COMPANY RESEARCH AND ANALYSIS REPORT

TANABE CONSULTING GROUP CO., LTD.

9644

Tokyo Stock Exchange Prime Market

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Contents

Summary

Targeting record net sales and operating profit by leveraging strengths in management consulting for upper mid-sized companies

TANABE CONSULTING GROUP CO., LTD. <9644> (hereafter, also "the Company" or "TCG") and its principal operating company, TANABE CONSULTING CO., LTD. is a management consulting pioneer in Japan and a major player in the industry. In 2024, the Company marked its 67th year in business. Its main clients are top management (executives and business leaders) at large to medium-sized enterprises nationwide (generating sales of between ¥3.0bn and ¥300.0bn), particularly upper mid-sized companies. Its services cover everything from formulating management strategy (upstream) to implementing and executing management operations at business sites (mid-stream to downstream), including digital transformation (DX). Targeting various issues top management faces, the Company's Management Consulting Business uses a team consulting approach comprising multiple professional consultants to help client enterprises resolve issues and generate growth. These management consulting services cover a full spectrum of areas, including the Strategy & Domain, Digital and DX, HR, Finance and M&A, and Branding & PR domains.

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 comprehensively 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 management consulting service menu and strengthen its professional DX services (a menu of services that leverage digital technology to support onsite execution).

1. Overview of 1H FY3/25 results

In 1H FY3/25 (Apr-Sep 2024), consolidated net sales increased 11.1% year on year (YoY) to ¥6,664mn and operating profit rose 36.5% to ¥796mn, both record-highs and above the Company's initial forecasts (net sales: ¥6,200mn, operating profit: ¥605mn). Demand for consulting related to medium-term management plans, DX implementation, human capital management, business succession, and other themes was strong, especially from upper mid-sized companies. By capturing these needs, including through subsidiaries that joined the Group in M&A deals, the Company achieved growth in net sales across all management consulting domains. In addition, the operating margin rose from 9.7% in 1H FY3/24 to 12.0% this year, supported by growth in high-value-added projects and productivity gains.

2. FY3/25 results forecasts

For FY3/25, the Company forecasts consolidated net sales of ¥14,000mn (up 9.9% YoY), an upward revision of ¥500mn from its initial forecast, and operating profit of ¥1,485mn (up 47.0%), which is unchanged. The Company raised its net sales forecast to factor in seven months of results from newly consolidated Surpass Co., Ltd., but left profit forecasts unchanged due to continued upfront investments in human capital and new business development. While the domestic and overseas economic outlook is uncertain due to the change in the US administration, prolonged economic weakness in China, and rising prices in Japan, demand for management consulting services remains strong, especially among upper mid-sized companies, and Group synergies from M&A deals are starting to emerge. Based on this, the Company forecasts record net sales and profits for FY3/25.

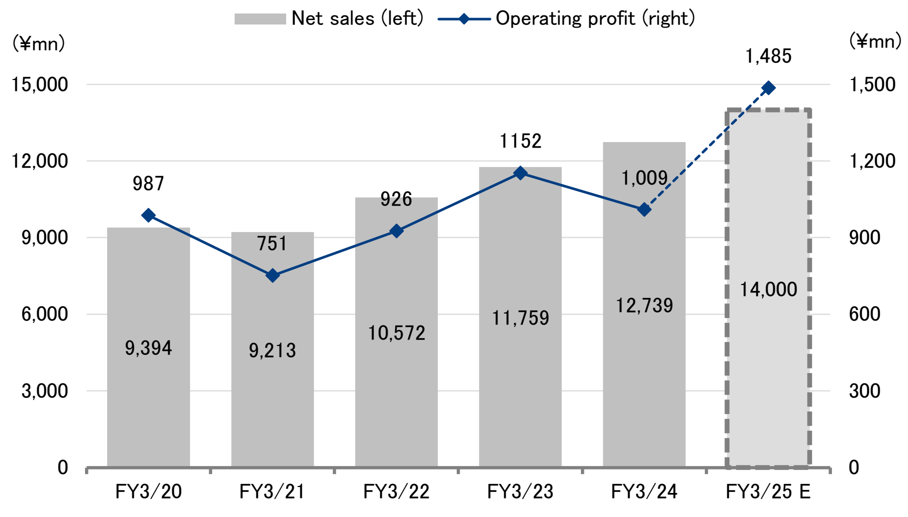
3. Medium-term business plan and shareholder return policy

Under its medium-term business plan, the Company targets net sales of ¥15.0bn and operating profit of ¥1.8bn in FY3/26. It has made steady progress through 1H FY3/25 and is on track to achieve these final-year targets. The Company intends to continue upgrading services that assist clients with formulating management strategies (upstream) while leveraging its strengths in the provision of end-to-end consulting services, including management implementation and execution (midstream to downstream), to become the top management consulting firm in Japan serving upper mid-sized companies. In terms of M&A strategy, it plans to continue exploring options in the Digital and DX, HR, and Finance and M&A domains using its abundant cash reserves. Also, to achieve the goals in its medium-term business plan – ROE of 10% and a market capitalization of ¥25.0bn – it is stepping up shareholder returns as part of its capital policy. Specifically, having 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%. In line with this policy, the Company plans to increase the dividend by ¥3.0 YoY to ¥47.0 per share in FY3/25, which would mark the fourth consecutive year of dividend hikes. It also repurchased ¥299mn worth of shares between May and July 2024 and announced a further buyback of ¥200mn to be conducted from December 12, 2024 to March 31, 2025 (limit of 250 thousand shares). As a result, the projected consolidated total return ratio for FY3/25 is 150.0% (versus 177.1% in FY3/24). If earnings remain firm in FY3/26, we at FISCO see a strong possibility that the Company will continue to return cash to shareholders through dividend hikes and share buybacks.

Key Points

- Reported record earnings in 1H FY3/25, supported by sales growth across all management consulting domains
- Demand for management consulting services is strong especially from upper mid-sized companies; still room for upward revision to FY3/25 operating profit forecast
- Targeting ROE of 10% and market cap of ¥25.0bn by achieving medium-term business plan targets and actively returning profits to shareholders

Performance trends



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

Business overview

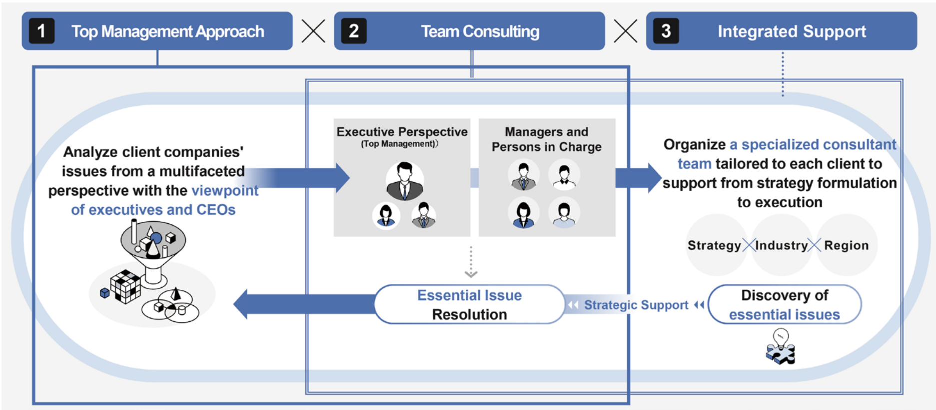
Nationwide team consulting approach providing comprehensive support, from the formulation of management strategies to the implementation and execution of management operations

1. Competitive advantages

(1) Management consulting style

TCG's business model relies on a team of highly specialized consultants who possess extensive knowledge of strategic issues, industry specifics, and regional characteristics. These consultants provide optimal strategic and organizational methods from the perspective of executives and leaders (top management approach) at client enterprises as part of comprehensive support, from strategy formulation to onsite implementation and execution.

TCG's management consulting style



Source: The Company's results briefing materials

(a) I: Top management approach

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

(b) II: 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 a comprehensive 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, pursuing a high level of specialization and comprehensiveness at the same time.

(c) III: 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.

For many years, the Company has had offices in 10 key regions across Japan, from Hokkaido to Okinawa. One of its unique features and strengths is its nationwide network of locally-based firms staffed by management consultants, which have been providing community-based management consulting services for many years. The Company is also working to enhance its nationwide support functions. Specifically, it has established the Strategic Comprehensive Institute to plan and direct various consulting services, analyze management information collected from consulting sites and alliances with other companies, and disseminate this information. It has added corporate functions such as investor relations, shareholder relations, public relations, human resources recruitment, M&A, and sustainability at both its Osaka and Tokyo head offices. Additionally, it has established a network in major countries in Asia, Europe, and the Americas to provide total support to client companies expanding overseas.

(2) Group strategy

Surpass Co., Ltd. joins TCG, creating a seven-company management consulting group

Since 2019, the Company has been conducting M&A as one of its growth strategies, and five companies with expected synergies have joined the Group as of the end of December 2024. In October 2019, Leading Solutions became 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 upper mid-sized companies. The importance of digital marketing is increasing in the B-to-B business area as well. 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. The Company has been working on improving the value of the services provided to the customers of both companies through joint consulting with the existing customers and personnel exchanges.

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

Growin' Partners became 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 became 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 upper mid-sized 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.

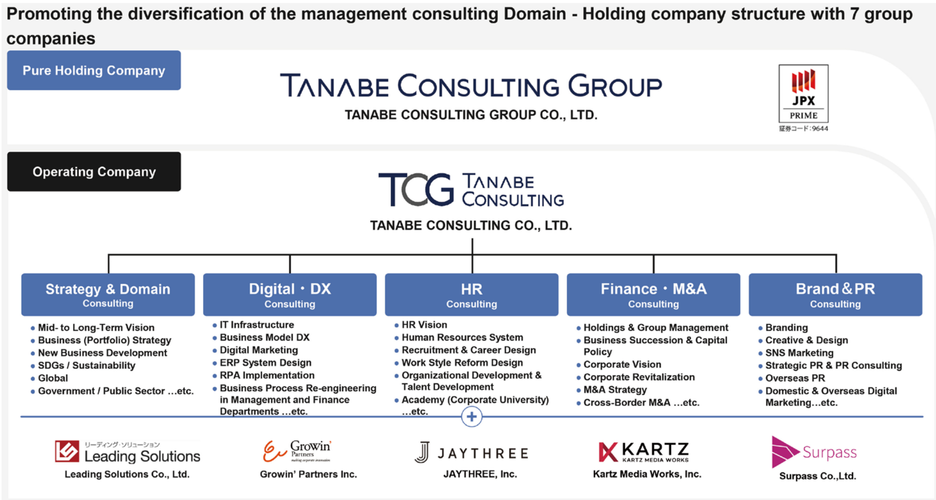
Kartz Media Works, which became a subsidiary in February 2023 (investment ratio, 55.0%), has many employees who previously worked in the media and global human resources who serve as "PR consultants," and its strengths include strategic PR, overseas PR, and support for digital marketing strategy formulation and operations for large companies including foreign-affiliated companies. Strategic formulation and implementation needs in the 'publicity and PR' and 'branding' domains are increasingly becoming priority issues for top management. 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. Notably, Global PR Wire, a press release distribution service provided by Kartz Media Works is the only service that delivers press releases directly to journalists worldwide who specialize in the industry and is tailored to the desired distribution area. More than 1,500 companies, including leading global companies representing Japan, have been using the service. 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.

Surpass, which became a subsidiary in August 2024 (investment ratio, 62.4%), has a team of more than 100 professional women who provide a range of consulting services to BtoB companies, including sales/marketing consulting services, digital marketing and SFA (sales force automation)/CRM (customer relationship management) implementation consulting services, and organizational design consulting services to realize DE&I*. The Company provides sales process outsourcing services by female-led teams and human resource development services designed to empower women in the workplace. In implementation support for BtoB sales and marketing for large enterprises, the Company has a high client retention rate of approximately 90%. With the addition of Surpass to the Group, the Company will reinforce its sales/marketing consulting and its HR consulting focused on empowering women.

* DE&I refers to the concept of Diversity, Equity, and Inclusion. It aims to create a workplace where diverse human resources in an organization can receive the necessary support according to their situation to maximize individual performance by leveraging their characteristics and strengths and contribute to business performance.

