

COMPANY RESEARCH AND ANALYSIS REPORT

Tanabe Management Consulting Co., Ltd.

9644

Tokyo Stock Exchange First Section

27-Feb.-2019

FISCO Ltd. Analyst

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FISCO Ltd.

<http://www.fisco.co.jp>

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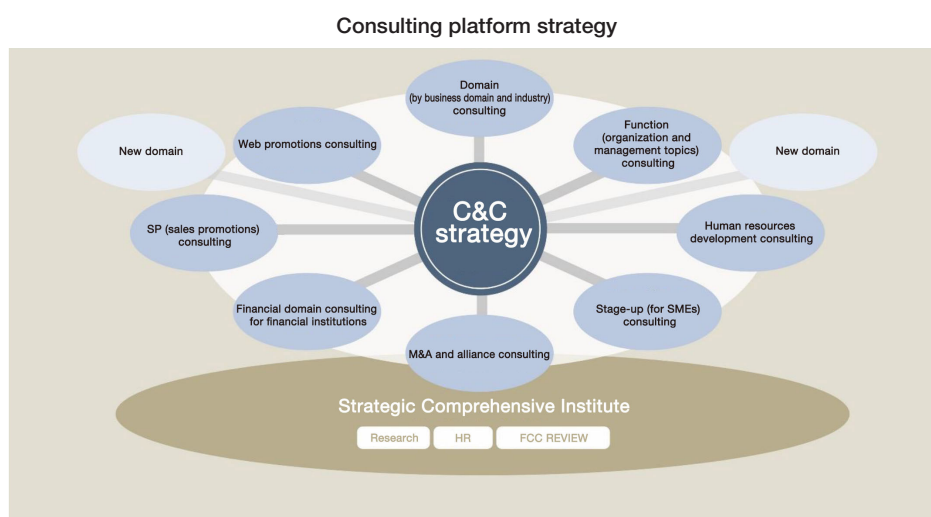
Tanabe Management Consulting Co., Ltd.
9644 Tokyo Stock Exchange First Section

27-Feb.-2019
<http://www.tanabekeiei.co.jp/t/ir/>

Summary

Outlook is for the higher sales and profits to continue, driven by the growth of human resources development consulting and SP consulting

Tanabe Management Consulting Co., Ltd. <9644> (hereafter, also “the Company” or “Tanabe”), which is approaching the 62nd anniversary of its foundation, is a pioneer and a major presence in private sector management consulting in Japan. Its corporate mission is to “assist in the creation of ‘first call companies’ that will be selected even 100 years from now.” It is aiming to realize sustainable, stable growth by providing team consulting that optimizes “domain (business domains and industries) x function (organizations and management topics) x region,” mainly to medium-sized companies. As its medium-term business strategy, the Company is promoting a Consulting and Conglomerate (C&C) strategy,” and it has evolved its strategy from “a strategy to diversify consulting domains” that it has implemented up to the present time, to “a consulting platform strategy” to expand its bases in 10 major cities nationwide.



Source: The Company's results briefing materials

1. FY3/19 1H results

In the FY3/19 1H (April to September 2018) results, net sales increased 3.5% year-on-year (YoY) to ¥4,083mn and ordinary profit rose 4.3% to ¥461mn, both of which exceeded the Company forecasts (net sales of ¥4,000mn and ordinary profit of ¥340mn). In the management consulting business, management consulting increased on themes such as workstyle and productivity reforms, business models, and growth strategies. Human resources development consulting, including the establishment of FCC academies (corporate universities), has also grown more than expected. In the SP (sales promotions) consulting business, its core SP consulting is steadily growing. As the main KPI, the average number of team consulting* contracting companies during the period increased by 40 to 597 companies, and net sales grew by 6.8% to ¥2,052mn.

* Team consulting = management consulting + human resources development consulting + SP consulting (monthly contract type)

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2. FY3/19 outlook

The forecasts for the FY3/19 results are for net sales to increase 2.3% YoY to ¥9,000mn and ordinary profit to grow 2.6% to ¥990mn. In the management consulting business, higher sales and profits are expected from the increase in the number of contracts for management consulting and for human resources development consulting. In the SP consulting business also, the Company is aiming to achieve higher sales and profits through strengthening SP consulting and Web promotions consulting, for which there is abundant demand, and SP design proposals, improving added-value and increasing the number of contracts. Team consulting net sales are forecast to increase 4.8% YoY to ¥4,000mn and their percentage of total net sales will rise from 43.4% in the previous fiscal year to 44.4%, which will contribute to improving the profit margin. As the current order conditions continue to be strong, at FISCO we think that the full fiscal year results may slightly exceed the Company forecasts.

3. Medium-term business plan

As the growth strategy initially announced in the new medium-term business plan, Tanabe Vision 2020 (2018–2020), the Company's policy is to aim to achieve sustainable growth by advancing its “consulting platform strategy” on a nationwide scale and growing team consulting sales, while expanding the customer base. The FY3/21 results targets are net sales of ¥9,600mn and ordinary profit of ¥1,060mn and steady growth is expected on an average annual growth rate of 3%. The number of consultants, who will be the driving force behind growth, is forecast to increase by 30%, from 218 at the end of FY3/18 to 291 at the end of FY3/21. In addition to recruiting new graduates, it will strengthen its recruitment of mid-career, professional human resources who are fully familiar with the various industries. For the time being the profit margin is expected to trend at around the same level, as it will be conducting upfront investment in human resources. But profitability is forecast to improve once these human resources become active in the field.

4. Shareholder return policy

As its policy to return profits to shareholders, the Company pays dividends and also provides gifts to shareholders. Its benchmark for dividends is a payout ratio of 60% and it determines the dividend while considering results and other factors. In FY3/19, it plans to increase the dividend by ¥1.0 to ¥42.0 (for a payout ratio of 53.3%), for the seventh consecutive fiscal year of higher dividends. It also intends to continue to increase sales, profits and dividends in the future. In addition, the Company provides a gift to shareholders on record as of the end of September of its original Blue Diary scheduler (worth about ¥3,000). The dividend yield was about 3.4% and the investment return was around 5.7% including the shareholder gift, based on the share price of February 1, 2019 (¥1,253).

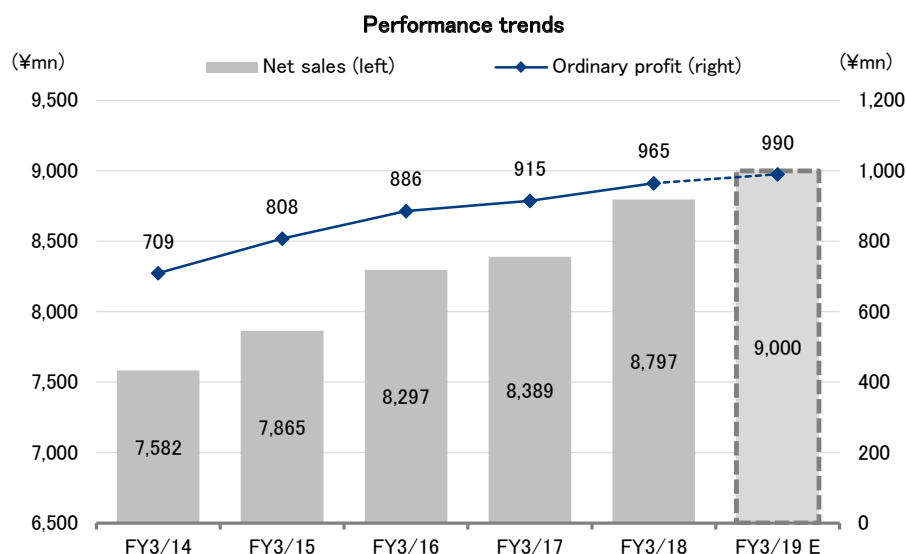
Key Points

- The FY3/19 1H results exceeded the initial forecasts for higher sales and profits, due to the growth in human resources development consulting and SP consulting
- Consulting to establish “FCC academies (corporate universities),” which provide one-stop support for developing human resources, from constructing education systems through to producing online education contents, performed strongly
- Going forward, is aiming for sustainable, stable growth through management consulting, human resources development consulting, and SP consulting

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Summary



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

Business overview

A major management consulting company that continues to grow based on “team consulting optimized for business domains and industries x organization and management topics x regions”

1. Company overview

The Company, which was founded in Kyoto in 1957, is a pioneer and a major private-sector management consulting firm in Japan. It aims to achieve sustainable growth together with its customers by providing them with new consulting value through promoting its Consulting and Conglomerate (C&C) strategy (consulting platform strategy). Its corporate mission is to “assist in the creation of first call companies” that will be selected first even 100 years from now through creating more value.

Criteria for becoming a first call company

- Constantly pursue customer value (management that cultivates modesty to identify customer value and strengths)
- Create a number-one brand business (number-one strategy model for creating brand business)
- Determination to establish robust corporate capabilities (ordinary income margin of 10% or more with debt-free operations)
- Free and broadminded organization (teams that can self-reform and organization that leverages development capabilities)
- Management technique for business succession (100-year management that passes along corporate spirit to the next generation)

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

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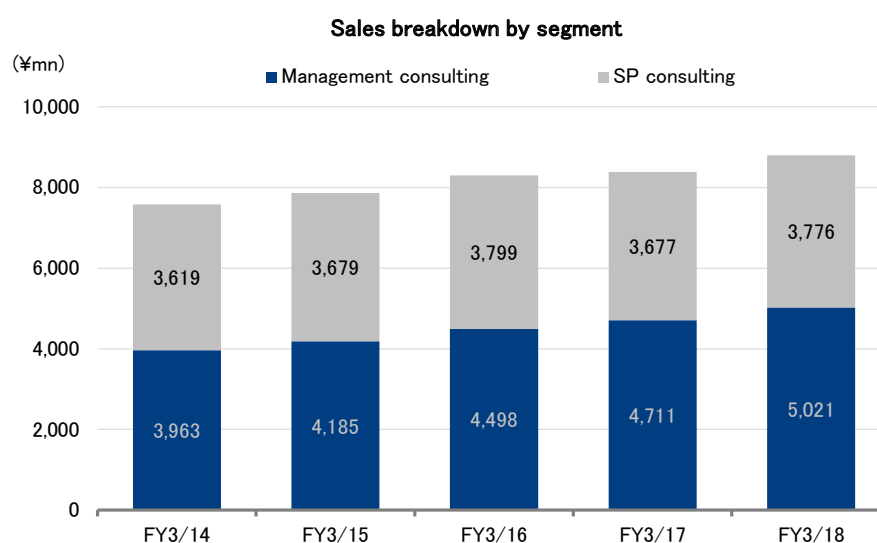
Business overview

As the “strategic partner,” mainly of medium-sized companies, the Company provides consulting for management as a whole, from planning business strategies through to designing organizations, constructing management systems, and building next-generation management structures. In addition, it provides nationwide consulting for human resources development, to develop employees ranging from managers and business successors to new recruitments, through the establishment of corporate universities, made-to-order education and seminars; and SP consulting to provide support from a one-stop service, from the planning of promotions and branding strategies through to creative and design work. A feature of the Company is that, tailored to the issues facing each customer, it provides “team consulting,” in which it selects several, optimal specialist consultants to be the members of the team from the viewpoint of “domain (business domains and industries) x function (organization and management topics) x region.”

It conducts its business from its bases in 10 major cities nationwide, from Hokkaido to Okinawa. The features and strengths of the Company include that, within its industry, only it conducts a nationwide business in a business firm format and only it can provide consulting services tailored to each specific region. Moreover, by establishing IR, SR, and PR, recruitment, and M&A functions, as well as the Strategic Comprehensive Institute, which plans and produces various consulting services, analyzes information from consulting sites and elsewhere, and disseminates information to member companies and society in both Tokyo and Osaka head offices, the Company is aiming to supplement its customer service nationwide and achieve further growth.

2. Business details

The Company has two business segments; the management consulting business and the SP consulting business. As their percentages of total net sales (FY3/18), the management consulting business provided 57.1% and the SP consulting business 42.9%, but for operating profit, the management consulting business provided 86.8%. The operating profit margin is 26.6% in the management consulting business, but 5.4% in the SP consulting business, which is mainly due to the fact that it includes sales of purchased goods, such as promotions products. However, in the last few years, the Company has focused on the SP consulting domain that has high added-value, so the operating profit margin has also been trending upward.



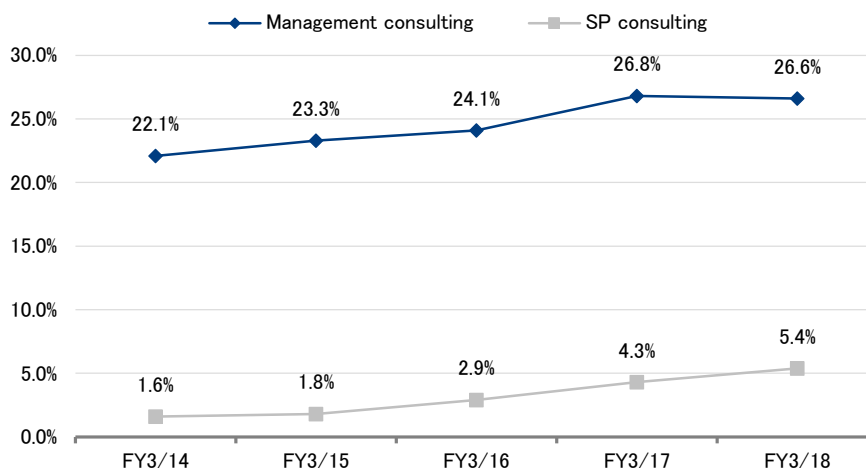
Source: Prepared by FISCO from the Company's financial results

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Business overview

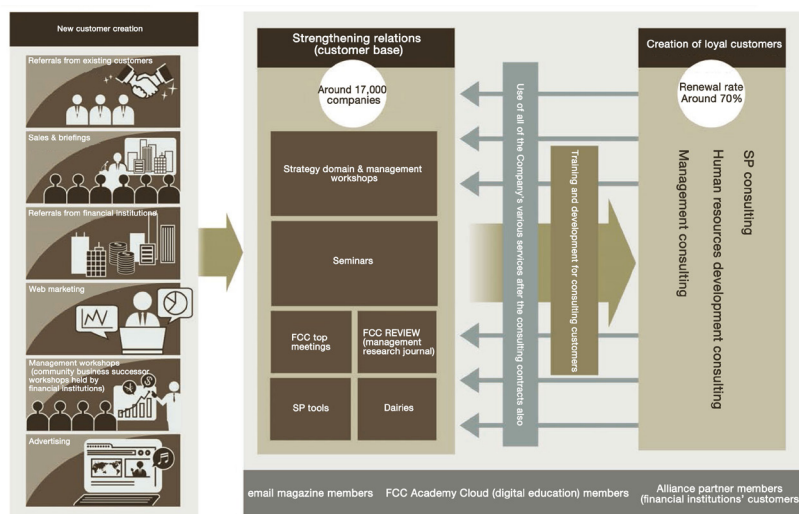
Operating margin by segment



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

The Company's customer creation model is to have various points-of-contact with new customers, not only via referrals from existing customers or partner financial institutions, but including via the Web marketing, and new sales, to hold strategy domain & function workshops and FCC seminars for them, and to attract as customers those companies with a variety of management issues, which leads to contracts for team consulting (management consulting, human resources development consulting, and SP consulting), which in turn leads to the creation of loyal customers. The mechanism is that finally, the customer companies use the Company's various services and aim to become first call companies. Over the last few years, it has increased the topics for its strategy domain & function workshops, and among the new customers, it seems that around 70% are companies that attended these workshops and various types of seminars. Also, majority of the customers are members of services, including for the email magazine and FCC Academy Cloud (digital education).

The customer creation and relations model



Source: The Company's results briefing materials

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Business overview

(1) Management consulting business

In the management consulting business, sales are divided according to the service content, into from management consulting and from human resources development consulting. In management consulting, which mainly targets medium-sized companies, in addition to management consulting for “human resources recruitment, development and activities,” “the formulation and promotion of medium-term business plans (visions),” “business models and growth strategies” and “business succession and the construction of post-succession structures,” the Company’s services including “strategy domain & function workshops,” which guide the participating companies toward concluding management consulting contracts; “FCC top meetings,” which are study meetings targeting managers in regions; and “M&A consulting” in collaboration with its partner financial institutions and others.

In human resources development consulting, in addition to made-to-order education (training) services, the Company provides a one-stop solution that meets companies’ wide range of needs for the development of human resources. This includes “consulting to establish FCC academies (corporate universities),” which provide one-stop, total support for the development of human resources, from building educational systems through to producing online educational content, junior boards (next-generation management team development) consulting, and FCC seminars, which are education and training programs tailored to the employee group, from managers and business successors through to new recruits.

(2) SP consulting business

The Company’s SP consulting business includes SP consulting (covering everything from helping clients establish promotion and branding strategies to support for the execution of those strategies, as well as SP designs by consultants specializing in premium novelty goods and workshops in the SP domain), the planning and sales of SP tools (novelty goods created by adding the client company’s name to a standard item), the planning and sales of “diaries” (business planners, calendars). Tanabe is currently working with over 3,000 companies (providing services as well as promotional goods) that are looking to boost their brand image, including not only medium-sized companies but also large companies as well.

In the SP consulting business, it has also been focusing on consulting targeting “the children and child-rearing families markets,” and the needs of customer companies are great from the viewpoints of the possibilities for this market, in which customers can be expected to be customers in other domains in the future, and also for CSR. It also started to focus on web promotion consulting for BtoB companies in regions with branding problems. Furthermore, it is progressing alliances with the management consulting business, in which management consultants support customer companies’ business and organization strategies while SP consultants support the development of product sales channels, branding and a corporate identity. While management consulting remains the mainstay business, a strength of the Company is that, unlike other consulting companies, it is equipped with design and sales functions, enabling it to provide SP consulting.

In the SP consulting business, diary sales, which constitute approximately 30% of total sales, are concentrated in Q3, so the quarterly revenue trend in a typical year peaks in Q3.

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Result trends

The FY3/19 1H results exceeded the initial forecasts for higher sales and profits, driven by the growth in human resources development consulting and SP consulting

1. FY3/19 1H results overview

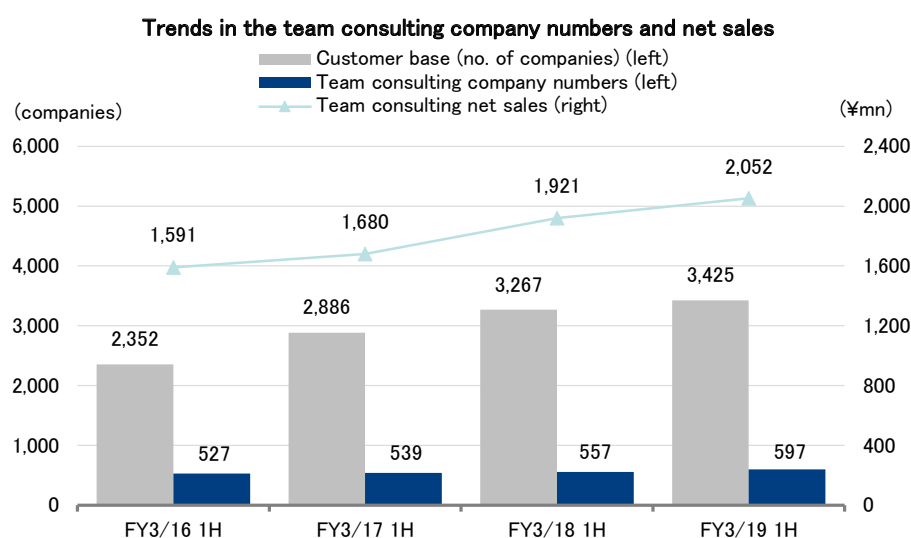
In the FY3/19 1H results, net sales increased 3.5% YoY to ¥4,083mn, operating profit rose 4.6% to ¥446mn, ordinary profit grew 4.3% to ¥461mn, and net profit increased 5.6% to ¥320mn, with every item exceeding the initial Company forecasts for higher sales and profits. On a half-year basis, it was the seventh consecutive period in which sales and profits increased. Also, the average number of team consulting contracting companies during the period, which is the Company's main KPI, increased by 40 YoY to 597 companies. Net sales also steadily grew, up 6.8% to ¥2,052mn.

FY3/19 1H results

	FY3/18 1H		Forecast	FY3/19 1H			
	Results	Ratio to sales		Results	Ratio to sales	YoY	vs. forecast
Net sales	3,947	-	4,000	4,083	-	3.5%	2.1%
Gross profit	1,895	48.0%	1,820	1,919	47.0%	1.3%	5.5%
SG&A expenses	1,468	37.2%	1,490	1,473	36.1%	0.3%	-1.1%
Operating profit	426	10.8%	330	446	10.9%	4.6%	35.2%
Ordinary profit	442	11.2%	340	461	11.3%	4.3%	35.9%
Net profit	303	7.7%	235	320	7.8%	5.6%	36.3%

Note: from FY3/19, the personnel expenses recording classification was partially changed (from SG&A expenses to cost of sales), and the FY3/18 figures have been revised to the same standard. Therefore, they differ from the numerical values in the financial statements summary (gross profit and SG&A expenses).

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



Note: customer base = strategy domain & function workshops + FCC seminars

Team consulting = management consulting + human resources training consulting + SP consulting

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

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Result trends

In the situation of the continuing moderate recovery of the Japanese economy, in the management consulting business, there was an increase in management consulting projects with themes such as “operating strategies,” “branding strategies,” and “workstyle and productivity reforms.” In addition, human resources development consulting, which includes consulting to establish FCC academies (corporate universities), junior boards (the development of next-generation management teams) consulting, and FCC seminars, grew more than expected. In the SP consulting business also, SP consulting sales were higher than forecast, which was the main reason why the results exceeded the initial forecasts. The gross profit margin declined 1.0 percentage point (PP) YoY, mainly due to the increase in personnel expenses following the strengthening of consultant recruitment (an increase of 12 on the end of the previous fiscal year, to 237). However, the SG&A expenses ratio declined by 1.1 PP due to measures including to keep down costs, and as a result, the operating profit margin rose by 0.1 PP to 10.9%.

Higher sales and profits that exceeded the Company forecasts in both the management consulting business and the SP consulting business

2. Segment trends

(1) Management consulting business

In the management consulting business, net sales increased 3.9% YoY to ¥2,642mn and segment profit rose 1.6% to ¥717mn, both of which were above the initial Company forecasts (net sales of ¥2,580mn and segment profit of ¥655mn).

Looking at the sales trends by service, they performed steadily in the mainstay management consulting, increasing 2.4% YoY. The main factors behind the higher sales was that, due to the increase in management consulting projects on themes such as “operating strategies,” “branding strategies,” and “workstyle and productivity reforms,” the average number of management consulting contracts during the period rose by 9 YoY to 427 contracts, while the average unit price per contract also increased. In addition, for the strategy domain & function workshops, which serve to guide the participating companies toward concluding management consulting contracts, the number of participating companies rose by 24 to 785 companies due to increases in the number of workshop themes and the number of times they were held, and the customer base expanded.

On the other hand, in human resources development consulting, net sales increased 7.6% YoY. For made-to-order education (training), which provides the majority of sales, the average number of contracts during the period rose by 3 to 100 contracts, but net sales were sluggish due to a fall in the average unit price. Conversely, the number of companies participating in the FCC seminars trended strongly, up 134 to 2,640 companies. Moreover, for consulting to establish FCC academies (corporate universities), the average number of contracts during the period rose by 13 to 27 contracts. For junior boards (next-generation management team development) consulting also, the average number of contracts during the period increased by 6 to 19 contracts, and these were also factors behind the higher sales.

In other consulting, which includes alliances, sales declined 57.2% YoY. The number of partner contracts fell by 12 YoY to 131 partners, including due to developments such as the restructuring of regional financial institutions. Another factor behind the lower sales was the decrease in membership revenue because of the decrease in the number of member companies in the various member organizations. However, in each case, their percentages of the business as a whole is small, and their effects on results were negligible.

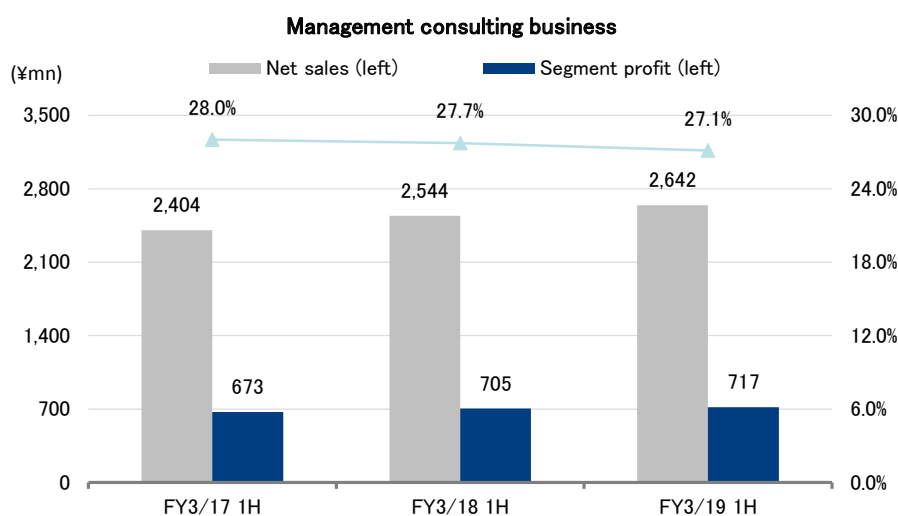
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Result trends

The segment profit margin declined 0.6 PP YoY to 27.1%, but this was mainly due to an increase in personnel expenses following the recruitment of additional consultants. At the end of 1H, this business had 146 management consultants (down 1 on the end of the same period in the previous fiscal year) and 33 human resources development consultants (up 17), and the number of human resources development consultants approximately doubled. The Company strengthened recruitment to respond to the growth in demand for human resources development consulting. For management consultants also, it progressed the recruitment of professional human resources who are fully familiar with the various industries. But several consultants were transferred to different departments, and as a result, the number of these consultants declined by one person.



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

(2) SP consulting business

In the SP consulting business, net sales increased 2.7% YoY to ¥1,440mn and the segment loss was ¥68mn (compared to a loss of ¥50mn in the same period in the previous fiscal year). Both results exceeded the initial Company forecasts (net sales of ¥1,420mn and a segment loss ¥70mn).

Looking at the sales trend by service, in SP consulting, which provides the majority of sales, progress was made in acquiring orders for monthly-contract type sales promotion consulting through the collaboration with the management consulting business. In addition, Web promotions consulting projects trended strongly and the number of contracts steadily grew. For SP design, the Company is actively providing high added-value proposals that are highly unique as promotions tools, and sales increased as a result. As a whole, net sales rose 9.1% YoY.

Orders of SP tools continue to be stable, but due to the focus on SP design with higher added-value, net sales declined 9.0%.

For dairies, the Blue Diary re-branding activities and the early sales measures in advance of the 60th anniversary of its publication in 2019 were successful, and sales were strong, up 18.3%.

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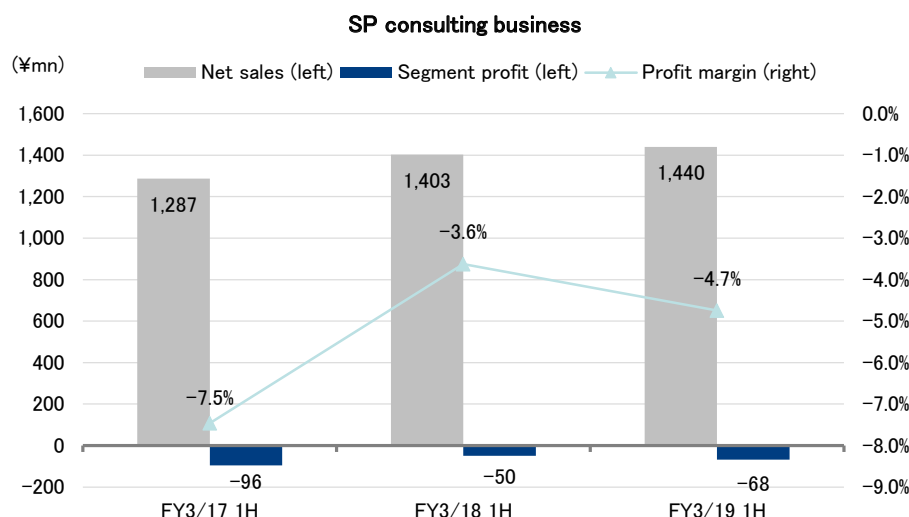
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Result trends

This business is seasonal, in that dairy sales are concentrated in Q3 and each fiscal year it records a loss up to 1H. In the FY3/19 1H period, the segment loss grew slightly YoY, but this was primarily due to the recording of expenses relating to the review of the main business processes under SG&A expenses. On a gross profit basis, profit increased 2.6% to ¥388mn.

There were 58 SP consultants at the end of 1H, which is a decline of 4 consultants on the end of the same period in the previous fiscal year, but it is unchanged from the end of the previous fiscal year. In the SP consulting field also, since the beginning of the fiscal year the Company has focused on strengthening the recruitment of professional human resources and their development in order to build a structure to establish specialist operations domains and to promote team consulting from the viewpoints of domain (industry) and function (promotion themes). Therefore, personnel expenses are increasing.



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

With debt-free management and an abundance of cash on hand, its financial position is excellent

3. Financial position and management indicators

At the end of FY3/19 1H, total assets were down ¥318mn on the end of the previous fiscal year to ¥12,485mn. Looking at the main change factors, in current assets, cash, deposits and marketable securities decreased ¥579mn due to payment of dividends, while in non-current assets, long-term time deposits and investment securities increased ¥115mn. Long-term and short-term adjusted cash, deposits and marketable securities decreased ¥464mn to ¥8,226mn, which constituted 65.9% of total assets.

Total liabilities were down ¥202mn on the end of the previous fiscal year to ¥2,166mn. This was mainly due to the absence of provision for retirement benefits of ¥217mn that was previously recorded in non-current liabilities. Also, net assets were down ¥115mn on the end of the previous fiscal year to ¥10,318mn. This was because although net profit of ¥320mn was recorded, there were decrease factors, of ¥354mn for dividend payments and ¥97mn to acquire treasury shares.

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Result trends

The equity ratio is 82.6% and it continues to be maintained at above 80%. Moreover, the Company has no interest-bearing debt, so it can be judged that its financial condition remains extremely sound. Cash at hand is at a high level, but at the current time it intends to invest funds in human resources and workstyle reform toward growth and in IT for productivity reforms. Also, the Company considers that one strategy option is to utilize its abundant funds for M&A and alliances, and the Company's policy is to proactively investigate proposals if they will contribute to growth.

Balance sheet

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19 1H	(¥mn) From end of previous fiscal year
Current assets	5,960	6,967	6,911	7,006	6,722	-284
(Cash/deposits and marketable securities)	5,016	6,021	5,984	6,294	5,714	-579
Non-current assets	5,832	5,118	5,620	5,797	5,763	-34
(Long-term time deposits and investment securities)	2,640	1,977	2,437	2,396	2,512	115
Total assets	11,792	12,086	12,531	12,804	12,485	-318
Current liabilities	1,697	1,682	1,844	1,778	1,787	8
Non-current liabilities	542	570	564	591	379	-211
Total liabilities	2,240	2,253	2,409	2,369	2,166	-202
Net assets	9,552	9,833	10,122	10,434	10,318	-115
(Management indicators)						
Equity ratio	81.0%	81.4%	80.8%	81.4%	82.6%	1.2pt

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

Business outlook

The initial forecasts for the FY3/19 results have been left unchanged, but the results may exceed them with the current steady orders

1. Outlook for FY3/19

The Company has left the initial forecast unchanged for the FY3/19 results with net sales forecast to increase 2.3% YoY to ¥9,000mn, operating profit to rise 3.6% to ¥970mn, ordinary profit to grow 2.6% to ¥990mn, and net profit to increase 0.7% to ¥680mn. In the context of the continued recovery of the Japanese economy in 2H, the Company is aiming for stable growth by progressing its "C&C strategy" (consulting platform strategy), while aiming to meet various consulting needs, from the viewpoint of "domain (business domains and industries) x function (organization and management topics) x region."

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Business outlook

FY3/19 outlook

	FY3/18			FY3/16		
	Full-year results	YoY	Ratio to sales	Full-year forecast	YoY	Ratio to sales
Net sales	8,797	4.9%	-	9,000	2.3%	-
Gross profit	3,988	-	45.3%	4,175	4.7%	46.4%
SG&A expenses	3,051	-	34.7%	3,205	5.0%	35.6%
Operating profit	936	6.6%	10.6%	970	3.6%	10.8%
Ordinary profit	965	5.5%	11.0%	990	2.6%	11.0%
Net profit	675	5.8%	7.7%	680	0.7%	7.6%
Earnings per share (¥)	77.95			78.77		

Note: from FY3/19, the personnel expenses recording classification was partially changed (from SG&A expenses to cost of sales), and the FY3/18 figures have been revised to the same standard.

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

The average number of team consulting contracting companies during the period, which is the main KPI, is expected to increase by 44 on the end of the previous fiscal year to 990 companies, and net sales to increase 4.8% to ¥4,000mn. The percentage of total net sales provided by high added-value team consulting is projected to increase, in line with this, the gross profit margin is expected to rise by 1.1 PP on the end of the previous fiscal year to 46.4%. The SG&A expenses ratio is also forecast to rise 0.9 PP, mainly due to the increase in personnel expenses and human resources recruitment and employment expenses. However, the operating profit margin will rise 0.2 PP because of the improvement in the gross profit margin. Due to factors including that the progress made up to Q2 exceeded the forecasts and that orders are trending stably at the current time, at FISCO we think it is highly likely that the full fiscal results will slightly exceed the Company forecasts.

The Company is utilizing its strength, that it can provide a variety of consulting services, and the outlook is for the higher sales and profits to continue in FY3/19 also

2. Outlook by segment

(1) Management consulting business

The forecasts for FY3/19 are for net sales to increase 2.5% YoY to ¥5,150mn and segment profit to rise 1.4% to ¥1,355mn. Higher sales and profits are expected from an increase in the number of contracts for management consulting and human resource development consulting. The main reason for the slight decline in the operating margin is that personnel expenses are expected to rise from the increase in the number of consultants. At the end of FY3/19, the plan is to have increased the number of consultants including management consultants and human resources development consultants by 26 on the end of the previous fiscal year to 186 people (including 16 consultant candidates from recruited new graduates). The business strategies that the Company will work on going forward are as follows.

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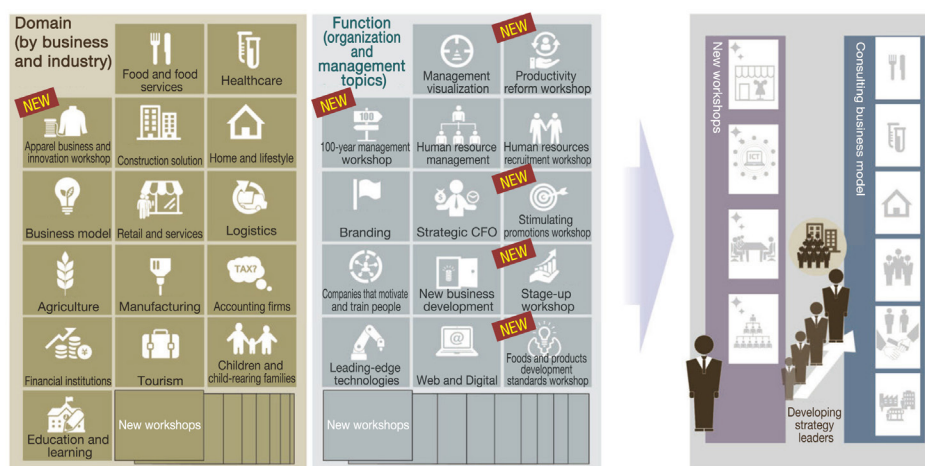
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Business outlook

a) Domain and function consulting strategy

“The strategy domain (by business domain and industry) & function (by organization and management theme) workshops” serve to guide the participating companies toward concluding management consulting contracts. The Company intends at an early stage to increase the number of workshop themes, including on scrap & build, from the current 25 to 35 themes. It plans and develops workshop themes over time to reflect the themes for which needs are high at that particular time. As the new themes for FY3/19, it will launch a total of six workshops; “the apparel business and innovation,” “productivity reform,” “100-year management,” “stimulating promotions,” “stage-up,” and “foods and product development.” In these workshops, in addition to developing strategy leaders, the strategy is to provide high added-value services to customers nationwide by establishing consulting methods and by positioning specialist consulting teams in the Osaka and Tokyo head offices.

Domain and function consulting strategy



Source: The Company's results briefing materials

b) Human resources development consulting

In human resources development consulting, the Company is advancing the “FCC academies (corporate universities)” concept as the learning platform for companies that intend to be “first call companies (FCC).” It offers one-stop solutions to meet companies’ needs for human resources development through providing three services: “Consulting” to support the establishment of corporate universities, including by building education systems, developing educational content, and producing in-company lecturers; “Cloud” to provide a learning environment using digital devices in which the place and time is not limited; and “Real” that provides seminars and made-to-order training.

In terms of services for human resources development, various other companies provide e-learning and talent management systems, but each are only partial services and the Company’s strength is that it is one of the very few companies that can respond to companies’ needs for human resources development with total solutions.

The extent of Cloud services contribution to profits is small, as their annual usage fees are set at the low cost of only around a few thousand yen per ID. But if including “Consulting” prior to their introduction and also the “Real” consulting services after their introduction, their sales scale becomes larger, and there are major expectations for their contribution to profits in the future.

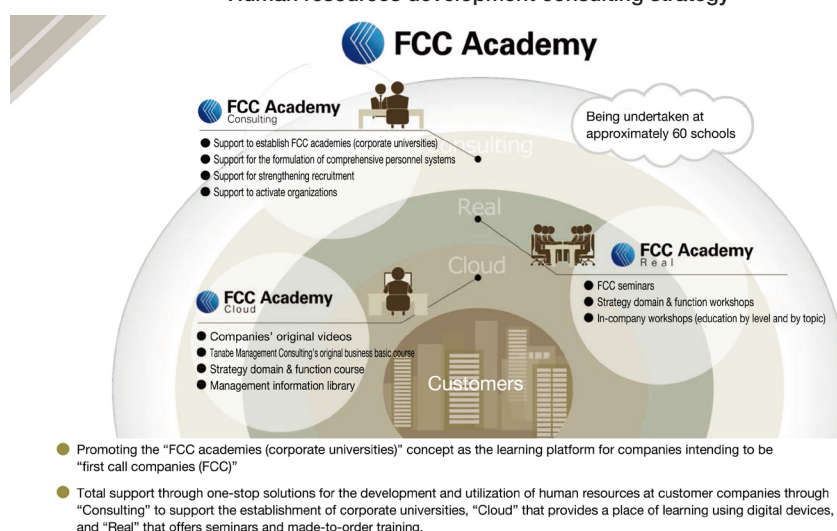
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At the end of September 2018, the number of companies introducing them had steadily risen to around 60, up from around 50 at the end of the previous fiscal year, and the Company is aiming for 100 companies to have introduced them by 2020. Currently, many of the companies introducing them are medium-sized, but the policy going forward is to promote their introduction by major companies also. By industry, they are being introduced by companies in the construction, foods and restaurant, and healthcare-related (such as dispensing pharmacies) industries. The introducing companies, can expect that the establishment of a corporate university will not only strengthen the efficiency of their human resources development capability, but it will also have an appeal effect for the recruitment of human resources. Moreover for the future, the Company is investigating building an open platform by industry that will connect introducing companies within the same industry.

Human resources development consulting strategy



Source: The Company's results briefing materials

c) Alliance consulting strategy

In alliance consulting, in addition to conventional consulting for financial institutions, through alliances with approximately 100 financial institutions, the Company's policy is to newly systemize and focus on a menu for "stage-up consulting," targeting its alliance partners' approximately 7,000 customer companies (mainly SMEs), and also "M&A consulting" in collaboration with its alliance partners. By providing these services, it is aiming to contribute to the development of regional companies and to support the activation of regional economies.

In "stage-up consulting," the Company provides consulting necessary for companies to get beyond the barrier of each stage of sales of ¥100mn, ¥300mn, ¥500mn, and ¥1bn. The Company has also launched a "stage-up workshop," and it intends to acquire customers through this workshop. Up to the present time, it has provided consulting services mainly for medium-sized companies, but its strategy is to widen its targeted domains to consulting for start-up companies as well, which will lead to the further expansion of the customer base.

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On the other hand, in “M&A consulting,” while coordinating with its alliance partners, the Company introduces candidates for an acquisition to companies (the buyer side) that intend to conduct an M&A for growth. Previously also, it provided such a service on an individual basis, but the needs for M&A consulting are strong, so it has organized an “M&A alliance” and has clarified and is providing a menu of services for it. Its alliance partners are not only regional financial institutions, as recently it has also progressed alliances with mega banks, and the number of completed contracts is expected to increase. However, M&A consulting is positioned as just one item on the management consulting menu to realize growth within the Company’s customer companies, thus it will not be developed in a way that is similar to the consulting companies specializing in M&A that are conducting active matching business.

(2) SP consulting business

The outlook for FY3/19 is for net sales to increase 2.0% YoY to ¥3,850mn and segment profit to rise 3.6% to ¥210mn. In SP consulting also, from the viewpoints of domain (industry) and function (promotions themes), its strategy is to expand the business by reviewing business processes, forming consulting teams in which the members are fully familiar in each domain and function, and providing consulting services with higher levels of specialism than ever before.

Also, to support the planning, implementation, and advancement of promotions and branding strategies, the Company is progressing measures to even further enhance customer value through combining them with Web promotions. It expects to expand the operating areas as well, from the previous four main bases (the Osaka and Tokyo head offices, and the Chubu and Kyushu headquarters) to branches throughout the country. Diary net sales are forecast to be basically unchanged YoY.

Intends to advance the consulting platform strategy to a nationwide scale, toward realizing sustainable growth from 2020 onwards

3. Medium-term business plan

In May 2018, the Company announced Tanabe Vision 2020 (2018 to 2020) as its medium-term business plan, with the slogan of “from change to growth” in order to realize sustainable growth from 2020 onwards. It intends to advance the “creation of a consulting platform” on a nationwide scale and expand the customer base while collaborating with alliance partners, and aim for growth in sales centered on team consulting.

The results targets for FY3/21, which is the final fiscal year of the medium-term business plan, are net sales of ¥9,600mn and ordinary profit of ¥1,060mn. For the average annual growth rates, the policy is to achieve steady growth of 3.0% for net sales and 3.6% for ordinary profit. Also, for the average annual growth rates by business segment, for the management consulting business, the Company is targeting growth rates of 3.1% for net sales and 2.1% for operating profit, and for the SP consulting business, 2.8% for net sales and 4.4% for operating profit.

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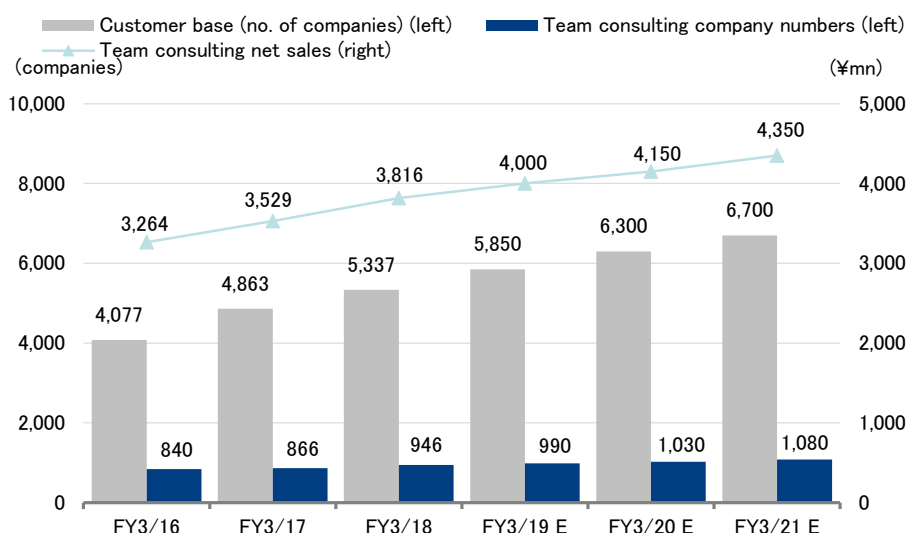
Numerical targets in the medium-term business plan

	FY3/18	FY3/19 E	FY3/20 E	FY3/21 E	Three-year average growth rate
Net sales	8,797	9,000	9,300	9,600	3.0%
Management consulting business	5,021	5,150	5,300	5,500	3.1%
SP consulting business	3,776	3,850	4,000	4,100	2.8%
Operating profit	936	970	1,000	1,040	3.6%
Management consulting business	1,336	1,355	1,380	1,420	2.1%
SP consulting business	202	210	220	230	4.4%
Headquarters management costs	-602	-595	-600	-610	-
Ordinary profit	965	990	1,020	1,060	3.2%
Ordinary profit margin	11.0%	11.0%	11.0%	11.0%	-
Net profit	675	680	700	730	2.6%
ROE	6.5%	6.5%	6.3%	6.1%	

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

The outlook for team consulting net sales, which is a main KPI, is that they will increase from ¥3,816mn in FY3/18 to ¥4,350mn in FY3/21 for an average annual growth rate of 4.5%, which is slightly above the all-company average. Their percentage of total net sales will also rise, from 43.4% in FY3/18 to 45.3%. In addition, the number of consultants, who will be the driving force behind growth, is forecast to increase from 218 at the end of FY3/18 to 291 at the end of FY3/21. The Company is strengthening the development of new graduates and the recruitment of mid-career, professional human resources who are fully familiar with the various industries, as well as actively recruiting human resources looking to make an I-turn or a U-turn in their careers. It will utilize its strength of developing its business in 10 major cities nationwide, including at its regional bases.

Trends in the team consulting company numbers and net sales



Note: customer base = strategy domain & function workshops + FCC seminars

Team consulting = management consulting + human resources training consulting + SP consulting

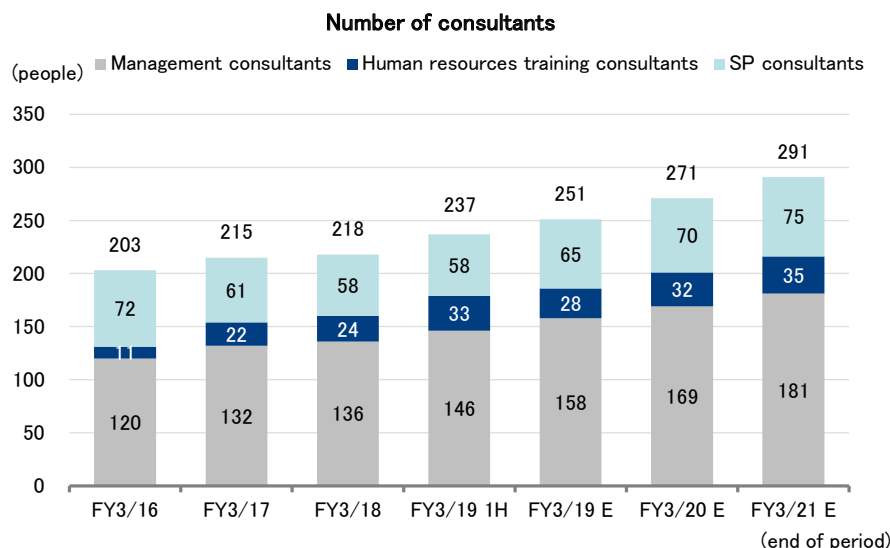
Source: Prepared by FISCO from the Company's results briefing materials

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Note: excludes the consultants belonging to the Strategic Comprehensive Institute
Source: Prepared by FISCO from the Company's results briefing materials

As its corporate strategy, the Company plans to implement investment relating to workstyle reform and productivity reform. It has already completed some investment projects, including to renew the video conferencing system and to provide all employees with iPhones, while the projects currently being implemented include to introduce a new ERP package and to renew the offices, including the head offices. In the future, it also plans to introduce a flex-time system and teleworking, AI research (surveys, partner-company selection, and test introductions), and business automation systems (chatbots and RPA). From FY3/19, it has also newly introduced a personnel system and a wage system that are intended to improve employee motivation, and the implementation of these investment projects is expected to improve productivity.

Shareholder return policy

Policy is to continuously increase the dividend, with a dividend payout ratio of 60% as the standard

Shareholder returns include dividends and shareholder gifts. Tanabe decides the dividend while taking into account earnings and other factors (excluding extraordinary items) with a goal of a 60% of dividend payout ratio. It plans to raise the dividend by ¥1.0 to ¥42.0 (53.3% payout ratio) in FY3/19, for a seventh straight fiscal year, and to continue lifting sales, profits and the dividend.

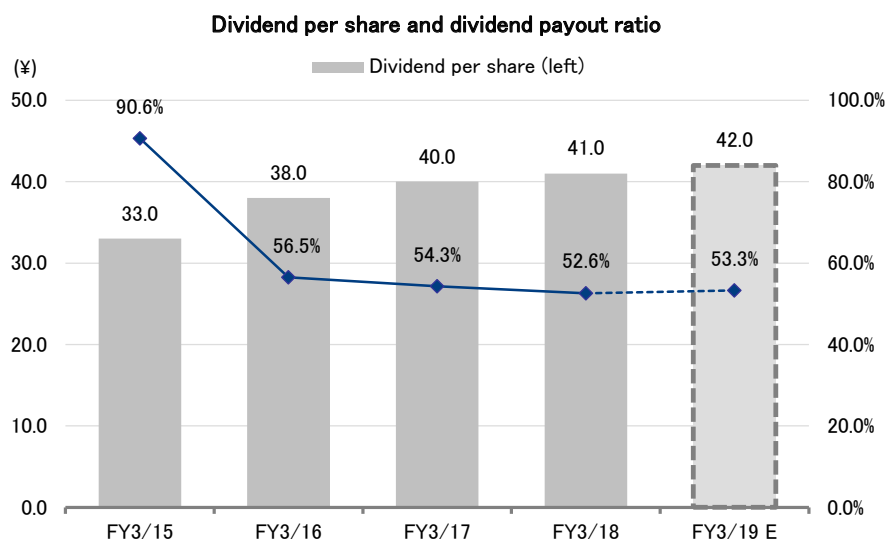
It also provides a gift to shareholders on record as of end-September of its original Blue Diary scheduler (worth about ¥3,000). Dividend yield worked out to about 3.4% and investment return comes to roughly 5.7% including the shareholder gift, based on the share price on February 1, 2019 (¥1,253).

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Shareholder return policy



Note: The dividend payout ratio on a net profit basis excluding extraordinary factors was 55.1% in FY3/15.
Source: Prepared by FISCO from the Company's financial results

Information security policy

Tanabe uses the Internet to convey various services to members and send all kinds of management data to the financial institutions and other companies that are its alliance partners. The information security measures the Company has put in place to prevent system failure and quickly restore the system in case of a failure include firewalls and other measures to strictly control and monitor outside access, enhanced authentication measures, antivirus software, data backup systems, and server mirroring. To protect the client data on its system from unauthorized access and leaks, Tanabe has a strict data management system using both hardware and software, and constantly reminds employees about the importance of protecting client data.

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