11,700	450	15,000	8.6%
Strategy & domain	2,750	2,760	10	3,000	2.8%
Digital and DX	2,450	2,460	10	5,000	26.7%
HR	1,550	1,720	170	2,200	8.6%
Finance and M&A	1,900	1,970	70	2,100	2.2%
Branding & marketing	2,050	2,140	90	2,200	0.9%
Promotion products	550	650	100	500	-8.4%

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

(1) Strategy & domain

In "Strategy & domain," steady growth is expected, with net sales to increase from ¥2,760mn in FY3/23 to ¥3,000mn in FY3/26 and CAGR of 2.8%. 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 the future of the economy is strengthening, and in this situation, consulting needs for strategic themes, including building a medium- to long-term vision and new business development, business model reforms, a global strategy, and SDGs, have become deep rooted in large and medium-sized companies. To meet these needs, the Company's policy is to accumulate team consulting contracts by a top management approach that is rooted in local communities.

(2) Digital and DX

In the "Digital and DX" domain, the forecast is for high growth, with net sales to increase from ¥2,460mn in FY3/23 to ¥5,000mn in FY3/26 for an average annual growth rate of 26.7%. In this domain, consulting needs are strong on themes including hybrid marketing through the real and digital in the with-COVID-19 era, the introduction and management of ERP systems according to industry, productivity reforms through DX, UX/CX design, branding DX, recruitment marketing, and supply chain management, and the Group is working to capture these needs.

In the last few years, an increasing number of companies have been working on management DX, but in regional companies and mid-size and smaller companies, the situation is that there is a shortage of DX human resources and that their DX initiatives are lagging behind compared to those of large companies in the Tokyo metro area. For the Company, this is an area in which it can utilize its strength, of developing 10 business bases nationwide, and at the same time, it is an area in which Group synergies can be leveraged, such as introducing customer companies in these regions to business companies like Leading Solutions, Growin' Partners, and JAYTHREE, which will lead to orders. So at FISCO, we think that going forward there remains plenty of room for growth.

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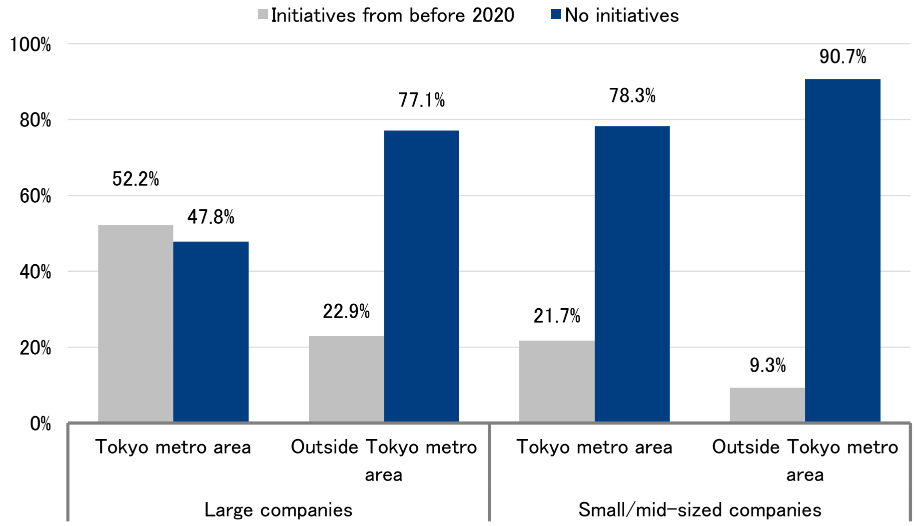
DX initiatives by size and region



Source: Prepared by FISCO from "Information and Communications in Japan White Paper 2021," Ministry of Internal Affairs and Communications, Japan and the Company's financial results briefing materials

(3) HR

In the "HR" domain, the forecasts are for net sales to increase from ¥1,720mn in FY3/23 to ¥2,200mn in FY3/26 and an average annual growth rate of 8.6%. In this domain, the policy is to capture demand and increase sales, including for a strategic personnel system that directly connects to a management strategy, an employee engagement system, the introduction and management of a HRDX system, human capital management, establishing academies (in-house corporate universities), and academy cloud services.

