COMPANY RESEARCH AND ANALYSIS REPORT

TANABE CONSULTING GROUP CO., LTD.

9644

Tokyo Stock Exchange Prime Market

1-Oct.-2024

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Contents

Summary

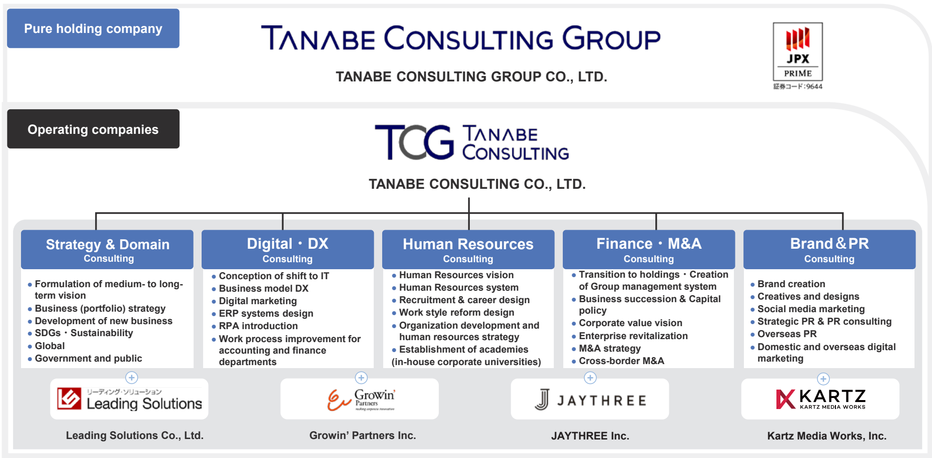
FY3/25 outlook projecting 47% increase in operating profit for a substantial new record high

TANABE CONSULTING GROUP CO., LTD. <9644> (hereafter, also "the Company") and its principal operating company, TANABE CONSULTING, is a management consulting pioneer in Japan in its 67th year since its establishment. It provides comprehensive support to top management (executives and leaders) of large to medium-sized enterprises, particularly focusing on mid-size companies, encompassing everything from formulating management strategy (upstream) to implementing and executing management operations at work sites (midstream to downstream), including digital transformation (DX). Having been involved in addressing business and strategic issues encountered by top management in the management consulting domain since its founding, the Company now covers a full spectrum of areas, including the Strategy & Domain, Digital and DX, HR, Finance and M&A, and Branding & PR domains. The Company helps its client enterprises achieve sustainable growth in a manner tailored to individual companies enlisting a team consulting approach that involves selecting multiple professional consultants to address such unique management issues.

Distinguishing features and strengths of the company lie in its ability to expand its customer base and realize long-term contracts by identifying fundamental issues of individual companies with this top management approach and addressing their unique management issues, and its ability to engage in community-based consulting services leveraging its network of business bases across 10 regions nationwide.

In addition, since 2019, the Company has pursued an aggressive M&A strategy to expand its consulting menu and strengthen professional DX services (i.e., a menu of services that harness digital technologies to provide implementation support at work sites). The following companies have joined the TANABE CONSULTING GROUP: Leading Solutions Co., Ltd., which provides digital shift support for B-to-B companies' sales (in 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 JAYTHREE, Inc., a provider of branding, CX (customer experience) design, and marketing DX support services (in 2021); and Kartz Media Works, Inc., which handles strategic PR, PR consulting, and support for social media and owned media for domestic and foreign companies (in 2023).

The TANABE CONSULTING GROUP's outline



Source: The Company's results briefing materials

1. Overview of the FY3/24 results

In the Company's FY3/24 consolidated results, net sales increased 8.3% year on year (YoY) to ¥12,739mn and operating profit fell 12.3% to ¥1,009mn. Whereas operating profit underperformed relative to the forecast (¥1,230mn) as a result of the Company having aggressively engaged in strategic investment (human capital investment, new business development investment, digital investment, etc.) in seeking to realize sustainable growth, the Company achieved increases in sales across all of its management consulting domains and the operating companies all attained new record highs in net sales. As for results by management consulting domain, net sales of the Branding & PR domain increased substantially by 25.8% YoY to ¥2,649mn partially, due to the effects of Kartz Media Works having been made a subsidiary.

2. FY3/25 results outlook

For the FY3/25 results outlook, the Company expects to achieve the results of its medium-term business plan and reach new record highs, with a 6.0% YoY increase in net sales to ¥13,500mn and a 47.0% rise in operating profit to ¥1,485mn. The Company has raised its operating margin target from 7.9% to 11.0% despite its ongoing expansion of human capital investment, given its efforts to improve productivity and curb other costs. Its strategy involves leveraging Group company resources by positioning the right resources in the right places in the course of addressing the needs of mid-size companies and regional enterprises for management DX along with M&A and business succession, as well as needs of overseas expansion and local government needs for DX consulting.

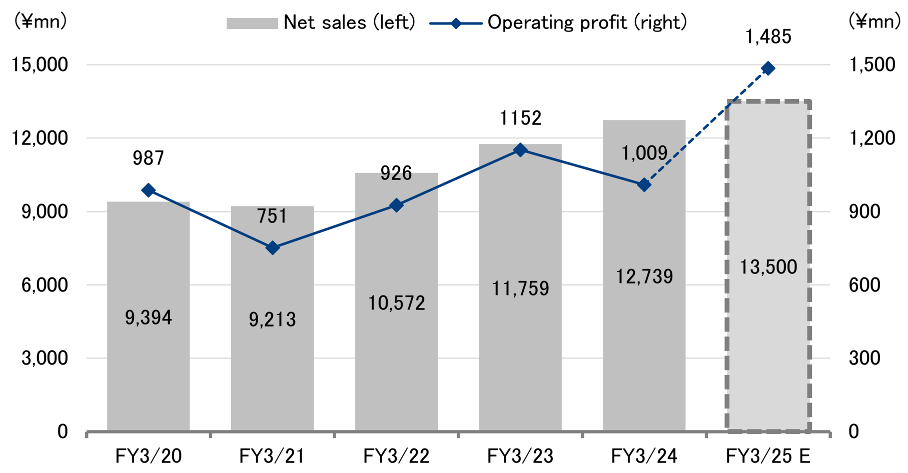
3. Medium-term business plan

The Company's results targets in its medium-term business plan are net sales of ¥15.0bn and operating profit of ¥1.8bn in FY3/26. We at FISCO deem that the Company has been making steady progress toward achieving targets of its growth strategies in FY3/24, despite having fallen slightly short based on profit due to it having enlisted an aggressive approach to upfront investment. Specifically, the Company intends to upgrade services that assist customers with management strategies (upstream) and further reinforce onsite management implementation and execution (midstream to downstream) in the form of professional DX services that harness digital technologies, thereby continuing to grow as one & only management consulting firm capable of providing comprehensive support for facilitating corporate growth. The Company will continue to explore M&A options to strengthen its five management consulting domains. It will engage in such M&As in a manner that involves drawing on resources of Growin' Partners, enlisting domains that are likely to consist of the Strategy & Domain, Digital and DX, and HR domains. The Company has set targets for augmenting its workforce (mainly consultants) from 600 employees at the end of March 2024 to 800 employees in FY3/26. Meanwhile, it is fortifying shareholder returns in seeking to achieve its medium-term business plan target of 10% ROE. Having specifically established an ambitious shareholder return policy that targets a consolidated total return ratio of around 100% through FY3/26, the Company is engaging in timely share buybacks while consistently paying stable dividends with a DOE of at least 6%. Based on this policy, the Company paid a dividend of ¥44.0 per share in FY3/24 (up ¥2.0 YoY) for a consolidated total return ratio of 177.1% combined with share buybacks amounting to ¥400mn. In FY3/25, the Company forecasts a consolidated total return ratio of 134.3%, based on its plans to again increase its divided by another ¥2.0 to ¥46.0 per share while also proceeding with share buybacks (maximum of ¥300mn over the period May 20 to October 31, 2024). In addition, the Company plans to continue aggressive growth investment in M&A with its abundant cash on hand of over ¥1.0bn to improve growth and profitability.

Key Points

- In FY3/24, net sales increased steadily to a new record high, yet profit decreased due to the Company implementing strategic investment (human capital investment, new business development investment, digital investment, etc.)
- Outlook projects new record highs in FY3/25 amid the increase in gross profit margin as a result of efforts to revamp recruitment plans and digital investment, etc. along with a further increase in projects involving upstream processes
- Considering more M&A toward FY3/26 targets of ¥15.0bn in net sales and ¥1.8bn in operating profit
- Actively providing shareholder returns based on a consolidated total return ratio of around 100% through FY3/26

Performance trends



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

Business overview

Team consulting approach whereby a specialist team with extensive knowledge of the industry and regional characteristics provides comprehensive support for strategic issues unique to management teams

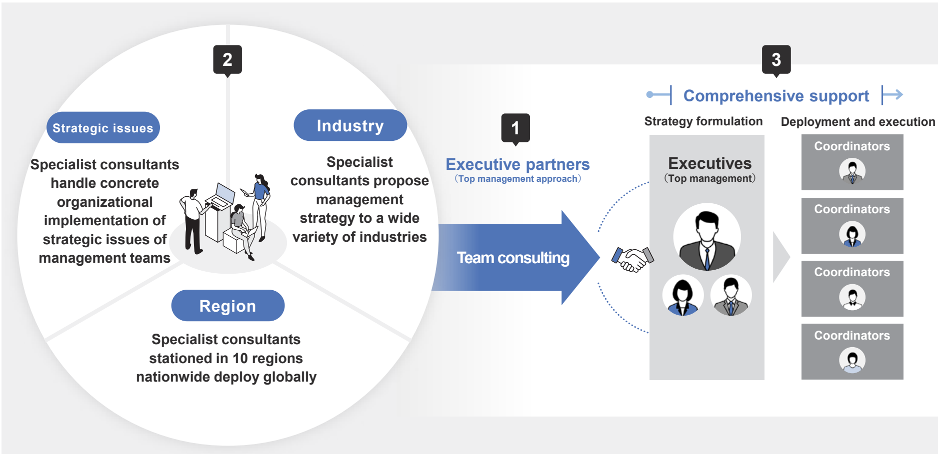
1. Company overview

The Company, founded in 1957, is a pioneer and one of the major players in the management consulting industry in Japan. It develops its community-based management consulting model for enabling comprehensive support to large and mid-size companies encompassing everything from formulating management strategy to implementation and execution of management operations. The Company helps its client enterprises' sustainable growth by providing them with team consulting services that address sophisticated management issues.

(1) Three methods of team consulting

Team consulting approach whereby a specialist team made up of consultants with extensive knowledge of the industry, regional characteristics, and strategic issues provides comprehensive support for management issues unique to companies' management teams and leaders (top management).

Three methods of team consulting



Source: The Company's results briefing materials

(a) Method 1: Top management approach

The main target customers are top management and leaders of large and mid-size companies, as well as government and public sector organizations. The Company provides support for solving the diverse management issues of these customers.

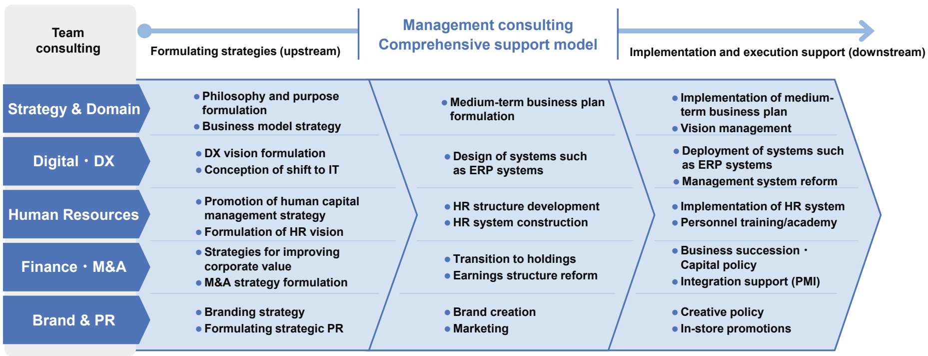
(b) Method 2: Team consulting

The Company has five management consulting domains. Strategy & Domain supports the formulation of a medium- to long-term vision, management strategies, and business strategies for each industry. The Digital and DX domain provides support for the formulation of a DX vision through the deployment and implementation of specific DX initiatives. The HR domain supports human capital-related business areas, from the formulation of an HR vision to HR structures, HR recruitment and education, and work style reforms. The Finance and M&A domain provides integrated M&A support to improve corporate value, from business succession and corporate finance, due diligence, including cross-border, and PMI. The Branding & PR domain offers an integrated service from formulating brand strategies for Japan and overseas and supporting their implementation, creatives, and PR/corporate communications. Specialist consultants with extensive knowledge of strategic issues in each management consulting domain form a team with extensive knowledge of the customer's industry and those familiar with regional characteristics to provide all-around support to solve each customer's management issues.

(c) Method 3: Comprehensive support model

A team of consultants supports top management and leaders, providing comprehensive support from the management upstream that formulates purpose and strategies for the implementation and execution of DX and other management operations (midstream to downstream), resulting in a high contract continuation rate.

Comprehensive support model



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 Company develops its business nationwide in the form of locally-based firms with stationed management consultants, and its ability to provide community-based management consulting services is one of its features and strengths. Moreover, by establishing the Strategic Comprehensive Institute, which plans and directs various consulting services, analyzes management information collected from consulting sites and alliances with other companies, and disseminates information, and also from the IR, SR, PR, human resources recruitment, M&A, sustainability, and other corporate functions in both the Osaka and Tokyo head offices, the Company is aiming to enhance its support functions to companies nationwide.

(2) Group strategy

Since 2019, the Company has been conducting M&A as one of its growth strategies, and four companies with expected synergies 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 mid-size 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. Existing customers are also 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 large companies and listed corporate groups. Amid growing demand for M&A and management DX, the Company is strengthening existing services and developing new ones by combining its management consulting knowledge with Growin' Partners' expertise and know-how in M&A and DX. As a result, it aims to add value to services delivered to customers of both companies through joint consulting and personnel exchange.

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 branding, CX design, and marketing DX for customers that range from large to mid-size companies. They are working to strengthen the functions of existing services and to develop 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 550 companies since its founding. 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. Many companies, especially regional ones, view the enhancement of branding as a management issue, and there appears to be significant room for development.

Kartz Media Works, which was made a subsidiary in February 2023 (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 management 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 Company is working to combine its findings and expertise in management consulting with Kartz Media Works' findings and expertise in domestic and overseas PR consulting and digital marketing, which it has proved to more than 2,000 companies since its founding, and to work to strengthen the functions of existing services and to launch new services. More than 1,500 companies, including global companies, use Global PR Wire, a press release distribution service provided by Kartz Media Works for overseas media. It is the only service that delivers press releases directly to journalists around the world who specialize in the industry and is tailored to the desired distribution area. We think this service will serve as a "foot in the door" to provide consulting services on the theme of global strategy for Japanese companies seeking to expand overseas or strengthen their overseas business.

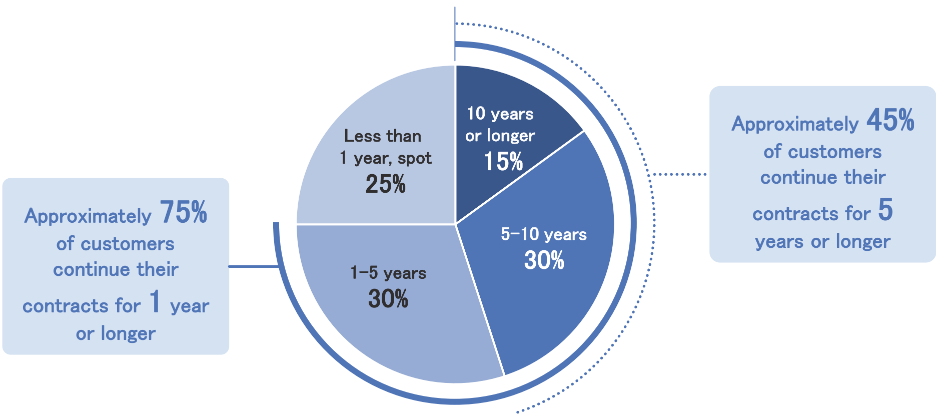
Forming the Group from these four companies strengthens the Company's comprehensive management consulting support model, providing a level of strength that is unparalleled by other companies. The Group will be able to accommodate nationwide needs related to business succession, business model transformation and business rebuilding, DX and productivity improvement, CX design, and solve various management issues of large and mid-size companies, such as domestic and overseas PR, which are expected to accelerate going forward. Moreover, the Company has begun focusing on the government and public sectors by taking advantage of its nationwide network of business bases. Although this still accounts for a small percentage of net sales, we at FISCO believe it will become one of the Company's main customer target markets with respect to the Company's aim of giving rise to sustainable growth.

Approximately 75% of customers continue their contracts for one year or longer. Utilizes diverse channels to attract new customers, leading to team consulting contracts

2. Earnings growth model

The main feature of the Company's business model is that services based on long-term contracts are the foundation of its growth, and that it achieves sustained growth by increasing the number of new customers for these services while also adding spot-type products and services. Approximately 45% of customers are long-term customers continuing their contracts for five years or longer, and 75% of customers continue their contracts for one year or longer. We think the reason for the high contract continuation rate lies in its top management approach as a "business doctor," using the team consulting method to solve strategy and management challenges for management teams. Team consulting services accounted for 63% of net sales in FY3/24.

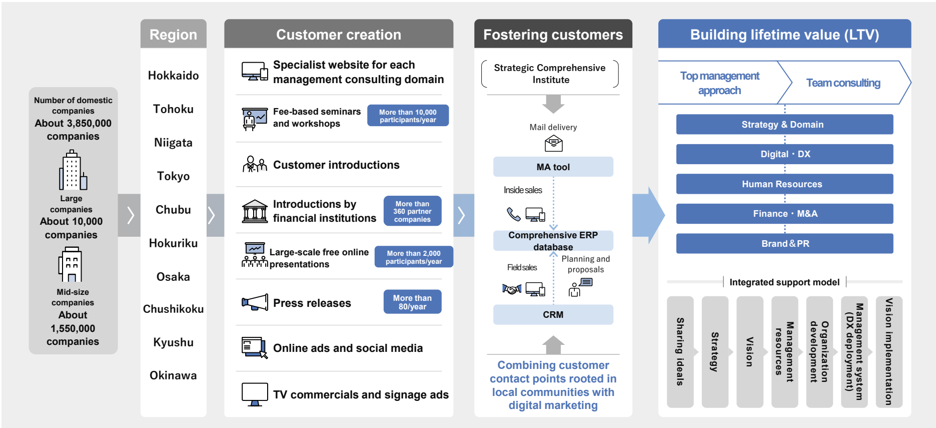
Customer breakdown by years of contract continuation



Source: The Company's results briefing materials

As the customer creation model, in addition to introductions from its existing customers and over 360 partner financial institutions, the Group creates contact points with new customers, such as digital marketing and holding large-scale free online presentations, and fosters customers through inside sales and follow-up at the Strategic Comprehensive Institute. In addition to team consulting services, it continuously provides services such as management workshops by industry and management theme, and human resources development seminars by employee level, which is a trend that increases customers' lifetime value (LTV). An estimated 60% of new customers for team consulting services are companies that have participated in these workshops and various seminars. Moreover, as the marketing strategy for the Group as a whole since FY3/22, it has been launching specialist marketing websites for each management consulting domain to solve customer problems. It acquires leads (potential customers) through these websites, and cases leading to team consulting contracts are also increasing. Group synergies are also being generated; for example, Group company Leading Solutions is responsible for developing the sites for each management consulting domain, while JAYTHREE is responsible for developing some of the content. In addition, the Group companies are actively holding joint seminars with the Company.

TCG marketing model



Source: The Company's results briefing materials

Result trends

In FY3/24, net sales increased steadily to a new record high, yet profit decreased as a result of the Company implementing strategic investment

1. Overview of the FY3/24 results

In the FY3/24 consolidated results, profit declined on higher sales. The Company's net sales totaled ¥12,739mn (up 8.3% YoY), operating profit ¥1,009mn (down 12.3%), ordinary profit ¥1,012mn (down 12.9%), and net profit attributable to owners of parent ¥641mn (down 11.5%). Net sales again set a new record high having been on an upward trajectory over three consecutive fiscal years partially driven by a contribution to sales of Kartz Media Works, which became part of the Group in February 2023, in addition to growth across all the management consulting domains including those of Group companies. On the profit front, meanwhile, personnel expenses and SG&A expenses included in the cost of sales increased as a result of the Company having aggressively engaged in strategic investment (human capital investment, new business development investment, digital investment, etc.) in seeking to realize objectives of the medium-term business plan and sustainable growth.

FY3/24 results

(¥mn)

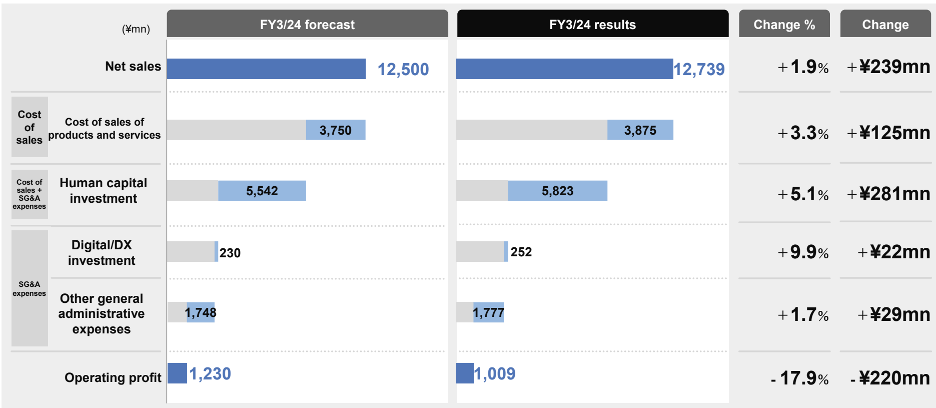
	FY3/23		FY3/24				
	Results	Ratio to sales	Company forecast	Results	Ratio to sales	YoY	vs. forecast
Net sales	11,759	-	12,500	12,739	-	8.3%	1.9%
Gross profit	5,202	44.2%	5,565	5,465	42.9%	5.0%	-1.8%
SG&A expenses	4,050	34.4%	4,335	4,455	35.0%	10.0%	2.8%
Operating profit	1,152	9.8%	1,230	1,009	7.9%	-12.3%	-17.9%
Ordinary profit	1,163	9.9%	1,230	1,012	8.0%	-12.9%	-17.6%
Extraordinary income/loss	7	0.1%	-	27	0.2%	-	-
Net profit attributable to owners of parent	724	6.2%	760	641	5.0%	-11.5%	-15.7%

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

Looking at a breakdown of factors attributable to higher costs, human capital investment increased by 13.4% to ¥688mn, and digital investment increased by 20.5% to ¥42mn. In terms of human capital investment, the Company's efforts have entailed improving remuneration and benefits provided to its existing employees, recruiting from a nationwide pool of candidates with practical experience in respective industries and occupations, and enhancing human resources development in part by actively providing education and training. Additionally, the Company has been promoting initiatives for realizing D&I objectives, having been recognized for inclusion as a 2024 Certified Health & Productivity Management Outstanding Organization (Large Enterprise Category). In terms of digital investment, the Company has been actively investing in work environments and systems while also developing new professional DX services* and promoting the development and use of an in-house ChatGPT system and AI. In terms of new business investment, the Company has been enhancing its global strategic consulting functions and its government and public sector consulting functions.

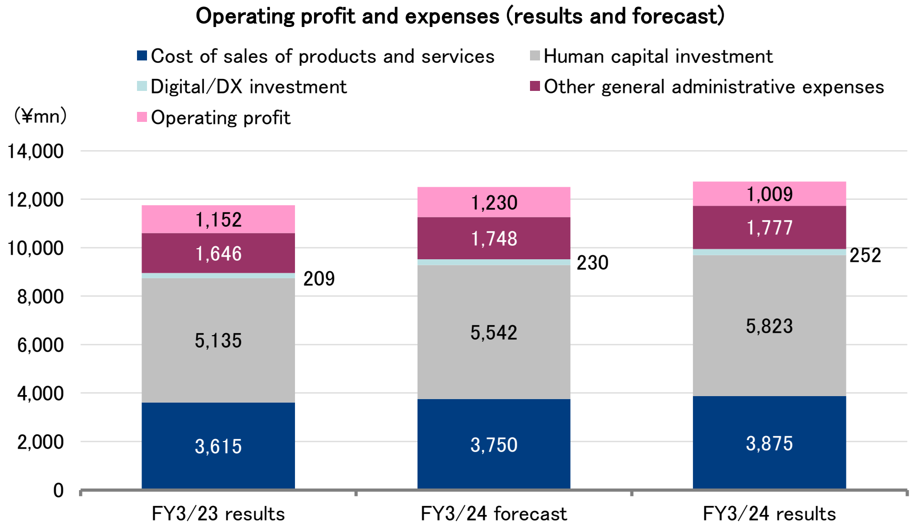
* Professional DX services encompass a range of services that facilitate on-site operations enlisting digital technologies. Such recently released services include offerings such as the Financial Value Analysis System and the DX Cloud Series (support for industry-specific ERP system implementation).

Analysis of factors affecting operating profit (vs. forecast)



Source: The Company's results briefing materials

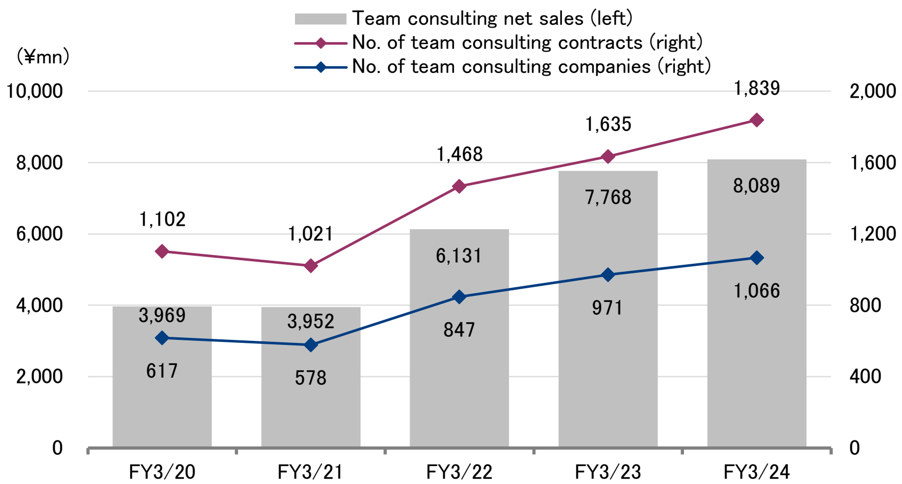
Net sales exceeded the forecast by 1.9%. In looking at net sales by management consulting domain, sales of the Finance and M&A domain were 8.0% below the forecast due to underperformance of financial advisory income on a regional basis. Meanwhile, one upside factor with respect to consolidated net sales was the performance of the Branding & PR domain where sales were 10.4% higher than the forecast, which was in part because results of Kartz Media Works outperformed and because of escalating communication needs with respect to both in-person trade shows and events and digital media (websites and social media). Another upside factor was the performance of the HR domain where sales were 7.5% higher than the forecast against a backdrop of companies stepping up their efforts to invest in human capital. On the other hand, operating profit was 17.9% below the forecast, equating to a shortfall of ¥220mn. This was primarily attributable to the aforementioned situation of additional spending on strategic investment exceeding the planned amounts. Breaking it down, an additional ¥281mn was spent on human capital investment, and an additional ¥22mn was spent on digital investment. Operating profit particularly in 2H decreased significantly by 22.5% YoY to ¥426mn, due to substantial additional strategic investment in the latter half of the fiscal year. Meanwhile, whereas the trend of workforce growth persisted with the Company having increased its workforce to 600 employees as of the end of FY3/24 for an increase of 34 employees relative to the end of FY3/23, that number was 40 employees fewer than the Company had planned because it opted to focus on improving remuneration and benefits in seeking to curb employee turnover.



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

The Company uses the number of team consulting contracts, companies, and net sales as KPIs. All three increased YoY to record highs in FY3/24. The number of team consulting contracts increased 12.5% YoY to 1,839, the average number of companies in FY3/24 rose 9.8% to 1,066, and net sales rose 4.1% to ¥8,089mn. Although the average sales price per project decreased slightly in part due to the addition of a new subsidiary and progress achieved by existing operating companies in attracting new customers, the average sales price is likely to trend higher as a result of efforts to develop these newly acquired customers. Furthermore, base sales, which are sales of long-term contracted services of six months or more that provide a stable base for growth, also performed well in having grown 9.3% YoY to a record-high ¥7,426.

Trends in the number of team consulting contracts, companies and net sales



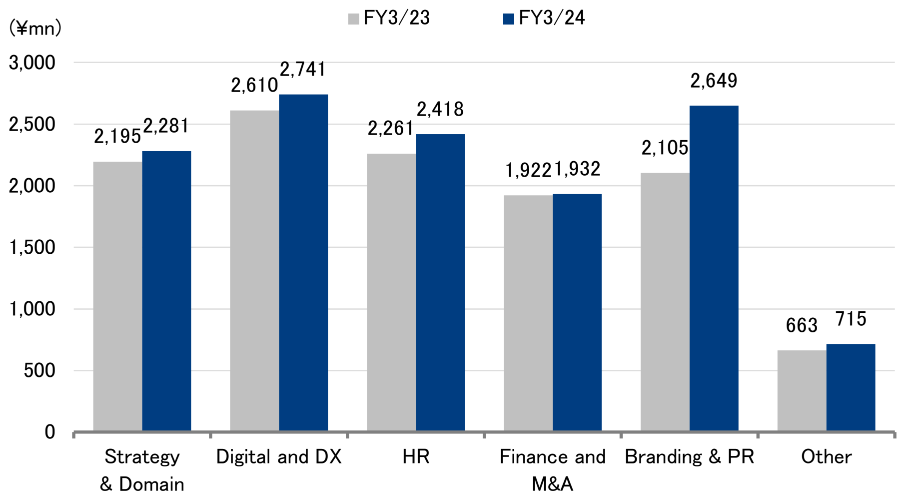
Note: Team consulting = monthly contract-type consulting (Strategy & Domain, Digital and DX, HR, Finance and M&A, Branding & PR), while the number of companies is the average number of contracting companies during the period
Leading Solutions results included in consolidation since FY3/21
Growin' Partners results included in consolidation since FY3/22
JAYTHREE results included in consolidation since FY3/23
Kartz Media Works' results included in consolidation since FY3/24
Source: Prepared by FISCO from the Company's results briefing materials

Brisk performance of Branding & PR and HR management consulting domains

2. Net sales breakdown by management consulting domain

Breaking down net sales by management consulting domain, the Branding & PR domain achieved substantial growth with the inclusion of a contribution to the results of newly consolidated Kartz Media Works. Net sales of the Strategy & Domain, Digital and DX, and HR domains were also robust. Although net sales increased only slightly in the Finance and M&A domain, all of the management consulting domains achieved higher sales.

Net sales breakdown by management consulting domain



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

(1) Strategy & Domain

Net sales of Strategy & Domain increased 3.9% YoY to ¥2,281mn. The Company achieved sales growth with respect to projects mainly undertaken for large and listed companies with themes such as formulating and promoting long-term visions and medium-term business plans (business models), formulating and promoting global strategy, regional revitalization strategy, and ESG and sustainability actions. It also generated favorable results from management consulting services undertaken for the government and public sector, with respect to which it has been redoubling its efforts since FY3/23. Meanwhile, leads that the Company obtained through its specialist website for formulating long-term visions and medium-term business plans helped generate business in the form of consulting projects.

(2) Digital and DX

In the Digital and DX domain, net sales grew 5.0% YoY to ¥2,741mn. Whereas companies with strong earnings performance have been ramping up digital investment with an emphasis on leveraging data in aiming to achieve further growth, companies with languishing earnings results have been enlisting digital technologies to improve business processes and increase productivity. This situation has given rise to upward momentum also in terms of the needs for systematically developing DX personnel. Amidst this scenario, the Company has achieved favorable performance with projects on the themes of DX vision, management DX (implementation of ERP, digitalization concept formulation, work process improvements, and more), digital marketing, and branding DX (websites and social media) for large and listed companies, and training of DX personnel for government and public sector organizations. Meanwhile, leads that the Company obtained through its specialist website for digital/DX strategy formulation and implementation helped generate business in the form of consulting projects.

In professional DX services, TANABE CONSULTING and Growin' Partners began providing "DX cloud for the service industry – management platform consulting" as a new offering in October 2023. A DX support service for the service industry, it supports the integrated management of data through the introduction of NetSuite*, Oracle Corporation Japan's <4716> cloud ERP, and the establishment of an operational system for effective use of data. It helps customer firms grow by combining TANABE CONSULTING's medium-term business plan/business strategy formulation consulting services with the accounting, HR, and IT (ERP) consulting services provided by Growin' Partners to maximize the effect of adopting NetSuite. Since having adopted NetSuite a few years ago, the Company has been particularly focused on identifying demand from regional service enterprises that are lagging behind in DX, using the Company's own examples of adopting NetSuite.

* NetSuite is a business management software product that provides all major business applications such as ERP/financial accounting, customer relationship management (CRM), and e-commerce in a single system. It is the world's top cloud ERP with more than 38,000 user companies worldwide.

(3) HR

In the HR domain, net sales grew 7.0% YoY to ¥2,418mn. Amid heightened demand for consulting services for restructuring HR management systems and human capital management in response to changes in the business and labor environments, consulting projects were strong for large and mid-sized companies, including listed companies, on themes such as organization and HR strategy formulation (HR PMI), HR structure development, Academy (the Company's internal university) establishment, talent management (including HR tech), and fostering management candidates. In particular, inquiries increased regarding Academy, a cloud-based solution that combines in-person classes with online employee education (e-learning) to train personnel quickly. The number of companies signing up increased from around 150 at the end of FY3/23 to around 170 at the end of FY3/24. The Company also made progress in obtaining leads through the specialist HR strategy website, which contributed toward the generation of consulting projects.

(4) Finance and M&A

In the Finance and M&A domain, net sales increased 0.5% YoY to ¥1,932mn. These results were positively affected by rising demand on themes of creating holding company structures and group management, growth-oriented M&A and business succession M&A (from strategy formulation through to financial advisory service, due diligence, and PMI) in conjunction with mounting M&A needs in major metropolitan areas. In addition, favorable performance was also achieved with respect to themes such as corporate value vision and compliance with the Corporate Governance Code amid growing demand among listed companies for solutions to increase corporate value by complying with an appeal made by the Tokyo Stock Exchange to enterprises with PBR of less than one in calling for enhanced disclosure from such companies. Also, the results were adversely affected by sluggish performance with respect to financial advisory contracts in regional areas. Meanwhile, leads that the Company obtained through its own proprietary specialist websites both on corporate finance and M&A as well as on business succession and M&A, and through referrals from financial institutions and other such alliance partners, helped generate business in the form of consulting projects.

As a new offering, TANABE CONSULTING in collaboration with Growin' Partners began providing the MIRAI Succession service for fulfilling business succession needs in October 2023. This service constitutes an optimal solution for taking management into the future by enhancing corporate value in designing overall management structure (including business/organization, HR, and management systems), thereby extending above and beyond its functions for ensuring the transfer of capital across all stages of business succession. This includes: support for developing statements of purpose, mission, vision, and values; support for formulating a medium- to long-term vision (business portfolio development); support for business restructuring (enterprise revitalization support); business succession assessment (capital policy and succession calendar); successor training (support for promoting junior boards, support for formulating succession plans, successor manager school); support for building holding company structures; support for building group management systems; comprehensive M&A consulting, and; post-merger integration (PMI) support.

In March 2024, the Company began providing its Strategy × Growth M&A comprehensive consulting brand of services for enhancing corporate value and achieving sustainable growth through the integration of strategy and M&A. Through such services, the Company seeks to increase corporate value of enterprises by having specialist consultants work with companies in developing one & only comprehensive growth models tailored to each company. This involves furnishing comprehensive support starting from the strategy development phase of formulating a medium- to long-term vision, formulating a business portfolio strategy, and formulating a global vision strategy, and extending to the implementation phase of formulating an M&A strategy, financial advisory (FA) and post-merger integration (PMI). These services are intended for listed companies with PBR of less than one and ROE of no more than 10%, such that are looking to achieve growth through M&A but are unsure as to which companies to acquire, and for companies encountering PMI challenges. The Company seeks to provide support for increasing corporate value and achieving sustainable growth from the perspectives of both a transferor and transferee through its previously mentioned MIRAI Succession services for taking management of a company subject to transfer into the future, and through its Strategy × Growth M&A comprehensive consulting services for providing support to growth-oriented companies subject to transfer that involves developing global and other strategies.

(5) Branding & PR

In the Branding & PR domain, net sales grew 25.8% YoY to ¥2,649mn. Communication needs through both in-person trade shows and events and digital media (websites and social media) increased in all industries in the post-pandemic period. Demand for promotions targeting the recovery of inbound demand also picked up. These factors, combined with the addition of Kartz Media Works to the Group, contributed toward net sales growth. Results were strong for projects for large and mid-size companies (including listed companies) on themes such as brand building, media PR (Global PR Wire and TV programs), overseas PR, content marketing, creatives, and hybrid promotions (online x offline), as well as promotions for government and public sector organizations. Moreover, leads that the Company obtained through its recently launched specialist website for branding and strategic PR information helped generate business in the form of consulting projects.

(6) Other

Sales of Blue Diary notebooks and other promotion products increased 7.9% YoY to ¥715mn. Net sales increased because orders for promotional products increased amid resumption of various events after the COVID-19 pandemic, while the Company revised its prices to absorb increases in raw material prices.

Highly financially sound, with maintaining equity ratio at a high level of 77.1% and an abundance of cash on hand

3. Financial condition and management indicators

At the end of FY3/24, total assets decreased ¥271mn from the end of the previous period to ¥14,139mn. Looking at the main change factors in current assets, notes and accounts receivable - trade, and contract assets increased ¥159mn, while cash and deposits, and securities decreased ¥535mn. In non-current assets, there were decreases of ¥197mn in investment securities and ¥69mn in goodwill, while assets related to retirement benefits increased ¥291mn.