Forming the Group from these five companies will further strengthen the Company's comprehensive management consulting support model by enabling it to work as a group to solve various management issues faced by large and upper mid-sized companies, such as business succession, business model transformation and rebuilding, DX and productivity improvement, CX design, domestic and overseas PR, and DE&I. Moreover, the Company has started focusing on the government and public sectors, leveraging its nationwide network of business bases. We at FISCO believe this will be one of the Company's main customer target markets as it works to generate sustainable growth.

The TANABE CONSULTING GROUP's outline



Source: The Company's results briefing materials

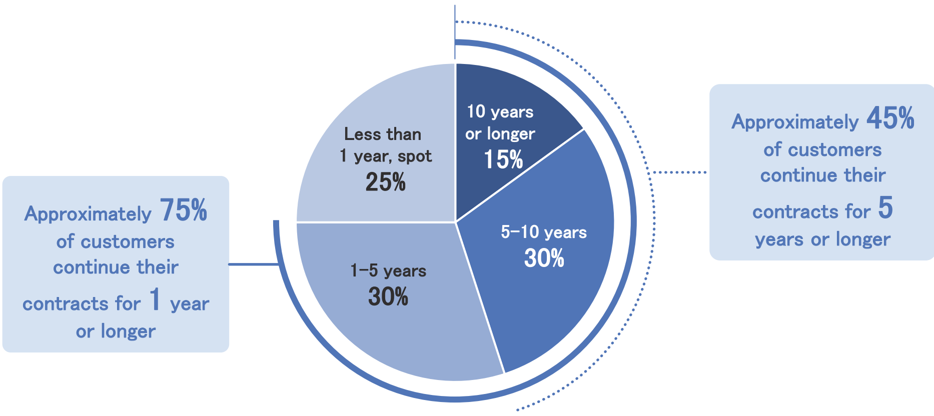
Approximately 75% of customers continue their contracts for one year or longer. Utilizes diverse channels to attract new customers, leading to team consulting contracts

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 5 years or longer, and 75% of customers continue their contracts for 1 year or longer. We believe the Company's role as a "business doctor," where it utilizes teams of highly specialized consultants to analyze management issues from multiple perspectives and solve unique management issues, backed by comprehensive support from strategy formulation to onsite implementation and execution, supports the Group's high customer retention rate (LTV*). Team consulting services are on track to account for 72% of net sales in FY3/25.

* Lifetime value: Customer lifetime value → defined by the Company as building long-term relationships with customers.

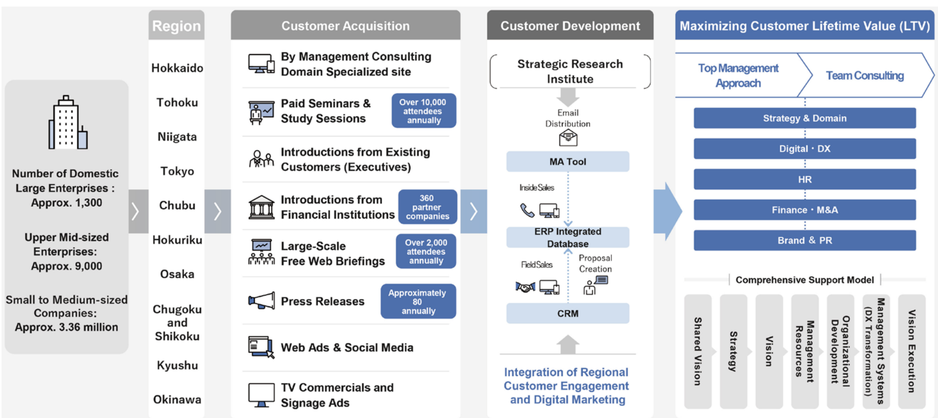
Customer breakdown by years of contract continuation



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.

Overview of marketing



Source: The Company's results briefing materials

Result trends

Reported record earnings in 1H FY3/25, supported by sales growth across all management consulting domains

1. Overview of 1H FY3/25 results

In 1H FY3/25, consolidated net sales grew 11.1% YoY to ¥6,664mn, operating profit rose 36.5% to ¥796mn, ordinary profit increased 47.7% to ¥864mn, and net profit attributable to owners of parent rose 44.9% to ¥507mn, all record-highs and above the Company's initial forecasts. Net sales grew in all management consulting domains, supported by strong demand for consulting services. On the profit front, the gross profit margin rose from 46.1% in 1H FY3/24 to 47.8%, reflecting an increase in high-value-added projects and productivity gains, contributing to the steep rise in profits.

1H FY3/25 results

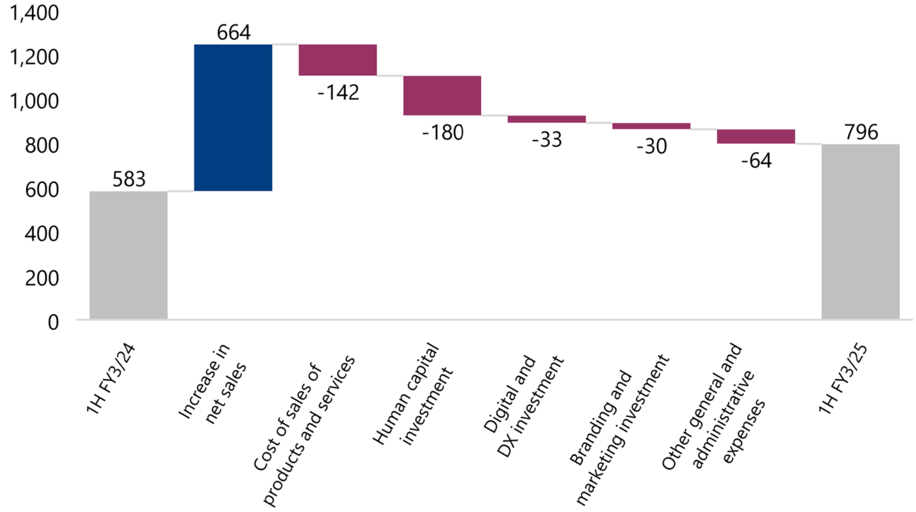
(¥mn)

	1H FY3/24		1H FY3/25				
	Results	Ratio to sales	Initial forecast	Results	Ratio to sales	YoY	vs. forecast
Net sales	6,000	-	6,200	6,664	-	11.1%	7.5%
Gross profit	2,766	46.1%	-	3,183	47.8%	15.1%	-
SG&A expenses	2,183	36.4%	-	2,386	35.8%	9.3%	-
Operating profit	583	9.7%	605	796	12.0%	36.5%	31.6%
Ordinary profit	585	9.8%	605	864	13.0%	47.7%	42.9%
Net profit attributable to owners of parent	349	5.8%	355	507	7.6%	44.9%	42.9%

Note: Surpass Co., Ltd. contributed one month of results (September 2024) to 1H FY3/25 consolidated results.
Source: Prepared by FISCO from the Company's financial results

Looking at the factors behind changes in expenses, the cost of sales of products and services increased ¥142mn (up 8.9% YoY), human capital investment rose ¥180mn (up 6.4%), digital and DX investment increased ¥33mn (up 20.8%), branding and marketing investment rose ¥30mn (up 21.0%), and other general administrative expenses increased ¥64mn (up 9.2%). The rise in human capital investment mainly reflected growth in employee headcount. In addition, the Company made aggressive upfront investments in growth, including digital and branding investments.

Factors behind YoY change in operating profit (¥mn)



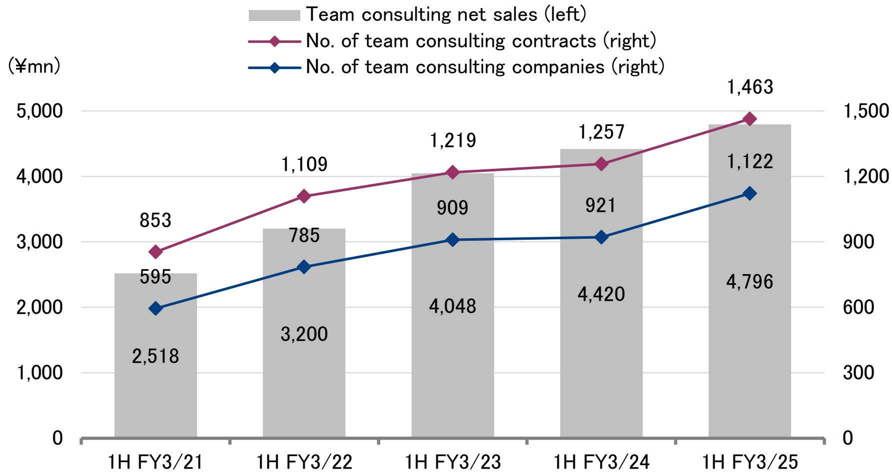
Source: Prepared by FISCO from the Company's results briefing materials

Net sales and operating profit exceeded the Company's 1H forecasts by 7.5% and 31.6%, respectively. Looking at net sales by management consulting domain, Digital and DX performed well, with net sales at 50.6% of the full-year forecast. All other domains also beat the Company's 1H forecasts. Profits exceeded forecasts partly due to a higher gross profit margin driven by growth in high-value-added projects, as well as the postponement of office renovation investment from 1H to 2H. In addition, in non-operating income, the Company booked a gain on sales of investment securities of ¥61mn, leading to an improvement in non-operating income/expenses that outpaced the initial forecast.

The Company uses the number of team consulting contracts, companies, and net sales as KPIs. Team consulting net sales rose 8.5% YoY to ¥4,796mn, the number of contracts increased 16.4% YoY to 1,463, and the average number of companies during 1H rose 21.8% YoY to 1,122. All three KPIs were record highs. Growth in the number of contracts and companies outpaced net sales growth due to the addition of results from Surpass. Even excluding Surpass, net sales, contracts, and companies all increased steadily. Base sales, which are sales from long-term contracted services of six months or more and provide a stable base for growth, also performed well, rising 11.2% YoY to a new record-high of ¥4,377mn.

Result trends

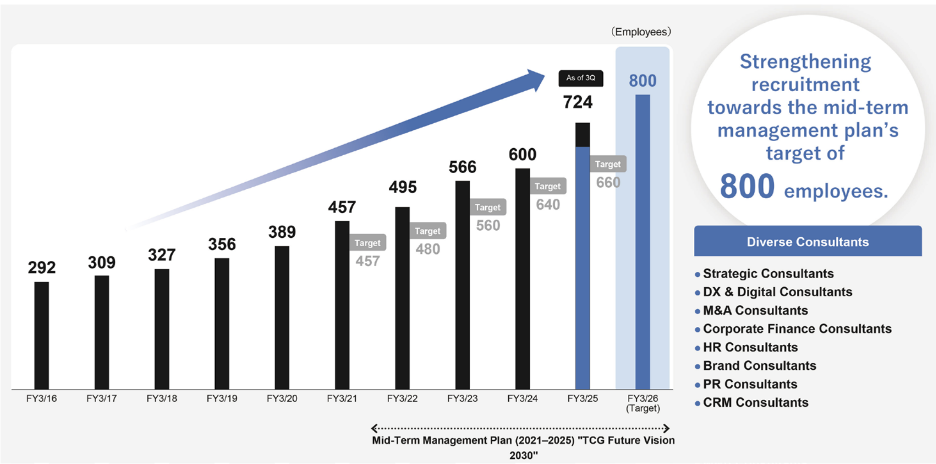
Team consulting net sales, contracts, and companies



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
3Q FY3/21: the sum of the results of TANABE CONSULTING CO., LTD. and Leading Solutions Co., Ltd.
Growin' Partners results included in consolidation since 1H FY3/22
JAYTHREE results included in consolidation since 1H FY3/23
Kartz Media Works results included in consolidation since 1H FY3/24
Surpass results included in consolidation from 1H FY3/25 (one month of net sales)
Source: Prepared by FISCO from the Company's results briefing materials

The number of consolidated employees at the end of 1H FY3/25 was 742, up 142 from the end of the previous period. In addition to hiring people nationwide with practical experience in various industries and job roles, the Company is actively recruiting specialists in the HR, digital, and global fields, which are expected to see particularly strong growth going forward, as well as office assistants who can boost the productivity of consultants. In addition, following the consolidation of Surpass, the Company has already achieved its full-year targets in 1H FY3/25.

Number of employees

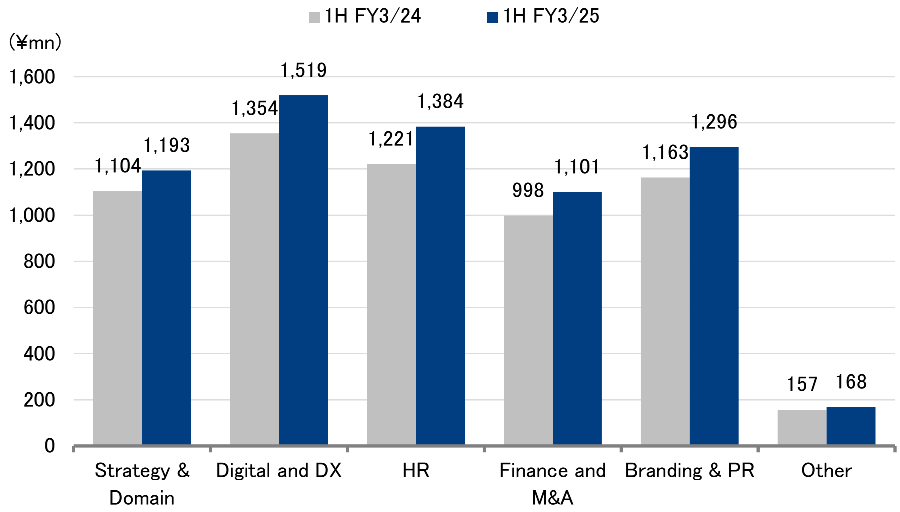


Source: The Company's results briefing materials

Net sales rise in all management consulting domains

2. Net sales breakdown by management consulting domain

Net sales breakdown by management consulting domain



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

(1) Strategy & Domain

Net sales in Strategy & Domain increased 8.1% YoY to ¥1,193mn. Amid continued high needs for management plan revisions and rebuilding to address rising prices and other changes in the operating environment, projects related to themes such as the formulation and promotion of long-term visions and medium-term management plans and business portfolio strategy planning were strong. In addition, the weaker yen spurred an increase in projects related to the formulation and promotion of global strategies, business model reform, and business due diligence (M&A consulting) to support overseas expansion. The Company also leveraged its community-based strengths to capture more consulting projects in the government and public sector.

(2) Digital and DX

Net sales in the Digital and DX domain rose 12.2% YoY to ¥1,519mn. Companies with strong earnings are currently optimistic about digital investment to drive further growth. This supports a high level of projects with themes ranging from the formulation of IT concepts and DX visions, to ERP system introduction and implementation, marketing DX (digital marketing, sales process reform), and branding DX (websites and social media). Also, amid growth in the number of companies developing personnel with digital skills, the Company saw an increase in projects with themes such as DX training (personnel development, reskilling), system development, and data management, while the consolidation of Surpass contributed to an increase in net sales from marketing DX and DX training projects.

In ERP system introduction and implementation, there was growth in solutions, which maximize the benefits of system implementation by combining cloud ERP product NetSuite*1 from partner Oracle Corporation Japan <4716> with medium-term management plan and business strategy development consulting from TANABE CONSULTING and accounting, HR, and IT (ERP) consulting from Growin' Partners. In addition, in July 2024, TANABE CONSULTING and RICOH JAPAN Corp. announced a business alliance with the aim of supporting DX for upper mid-sized companies nationwide. The alliance will provide comprehensive DX support to client enterprises by linking management consulting services, including TANABE CONSULTING's HR KARTE*2, with a suite of digital solutions from RICOH JAPAN. The Company is targeting 1,000 implementation cases in the 3 years through FY3/27, and the initiative is likely to attract attention for its potential to lift net sales.

*1 NetSuite is an AI-enabled business management software product that provides central management of all major business applications such as ERP/financial accounting, customer relationship management (CRM), and e-commerce. It is the world's top cloud ERP with more than 41,000 user companies worldwide.
*2 HR KARTE is an empirical science-based survey/assessment tool that draws on many years of organizational and HR analysis, surveys, and training case studies to address human resource issues and visions by objectively "diagnosing" organizations and human resources on a regular basis. Information from this process is then utilized in management strategies. Services based on HR KARTE include leadership aptitude assessments, character assessments, and employee engagement surveys.

(3) HR

Net sales in the HR domain increased 13.4% YoY to ¥1,384mn. Amid changes in the operating environment and wider use of human capital management, projects with themes such as rebuilding personnel compensation schemes, establishing Academies (internal universities), the appointment of junior boards (development of future management teams), and succession planning performed well. There was also an increase in projects related to the formulation and promotion of organizational and personnel strategies, human resource development, talent management, HR KARTE (human resources assessments/HR tech), and work style reforms. Newly consolidated company Surpass also actively promoted consulting in the area of organizational development, including DE&I, empowering women and developing human resources, and career design. In particular, there appears to have been an increase in inquiries about empowering women and developing human resources from local governments and from banks, which are consolidating branches and have strong needs for reskilling female employees. This is likely to contribute to net sales in this domain going forward.

(4) Finance and M&A

Net sales in the Finance and M&A domain increased 10.3% YoY to ¥1,101mn. Needs related to business succession were firm amid a lack of successors to take over companies, translating into strong demand for projects with themes such as creating holding company structures and group management, integrated M&A consulting, including cross-border deals (comprehensive support from strategy formulation to FA, due diligence, and PMI), and business succession. There was also an increase in the number of projects related to corporate value vision (including IR), compliance with the Corporate Governance Code, and capital policy, to help companies respond to calls for management that takes into account the cost of capital and the share price.

(5) Branding & PR

Net sales in the Branding & PR domain rose 11.4% YoY to ¥1,296mn. BtoB firms and companies facing corporate anniversaries or business succession are increasingly rethinking their corporate purpose and brands and developing group branding. This supports firm demand for projects such as brand visioning, creative design, and strategic branding and PR. Additionally, corporate needs for face-to-face events, exhibitions, and in-store initiatives have recovered, leading to growth in projects such as media PR, content marketing, and hybrid promotions (online x offline).