Developing human resources who will be the source of growth is an important management issue for companies, while in listed companies as well, in the future they will be required to disclose information on "human capital." Therefore, management needs are increasing even more for initiatives like human resources development programs and to achieve a work-life balance, and this was one of the factors behind the upward revisions to the FY3/23 forecasts. The Group itself is developing and providing engagement survey tools to quantitively survey and diagnose employee engagement, and these tools are useful to improve engagement. Potential growth is huge in the HR domain, so M&A is also considered to be one strategy option.

(4) Finance and M&A

In the "Finance and M&A" domain, the forecast is for steady growth, with net sales to increase from ¥1,970mn in FY3/23 to ¥2,100mn in FY3/26 for an average annual growth rate of 2.2%. In terms of the business environment, managers are becoming older and, in this situation, business succession needs are increasing among mid- and small-size companies. In large companies as well, trends such as business reorganization and integration and building a new global strategy for the after-COVID-19 era are becoming more active, which can be seen to be major business opportunities. But aspects such as concluding a contract for a proposal have strongly fluid elements in this domain, so the forecasts are conservative. Therefore, it can be said to be a domain in which there is plenty of room for results to be higher than forecast.

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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 TANABE CONSULTING, which targets companies ranging from small businesses through to medium-sized companies. They are poised to focus on projects for which demand is forecast to increase, including for business succession-type holdings management models, building group management models, business-reorganization-type M&A, and cross border M&A projects.

(5) Branding & marketing

In the "branding and marketing" domain, the forecast is for steady growth, with net sales to increase from ¥2,140mn in FY3/23 to ¥2,200mn in FY3/26 for an average annual growth rate of 0.9%. The FY3/23 forecast has been upwardly revised by ¥90mn from the initial forecast, so the average annual growth rate is less than 1%, but at the initial stage growth of around 2% was expected. In terms of the business environment, improving brand power that will lead to maintaining and increasing the transaction prices of products and services has been positioned as one important management strategy, and in this context, consulting needs in this domain are expected to steadily increase in the future as well.

In this situation, the Company is aiming for stable growth from strengthening purpose branding (inner & outer) and corporate branding (PR and IR), reforms to customer communication models that improve CX (customer-experience value) and strengthening DX support services in the creative field, such as SNS marketing and design promotions, while also aiming to improve added value. Among these initiatives, within the Group there is a shortage of resources for PR, branding, and global marketing, so it is proactively investigating M&A targets in these areas.

Accelerating growth by progressing five growth models and strengthening employee recruitment

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 grow sales by deepening its "management strategy formulation function," which is its core value, and also by expanding the menu of "professional DX services" that utilize digital technologies for support at work sites, while also initiating collaborations between Group companies. The services being implemented in FY3/23 include DX Cloud (ERP system) for the construction industry, and also engagement surveys and a personality and abilities judgment service.

For "professional DX services," going forward as well, domains such as HR, PR, and global marketing will be the priority areas, and it is considered that by having around 2 companies join the Group, the foundation will be further strengthened and an unrivalled management consulting value chain will be constructed. It was announced in February 2023 that Kartz Media Works, whose strengths include strategic PR for large companies including foreign-affiliated companies, overseas PR, and support for formulating and managing a digital marketing strategy, will join the Group. Within the FY3/26 sales target of ¥15bn, approximately ¥2bn is forecast to be from the effects of M&A, but in fact, at FISCO we think that the M&A sales-increase effect will be even higher through realizing Group synergies.