Total liabilities increased ¥134mn from the end of the previous period to ¥2,834mn. There were decreases of ¥39mn in accounts payable - trade and ¥107mn in income taxes payable, while there were increases of ¥42mn in advances received and ¥89mn in deferred tax liabilities. Meanwhile, total net assets decreased ¥406mn from the end of the previous period to ¥11,304mn. Whereas net profit attributable to owners of parent was ¥641mn and accumulated other comprehensive income increased ¥149mn, the decrease is attributable to ¥862mn in payment of dividends and an increase in treasury stock of ¥376mn.

Looking at management indicators, the equity ratio was 77.1%, slightly lower than at the end of the previous period, but the Company continues to maintain it at a high level while it also has an abundance of cash, deposits and securities of more than ¥7.0bn and maintains effectively debt-free management, so it can be judged to be highly financially sound. The Company has announced a policy of paying stable dividends with a target total return ratio of 100% during the medium-term business plan period through FY3/26, seeking to expand earnings without increasing shareholders' equity to achieve ROE of around 10%. ROE for FY3/24 was 5.8%, a decrease of 0.6 pp from the previous period. In looking at the components of ROE, total asset turnover and financial leverage each improved slightly relative to levels of the previous period, but the net profit margin deteriorated from 6.2% to 5.0%, thereby causing the decline in ROE. Whereas aggressive strategic investment initiatives above and beyond those of initial plans undertaken by the Company in FY3/24 prompted a decrease in the profit margin, we at FISCO deem that ROE is likely to begin rising from FY3/25 onward as effects of the strategic investment give rise to profit margin improvement.

Consolidated balance sheet and management indicators

(¥mn)

	End of FY3/21	End of FY3/22	End of FY3/23	End of FY3/24	Change
Current assets	8,889	9,329	9,674	9,347	-326
(Cash, deposits, and securities)	8,078	8,199	8,373	7,838	-535
Non-current assets	4,516	4,495	4,734	4,789	55
Total assets	13,405	13,824	14,410	14,139	-271
Current liabilities	1,418	1,856	2,154	2,209	55
Non-current liabilities	556	451	545	625	79
Total liabilities	1,975	2,307	2,700	2,834	134
(Interest-bearing debt)	120	149	190	210	19
Net assets	11,430	11,517	11,710	11,304	-406
(Management indicators)					
Equity ratio	83.1%	81.0%	78.8%	77.1%	-1.7 pp
ROA	5.9%	6.8%	8.2%	7.1%	-1.1 pp
ROE	4.5%	5.4%	6.4%	5.8%	-0.6 pp
Operating margin	8.2%	8.8%	9.8%	7.9%	-1.9 pp
(Components of ROE)					
Net profit margin	5.4%	5.7%	6.2%	5.0%	-1.2 pp
Total asset turnover (times)	0.70	0.78	0.83	0.89	0.06
Financial leverage (times)	1.20	1.22	1.25	1.28	0.03

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

Business outlook

Outlook projects new record highs in FY3/25 amid the increase in gross profit margin as a result of efforts to revamp recruitment plans and digital investment, etc. along with a further increase in projects involving upstream processes

1. FY3/25 results outlook

For the FY3/25 consolidated results, the Company aims to achieve the performance targets set forth in its medium-term business plan, with net sales to increase to ¥13,500mn (up 6.0% YoY), operating profit to grow to ¥1,485mn (up 47.0%), ordinary profit to rise to ¥1,485mn (up 46.6%), and net profit attributable to owners of parent to increase to ¥785mn (up 22.5%).

FY3/25 results outlook

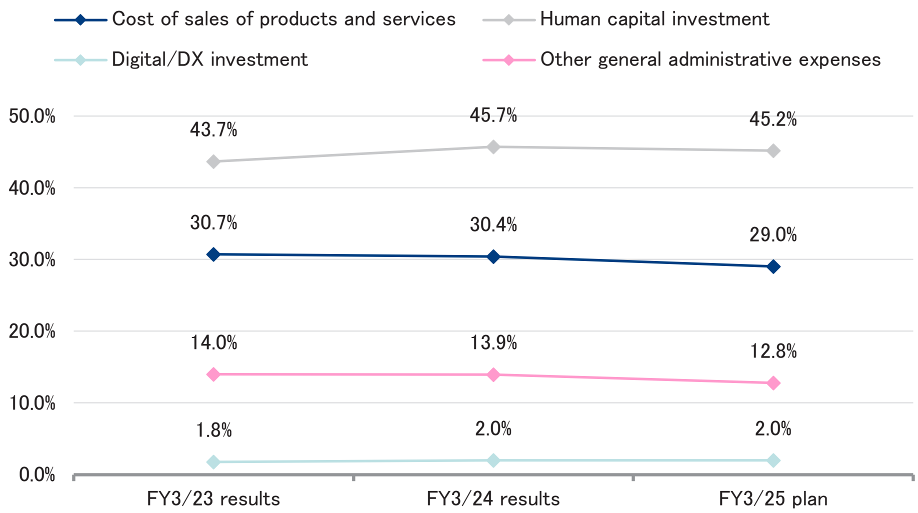
(¥mn)

	FY3/24		FY3/25				
	Full-year results	Ratio to sales	1H forecast	YoY	Full-year forecast	Ratio to sales	YoY
Net sales	12,739	-	6,200	3.3%	13,500	-	6.0%
Gross profit	5,465	42.9%	-	-	6,010	52.9%	10.0%
Operating profit	1,009	7.9%	605	3.7%	1,485	11.0%	47.0%
Ordinary profit	1,012	8.0%	605	3.4%	1,485	11.0%	46.6%
Net profit attributable to owners of parent	641	5.0%	355	1.4%	785	5.8%	22.5%
Earnings per share (yen)	38.14		21.27		47.03		

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

Despite the external market having been subject to a high level of uncertainty in regard to what lies ahead particularly in terms of mounting geopolitical risk and rising prices, mid-size companies are poised to gain momentum going forward given a shift toward more favorable tax and financial policies particularly when it comes to enterprises with high wage levels and active domestic investment designated as “specified medium-sized enterprises” amid redefinition of the term “medium-sized enterprise” per partial revision of Japan’s Act on Strengthening Industrial Competitiveness. Because this is also likely to fuel momentum of the Company given that mid-size companies constitute its main customer group, the Company has enlisted a strategy of seeking to increase its profitability by addressing the consulting needs of such enterprises through its comprehensive support extending from the management upstream to downstream. As such, the Company anticipates an increase in its operating margin from 7.9% in the previous period to 11.0%, for a gain of 3.1 pp. The forecast projects a 1.4 pp decrease in its cost of products and services ratio due to an increase in its number of high-added value upstream process consulting projects compared to the previous period, along with a 0.5 pp reduction in its ratio of human capital investment and a 1.1 pp decrease in ratio of other SG&A expenses. Forecasts of YoY changes in monetary value and on a percentage basis project an increase of ¥44mn in cost of products and services (up 1.2%), an increase of ¥276mn in human capital investment (up 4.7%), an increase of ¥17mn in digital and DX investment (up 6.8%), and a decrease of ¥52mn on other SG&A expenses (down 3.0%).

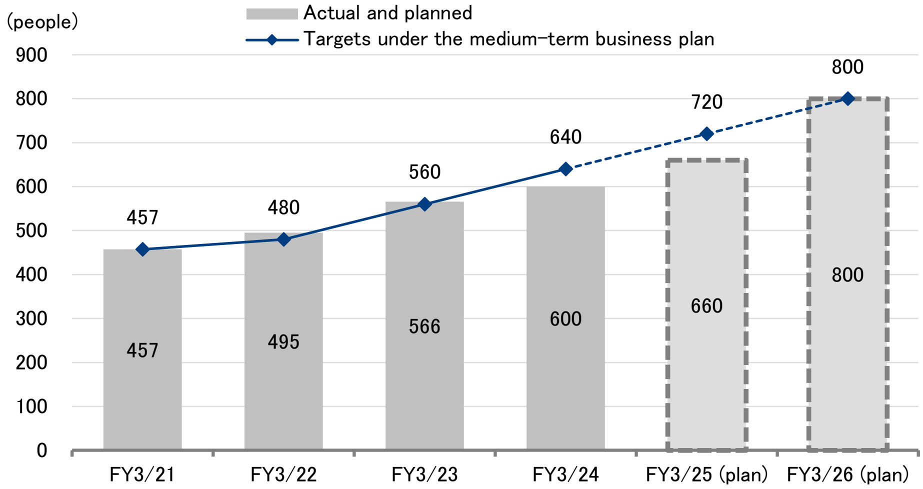
Ratio of sales to expenses



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

The Company plans to increase its workforce by 10% to 660 consolidated employees, which constitutes an increase of 60 employees relative to the end of FY3/24. The Company expects to curb its hiring expenses and its education and training expenses by improving its employee retention rate, which will accompany the improvement in remuneration and benefits. Although the Company had envisioned a workforce of 720 employees under its medium-term business plan, it has since downwardly revised the initial plan preferring instead to focus on increasing productivity of its existing employees and improving their remuneration and benefits. Nevertheless, the target of increasing the workforce to 800 employees in FY3/26 remains unchanged. To such ends, the Company intends to hire candidates with practical experience in various industries and occupations by continuing to leverage its strengths in terms of its extensive nationwide reach amid a scenario of increasing “U-turn” and “I-turn” demand involving people moving to and from urban settings. The Company also expects to increase its workforce through mergers and acquisitions.

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



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

Considering more M&A toward FY3/26 targets of ¥15.0bn in net sales and ¥1.8bn in operating profit

2. Medium-term business plan

(1) Progress 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) that have been a traditional strength, further reinforce onsite management deployment and operation (midstream to downstream) in the form of professional DX services, continue to build a one & only management consulting support model 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 ¥15.0bn, operating profit of ¥1.8bn, ROE of 10%, and ROA of 15%. As for progress made toward achieving its targets up to the end of FY3/24, the Company has slightly exceeded its net sales target as mentioned previously, but has slightly underperformed in terms of operating profit partially as a result of it having aggressively engaged in strategic investment. However, the initiatives set forth in the growth strategy have been steadily yielding results. Meanwhile, each of the Company's subsidiaries that have become part of the Group through M&A have been generating growth in sales by prompting an increase in team consulting contracts as a result of them arranging mutual customer referrals among companies. We at FISCO accordingly deem that the Company is making steady progress toward strengthening its management foundations with the aim of achieving sustainable growth against that backdrop.

We think the Company is capable of expanding net sales further by addressing consulting needs among customer companies in DX, human capital management, M&A, and global strategy, as well as expanding into services for the government and public sector. The Company estimates that ¥2.0bn of its ¥15.0bn net sales target for FY3/26 will be attributable to the effects of M&A. For M&A, the Company is setting its sights on enterprises operating in the Strategy & Domain, Digital and DX, and HR domains.

Results targets of the medium-term business plan

(¥mn)

	FY3/23 Results	FY3/24		FY3/25 Plan	FY3/26 Plan	CAGR*
		Initial plan	Results			
Net sales	11,759	12,500	12,739	13,500	15,000	8.5%
Operating profit	1,152	1,230	1,009	1,485	1,800	33.6%
Operating margin	9.8%	9.8%	7.9%	11.0%	12.0%	-
ROE	6.4%	-	5.8%	-	10.0%	-
ROA	8.2%	-	7.1%	-	15.0%	-
Number of employees	566	640	600	660	800	-

* CAGR for the two years from FY3/24 to FY3/26
Source: Prepared by FISCO from the Company's results briefing materials

The Company has restructured the organization by dividing its offices nationwide into organizational units based on individual management consulting domains. As such, it has accordingly revised the net sales targets each management consulting domain is to achieve by FY3/26 in seeking to calculate net sales for each of the organizational units. Revised net sales targets for each domain show the largest forecast CAGR of 20.8% over two years in the Digital and DX domain, which has been assigned a target of ¥4,000mn relative to ¥2,741mn in FY3/24. The domain will propose comprehensive solutions for corporate DX needs encompassing everything from the concept phase (upstream processes) to execution and implementation support (downstream processes). There is also substantial potential demand among regional mid-size companies given that they still lag behind with respect to DX. This domain is poised to achieve substantial growth by providing resources of each Group company in alignment with customer needs.

Meanwhile, the Company expects the HR domain to achieve annual growth of 7.6% by addressing needs for consulting on revamping HR structures directly linked to management strategy as well as on personnel recruitment and training amid a scenario where an increasing number of companies have been redoubling efforts in human capital management. In the Finance and M&A domain, the Company is likely to encounter an increase in M&A demand with the revised Act on Strengthening Industrial Competitiveness having been enacted in June 2024. The legal revision is bound to spur momentum of mid-size companies with high wage levels and active domestic investment, given a shift toward more favorable tax and financial policies that encourage business expansion undertaken through M&A. The Company is capable of providing a wide range of consulting services such as finance strategies enlisted during M&A, PMI (post-merger integration), and establishment of holding company and group management structures, which presents a favorable opportunity for sales growth. In the Branding & PR domain, the Company enlists a strategy of providing team consulting services partially derived from its global strategy through which it attracts customers using the Global PR Wire press release distribution service provided by Kartz Media Works as a "foot in the door" for overseas media. The service is provided to companies engaged in overseas expansion and enhancing their presence abroad after the COVID-19 pandemic. The number of enterprises subscribed to the Global PR Wire service has increased significantly to 1,543 companies as of the end of March 2024 from 900 companies as of the end of March 2023. It is the only service that delivers press releases directly to worldwide journalists specializing in specific industries, targeting specific geographic areas.

Target net sales by management consulting domain and focus domains

(¥mn)

	FY3/24 Results	FY3/26 Plan	CAGR	Focus domains
Net sales	12,739	15,000	8.5%	FY3/26 target net sales break down into ¥13.0bn from existing businesses and ¥2.0bn from M&A strategy Aim to achieve the target by expanding management consulting domains (especially Digital and DX consulting)
Strategy & Domain	2,281	2,600	6.8%	Formulate vision, new business/business model reform, global, crossover between strategic themes such as SDGs with community-focused strategy, and so on
Digital and DX	2,741	4,000	20.8%	Hybrid marketing, ERP system installation and operation, DX productivity reforms, UX/CX design, branding DX, recruitment marketing, supply chain management, and so on
HR (Human Resources)	2,418	2,800	7.6%	Strategic HR structure linked directly to management strategy, employee engagement system, installation and operation of HR DX system, human capital management, Academy (the Company's internal university) establishment, Academy Cloud, and so on
Finance and M&A	1,932	2,100	4.3%	Development of business succession type holding company management model and group management model, business restructuring type M&A and cross-border M&A, and so on
Branding & PR	2,649	2,800	2.8%	Purpose branding, customer communication model reforms from strengthening corporate branding (PR and IR) to CX improvement, creative support such as social media marketing
Other	715	700	-1.1%	Blue Diary notebooks and promotion products

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

(2) Initiatives for management focused on capital costs and the share price

In its medium-term business plan, the Company has set numerical targets of 10% ROE and market capitalization of over ¥25.0bn. The Company intends to achieve these targets by attaining the results targets set forth in its medium-term business plan and by realizing an optimal capital structure through changes in its shareholder return policy. To achieve ROE of 10% by FY3/26, the Company aims to raise its level of net profit and curb shareholders' equity by enhancing shareholder returns. The Company has established an ambitious shareholder return policy during the period of the current medium-term business plan, targeting a consolidated total return ratio of around 100% through FY3/26, with the Company having expressed its intent to engage in timely share buybacks while consistently paying stable dividends with a DOE of at least 6%. A consolidated total return ratio of 100% theoretically means that equity will not increase. Given that equity capital amounts to ¥10,903mn as of the end of FY3/24, the Company will be able to achieve ROE of 10%, assuming it attains net profit of around ¥1,090mn in FY3/26.