(6) Other

Sales of Blue Diary notebooks and other promotion products increased 6.9% YoY to ¥168mn. Sales for promotional products increased due to holding various events, while sales of Blue Diary notebooks were also strong due to the effect of price revision following the increase in raw material prices.

Equity ratio is still high, in the 70% range; actively using abundant cash on hand to fund shareholder returns and M&A

3. Financial condition and management indicators

As of end-1H FY3/25, total assets were ¥14,472mn, up ¥333mn from the end of the previous fiscal year. Looking at the main changes in current assets, notes and accounts receivable - trade, and contract assets increased ¥205mn, while cash and deposits and securities decreased ¥399mn. In non-current assets, goodwill increased ¥400mn due to the consolidation of Surpass as a subsidiary.

Total liabilities rose ¥510mn from the end of the previous fiscal year to ¥3,345mn. There were increases of ¥168mn for accounts payable - trade, ¥168mn for income taxes payable, and ¥95mn for interest-bearing debt. Meanwhile, total net assets decreased ¥177mn from the end of the previous fiscal year to ¥11,127mn. While the Company booked net profit attributable to owners of the parent of ¥507mn, there were declines of ¥430mn due to dividend payments and ¥300mn for the acquisition of treasury stock.

Looking at management indicators, the equity ratio was 73.8%, slightly lower than at the end of the previous fiscal year, but still at a high level, and the Company continues to have significant reserves of cash, deposits and securities of more than ¥7.0bn and maintains effectively debt-free management, so we view the Company as highly financially sound. The Company has announced a policy of actively paying shareholder returns based on a target consolidated total return ratio of 100% during the medium-term business plan period through FY3/26. It is working to achieve this by repurchasing shares, as well as by providing dividends. The Company is also doing so because it is targeting ROE of 10%, and although net assets could continue to decline, we expect its financial health to remain robust, given abundant cash reserves.

Consolidated balance sheet and management indicators

(¥mn)

	FY3/22	FY3/23	FY3/24	1H FY3/25	Change
Current assets	9,329	9,674	9,347	9,170	-177
Cash, deposits, and securities	8,199	8,373	7,838	7,438	-399
Non-current assets	4,495	4,734	4,789	5,300	510
Total assets	13,824	14,410	14,139	14,472	333
Current liabilities	1,856	2,154	2,209	2,635	425
Non-current liabilities	451	545	625	709	84
Total liabilities	2,307	2,700	2,834	3,345	510
Interest-bearing debt	149	190	210	305	95
Net assets	11,517	11,710	11,304	11,127	-177
Management indicators					
Equity ratio	81.0%	78.8%	77.1%	73.8%	-3.3pp
Interest-bearing debt	1.3%	1.7%	1.9%	2.9%	0.9pp

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

Outlook

Demand for management consulting services is strong, especially from upper mid-sized companies; still room for upward revision to FY3/25 operating profit forecast

1. FY3/25 results forecasts

The Company forecasts record-high earnings in FY3/25 – consolidated net sales of ¥14,000mn, up 9.9% YoY, operating profit of ¥1,485mn, up 47.0%, ordinary profit of ¥1,500mn, up 48.1%, and profit attributable to owners of parent of ¥800mn, up 24.8%. It revised up its net sales forecast by ¥500mn due to the consolidation of Surpass as a subsidiary, but left its operating profit forecast unchanged, as it plans to continue investing in growth in 2H, including areas such as human capital and digital technology. However, for the first six months of the fiscal year, operating profit was 53.6% of the full-year forecast, above the three-year average of 48.0%*, and there has been no major change in the order environment since the start of 2H, so we expect upside for operating profit.

* Calculated by dividing the interim total by the full-year total for three fiscal years (FY3/22-24)

FY3/25 results outlook

(¥mn)

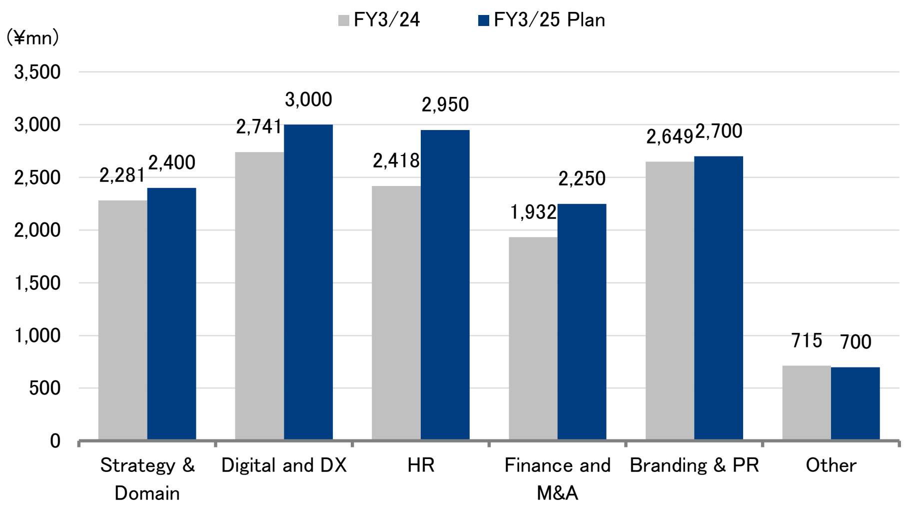
	FY3/24		FY3/25				1H progress rates
	Results	Ratio to sales	Initial forecast	Revised forecast*	Ratio to sales	YoY	
Net sales	12,739	-	13,500	14,000	-	9.9%	47.6%
Gross profit	5,465	42.9%	6,010	6,200	44.3%	13.4%	51.3%
SG&A expenses	4,455	35.0%	4,525	4,715	33.7%	5.8%	50.6%
Operating profit	1,009	7.9%	1,485	1,485	10.6%	47.0%	53.6%
Ordinary profit	1,012	8.0%	1,485	1,500	10.7%	48.1%	57.6%
Net profit attributable to owners of parent	641	5.0%	785	800	5.7%	24.8%	63.4%
Earnings per share (yen)	38.14		47.03	48.31			

* Announced September 2024
Source: Prepared by FISCO from the Company's results briefing materials

In the external environment, there is considerable uncertainty around the economic outlook amid fresh trade friction between the US and China following the change in the US administration, as well as prolonged conflicts in Europe and the Middle East and continuing price inflation in Japan. However, upper mid-sized companies, which are the backbone of the Japanese economy, have strong needs for management consulting related to themes such as DX, M&A, human capital management, branding, and global strategies. In response to these needs, the Company plans to acquire more clients and maximize LTV by cross-selling to existing clients, leveraging its ability to provide comprehensive services using the entire Group.