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b) C&C development model

The Company is progressing a C&C (consulting & conglomerate) strategy. It involves explaining in simple terms the flow of development for the management consulting domains, creating themes such as management needs and issues newly created through changes to the societal environment or other causes, creating products from them as the team consulting menu, forming team consulting organizations (consulting segmentation) through workshops seminars, creating a consulting business as the next step, and widening the consulting domains, including by conducting M&A. Going forward also, its policy is to expand the consulting domains by utilizing M&A. The services being implemented in FY3/23 include “Support for succession plan formulation and management,” “Consulting to support concepts to introduce IT,” and the “DX Leader School.”

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 (acquiring potential customers via specialist websites according to management consulting domain, various seminars, workshops, 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. As the specialist websites according to management consulting domain, it is managing a variety of specialist websites according to strategy relating to “Long-term vision and medium-term business plan formulation,” “DX,” “HR,” “Corporate finance and M&A,” “Business succession and M&A,” and “SDGs,” and it is acquiring many potential customers through these websites, which in turn is leading to an increase in the number of team consulting contracts. For the future, its policy is to work to expand content.

In addition to the above, the Group is working to discover new consulting demand by strengthening follow-ups to existing customers in the CRM consulting department. In FY3/23 1H, this led to an increase in average net sales per company with a team consulting contract (up 9.2% YoY). For average net sales per customer, the Company is targeting an annual increase rate of 10%.

d) Team-up and 100 partners model

Through collaboration with the 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 increase 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, going forward its policy is to work to expand teams in local areas in order to contribute to the revitalization of local economies. Also, since April 2022, it has transitioned to an organizational structure that can accelerate the creation of new teams and new leadership, and in the future, the development of partner human resources is expected.

e) Academy model

In order to quickly develop professional human resources* (target of 2 years), the Group is expanding “TCG Academies,” which is an education and training system that combines the online and the real. It is already starting to produce results, including that after introducing an academy, the speed of training to become a chief consultant is reduced from the previous approximately 5 years to 2 to 3 years. The areas include “Leadership academies,” “HR consultant academies” “Financial consultant academies,” and “CRM consultant academies.” Academies are also created for each employee level, and the outlook is that the efficiency of human resources development will further improve.

* Professional human resources are human resources who have served as a chief consultant for at least 5 companies and who are project leaders in a specific field.

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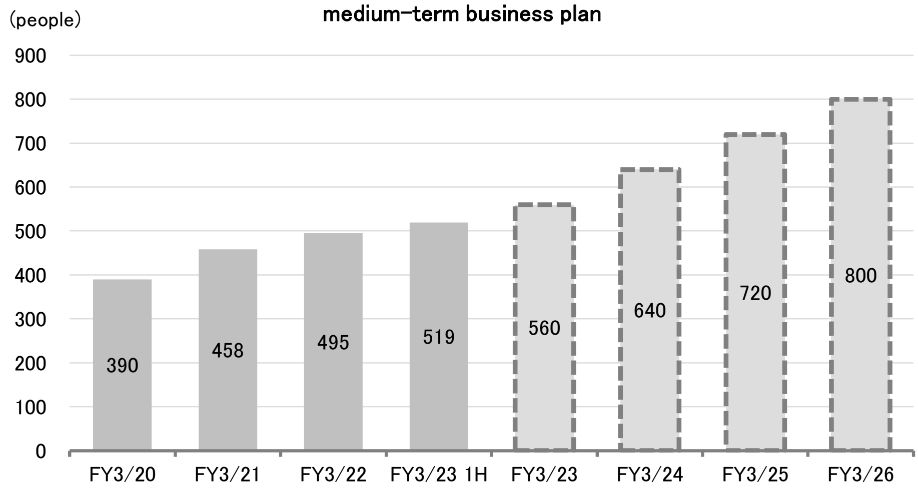
(2) Human capital management

The Company is targeting 800 full-time consolidated employees by FY3/26, and going forward, it plans to strengthen its recruitment system and to increase the number of new graduate and mid-career recruits. For mid-career recruitment, its policy is to focus on recruiting people with practical experience who are well versed in the industry and to recruit career I-turn and U-turn hires in order to strengthen the structure of regional business offices. Compared to previously, it is also widening the management consulting domains, so it seems likely that the number of mid-career recruits will increase. Also, while it has not yet introduced Group recruitment, it is building a route to introduce human resources to each Group company via the Company.

