

Tanabe Consulting Co., Ltd.

9644

Tokyo Stock Exchange First Section

6-Sept.-2021

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

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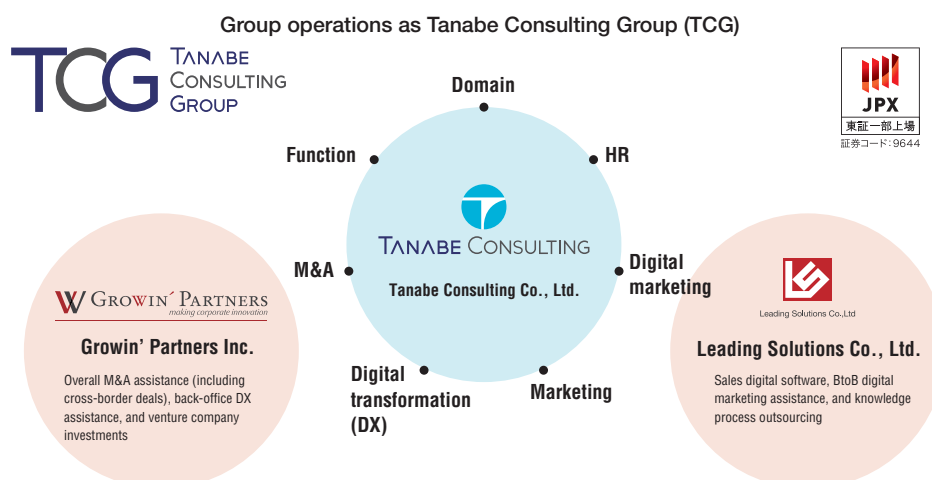
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Summary

Aiming for double-digit annual growth with recruitment of DX and M&A consulting demand that targets from large to mid-sized companies

Tanabe Consulting (9644) is a comprehensive management consulting pioneer in Japan in its 64th year since establishment with a mission of “Delivering resolve to be the First Call Company that will be selected even 100 years from now.” It provides “team consulting” tailored to the management issues facing each customer company, in which it selects several optimal specialist consultants to be members of the team from the three viewpoints of “domain (industries and business domains) × function (management functions) × region” for large companies to medium-sized companies nationwide, its core customer base, (mainly those with net sales in a range of ¥5bn to ¥100bn), including listed companies, nationwide. The Company stations consultants at business sites in 10 major cities nationwide and is the only firm in the industry with operations to assist client companies closely in local areas. It has built operations for one-stop provision of upstream to downstream consulting processes with additions to the Group of Leading Solutions Co., Ltd., which assists digital marketing for BtoB companies, in October 2019 and Growin’ Partners Inc., which provides overall M&A assistance (including cross-border deals) and back-office DX assistance, in January 2021.



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

1. Overview of the FY3/21 results

In FY3/21 consolidated results, the Company reported ¥9,213mn in net sales (-1.9% YoY) and ¥751mn in operating profit (-23.9%). Weakness in mainstay Management Consulting Business income due to temporary suspensions and delays in consulting and seminars in the first half of the period caused by the novel coronavirus (COVID-19) pandemic weighed on results. Nevertheless, consulting demand gradually recovered in the second half of the fiscal year, and the Company restored sales and profit increases in 4Q.

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2. Medium-term business plan

The Company announced TCG Future Vision 2030 (creation of TCG as a one & only consulting Group), a five-year medium-term business plan (2021-25) that started in FY3/22. The plan sets FY3/26 goals of ¥15bn in net sales and ¥1.8bn in operating profit through expansion of the consulting menu and reinforcement of DX consulting, including acquisitions, putting five-year average growth rates at 10.2% in net sales and 19.0% in operating profit. This seems to be a fairly aggressively plan considering the Company's previous medium-term business plans that targeted stable growth in the 3-4% range annually. A major difference is establishment of operations in the past 1-2 years capable of one-stop delivery of a variety of consulting services with the formation of a Group that includes companies with extensive track records in digital marketing and M&A and financial fields. In particular, FISCO sees an excellent opportunity for the Company to accelerate growth among mid-sized companies, its core customer base, that lag in digital marketing and DX and have substantial business succession needs and considering the absence of rivals capable of handling all consulting fields.

3. FY3/22 results outlook

In FY3/22, the Company projects a return to sales and profit increases at ¥10,200mn in net sales (+10.7% YoY) and ¥900mn in operating profit (+19.7%). The main driver of income gains is the prospect of robust 20.5% YoY increase of mainstay Management Consulting Business sales with full-year contributions from Growin' Partners that boost consulting projects in DX solutions, M&A, and other areas. Additionally, collaborative projects between the Company and Leading Solutions are increasing and should contribute to higher income. FISCO thinks the Company is capable of attaining forecasts in the absence of severe erosion of business conditions due to COVID-19. In M&A, the Company is reviewing opportunities with emphasis on a company capable of handling DX services in the downstream consulting process (deployment and operation).