In terms of net sales by management consulting domain, it forecasts net sales of ¥2,400mn in Strategy & Domain (up 5.2% YoY), ¥3,000mn in Digital and DX (up 9.4%), ¥2,950mn in HR (up 22.0%), ¥2,250mn in Finance and M&A (up 16.5%), and ¥2,700mn in Branding & PR (up 1.9%). The higher growth rate for the HR domain reflects a full net sales contribution from Surpass from 2H. We also see potential for upside for the Digital and DX domain due to a net sales contribution from Surpass.

Net sales plan breakdown by management consulting domain



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

Targeting ROE of 10% and a market cap of ¥25.0bn by achieving medium-term business plan targets and actively returning cash to shareholders

2. Medium-term business plan

(1) Progress of the medium-term business plan

The Company in FY3/22 started a 5-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) while promoting M&A strategy, continue to build a one and only management consulting support model capable of comprehensive support for corporate management, and accelerate growth. For upper mid-sized companies in particular, where it can leverage strengths in team consulting using its top management approach, the Company aims to be the leading management consulting firm in Japan.

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%. We believe the Company made steady progress in 1H FY3/25, as synergies with newly consolidated subsidiaries acquired through M&A are starting to emerge. These new subsidiaries have increased team consulting contracts while referring clients to each other, supporting growth in net sales at all the companies.

We expect the Company to continue capturing consulting needs from large to medium-sized enterprises, centered on upper mid-sized companies, in areas such as DX, human capital management, M&A, and global strategy, while also expanding its reach in the government and public services domain, supporting continued growth in net sales. 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. With the consolidation of Surpass, along with Growin' Partners, JAYTHREE, and Kartz Media Works, which have all joined the Group since FY3/21, we believe the Company will exceed this ¥2.0bn figure, but we expect it to continue investing in M&A in domains where demand is strong, such as HR, Digital and DX, and Finance and M&A, with M&A investment likely to top ¥1.0bn.

Results targets of the medium-term business plan

(¥mn)

	FY3/23	FY3/24		FY3/25		FY3/26	CAGR*
	Results	Initial plan	Results	Initial plan	Revised plan	Plan	
Net sales	11,759	12,300	12,739	13,500	14,000	15,000	8.5%
Operating profit	1,152	1,230	1,009	1,485	1,485	1,800	33.6%
Operating margin	9.8%	9.8%	7.9%	11.0%	10.6%	12.0%	-
ROE	6.4%	-	5.8%	-	-	10.0%	-
ROA	8.2%	-	7.1%	-	-	15.0%	-

* CAGR for the 2 years from FY3/25 to FY3/26
Source: Prepared by FISCO from the Company's results briefing materials

In terms of net sales targets by management consulting domain through FY3/26, the Company forecasts the strongest growth for the Digital and DX domain, with net sales seen rising from ¥2,741mn in FY3/24 to ¥4,000mn in FY3/26, a 2-year CAGR of 20.8%. In this domain, it will offer end-to-end solutions for corporate DX needs, covering everything from the concept phase (upstream processes) to execution and implementation support (downstream processes). There is also substantial potential demand from regional upper mid-sized companies, which have been slow to implement DX initiatives. The Company plans to tap into this demand by sharing resources between Group companies and promoting collaboration with partner RICOH JAPAN.

In the HR domain, An increasing number of companies are prioritizing and strengthening their human capital management initiatives. The Company aims to capture needs for consulting services to revamp personnel systems and to recruit and develop human resources, which are directly linked to management strategies. It forecasts this will drive net sales CAGR of 7.6%, rising from ¥2,418mn in FY3/24 to ¥2,800mn in FY3/26. However, with the consolidation of Surpass, it now expects to achieve its net sales target one year early in FY3/25, with further growth likely. Similarly, in the Finance and M&A domain, the Company expects to achieve its initial net sales target (¥2,100mn in FY3/26) one year early, with net sales of ¥2,250mn in FY3/25. Following the June 2024 enactment of the revised Act on Strengthening Industrial Competitiveness, which aims to support upper mid-sized and small to medium-sized enterprises by providing taxation and financial support to encourage business expansion through M&A, a growing number of companies are actively considering M&A. This is spurring demand for financing strategies for M&A, PMI (post-merger integration), and the establishment of holding companies and group management systems. We expect net sales in this domain to continue growing, as the Company can leverage the Group's strengths in providing end-to-end consulting services in these areas. In the Branding & PR domain, an increasing number of companies are expanding and strengthening their overseas operations due to the weakening yen. Here, the Company's strategy is to provide team consulting services via its global strategy, through which it attracts customers using the Global PR Wire overseas press release distribution service provided by Kartz Media Works as a "foot in the door" sales tool. The number of enterprises subscribed to the Global PR Wire service has increased steadily to more than 1,500 companies as of the end of September 2024, from 900 companies as of the end of March 2023, and is attracting attention as a key service from companies considering overseas expansion.