In the consulting business, sales are based on human resources so it is no exaggeration to say that the key to achieving the mid-term results targets will be whether or not the increase in employees is progressed according to plan. In addition to strengthening recruitment, the Company is aiming to achieve the target of 800 employees by working to improve the retention rate of excellent employees through efficient human resources development using TCG Academy Cloud and introducing a personnel system in which diverse human resources can be active, and also preparing a work environment through investing in "Smart DX." It is currently achieving an employee retention rate of 89.0% (three-year average), which is a high level for its industry.

Trend in the number of consolidated employees and targets in the medium-term business plan



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

(3) SDGs initiatives

Inquiries 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 working on environmental initiatives, such as reducing electricity consumption in business offices and going paperless, and in addition, it intends to progress health management and to strengthen the corporate governance system. It is currently at the stage of specifying the materialities and setting the KPI, and going forward, it plans to engage in the SDGs as an important task of management.

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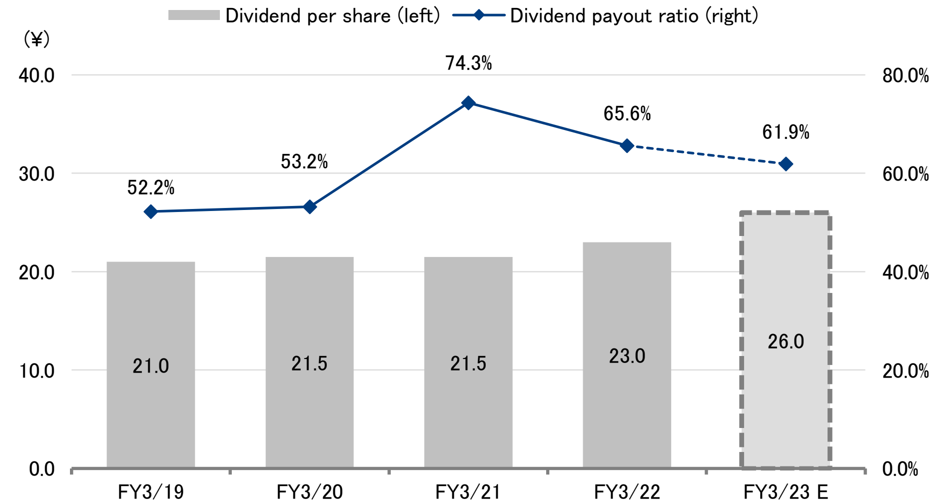
Shareholder return policy

For the FY3/23 dividend per share, plans to increase the dividend for the second consecutive period and is also progressing initiatives toward clearing the Prime Market's listing standards

Since FY3/22, the Company's shareholder returns policy is to target a total payout ratio of 50% and while implementing growth investment, to conduct diverse shareholder returns including not only by dividends, but also by buybacks of treasury shares and other methods. At the initial stage, it planned to increase the FY3/23 dividend per share by ¥1.0 YoY to ¥24.0, but based on the results and financial conditions, in September 2022 it announced that it would increase the dividend by a further ¥2.0 to ¥26.0 (dividend payout ratio, 61.9%). The dividend yield based on the closing price on December 7 (¥646) is 4.0%. The Company is aiming to continue to increase the dividend in the future as well by steadily achieving its results targets.

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. (At the end of September 2022, its treasury shares holding rate was 2.0% from holding 353,000 shares). Toward improving name awareness, the Company is utilizing SNS to actively disseminate IR information and working on strategic PR activities (PR, advertising, etc.) In addition, it intends to enhance IR in FY3/23, including by the timely disclosure of new materials and creating English language versions of financial-statement materials, and quickly creating transcripts (Japanese and English language versions) of financial results briefings.

* 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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■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp