

COMPANY RESEARCH AND ANALYSIS REPORT

TANABE CONSULTING Co., Ltd.

9644

Tokyo Stock Exchange First Section

21-Aug.-2019

FISCO Ltd. Analyst

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

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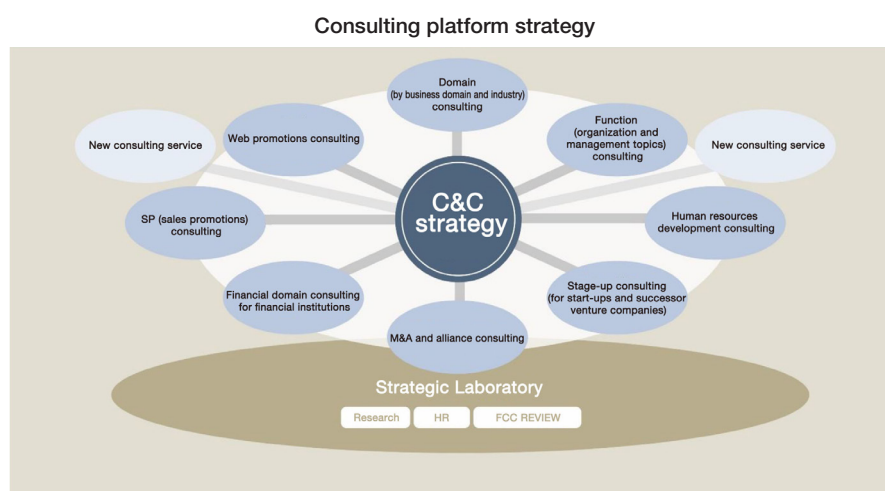
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Summary

Made a smooth start in the first year of the medium-term management plan
Outlook for FY3/20 is for the higher sales and profits to continue from the diverse consulting needs

TANABE 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 the private-sector management consulting industry in Japan. Its corporate mission is to be a “first-call company that will be the first choice even 100 years in the future.” It is aiming to realize sustainable, stable growth by providing team consulting that optimizes “Domain (business domains and industries) x Function (organizational and management functions) x Region,” mainly to medium-sized companies. As its medium-term business strategy, the Company is promoting its “C&C (Consulting & Conglomerate) Strategy” (expansion of the consulting menu) and “a consulting platform strategy” through which to develop its consulting throughout the country.



Source: The Company's results briefing materials

1. FY3/19 results

In the FY3/19 results, sales and profits increased basically in line with the Company's forecasts, with net sales rising 2.8% YoY to ¥9,046mn and operating profit growing 3.6% to ¥970mn. In addition to themes such as “human resources recruitment, development, and activities,” “the formulation and promotion of medium-term business plans (visions),” and “business succession and the construction of post-succession structures,” management-consulting needs also trended solidly for themes such as “branding strategies” and “sales strategies.” In addition, the number of consulting contracts steadily increased for human resource development consulting, including for junior board consulting (next-generation management team development), consulting to establish FCC academies (in-house corporate universities), and SP (Sales Promotion) consulting, which includes support for planning, implementing and progressing promotion strategies and branding strategies. As a result, sales and profits increased. For the main KPI, the average number of team consulting* contracting companies during the period increased by 20 YoY to 591 companies, and net sales also grew 4.6% to ¥3,990mn.

|
* Team consulting = management consulting + human resource development consulting + SP consulting (monthly contract type)
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2. FY3/20 outlook

The outlook for FY3/20 is for the higher sales and profits to continue, with net sales to increase 2.8% YoY to ¥9,300mn and operating profit to rise 3.1% to ¥1,000mn. As the “team consulting brand (hereafter, TCB),” the Company will promote its 12 team-consulting priority themes, including FCC academies, junior board, and SP consulting, and sales and profits are expected to increase in both the Management Consulting Business and the SP (Sales Promotion) Consulting Business. It will also progress measures for business alliances in order to grow earnings. In a joint-development with Q&A WORKS Co., Ltd., which provides services to support the introduction of RPA, it is developing “Robo Working,” which is an operations-improvement consulting service utilizing RPA, and the Company has started providing services to medium-sized companies and SMEs. In addition, in the “Brand & Retail” field, it has concluded an “ecosystem partnership” agreement with Plug and Play Japan Co., Ltd., which provides an acceleration program to start-up companies. In this field, it is strengthening measures for “start-ups first consulting” that connects start-up companies with medium-sized companies and SMEs. The Company also plans to promote “SDG consulting” for medium-sized companies and SMEs that it jointly developed with Daiwa Institute of Research Ltd., with which it concluded an agreement last year.

3. Medium-term business plan

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. In FY3/19, the Company made a smooth start in the first year of the medium-term management plan. The FY3/21 results targets are net sales of ¥9,600mn and ordinary profit of ¥1,040mn 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 about 25%, from 233 at the end of FY3/19 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 forecast to remain around the same level as it will be conducting upfront investment in human resources, and sustainable growth and improved profitability are expected 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 FY3/20, it plans to increase the dividend by ¥1.0 to ¥43.0 (for a payout ratio of 52.9%), the eighth consecutive fiscal year of higher dividends. In addition, the Company provides shareholders on record as of the end of September with a gift of its original Blue Diary scheduler (worth about ¥3,000) every year. The dividend yield was about 3.5% and the investment return was around 6.0% including the shareholder gift, based on the share price of July 26, 2019 (¥1,215).

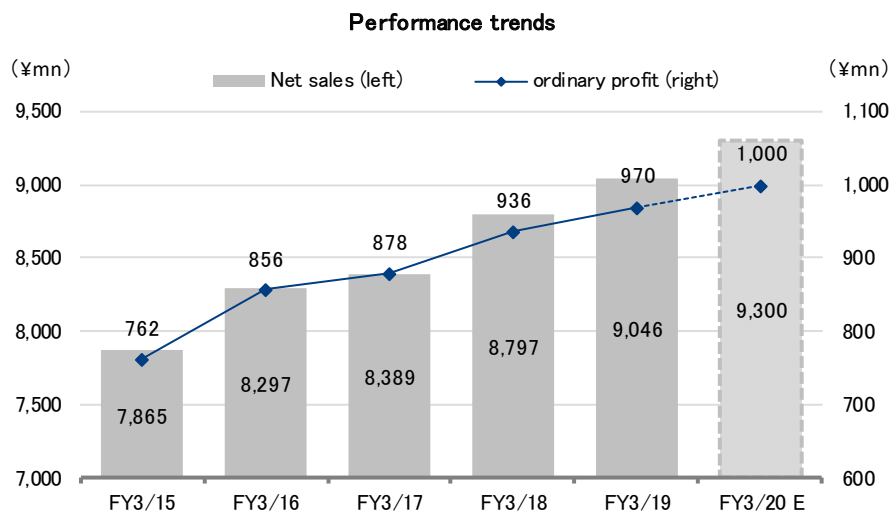
Key Points

- Team consulting contracts are steadily increasing, and in FY3/19 sales and profits rose and were basically in line with the Company’s forecasts
- Through alliances with other companies, the Company is working to expand its consulting menu, aiming for higher sales and profits in both the Management Consulting and SP Consulting Businesses
- Made a smooth start in the first year of the medium-term management plan and intends to realize sustainable growth from 2020 onwards though advancing the consulting platform strategy

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Summary



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

Business overview

Continues to grow based on the expansion of “team consulting that optimizes Domain x Function x Region”

1. Company overview

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

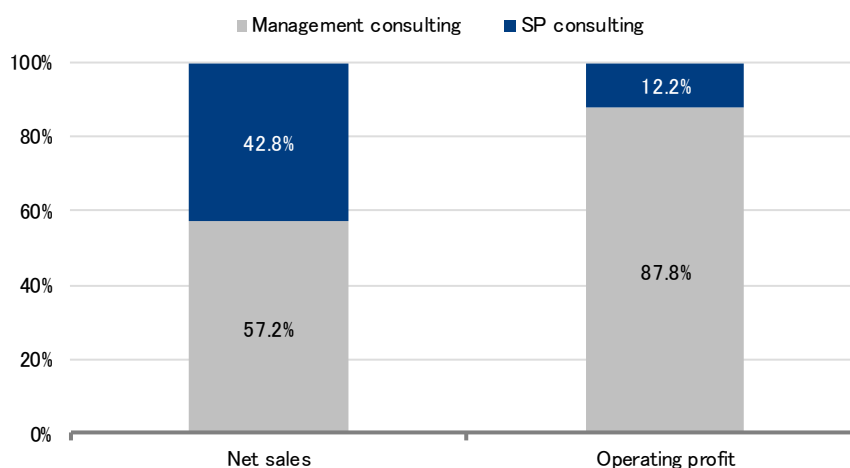
As the “strategic partner,” mainly of medium-sized companies, the Company provides consulting for management as a whole, from planning business strategies through to designing organizations, constructing management systems, and building next-generation management structures. In addition, it provides nationwide consulting for human resource development, 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 a one-stop support service spanning planning of promotion and branding strategies to creative and design work. A feature of the Company is that it provides “team consulting” tailored to the issues facing each customer, 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 function) 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 at both the Tokyo and Osaka Headquarters, 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, the Company is aiming to supplement its customer service nationwide.

2. Business details

The Company has two business segments: the Management Consulting Business and the SP (Sales Promotion) Consulting Business. As their percentages of total net sales (FY3/19), the Management Consulting Business provided 57.2% and the SP Consulting Business 42.8%, but for operating profit, the Management Consulting Business provided 87.8%. The operating profit margin is 26.3% in the Management Consulting Business, but 4.8% in the SP Consulting Business, which is mainly due to the fact that it includes sales of purchased goods, such as promotion 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.

Sales breakdown by segment (FY3/19)



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

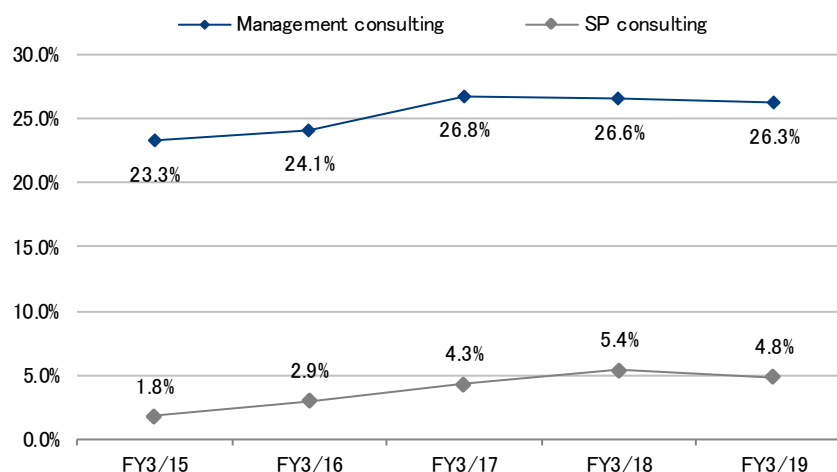
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Business overview

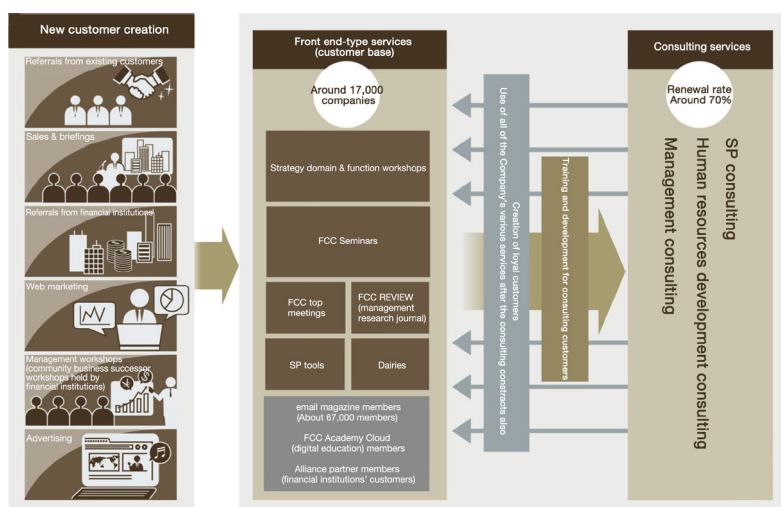
Operating income margin by segment



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 resource development consulting, and SP consulting), which in turn leads to the creation of loyal customers. About 70 percent of customer companies renew the Company's consulting service. 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

The Management Consulting Business is divided into management consulting and human resource development consulting according to the service content. Management consulting constitutes approximately 60% of total sales, and 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 include “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 resource development consulting which accounts for approximately 30% of total sales in the Management Consulting Business, the Company provides one-stop solutions that meet a wide range of needs for human resource development. In addition to made-to-order education (training) services, this includes consulting to establish FCC academies (in-house corporate universities) that provide one-stop, total support for human resource development from building educational systems to producing online educational content, junior board consulting (next-generation management team development), 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 terms of the composition of sales, SP consulting constitutes approximately 40% and SP tools and diaries approximately 30%.

In the SP Consulting Business, it has also been focusing on consulting targeting the “children and child-rearing families markets.” From the perspectives of potential future customers, the SDGs, etc., demand from customer companies is strong. In addition to partnering with Google Japan and other companies, 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’ businesses and organization strategies while SP consultants support the development of product sales channels, branding, and corporate identity, mainly attracting customers and promoting events in the housing and food industries, such as anniversary events, etc. 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, are concentrated in Q3, so the quarterly revenue trend in a typical year peak in Q3.

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Result trends

Team consulting contracts are steadily increasing, and in FY3/19 sales and profits rose and were basically in line with the Company forecasts

1. FY3/19 results overview

In the FY3/19 results, net sales increased 2.8% YoY to ¥9,046mn, operating profit rose 3.6% to ¥970mn, ordinary profit grew 4.0% to ¥1,003mn, and net profit climbed 2.9% to ¥694mn. Each of net sales, operating profit, and ordinary profit increased for the ninth consecutive fiscal year and were basically in line with the Company's forecasts.

In the context of the continued moderate recovery of the Japanese economy, orders trended steadily for management consulting and human resource development consulting. For SP (Sales Promotion) consulting also, orders grew because the Company actively conducted sales activities, including strengthening the collaboration with the Management Consulting Business, and it contributed to the higher sales. For the Company's KPI, the average number of team consulting contracting companies during the period, increased by 20 YoY to 591 companies, and net sales also steadily grew, up 4.6% to ¥3,990mn.

The gross profit margin declined 0.4 of a percentage point (PP) YoY to 44.8%, resulting from the increase in personnel expenses alongside the strengthening of consultant recruitment, an investment to realize sustainable growth. On the other hand, the SG&A expenses ratio fell 0.5 of a PP to 34.1% due to a rise in sales and efforts to improve work efficiency. As a result, the operating profit margin rose 0.1 of a PP to 10.7%, the seventh consecutive fiscal year it has risen.

FY3/19 results

	FY3/18		Forecast	FY3/19			
	Results	Ratio to sales		Results	Ratio to sales	YoY	vs. forecast
Net sales	8,797	-	9,000	9,046	-	2.8%	0.5%
Gross profit	3,981	45.2%	4,175	4,050	44.8%	1.8%	-3.0%
SG&A expenses	3,044	34.6%	3,205	3,080	34.1%	1.2%	-3.9%
Operating profit	936	10.6%	970	970	10.7%	3.6%	0.0%
Ordinary profit	965	11.0%	990	1,003	11.1%	4.0%	1.4%
Extraordinary income/loss	-1	-0.0%	-	0	0.0%	-	-
Net profit	675	7.7%	680	694	7.7%	2.9%	2.2%

Note: Since FY3/19, a part of the recording of personnel expenses was shifted from SG&A expenses to costs of sales, so the figures in the previous fiscal year have been displayed so they are based on the same standard (therefore, they are different to the gross profit and SG&A expenses figures in the financial summary report).

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

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Result trends

Sales continue to increase 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 3.0% YoY to ¥5,171mn and segment profit rose 1.6% to ¥1,357mn compared to the previous period, and both exceeded the Company's initial forecasts (net sales of ¥5,150mn and segment profit of ¥1,355mn). Sales rose because the average number of contracts during the period for the various types of consulting increased by 10 YoY to 562 contracts. The profit margin declined 0.3 of a PP, but this was due to the increase in personnel expenses alongside the strengthening of the recruitment of specialist, highly professional human resources, and it was in line with the Company's forecast. For the numbers of consultants at the end of FY3/19, there were 150 management consultants (up 14 consultants compared to the end of the previous fiscal year) and 26 human resource development consultants (up 2 consultants).

Looking at how sales trended by service, net sales steadily increased in the mainstay management consulting, up 2.3% YoY. Sales continued to trend stably for consulting themes such as "personnel recruitment, training and utilization," "formulation and promotion of medium-term business plans (vision)" and "business succession and the construction of post-succession structures," in addition to "branding strategies," "formulation and promotion of management policy (including decision-making support)" and "sales strategies." Although the average number of management consulting contracts during the period remained at the same level as in the previous fiscal year, sales increased due to the rise in orders from medium-sized companies with relatively high unit prices per contract. Also, for the strategy domain & function workshops, which guide participants toward concluding management consulting contracts, although the number of workshops themes and the times they were held increased, there were differences in the number of participating companies depending on the theme, and overall, the number of participating companies declined slightly YoY to 949 companies (down 9 companies), and net sales declined due to this fall in the number of participants. For alliances, due to a decrease in the number of alliance partners, which include regional financial institutions and accounting offices around the country, to 129 partners (down 10 YoY), membership fees and related earnings decreased. However, orders for consulting projects via introductions from alliance partners increased.

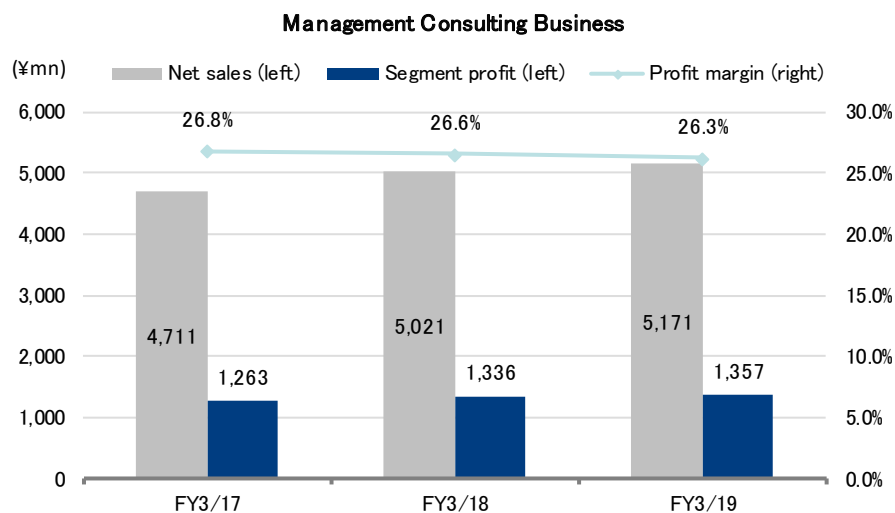
In human resource development consulting, net sales increased 3.9% YoY. The average number of contracts during the period for made-to-order education (training) increased, but as a result of the Company focusing on enhancing proposals for junior board consulting (next-generation management team development) and consulting for the establishment of FCC academies (in-house corporate universities), the average unit price per order declined, and as a result, sales were sluggish. Conversely, for junior board consulting, human resource development needs are rising for the management executives who will become the pillars of companies in the future, and both the average number of contracts during the period and net sales increased. For consulting to establish FCC academies as well, the cloud service, which utilizes an IT platform to make possible the development of professional human resources in their early stages, has been well received, and the number of companies introducing the service rose from about 50 at the end of the previous fiscal period to 80 companies, which contributed to the increase in sales. On the introduction of an "FCC academy," the Company produces educational content tailored to each customer company, such as original videos, and the business model is that it receives more than ¥10mn as the initial introduction cost and then continuing income from the annual membership fee. In addition, 4,584 companies participated in the FCC seminars (up 244 companies YoY), which contributed to the increase in sales and the expansion of the new customer base.

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Result trends



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

(2) SP Consulting Business

In the SP (Sales Promotion) Consulting Business, net sales increased 2.6% YoY to ¥3,875mn and segment profit decreased 7.3% to ¥187mn. Compared to the initial Company forecasts (net sales of ¥3,850mn and segment profit ¥210mn), net sales were above forecast, but segment profit was slightly below it. This was mainly due to the costs to review the business processes and the increase in personnel expenses related to this, which caused profits to decline YoY. At the end of FY3/19, there were 57 SP consultants (down 1 consultant YoY).

Looking at the sales trends by service, SP consulting (sales promotion consulting (monthly contracts) + SP design) performed well, up 6.3% YoY. Through a collaboration with the Management Consulting Business, there was an increase in the number of contracts to support the implementation and progression of “promotion strategies” and “branding strategies” and for web promotion consulting. The number of SP design contracts also increased, as the Company provided proposals with high added value as highly original promotion tools through a collaboration with the design lab in the Strategic Comprehensive Institute, while it is also working to enhance the content of proposals through alliances with external companies.

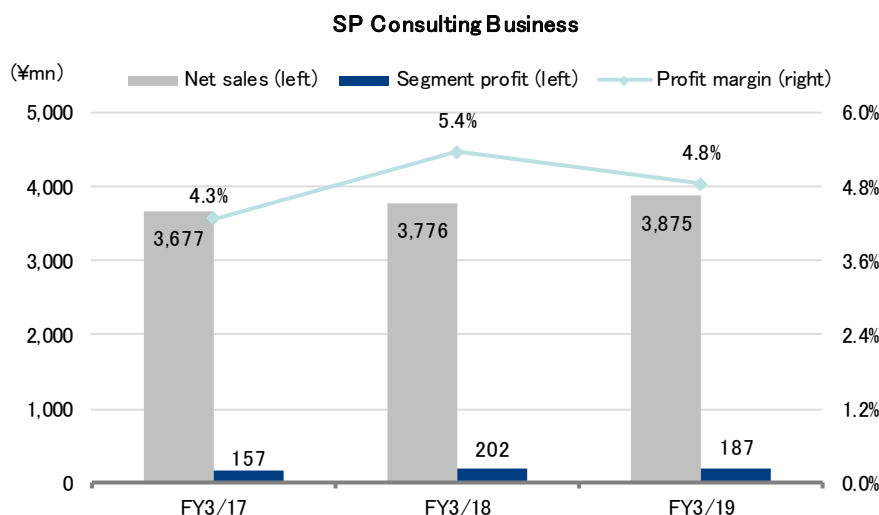
Although orders for SP tools continued to be stable, the Company focused on SP design with high added value, resulting in a decline in net sales of 1.1% YoY. Sales of diaries increased slightly, up 0.7% YoY, as the re-branding activities for the Blue Diary to mark the 60th anniversary of its publication were successful.

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Result trends



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, total assets were down ¥34mn compared to the end of the previous fiscal year to ¥12,769mn. Looking at the main change factors, in current assets, cash, deposits and marketable securities declined ¥155mn due to the payment of dividends. Meanwhile notes and accounts receivable and prepaid expenses increased ¥127mn and ¥49mn, respectively. In non-current assets, long-term borrowing and investment securities increased ¥56mn, while deferred tax assets decreased ¥81m. Long-term and short-term adjusted cash and deposits and marketable securities also fell ¥98mn compared to the end of the previous fiscal year to ¥8,592mn, but they still constituted 67.3% of total assets and continue to be maintained at a high level.

Total liabilities were down ¥315mn compared to the end of the previous fiscal year to ¥2,054mn. This was because there were decreases in outstanding payments of ¥100mn and advances received of ¥50mn and the absence of provision for retirement benefits of ¥217mn that was previously recorded in non-current liabilities. Net assets were up ¥281mn compared to the end of the previous fiscal year to ¥10,715mn. This was because although net profit of ¥694mn was recorded, there were decrease factors, of ¥354mn for dividend payments and ¥97mn to acquire treasury shares.

Looking at the management indicators, the equity ratio was 83.8% and is being maintained at a level of above 80%. The Company does not have any interest-bearing debt, so it can be judged that it continues to maintain an extremely sound financial condition. Cash at hand is also at a high level, but at the current time it intends to invest funds, including in human resources and in IT for workstyle reforms and productivity reforms. Also, the Company considers that one strategy option is to utilize its abundant funds for M&A, etc., and its policy is to proactively investigate whether proposals will contribute to growth. While ROA, ROE, and the operating profit margin did not change greatly compared to the previous fiscal year, each management indicator has gradually risen in recent years, so it seems that the Company's profitability is steadily improving.

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Result trends

Balance sheet

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	(¥mn) From end of previous fiscal year
Current assets	5,960	6,967	6,911	7,006	7,027	20
(Cash/deposits and marketable securities)	5,016	6,021	5,984	6,294	6,138	-155
Non-current assets	5,832	5,118	5,620	5,797	5,742	-54
(Long-term time deposits and investment securities)	2,640	1,977	2,437	2,396	2,453	56
Total assets	11,792	12,086	12,531	12,804	12,769	-34
Current liabilities	1,697	1,682	1,844	1,778	1,679	-99
Non-current liabilities	542	570	564	591	374	-216
Total liabilities	2,240	2,253	2,409	2,369	2,054	-315
Net assets	9,552	9,833	10,122	10,434	10,715	281
(Management indicators)						
Equity ratio	81.0%	81.4%	80.8%	81.4%	83.8%	2.4pt
ROA	7.0%	7.4%	7.4%	7.6%	7.9%	0.3pt
ROE	3.3%	6.0%	6.4%	6.6%	6.6%	0.0pt
Operating income margin	9.7%	10.3%	10.5%	10.6%	10.7%	0.1pt

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

Business outlook

Steady growth in also expected in FY3/20 from team consulting

1. Outlook for FY3/20

The outlook for the FY3/20 results is for the higher sales and profits to continue, with net sales to increase 2.8% YoY to ¥9,300mn, operating profit to rise 3.1% to ¥1,000mn, ordinary profit to grow 1.6% to ¥1,020mn, and net profit to climb 0.8% to ¥700mn. Although the sense of uncertainty about the future of the Japanese economy is increasing due to factors such as the consumption tax hike scheduled for October 2019 and the US-China trade friction, the Company is aiming to achieve stable growth by strengthening and expanding organizational functions toward realizing sustainable growth, building a structure that is able to meet consulting needs that are becoming more diverse and specialized, and progressing its "C&C (Consulting & Conglomerate) Strategy" (expansion of the consulting menu) and platform strategy.

FY3/20 outlook

	FY3/19			FY3/20		
	Full-year results	YoY	Ratio to sales	Full-year forecast	YoY	Ratio to sales
Net sales	9,046	2.8%	-	9,300	2.8%	-
Gross profit	4,050	-2.6%	44.8%	4,185	3.3%	45.0%
SG&A expenses	3,080	-4.4%	34.0%	3,185	3.4%	34.2%
Operating profit	970	3.6%	10.7%	1,000	3.1%	10.8%
Ordinary profit	1,003	4.0%	11.1%	1,020	1.6%	11.0%
Net profit	694	2.9%	7.7%	700	0.8%	7.5%
Earnings per share (¥)	80.48			81.27		

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

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Business outlook

The Company plans to promote TCB, the team consulting method it has cultivated to date, in 12 fields, and it expects the average number of contracts for team consulting, the main KPI, to increase by 19 during the period to 610 companies. It also forecasts that net sales will rise 4.0% to ¥4,150mn. The operating profit margin is expected to rise 0.1 of a PP YoY to 10.8% due to the improvement in the added-value rate from promoting TCB, in addition to the effects of the higher sales.

In FY3/20, the Company intends to mainly progress the following three measures in order to realize sustainable growth. The first is a measure for “open innovation,” for which it plans to develop and provide “consulting tech” as a new team consulting service through actively forming alliances with excellent technology companies. The second is strengthening the recruitment and development of highly specialized professional human resources who can provide its customer companies with high-quality consulting. For their development, it intends to foster human resources to become active in the field at an early stage, utilizing the “Tanabe FCC academies.” The third is a measure for diversity & inclusion, for which it plans to continuously conduct IT investment and office-renewal investment with the aims of creating environments in which employees can work more comfortably and in which productivity can be improved through innovation.

Is working to expand the consulting menu through alliances, and is aiming for higher sales and profits in both the Management Consulting Business and SP Consulting Businesses

2. Outlook by segment

(1) Management Consulting Business

The forecasts for FY3/19 are for net sales to increase 2.5% YoY to ¥5,300mn and segment profit to rise 1.7% to ¥1,380mn. Higher sales and profits are expected from an increase in the number of contracts for management consulting and human resource development consulting by promoting TCB. 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 FY3/20, the plan is to have increased the number of consultants including management consultants and human resource development consultants by 25 compared to the end of the previous fiscal year to 201 people. The business strategies that the Company will work on going forward are as follows.

a) Domain and function consulting strategy

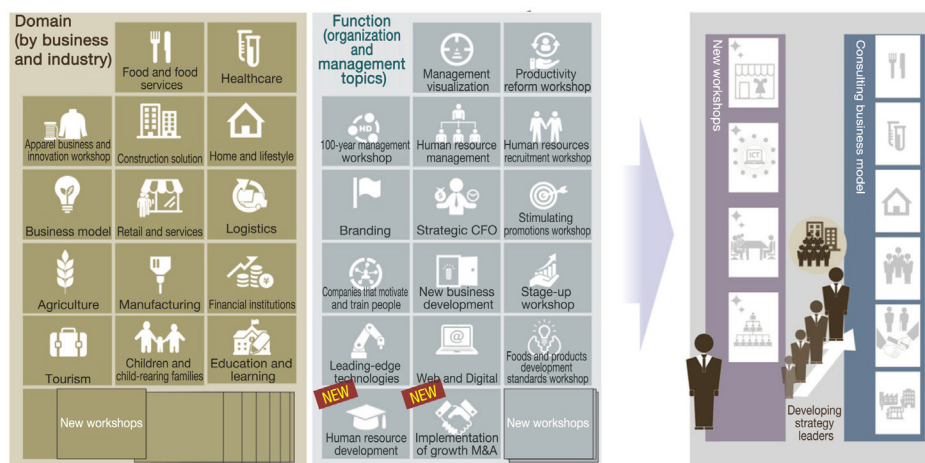
In the “strategy domain (industry-specific consulting) & function (managerial challenge-specific consulting) workshops,” which guide participants toward concluding management consulting contracts, the Company intends to increase the number of research themes, including scrap & build, from the current 30 themes to 35 themes at an early stage. For the research themes, it is developing and holding workshops on themes that greatly meet the needs of the times. It has 2 new themes for FY3/20, “human resource development” and “implementation of growth M&A.” At the same time as training the strategy leaders for each workshop, its strategy is to establish a consulting business model and to provide high-added-value services to customers throughout the country.

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Domain and function consulting strategy



Source: The Company's results briefing materials

The Company's policy for FY3/20 is also to actively visit and attend overseas workshops. In addition to visiting the United States in May 2019 to attend the world's largest HR event, from June onwards it plans to visit various workshops, including for agribusiness (Netherlands), business model innovation (Finland and Estonia), sightseeing and tourism (Hawaii), and advanced technologies (Shenzhen, China).

In addition, as a new measure, the Company has started to develop "consulting tech" through an alliance. Specifically, in May 2019, it concluded a business partnership agreement with Q&A WORKS, which provides services to support the introduction of RPA, and it has announced that they have jointly developed "Robo Working" as an operations-improvement consulting service utilizing RPA and have started providing it, mainly for medium-sized companies and SMEs. In its consulting services for companies to reform workstyles and to improve work efficiency, the Company will introduce the RPA tools of Q&A WORKS and propose and provide support for aspects such as effective management methods. There are many medium-sized companies and SMEs that are facing the management issues of improving productivity and dealing with a labor shortage, so it is considered that the potential need for this service is considerable.

b) Human resource development consulting strategy

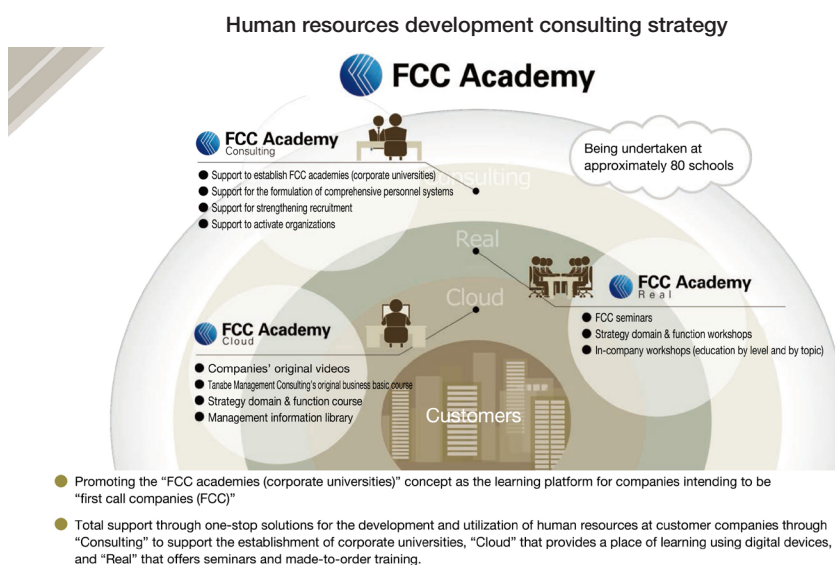
In human resource development consulting, the Company is aiming to spread the introduction of "FCC academies (in-house corporate universities)" as a HR platform for companies intending to be "first-call companies (FCC)." The Company plans to increase the number of introducing companies by providing three services as a one-stop solution: "Academy Consulting" to support the establishment of a corporate university, "Academy Cloud" to use digital devices to provide a learning environment regardless of time and location, and "Real" to provide seminars and made-to-order training. In human resource development-related services, various companies provide e-learning and talent management services, but all are only partial services, and the Company's strength is that it is one of the very few companies that are able to provide a total solution to meet all of a company's human resource development needs.

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The Company is aiming to increase the number of introducing companies from around 80 companies at the end of March 2019 to approximately 100 companies by the end of March 2020. Currently, many of the introducing companies are medium in size, but going forward it intends to include major companies as well. For the introducing company, the establishment of an in-house corporate university will enable it to not only efficiently strengthen its human resource development, but it will also have an advantage in terms of positive PR effects for its recruitment of human resources. As a concept for the future, the Company is also considering creating an open platform that will connect companies in the same industry that have introduced “Academy Cloud.”



Source: The Company's results briefing materials

c) Alliance consulting strategy

In M&A alliance consulting, through alliances with approximately 100 partner financial institutions nationwide (around 4,500 branch offices), the Company is working to develop medium-sized companies and SMEs in the regions (around 1.5 million companies), and to stimulate the regions, by providing consulting services, including “growth M&A consulting,” “business succession and growth support,” and “SP consulting.” This can be said to be a field in which the Company can leverage its strength, of developing firms at its 10 main bases nationwide. Among its services, “growth M&A consulting” is a service that introduces candidate proposals to the Company's customer companies (buyers) that intend to conduct an M&A for growth, while it coordinates with the alliance partners. The Company has positioned the service as one of the items on the management consulting menu to realize growth in customer companies, and does not take the stance of actively increasing the number of contracts via intermediaries, such as consulting firms specializing in M&A.

With the aim of expanding the new customer base, the Company is focusing on supporting start-ups and successor venture companies, and also on “start-ups first consulting” that connects the Company's customers (mainly medium-sized companies) with these companies. It was conceived as a business from the superior technologies of start-ups, which need funding and collaboration partners, to provide a bridge to them for medium-sized companies that are searching for new growth fields.

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In terms of specific measures, in May 2019 the Company announced that it had concluded an “ecosystem partnership” agreement in the “Brand & Retail” field with Plug and Play Japan, a leading global venture capital and accelerator company. Through Plug and Play Japan’s acceleration program* in the “Brand & Retail” field that was started in June 2019, the start-up companies, the Company, and the Company’s customer customers are working on co-creation.

* A program that is conducted for a limited time as part of open innovation with the aim of having major companies collaborate with and invest in start-ups. This current program links prospective brands, retailers and consumer goods with start-ups that have influence in the retail value chain.

(2) SP Consulting Business

The outlook for FY3/20 is for net sales to increase 3.2% YoY to ¥4,000mn and segment profit to rise 6.5% to ¥200mn. The Company is aiming to achieve higher sales and profits by increasing the number of “SP consulting” contracts through promoting TCB, reviewing business processes from the viewpoints of industries and promotion themes, and constructing an organizational design that can establish specialist domains and progress team SP consulting.

SP Consulting Business



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

Also, in support of planning and implementing promotion and branding strategies, the Company is progressing measures to further enhance customer value through introducing web promotions. Among them, demand from regional companies for building brands is strong, and it plans to further expand sales activities nationwide centered on the business offices of the Osaka and Tokyo Headquarters and the Chubu Head Office (in Nagoya). Sales of diaries are expected to be around the same level YoY, but it intends to further strengthen the brand strength of the Blue Diary on the 60th anniversary of its publication in 2019.

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Made a smooth start in the first year of the medium-term management plan, and intends to realize sustainable growth from 2020 onwards through advancing the consulting platform strategy

3. Medium-term business plan

In order to realize sustainable growth from 2020 onwards, the Company announced Tanabe Vision 2020 (2018-2020) as its medium-term business plan in May 2018, under the slogan of “From Change to Growth.” 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 by expanding services with a focus on team consulting that is high in quality and has high added value.

The results targets for FY3/21, which is the final fiscal year of the medium-term management plan, are for net sales of ¥9,600mn and operating profit of ¥1,040mn. The three-year annual average growth rates are 3.0% for net sales and 3.6% for operating profit, so the Company is aiming for solid growth. By business segment, it is forecasting growth in both businesses, with net sales to increase 3.1% and operating profit 2.1% in the Management Consulting Business, and net sales to rise 2.8% and operating profit 4.4% in the SP Consulting Business. In FY3/19, the plan's first fiscal year, only operating profit in the SP Consulting Business was below the target and all other results were slightly above, so it can be said to have made a smooth start.

Numerical targets in the medium-term business plan

	FY3/18	FY3/19	FY3/20	FY3/21 E	(¥mn) Three-year average growth rate
Net sales	8,797	9,046	9,300	9,600	3.0%
Management Consulting Business	5,021	5,171	5,300	5,500	3.1%
SP Consulting Business	3,776	3,875	4,000	4,100	2.8%
Operating profit	936	970	1,000	1,040	3.6%
Management Consulting Business	1,336	1,357	1,380	1,420	2.1%
SP Consulting Business	202	187	200	230	4.4%
Headquarters management costs	-602	-575	-580	-610	-
Ordinary profit	965	1,003	1,020	1,060	3.2%
Ordinary profit margin	11.0%	11.1%	11.0%	11.0%	-
Net profit	675	694	700	730	2.6%
ROE	6.6%	6.6%	6.6%	6.3%	-

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

Team consulting net sales, a main KPI, is forecast to increase from ¥3,816mn in FY3/18 to ¥4,350mn in FY3/21 for an annual average growth rate of 4.5%, which is slightly above the Company-wide average. Its 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 expected to increase from 218 consultants at the end of FY3/18 to 291 consultants at the end of FY3/21. The initial forecast for FY3/19 was for 251 consultants, but the actual result was slightly below this, at 233 consultants. But going forward, the Company will actively recruit consultants, including new graduates, mid-career professional human resources who are fully familiar with various industries, and human resources looking to make an I-turn or a U-turn in their careers, and its policy is to progress the expansion of consultants while also strengthening the structure of regional bases.

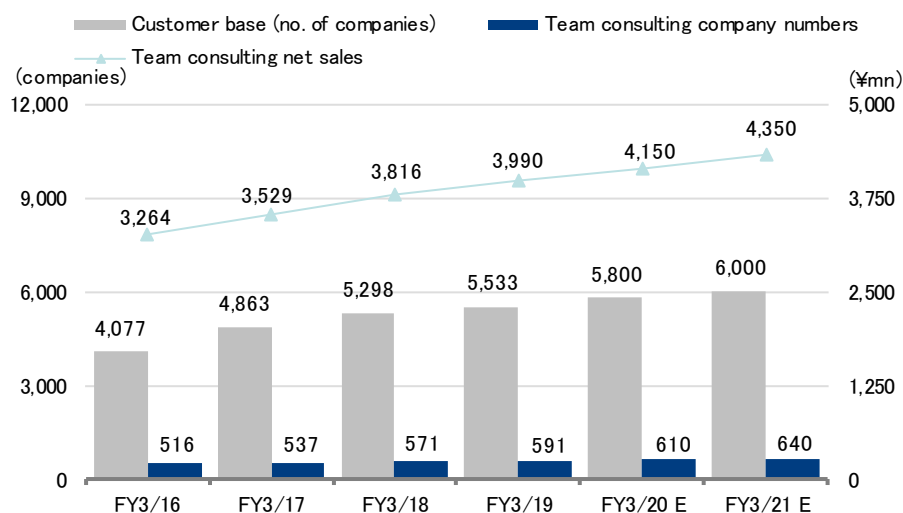
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Business outlook

Trends in the team consulting company numbers and net sales

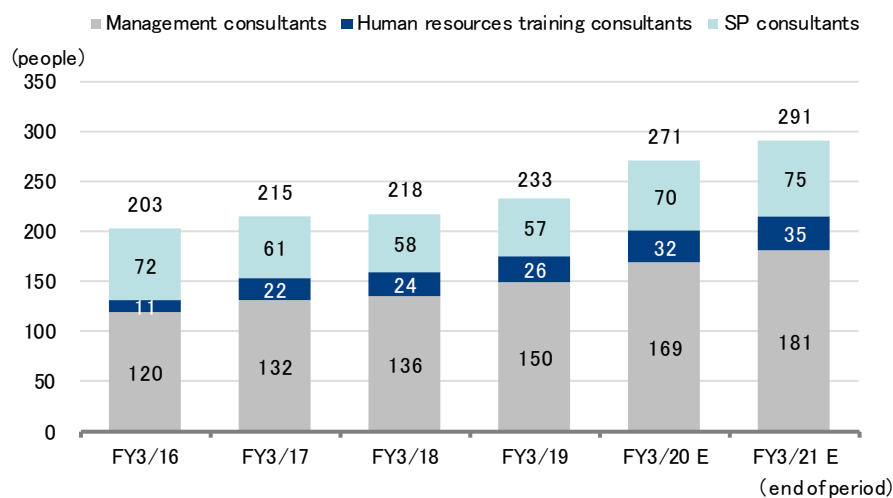


Note: customer base = strategy domain & function workshops + FCC seminars

Team consulting = management consulting + human resources training consulting + SP consulting (monthly contracts)

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

Number of consultants



Note: excludes the consultants belonging to the Strategic Comprehensive Institute

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

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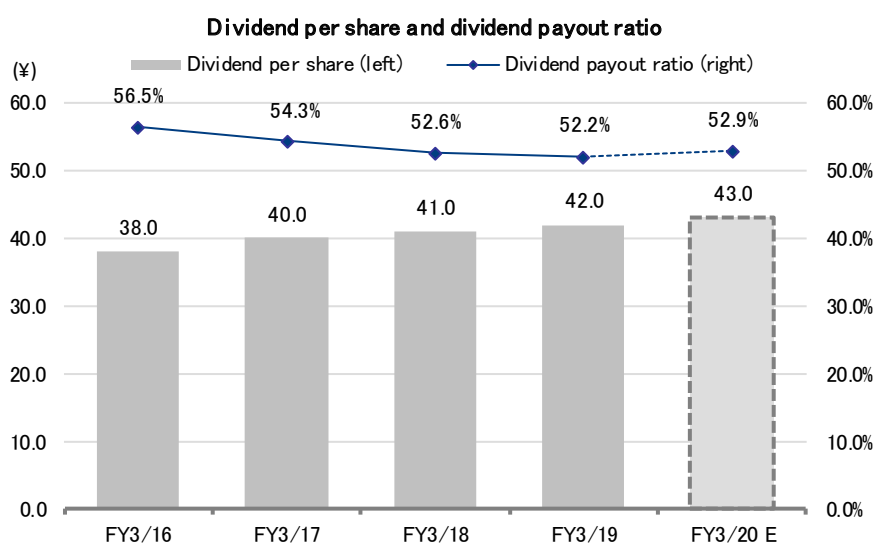
As its corporate strategy, the Company plans to invest in workstyle reforms to realize diversity & inclusion and in productivity reforms. As an already implemented measure, it has updated the video conferencing system and all employees are supplied with an iPhone. For the measures it is currently implementing, it is introducing a new ERP package, renewing the offices including the headquarters and updating the website. Among these measures, the introduction of the ERP package is scheduled to be completed during FY3/20 and to become fully operational from FY3/21. Functionally, it will improve the productivity of the sales department and the efficiency of consultants by strengthening the CRM system's functions and coordination with MA (marketing automation) tools. Other than these measures, it also plans to introduce a flex time system and teleworking, conduct AI research (introduction of surveys and partner-company selection and testing), and introduce work automation systems (chatbots and RPA) in the future.

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 ¥43.0 (52.9% payout ratio) in FY3/20, the eighth straight fiscal year for dividend increases, 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) every year. Dividend yield worked out to about 3.5% and investment return comes to roughly 6.0% including the shareholder gift, based on the share price on July 26, 2019 (¥1,215).



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

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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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