Target net sales by management consulting domain and focus domains

(¥mn)

	FY3/24 Results	FY3/25 Plan	FY3/26 Target	CAGR*	Focus domains
Net sales	12,739	14,000	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	2,400	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	3,000	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	2,418	2,950	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 (internal universities) establishment, Academy Cloud, and so on
Finance and M&A	1,932	2,250	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	2,700	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	700	-1.1%	Blue Diary notebooks and promotion products

* Average annual growth rate for 2 years, FY3/25-26
Source: Prepared by FISCO from the Company's results briefing materials

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

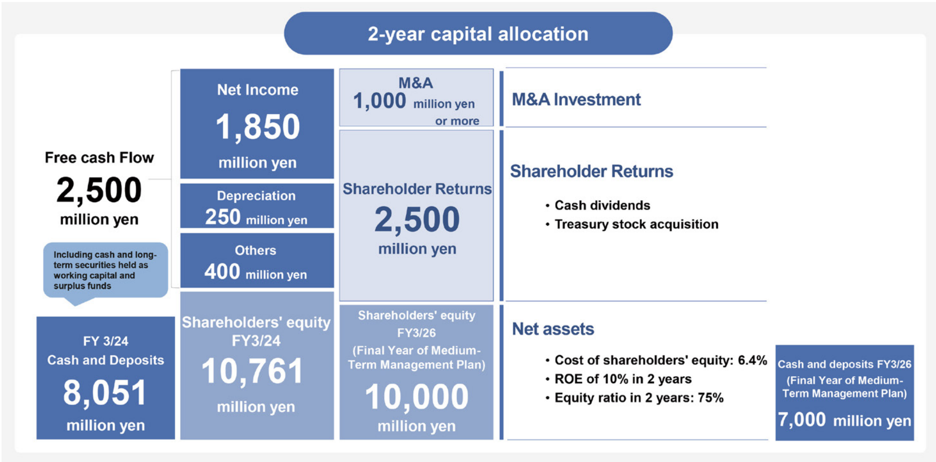
In its medium-term business plan, the Company has set numerical targets of 10% ROE and market capitalization of over ¥25.0bn. The Company intends to achieve these targets by attaining the results targets set forth in its medium-term business plan and by realizing an optimal capital structure through 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. In FY3/24, the Company paid dividends as well as repurchased shares, resulting in a consolidated total return ratio of 177.1% and year-end shareholders' equity of ¥10,903mn, down ¥448mn from the end of the previous fiscal year. It is also buying back shares in FY3/25, and the consolidated total return ratio is forecast to exceed 150%, which is expected to further reduce shareholders' equity. Consequently, we estimate if net profit in FY3/26 is just over ¥1.0bn, it should be able to achieve ROE of 10%.

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 proactive 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) Capital allocation

The Company's basic policy for capital allocation for the 2 years through FY3/26 is to allocate cash in a balanced manner between investment in growth and shareholder returns. It forecasts free cash flow over the 2-year period will total ¥2.5bn (net profit ¥1.85bn, depreciation ¥0.25bn, other items ¥0.4bn), while cash outflows are expected to include ¥2.5bn for shareholder returns such as dividends and share buybacks, and more than ¥1.0bn for M&A. As a result, as of end-FY3/26, it forecasts shareholders' equity of ¥10.0bn (versus ¥10.761bn at end-FY3/24), and cash and deposits of ¥7.0bn (¥8.051bn at end-FY3/24).

Capital allocation



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

(4) 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 and 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 3-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.

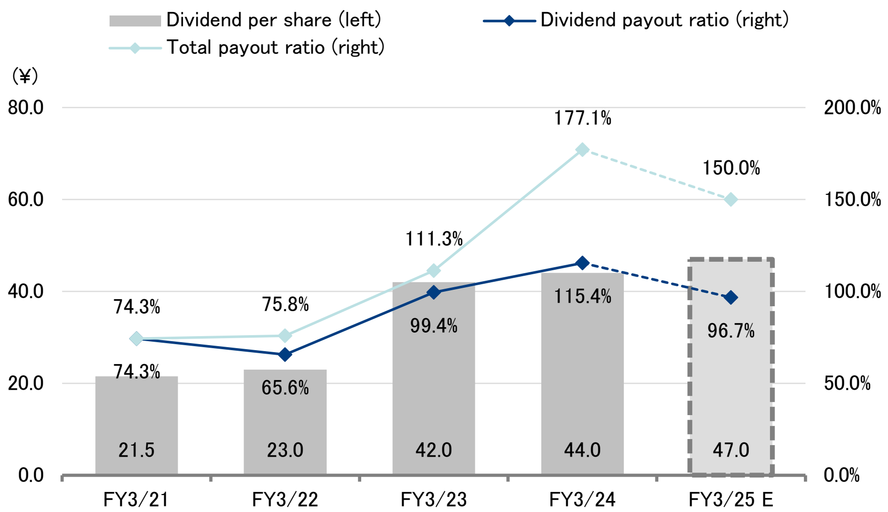
* Professional consultant standards: Individuals who have been in charge of five or more companies as Chief Consultant and have the ability to lead teams as project leaders in specific fields

Shareholder return policy

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

The Company has disclosed a policy of actively providing shareholder returns, based on a consolidated total return ratio of around 100% from FY3/23 through FY3/26. It aims to achieve this ratio by consistently paying stable dividends with a DOE of at least 6% while also implementing timely share buybacks. In line with this policy, the Company plans to increase the dividend by ¥3.0 YoY to ¥47.0 per share in FY3/25, which would mark the fourth consecutive year of dividend hikes. The initial forecast was ¥46.0 per share, but it raised the forecast by ¥1.0 after revising up its earnings estimates. It also repurchased 237.5 thousand shares for ¥299mn between May 20 and July 24, 2024 and announced a further buyback of up to 250 thousand shares and ¥200mn, to be conducted from December 12, 2024 to March 31, 2025. If it repurchases shares up to the approved limits, we estimate the consolidated total return ratio will be 159.2%, meaning more than 100% of earnings will be returned to shareholders for the third consecutive fiscal year. As noted above, the Company plans to return ¥2.5bn to shareholders over the 2 years through FY3/26, of which just over ¥1.2bn will be paid out in FY3/25. If earnings continue to increase as planned in FY3/26, we expect it to continue returning cash to shareholders through dividend hikes and share buybacks.

Dividend per share and dividend payout ratio



Notes: 1. Past dividend values have been retroactively revised because of a 1:2 share split conducted at the end of September 2021.
2. Consolidated total return ratio for FY3/25 assumes the share repurchase currently underway (up to ¥200mn) is fully implemented.
Source: Prepared by FISCO from the Company's results briefing materials

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