COMPANY RESEARCH AND ANALYSIS REPORT

TANABE CONSULTING GROUP CO., LTD.

9644

Tokyo Stock Exchange Prime Market

29-Mar.-2024

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Index

Summary

Pursuing further growth with a comprehensive support management consulting model from strategy formulation through to implementation and execution of management operations at work sites, including DX

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 one-stop support for a broad range of customers, from major corporations to mid-size companies, to address diverse management challenges, from formulating strategies (upstream) through to implementation and execution of management operations (midstream to downstream) at work sites, including DX. Its key feature is that it approaches top management to expand its customer base and realize long-term contracts, which also serves as its strength.

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 more recently, Kartz Media Works, Inc., which handles strategic PR, PR consulting, and support for social media and owned media for domestic and foreign companies (in February 2023). Since they joined the Group, synergies generated by these companies have increased through mutual customer transfer, which has boosted all of their earnings.

The TANABE CONSULTING GROUP's outline

Source: The Company's results briefing materials

1. Overview of the FY3/24 1H results

In the Company's FY3/24 1H (April to September 2023) consolidated results, net sales increased 11.4% year on year (YoY) to ¥6,000mn and operating profit fell 3.0% to ¥583mn. Net sales reached a record high, rising for all management consulting domains—Strategy & domain (formulation and promotion of growth strategies), Digital and DX (formulation and implementation of DX strategies), HR (implementation of human capital management), Finance and M&A (improvement of corporate value), and Branding & PR (raising the intrinsic value of brands). This is the result of progress with cross-selling and up-selling to existing customers with an expanded consulting menu as well as attracting new customers. Although profit declined YoY due to increased upfront expenses, mainly in human capital, such as hiring consultants in anticipation of future growth, we think the Company is making steady progress toward its full-year forecast in real terms.

2. FY3/24 results outlook

For the FY3/24 results outlook, the Company forecasts a 6.3% YoY increase in net sales to ¥12,500mn and a 6.8% rise in operating profit to ¥1,230mn, unchanged from its initial forecast. Despite the uncertain economic outlook, consulting demand remains robust for themes such as formulating a medium- to long-term vision and global strategy, DX, human capital management, and M&A. The Company seeks to capture these needs through collaboration within the Group. In 2H, the Company began providing "DX cloud for the service industry – management platform consulting" that supports the introduction and stabilization of NetSuite, Oracle Corporation Japan's <4716> cloud ERP. TANABE CONSULTING and Growin' Partners also collaborated to develop and launch MIRAI Succession. This service designs an overall management structure for business succession and post-succession to provide the optimal solution that takes management into the future. This service signals the intention of moving into M&A intermediary services in earnest. The Company has also formed a specialist cross-group team to strengthen activities to win orders in the area of global strategy, where needs are growing in the post-pandemic period, with the expectation of contributing to earnings expansion in 2H onward.

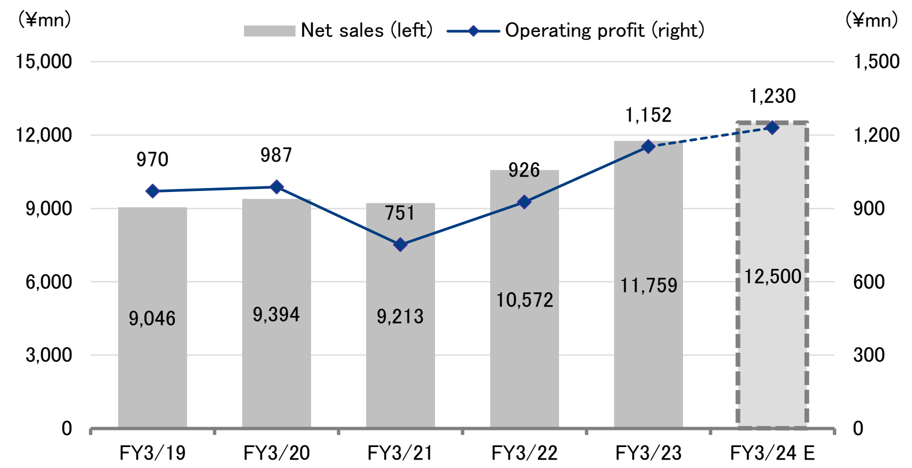
3. Medium-term business plan

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. Progress has been strong through FY3/23, with results surpassing plan targets for two years running. The Company intends to upgrade services that assist customers with management strategies (upstream) and further reinforce onsite management deployment and operation (midstream to downstream) in the form of professional DX services that harness digital technologies, continuing to grow as a one & only management consulting firm capable of all-around comprehensive support for corporate management. It will continue to explore M&A to strengthen its five management consulting domains. The Company plans to increase its workforce (mainly consultants) from 592 at the end of September 2023 to 800 in FY3/26. It has announced a change to its policies for shareholder returns and investing for growth to ensure it achieves its medium-term business plan target of 10% ROE. Its ambitious new shareholder return policy targets a consolidated total return ratio of around 100% by FY3/26. Based on this policy, which calls for paying stable dividends with a DOE of over 6% and timely share buybacks, it forecasts a dividend per share of ¥44.0 (up ¥2.0 YoY) in FY3/24. Combined with the ¥399mn share buyback completed in October 2023, the total return ratio will reach 147.6% in FY3/24. 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

- Record-high net sales in FY3/24 1H, with all management consulting domains and Group companies posting sales growth
- Targeting record-high net sales and operating profit in FY3/24 by strengthening professional DX services through M&A to enhance Group synergies
- Strong progress toward FY3/26 targets of ¥15.0bn in net sales and ¥1.8bn in operating profit; considering more M&A
- Aiming to fulfill criteria to maintain listing on TSE Prime Market with a total return ratio target of around 100%, stable dividends with DOE over 6%, and timely share buybacks through FY3/26 to ensure it achieves ROE of 10%

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. In order to meet the specialized and diversifying management needs of its customers, it is promoting a diversification strategy for the management consulting business and assisting its customers' sustainable growth by providing high-quality consulting value to all its customers nationwide.

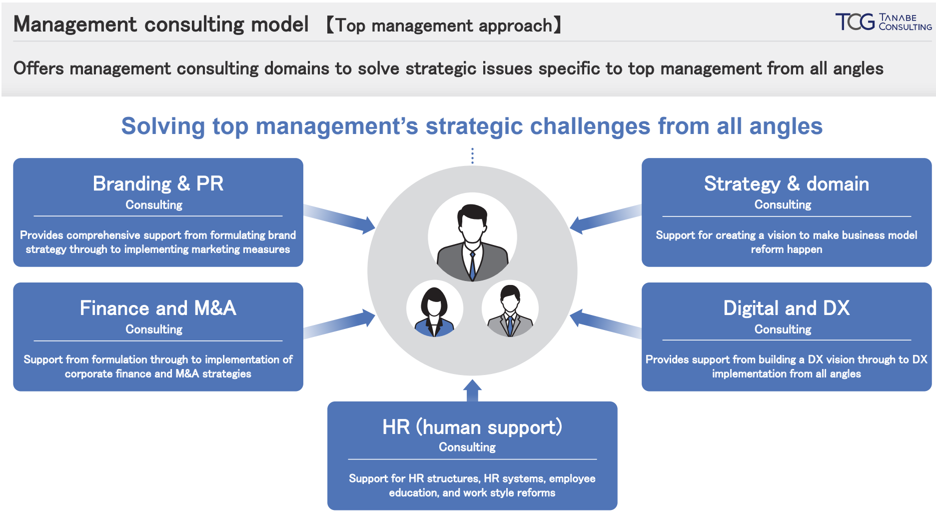
(1) The three methods

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

(a) Method 1: Top management approach

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

Top management approach



Source: The Company's results briefing materials

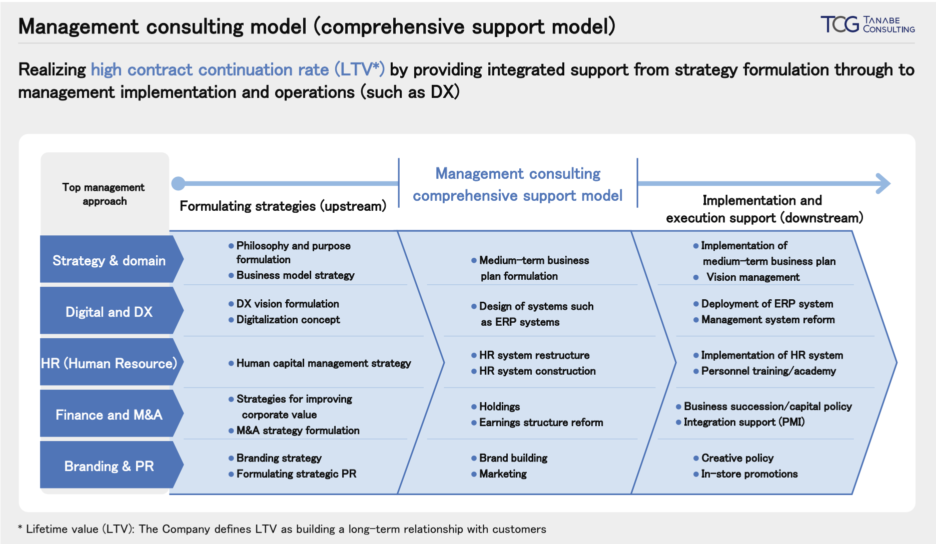
(b) Method 2: Team consulting

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 and system introduction. 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, from business succession and corporate finance, to improve corporate value through growth strategies, due diligence, 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 who are experts in 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 strategic issues.

(c) Method 3: Comprehensive support model

A team of consultants supports top management, providing comprehensive support from the management upstream that formulates purpose and strategies for the implementation and execution of management operations related to DX (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 is the only company in this industry that 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 elsewhere, and disseminates information, and also from the IR, SR, PR, human resources recruitment, M&A, and alliance, 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 synergies are expected have joined the Group. In October 2019, Leading Solutions was made a subsidiary (investment ratio, 60.0%). It carries out KPO (Knowledge Process Outsourcing) work* for digital marketing in the B-to-B area and website construction, and since it was founded in 2004, it has provided assistance to more than 300 companies, mainly listed and 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. For existing customers as well, they are working on improving the value of the services provided to the customers of both companies through joint consulting and personnel exchanges.

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

Growin' Partners was made a subsidiary in January 2021 (investment ratio, 50.1%). It has many accountants and financial advisors, and its main businesses are providing overall M&A assistance, including for cross-border deals, and providing BPR/DX assistance (assistance to introduce ERP, RPA, etc.) into the back offices (such as the accounting and finance departments) of 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 enterprises 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 500 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 (an investment ratio of 55.0%), has many employees who previously worked in the media and global human resources who serve as "PR consultants," and its strengths include strategic PR for large companies including foreign-affiliated companies, overseas PR, and support for digital marketing strategy formulation and operations. As strategic issues for top management, needs are increasing more and more for strategy formulation and implementation in the "publicity and PR" and "branding" domains, and in this situation, the policy is to combine the Company's findings and expertise in management consulting with Kartz Media Works' findings and expertise in domestic and overseas PR consulting and domestic and overseas digital marketing, and to work to strengthen the functions of existing services and to launch new services. Many global companies use Global PR Wire, a press release distribution service provided by Kartz Media Works for overseas media. 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.

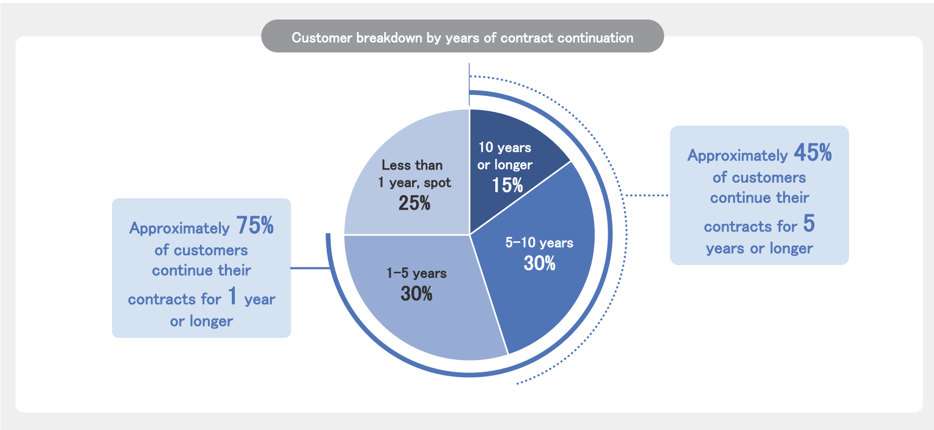
Forming the Group from these four companies strengthens the Company's comprehensive management consulting support model, providing a level of strength that is unparalleled by other companies. The Group will be able to accommodate nationwide needs related to business succession, business model transformation and business rebuilding, DX and productivity improvement, CX design, and various consulting needs of large and mid-size companies, such as domestic and overseas PR, which are expected to accelerate going forward. The Company has announced a policy of focusing on the government and public sectors by taking advantage of its nationwide network of business bases. We therefore believe its growth potential has increased substantially.

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 74% of net sales in FY3/24 1H.

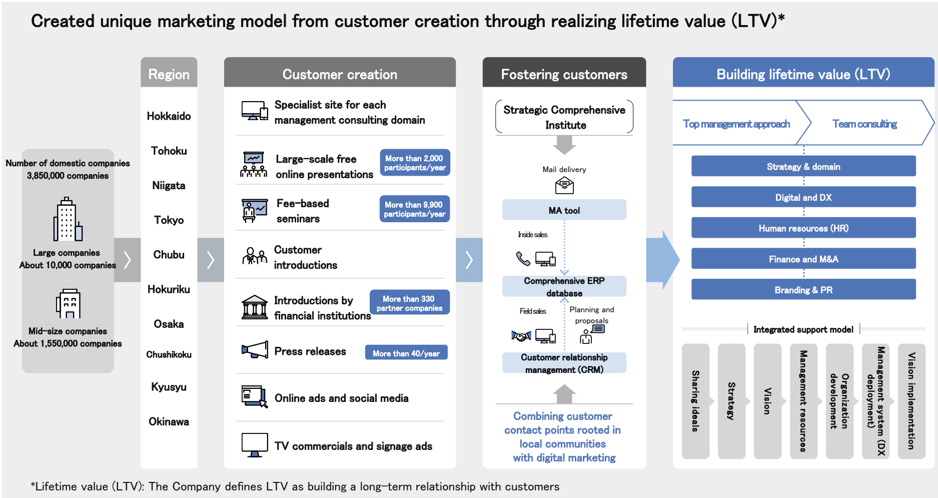
Years of contract continuation rate



Source: The Company's results briefing materials

As the customer creation model, in addition to introductions from its existing customers and over 350 partner financial institutions, the Group creates contact points with new customers, such as digital marketing and holding large-scale free online presentations. 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 model



Source: The Company's results briefing materials

Result trends

Record-high net sales in FY3/24 1H, with all management consulting domains and Group companies posting sales growth

1. FY3/24 1H results overview

In the FY3/24 1H consolidated results, profit declined on higher sales. The Company's net sales totaled ¥6,000mn (up 11.4% YoY), operating profit ¥583mn (down 3.0%), ordinary profit ¥585mn (down 3.5%), and net profit attributable to owners of parent ¥349mn (down 9.5%). The Company posted record-high net sales, with increases in all management consulting domains (including Group companies). Despite an 11.6% increase in gross profit due to the sales growth effect, profit turned down because the Company increased spending on recruitment for future growth and strengthening employee education and training for early development, including a 13.8% YoY rise in human capital investment, whose ratio to net sales went up 1.0pp, and a ¥61mn increase in digital/DX and branding/marketing investment to increase competitiveness. Given that net sales growth is robust, we think the Company is making steady progress toward its full-year forecast in real terms. We note that Kartz Media Works, which recently became a consolidated subsidiary, also contributed to FY3/24 1H earnings.

FY3/24 1H results

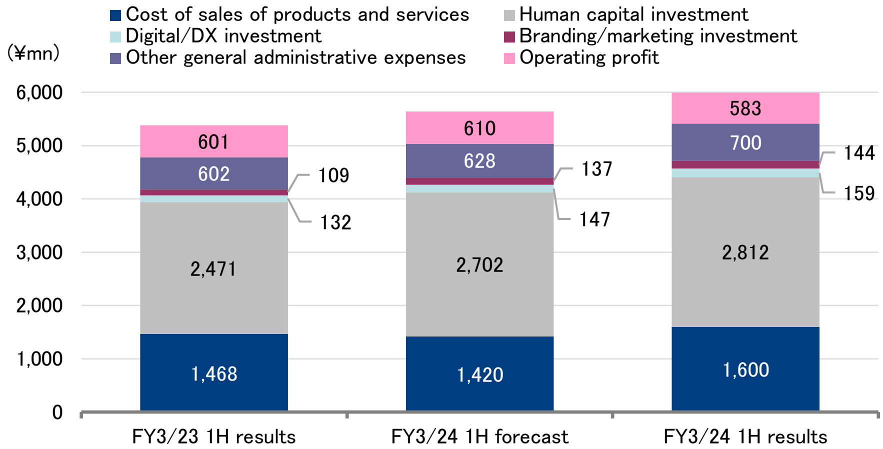
(¥mn)

	FY3/23 1H		FY3/24 1H				
	Results	Ratio to sales	Company forecast	Results	Ratio to sales	YoY	vs. forecast
Net sales	5,386	-	5,645	6,000	-	11.4%	6.3%
Gross profit	2,478	46.0%	2,655	2,766	46.1%	11.6%	4.2%
SG&A expenses	1,877	34.9%	2,045	2,183	36.4%	16.3%	6.8%
Operating profit	601	11.2%	610	583	9.7%	-3.0%	-4.4%
Ordinary profit	606	11.3%	610	585	9.8%	-3.5%	-4.1%
Net profit attributable to owners of parent	386	7.2%	360	349	5.8%	-9.5%	-2.8%

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

Net sales were 6.3% higher than the Company forecast as a result of capturing robust consulting demand in each of the management consulting domains by strengthening collaboration between Group companies. However, operating profit fell short by 4.4% due to hiring consultants in anticipation of business expansion and investing upfront in digital/branding services. The consolidated workforce was 592 at the end of FY3/24 1H, up 73 from the end of FY3/23 and 12 more than the Company forecast.

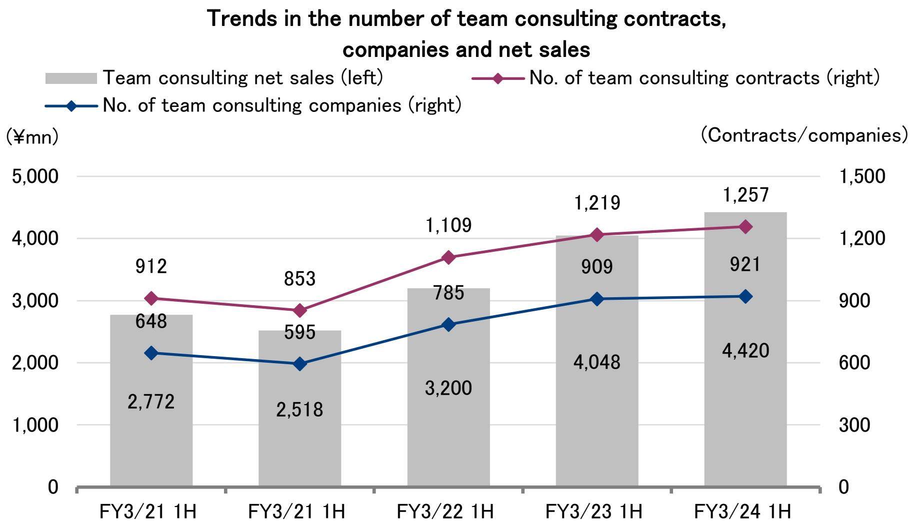
Operating profit and expenses (results and forecast)



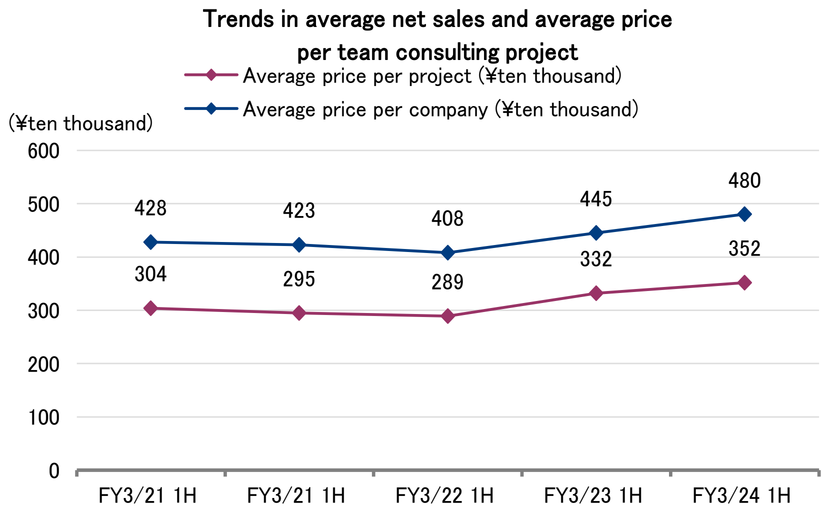
Source: Prepared by FISCO from the Company's financial results briefing materials

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 1H. The number of team consulting contracts increased 3.1% YoY to 1,257, the average number of companies in FY3/24 1H rose 1.3% to 921, and net sales rose 9.2% to ¥4,420mn. Up-selling and cross-selling to existing customers progressed, and the number of large companies among new customers trended up, resulting in a 5.9% YoY rise in the average sales price per project to ¥352mn and 7.8% rise in the average sales price per company to ¥480mn. These results indicate that the Company's business strategy is making solid progress. Furthermore, base sales, which are sales of long-term contracted services of six months or more that provide a stable base for growth, also grew 18.7% YoY to a record-high ¥3,936mn. We can thus see that solid growth of long-term contract projects was a feature in FY3/24 1H.

Result trends



*1 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
*2 Leading Solutions results included in consolidation since FY3/21 1H
*3 Growin' Partners results included in consolidation since FY3/22 1H
*4 JAYTHREE results included in consolidation since FY3/23 1H
*5 Kartz Media Works' results included in consolidation since FY3/24 1H
Source: Prepared by FISCO from the Company's financial results briefing material



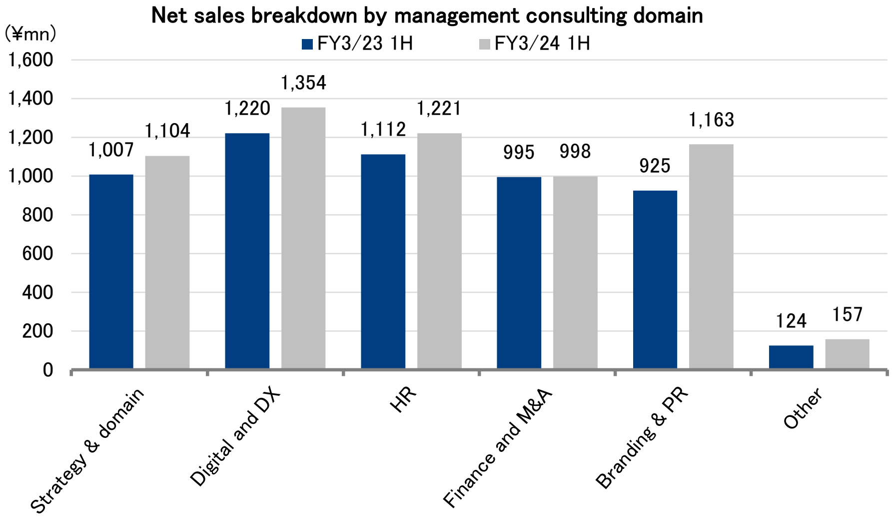
*1 Team consulting = monthly contract-type consulting (Strategy & domain, Digital and DX, HR, Finance and M&A, Branding & PR), while the number of companies is the average number of contracting companies during the period
*2 Leading Solutions results included in consolidation since FY3/21 1H
*3 Growin' Partners results included in consolidation since FY3/22 1H
*4 JAYTHREE results included in consolidation since FY3/23 1H
*5 Kartz Media Works' results included in consolidation since FY3/24 1H
Source: Prepared by FISCO from the Company's results briefing materials

Regarding the earnings performance of operating companies, TANABE CONSULTING and four acquired Group companies all recorded net sales growth, likely reflecting strengthened Group synergies. The four Group companies also likely posted profit growth, because net profit attributable to non-controlling interests expanded from ¥26mn in FY3/23 1H to ¥55mn in FY3/24 1H.

Brisk performance of Strategy & domain, Digital and DX, HR, and Branding & PR management consulting domains

2. Net sales breakdown by management consulting domain

Breaking down net sales by management consulting domain, Strategy & domain, Digital and DX, and HR performed strongly, recording around 10% net sales growth, while Branding & PR posted a sharp 25.8% increase in net sales (including the contribution of newly consolidated Kartz Media Works) because services for large and mid-size companies and promotions for government and public sector organizations were brisk.



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

(1) Strategy & domain

Net sales of Strategy & domain increased 9.6% YoY to ¥1,104mn. Management consulting needs increased among companies seeking medium- to long-term growth amid significant changes in the market environment, such as continued yen depreciation, increasing prices, and adapting to living with COVID-19. Demand for projects with themes such as formulating and progressing medium- to long-term vision and medium-term business plan (business model), formulating and promoting global strategy, training for management teams, regional revitalization, and implementation of SDGs was particularly strong, while the number of consulting contracts with government and public sector organizations, which the Company has been focusing on since FY3/23, showed a steady increase. The Company also made progress with obtaining leads through the specialist site for the formulation of the long-term vision and medium-term business plan, which contributed to net sales growth.

(2) Digital and DX

In the Digital and DX domain, net sales grew 11.0% YoY to ¥1,354mn. Demand for DX consulting remained robust among companies, with projects on themes such as 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 performing strongly. The Company also made progress with obtaining leads through the specialist site for digital/DX strategy formulation and implementation, which contributed to net sales growth.

(3) HR

In the HR domain, net sales grew 9.8% YoY to ¥1,221mn. Amid heightened interest in human capital management, consulting projects for large and mid-size companies on themes such as organization and HR strategy formulation, HR system restructure, 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 1H. The Company also made progress in obtaining leads through the specialist HR site, which contributed toward net sales.

(4) Finance and M&A

In the Finance and M&A domain, net sales increased 0.2% YoY to ¥998mn. It was the only domain whose net sales increased marginally because themes such as earnings management for regional companies were weak. However, consulting needs among large and mid-size companies for projects on themes such as corporate value vision, compliance with the Corporate Governance Code, creating a holding structure and group management support, and M&A (from strategy formulation through to financial advisory service, due diligence, and PMI) remained robust. The Company also made progress in obtaining leads through the specialist site for business succession and M&A, as well as joint seminars with partner financial institutions, which helped to generate consulting projects.

(5) Branding & PR

In the Branding & PR domain, net sales grew 25.8% YoY to ¥1,163mn. 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. The Company also launched a specialist website on branding and strategic PR information to obtain leads.

(6) Other

Sales of Blue Diary notebooks and other promotion products increased 26.9% YoY to ¥157mn. Net sales increased because orders for promotional products increased amid various events resuming after the COVID-19 pandemic, while the Company revised its prices to absorb the increase in raw material prices. Typically, net sales in this business spike in 3Q, when sales of Blue Diary notebook sales are concentrated, but the intention is to level them out by taking steps such as pushing forward the period of ordering activities.

Highly financially sound, with maintaining equity ratio at a high level of 77.0% and an abundance of cash on hand

3. Financial condition and management indicators

At the end of FY3/24 1H, total assets decreased ¥367mn from the end of the previous period to ¥14,043mn. Looking at the main change factors in current assets, notes and accounts receivable - trade, and contract assets increased ¥198mn, while cash and deposits, and securities decreased ¥695mn. In non-current assets, there were increases of ¥40mn in property, plant and equipment and ¥39mn in investments and other assets.

Total liabilities increased ¥113mn from the end of the previous period to ¥2,813mn. Income taxes payable decreased ¥63mn, while accounts payable - trade increased ¥112mn. Net assets decreased ¥481mn from the end of the previous period to ¥11,229mn. Non-controlling interests increased ¥54mn, while shareholders' equity decreased ¥535mn due to the payment of dividends and share buyback.

Looking at management indicators, the equity ratio was 77.0%, 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% (versus ROE of 6.4% in FY3/23).

Consolidated balance sheet

(¥mn)

	End of FY3/21	End of FY3/22	End of FY3/23	End of FY3/24 1H	Change
Current assets	8,889	9,329	9,674	9,241	-432
(Cash, deposits, and securities)	8,078	8,199	8,373	7,678	-695
Non-current assets	4,516	4,495	4,734	4,800	65
Total assets	13,405	13,824	14,410	14,043	-367
Current liabilities	1,418	1,856	2,154	2,303	149
Non-current liabilities	556	451	545	510	-35
Total liabilities	1,975	2,307	2,700	2,813	113
(Interest-bearing debt)	120	149	190	175	-14
Net assets	11,430	11,517	11,710	11,229	-481
(Management indicators)					
Equity ratio	83.1%	81.0%	78.8%	77.0%	-1.8pt

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

Business outlook

Targeting record-high net sales and operating profit in FY3/24 by strengthening professional DX services to enhance Group synergies

1. FY3/24 results outlook

For the FY3/24 consolidated results, the Company has left its initial forecast unchanged. It forecasts increased sales and profit for the third consecutive period, with net sales to increase to ¥12,500mn (up 6.3% YoY), operating profit to grow to ¥1,230mn (up 6.8%), ordinary profit to rise to ¥1,230mn (up 5.7%), and net profit attributable to owners of parent to increase to ¥760mn (up 4.9%). It will continue human capital investment, branding investment, and digital investment while aiming for record highs in net sales and operating profit. Progress versus the full-year forecast in 1H is 48.0% for net sales and 47.4% for operating profit, but we assume performance is on track, because the Company's profit tends to be higher in 2H, due in part to sales of Blue Diary notebooks being concentrated in 3Q. Recent orders suggest that earnings trends are strong and unchanged. We at FISCO therefore think the Company's forecast is achievable.

FY3/24 results outlook

(¥mn)

	FY3/23 full-year results	FY3/24		Progress rate in 1H
		Full-year forecast	YoY	
Net sales	11,759	12,500	6.3%	48.0%
Gross profit	5,202	5,565	7.0%	49.7%
SG&A expenses	4,050	4,335	7.0%	50.4%
Operating profit	1,152	1,230	6.8%	47.4%
Ordinary profit	1,163	1,230	5.7%	47.6%
Net profit attributable to owners of parent	724	760	4.9%	46.1%
Earnings per share (yen)	42.25	44.56		

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

The Company plans to continue strengthening its management consulting domains in 2H. It will focus particularly on professional DX services (ERP implementation and implementation support), finance, and M&A to meet business succession needs, and the formulation of global strategies, which has been revitalized in the post-pandemic period.

In professional DX services, TANABE CONSULTING and Growin' Partners began providing "DX cloud for the service industry – management platform consulting" in October 2023. A DX support service for the service industry, it supports the introduction and stabilization of NetSuite*, Oracle Corporation Japan's <4716> cloud ERP. 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. The Company adopted NetSuite a few years ago and has verified the effects of uptake, such as approximately 30% reduction in system operation costs and around 30% increase in the number of leads obtained after transferring freed-up operation support staff to the CRM division. It plans to use its own example of adopting NetSuite to communicate its advantages to customers.

* 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 37,000 user companies worldwide.

TANABE CONSULTING and Growin' Partners also collaborated in November 2023 to renew their group management system construction consulting service. It delivers digital implementation of customers' group management accounting and group CMS, earnings management using Money Forward Cloud Consolidated Accounting, a consolidated accounting system supplied by Money Forward Inc. <3994> and supports the whole process of installation of systems required for group management to stabilizing the operation and management structure.

In the Finance and M&A domain, TANABE CONSULTING in collaboration with Growin' Partners began providing the MIRAI Succession service that fulfills business succession needs in October 2023. As well as a business succession-related consulting menu such as formulation of a medium- to long-term vision, support for business restructuring, business succession assessment, training successors, M&A (financial advisory and intermediary services), and post-merger integration (PMI) support, the service designs the overall management structure (including business/organization, HR, and management systems) to provide the optimal solution that takes management into the future by enhancing corporate value. The Company announced its intention of moving into M&A intermediary services in earnest when launching the service. It had previously provided a financial advisory service, but plans to engage in M&A intermediary services as well to expand the scope of M&A support under the MIRAI Succession brand.

For global strategy, the Company plans to strengthen further its support for global business expansion by its main customer group (large and mid-size companies) by enhancing its cross-Group global consulting functions. This entails providing diverse Group services that match customer needs to capture growing demand, including TANABE CONSULTING's support for starting and expanding overseas business, global marketing strategy, and support for foreign companies starting a business in Japan, Growin' Partners' cross-border M&A, and Kartz Media Works' overseas PR (press release delivery service targeting overseas media using Global PR Wire).

Looking at the sales forecast and priority initiatives for each management consulting domain, the Company forecasts net sales of ¥2,300mn for Strategy & domain. The Company aims to increase the number of large contracts with large and listed companies centered on formulating and progressing a medium- to long-term vision, and strengthen the consulting functions for global strategy, business model reform, and ESG/SDGs to achieve its target. Progress in 1H was a solid 48.0% of the full-year forecast.

The Company forecasts net sales of ¥2,780mn for the Digital and DX domain. It plans to progress consulting in the area of DX vision and digitalization concept formulation, as well as expand and strengthen professional DX services as mentioned above to attain its target. Progress in 1H was a solid 48.7% of the full-year forecast.

The net sales forecast for the HR domain is ¥2,250mn. The Company plans to expand and enhance its total HR system consulting service, which improves the value of customer companies' human capital, as well as progress programs to foster management candidates such as its top management program and Academy (the Company's internal university). Progress in 1H was faster than expected at 54.3% of the full-year forecast. We at FISCO think that the Company may surpass its full-year forecast for this domain amid the increasing number of companies investing more in human capital management initiatives.

The Company forecasts net sales of ¥2,100mn for the Finance and M&A domain. It plans to focus on holding company/group management, growth M&A, business succession M&A, and cross-border M&A, as well as attracting demand for corporate value vision consulting to make sustainability management happen. Although progress in 1H was somewhat slow at 47.5% of the full-year forecast, we think the Company can regain lost ground by stepping up initiatives for MIRAI Succession and M&A intermediary services.

The net sales forecast for the Branding and PR domain is ¥2,400mn. As well as strengthening support functions for formulating brand strategies through to on site promotion of products and services, it plans to progress strategic PR consulting in Japan and overseas. Progress in 1H was 48.5% of the full-year forecast. We expect the business to continue steady expansion through 2H as well.