On the other hand, the achievement of the ¥25.0bn market capitalization target will hinge on the Company's share price going forward. Whereas a share price of around ¥1,500 would equate to market capitalization of about ¥25.0bn, we at FISCO deem it important that the Company redouble its efforts in investor relations, shareholder relations, and public relations. To such ends, the Company needs to communicate information that enables its investors to gain a deeper understanding of the Company's growth potential in part by presenting its medium- to long-term growth strategies, in addition to increasing its earnings results according to plan going forward.

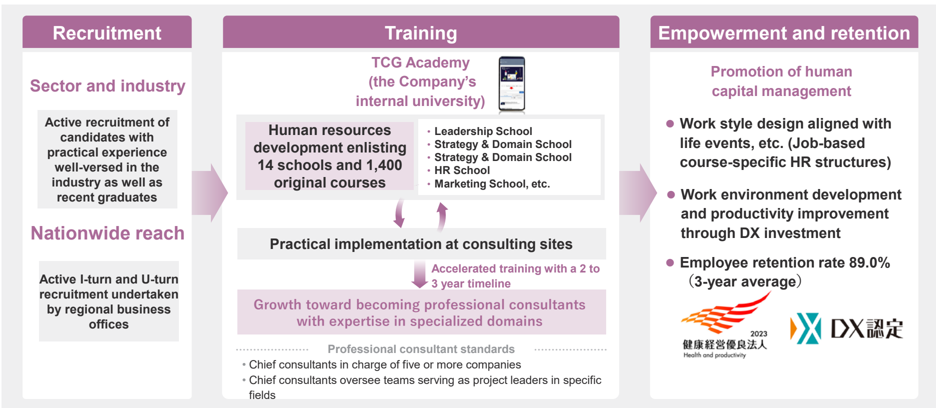
(3) Sustainability

The Company works toward helping to bring about a sustainable society and further enhancing its corporate value from an ESG perspective. In seeking to engage in management of important sustainability matters, the Company has accordingly established its own sustainability committee, specified materialities and priority issues, and is progressing with such initiatives.

With regard to the environment, the Company discloses information in compliance with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and analyzes risks and opportunities under multiple scenarios (1.5°C and 4°C scenarios). Specifically, it implements initiatives to reduce greenhouse gas emissions with the goal of a 100% reduction in Scope 1 and 2 emissions by 2030. Along with continuing with measures such as replacing office lighting with LED and going paperless by smart DX investment, the Company will increase the share of renewable energy in its total power use. For emissions it cannot reduce, the Company is considering offset options such as purchasing non-fossil fuel certificates and renewable energy J-Credits. For Scope 3 emissions, the Company is working with suppliers to reduce emissions to achieve carbon neutrality.

Concerning human capital management (recruitment, training empowerment, retention), the Company is strengthening recruitment and personnel training to fortify its human capital, as well as setting targets and achieving progress in enhancing programs to diversify work styles and help women advance their careers, improving employee engagement, and practicing health management. With respect to recruitment and training, the Company actively hires candidates with practical experience well-versed in the industry as well as recent graduates, and has furthermore managed to shorten training periods by making use of the Company's TCG Academy internal university for training professional consultants using a hybrid online and offline approach. Whereas it previously took about five years for the Company to train its chief consultants, the Company has enhanced its ability to swiftly develop effective professionals as a result of having shortened such training to two to three years since having introduced TCG Academy. Additionally, the Company has achieved a three-year average retention rate of 89.0%, thereby exceeding the industry average, as a result of initiatives that have entailed improving consultant remuneration and benefits to heighten retention (ensuring that salaries reflect results of performance evaluations conducted on a semi-annual basis), introducing job-based course-specific HR structures, and developing work environments through DX investment.

Human capital management



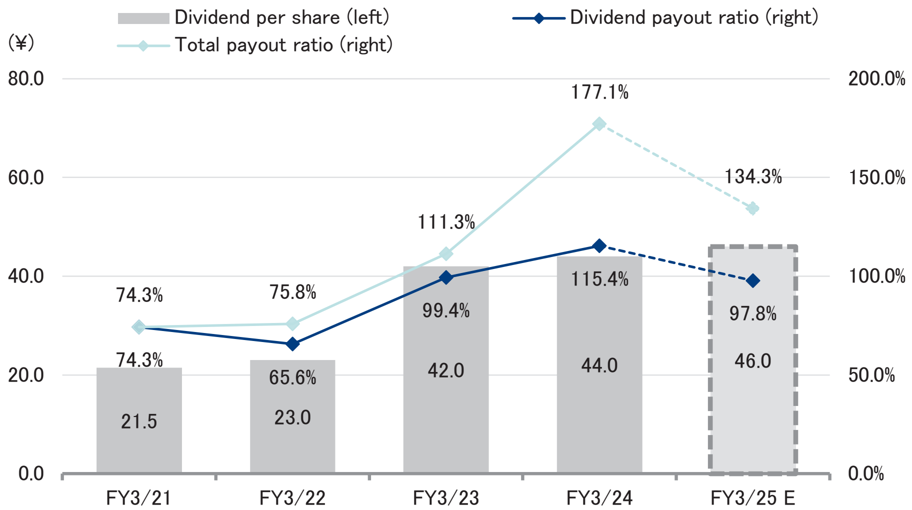
Source: The Company's results briefing materials

Shareholder return policy

Actively providing shareholder returns based on a consolidated total return ratio of around 100% by FY3/26

The Company has announced its policy of actively providing shareholder returns based on a consolidated total return ratio of around 100% beginning in FY3/23 through FY3/26. The Company has achieved a consolidated total return ratio of 100% by consistently paying stable dividends with a DOE of at least 6% while also implementing timely share buybacks. Based on this policy, the Company has achieved a consolidated total return ratio of 177.1% for FY3/24 as a result of it having increased its dividend over three consecutive fiscal years upon having raised its dividend for FY3/24 by ¥2.0 YoY to ¥44.0 per share (dividend payout ratio of 115.4%, DOE of 8.0%), in conjunction with implementing share buybacks amounting to ¥400mn. Also in FY3/25, the Company plans to furnish dividends of ¥46.0 per share for a ¥2.0 increase (dividend payout ratio of 97.8%), and has announced that it will repurchase treasury stock over the period May 20, 2024, through to October 31, 2024 (maximum purchase amount of ¥300mn and acquisition of 500,000 shares). The consolidated total return ratio forecast is 134.3%.

Dividend per share and dividend payout ratio



Note: Past dividend values have been retroactively revised because of a 1:2 share split conducted at the end of September 2021
Source: Prepared by FISCO from the Company's financial results

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), the Company did not meet the standards for the tradable shares market capitalization amount (¥10.0bn) and the average daily trading value* (¥20mn). As of March 31, 2023, its tradable shares market capitalization amount cleared the standard at ¥10.46bn, while the average daily trading value also cleared the standard as of December 31, 2023, the base date for the calculation, and all items met the criteria for maintaining the listing. It intends to continue clearing these standards through earnings expansion by implementing its medium-term business plan and raising its profile through aggressive IR, SR, and PR activities.

* Tradable shares market capitalization was 8.11bn, and average daily trading value was ¥6mn.

Disclaimer

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