Strong progress toward FY3/26 targets of ¥15.0bn in net sales and ¥1.8bn in operating profit; still considering more M&A

2. Overview of the medium-term business plan

The Company in FY3/22 has started a five-year medium-term business plan (2021-2025), "TCG Future Vision 2030." The Company intends to upgrade services that assist customers with management strategies (upstream) 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%, while with the FY3/23 results as the starting point, the targets for the three-year CAGR are 8.5% for net sales and 16.0% for operating profit. The plan calls for accelerating profit growth in FY3/25 onward. The Company's strategy is to become more profitable by strengthening Group synergies mainly in team consulting services (which have high added value) while growing its business. Progress has been ahead of target in FY3/22 and FY3/23. We at FISCO believe this is due to capturing demand from the growing number of companies investing more in DX and human capital management, engaging in M&A, and working on SDGs by harnessing Group synergies. Synergies with acquired Group companies (subsidiaries), which strengthened professional DX services, helped to attract new customers and increase cross-selling and up-selling to existing customers.

We think the Company can expand net sales further by attracting 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. In M&A, the Company has established a foundation in the diversification strategy for its management consulting domains. In particular, it continues to seek out companies with the potential for strengthening professional DX services. Of the FY3/26 target net sales of ¥15.0bn, the Company assumes ¥13.0bn will be from existing businesses and ¥2.0bn will be the result of its M&A strategy. We at FISCO believe the Company's FY3/26 results targets look achievable if it can further enhance Group synergies through mutual customer transfer by Group companies (subsidiaries), resulting in an increase in team consulting contracts and winning larger orders.

Results targets

(¥mn)

	FY3/23		FY3/24		FY3/25	FY3/26	CAGR*
	Initial plan	Results	Initial plan	Revised plan	Plan	Plan	
Net sales	11,250	11,759	12,300	12,500	13,500	15,000	8.5%
Operating profit	1,015	1,152	1,230	1,230	1,485	1,800	16.0%
Operating margin	9.0%	9.8%	10.0%	9.8%	11.0%	12.0%	
ROE	-	6.4%	-	-	-	10.0%	
ROA	-	8.2%	-	-	-	15.0%	
Number of employees	560	566	640	640	720	800	12.2%

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

Target net sales by management consulting domain and focus domains

	FY3/21 Results	FY3/26 Plan	CAGR*	Focus domains
Net sales	9,213	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 target by expanding management consulting domains (especially Digital and DX)
Strategy & domain	2,482	3,000	3.9%	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	1,274	5,000	31.4%	Hybrid marketing, ERP system installation and operation, DX productivity reforms, UX/CX design, branding DX, recruitment marketing, supply chain management, and so on
HR	1,142	2,200	14.0%	Strategic personnel system 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	1,386	2,100	8.7%	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	1,567	2,200	7.0%	Purpose branding, customer communication model reforms from strengthening corporate branding (PR and IR) to CX improvement, creative support such as social media marketing
Other	1,360	500	-18.1%	• Blue Diary notebooks and promotion products • Forecast (stated to the left) to achieve improvement in added value (profit margin)

* FY3/24-FY3/26 average annual growth rates
Source: Prepared by FISCO from the Company's financial results briefing materials

Promote five growth models and strengthen human capital to build earnings base for sustainable growth

3. Growth strategy

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

(1) Implementing five TCG growth models
a) Professional DX service model
The Company aims to grow sales by deepening its management strategy formulation function, which is its core value, and also by expanding the menu of professional DX services in collaboration with Group companies and others. In FY3/24, it launched "DX cloud for the service industry – management platform consulting" and renewed the group management system construction consulting service.

b) C&C development model
The Company is progressing a C&C (consulting & conglomerate) strategy to diversify the management consulting business. It will develop and commodify a team consulting menu related to managerial needs and issues newly arisen as a result of changes in the social environment, and more, form a team consulting organization to provide that menu, and then gradually develop that organization into a consulting business. The Company has expanded its consulting business in the past few years while progressing an M&A strategy. Its intention is to establish a one-of-a-kind management consulting support model as it pursues specialization and all-round capabilities.

c) Marketing model

Targeting large and mid-size companies (including listed companies), local governments, and other organizations, the Company will work to acquire customers through its locally rooted regional strategy and unique marketing model (acquiring potential customers via specialist websites according to management consulting domain, various seminars, workshops, and more) It intends to achieve at least a 70% continuation rate for management consulting contracts. The Company runs specialized management consulting websites for long-term vision/medium-term business plan formulation, digital/DX strategy formulation and implementation, HR, corporate finance and M&A, business succession and M&A, branding and strategic PR information, and government, public sector, and service consulting. The Company has attracted many potential customers via these websites, which has led to an increase in team consulting contracts. It is therefore planning to continue expanding and enhancing its content.

In addition to the above, the Group is working to discover new consulting demand and connect it to cross-selling and up-selling by strengthening follow-ups to existing customers in the CRM department.

d) Team-up and 100 partners model

Through collaboration with the C&C development model, the Company intends to build a management system (training program via the Company's internal university, and more) to find new leaders in existing organizations and teams and cultivate these leaders into partners and thereby increase the number of partner personnel from 50 people to 100 people (71 people as of end of FY3/23). Partner personnel refers to people who are capable of running a consulting team (5-10 people). Cultivation of 100 partner human resources means that the Company can have 100 consulting teams. In particular, it is working to enhance its workforce at each of its business locations so it can work on expanding teams in local areas to contribute to the revitalization of regional economies.

e) Academy model

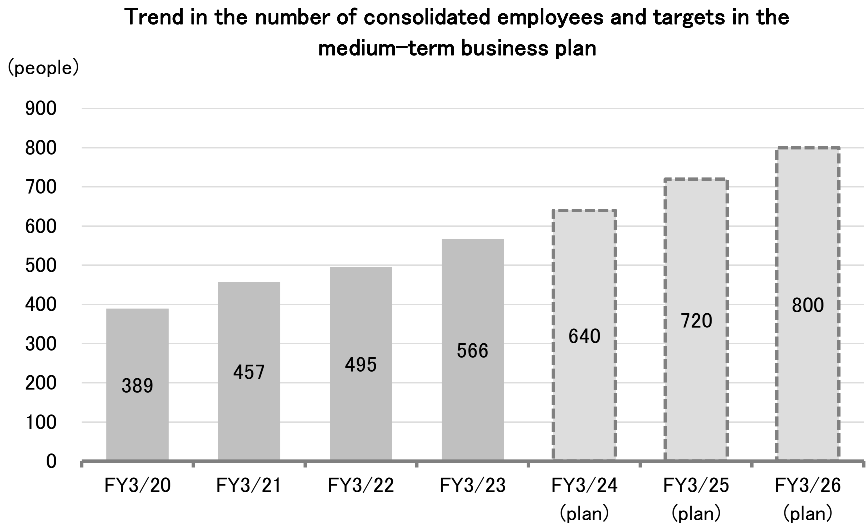
In order to quickly develop professional human resources* (target of two years), the Group is expanding "TCG Academies," which is an education and training system that combines the online and the real. It is already starting to produce results, including that after introducing an academy, the speed of training to become a chief consultant has been reduced from the previous approximately five years to two to three years. In FY3/23, the Company established academies for specific subjects and domains such as the TCG Leadership School, Strategy & Domain School, HR School, Corporate Finance School, M&A School, Marketing School, CRM Consultant School, Coordinator School, and Consulting Assistant School, which it has made available to Group companies. In this way, the Group is strengthening its whole personnel training program efficiently by utilizing the system.

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

(2) Human capital management

The Company is targeting 800 full-time consolidated employees by FY3/26, and it plans to strengthen its recruitment system and to increase the number of new graduate and mid-career recruits. For mid-career recruitment, its policy is to focus on recruiting people with practical experience who are well versed in the industry and to recruit career I-turn and U-turn hires in order to strengthen the structure of regional business offices. With a broader range of management consulting domains than previously, it can now recruit with more specific job descriptions, which has resulted in an increasing number of applicants with experience. After becoming a holding company, it formed a Group Management Team and has strengthened Group hiring. The Group will hire around 60 to 70 mid-career employees and 17 new graduates in FY3/24. It plans to hire around 20 new graduates in FY3/25 and increase the number of mid-career hires. It also plans to increase the rate of hiring mid-career employees by more than 10% per year. In addition, the implementation of M&As is expected to increase the number of employees due to the increase in the number of operating companies.

In the consulting business, sales are based on human resources, so it is no exaggeration to say that the key to achieving the mid-term results targets will be whether or not the increase in employees is progressed according to plan. Therefore, the fact that the number of employees hired in FY3/24 1H exceeded the forecast is viewed positively. The Company aims to achieve the target of 800 employees in FY3/26 by strengthening recruitment, working to improve the retention rate of excellent employees through efficient human resources development using TCG Academy, and creating a work environment where diverse professionals can succeed. This entails the introduction of a job-based course-specific HR system and DX investment to provide a positive work environment and improve productivity. The Company's current employee retention rate of 89.0% (three-year average) is high in the consulting business.



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

(3) Sustainability

The Company developed products to support customers' SDGs initiatives such as "SDGs implementation consulting," "SDGs seminars," and "SDGs education" in response to the growing number of SDG-related inquiries from companies. It has established its own sustainability committee, specified materialities and priority issues, and is progressing with SDGs initiatives. The Company has selected four materiality themes. They are "develop sustainable consulting methods that solve social issues through our business," "achieve client success by expanding partnerships," "build a framework for human capital management to enable TCG human resources to excel," and "enhance the value to social contribution by creating new contact points with society."

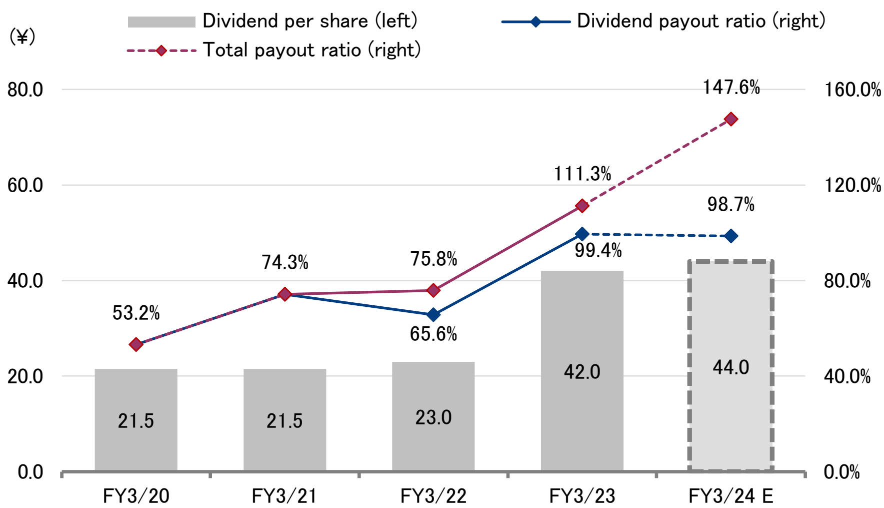
The Company also identified responding to climate change, human capital management, and strengthening corporate governance as its three priority issues. With regard to responding to climate change, the Company discloses information in compliance with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. 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, it is strengthening recruitment and personnel training to enhance its human capital, as well as setting goals and progressing programs to diversify work styles and help women advance their careers, improve employee engagement, and practice health management.

Shareholder return policy

Improving ROE by more than cost of capital is a management priority. Planning aggressive shareholder returns to ensure it achieves FY3/26 ROE target of 10%

In February 2023, the Company announced a change in its shareholder return policy. Its ambitious new shareholder returns policy targets a consolidated total return ratio of around 100% by FY3/26, and based on this policy, which calls for paying stable dividends with a DOE of over 6% and timely share buybacks, it forecasts dividend per share of ¥44.0 (dividend payout ratio of 98.7%) in FY3/24 (up ¥2.0 YoY). The Company also repurchased 395,000 shares of treasury stock for ¥399mn from May to October 2023. The total return ratio forecast is 147.69% in FY3/24. The Company aims to continue increasing the dividend going forward by solidly achieving its results targets.

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 by aggressive IR, SR, and PR activities.

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

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