Key Points

- Sales and profits declined in FY3/21 due to COVID-19 impact though returned to increases in 4Q
- Announced the TCG Future Vision 2030, a medium-term business plan (2021-25) and targets strong growth in the 10% range annually on enhanced Group synergies
- Intends to restore sales and profit increases at double-digit levels in FY3/22 with support from manifestation of M&A-driven synergies

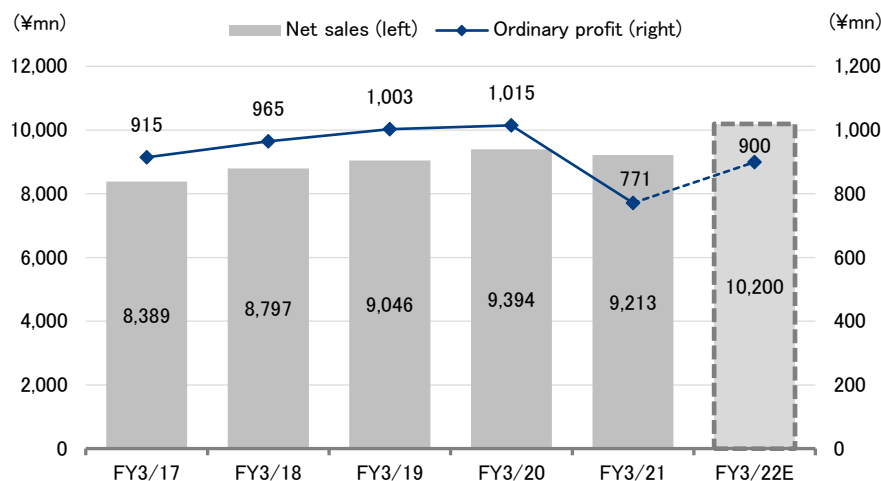
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Summary

Performance trends



* Consolidated values from FY3/20

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

Business overview

Continues to grow from its strength of providing consulting services from high quality teams formed from the three viewpoints of “domain × function × region”

1. Company overview

The Company, which was founded in Kyoto in 1957, is a pioneer and one of the major players in the management consulting industry in Japan. The Company is promoting the “Group C&C Strategy” (diversification of consulting business) and assists clients in achieving sustainable growth through provision of high-quality consulting value to all clients nationwide. It advocates a mission of “Delivering resolve to be the First Call Company and top choice even in 100 years from now.”

The conditions to achieve the aim of being first call companies

- 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 a brand business)
- Determination to establish a robust corporate structure (a financial structure with an ordinary profit margin of 10% and debt-free management in practical terms)
- A free and broadminded organization (teams that can self-reform and an organization that leverages development capabilities)
- Management techniques for business succession (100 year management that passes on the corporate spirit to the next generation)

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

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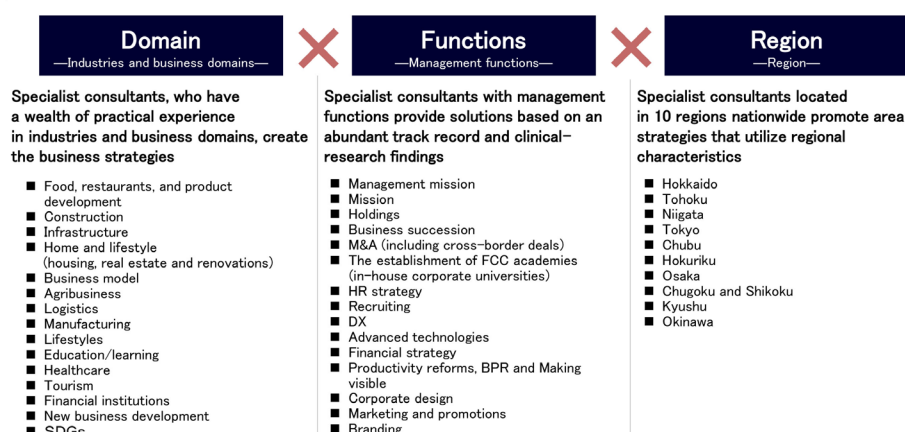
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Business overview

As a business doctor for executives, mainly to mid-sized companies nationwide including listed companies, the Company offers a full range of management consulting services that extends from formulation of corporate philosophy and mission and management strategies to organizations and personnel, financial matters, BPR, DX, M&A, and business succession and human resource (HR) consulting that covers constructing and operating a personnel system that incorporates work-style reforms, establishing FCC Academy (in-house corporate university), providing customized education (training), and cultivating executives and successors to new employees. The Company also delivers marketing consulting to large companies, listed companies, and mid-sized companies with scope from brand strategy proposals to implementing and advancing promotion strategies, and assistance in planning, designing, and producing corporate original goods. Features of the Company include that it provides “team consulting” tailored to the management issues facing each customer company, in which it selects several optimal specialist consultants to be the members of the team from the three viewpoints of “domain (industries and business domains) × function (management functions) × region.”

Team consulting

Forming optimal teams through the three viewpoints



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

It conducts its business from its offices in 10 major cities nationwide, from Hokkaido to Okinawa. The features and strengths of the Company include that it is the only company in this industry that conducts business in a firm format rooted in each region and it is able to provide consulting services tailored to each region. Moreover, by establishing the Strategic Comprehensive Institute, which plans and produces various consulting services, analyzes management information collected from consulting sites and elsewhere, and disseminates information, and also from the IR, SR, PR, human resources recruitment, M&A and alliance and other functions in both the Osaka and Tokyo head offices, the Company is aiming to enhance its support functions to companies nationwide.

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Business overview

Also, in October 2019, the Company made a subsidiary of Leading Solutions (investment ratio, 60%), which conducts KPO (Knowledge Process Outsourcing) work* for digital marketing in the B-to-B domain and constructs websites. Therefore, the Company has started disclosing consolidated results from FY3/20. The background and purpose of acquiring Group companies is an effort to offer a line-up of digital marketing assistance and further boost the added value and strengthen competitiveness of consulting services amid the prospect of an expanding market for digital marketing assistance in BtoB business and growing corporate need for DX-related consulting. Specific initiatives are development of new consulting services that combine services from the two companies and start of provision in FY3/21 and improvement of value in services provided to mutual clients through joint consulting at existing clients and personnel exchanges. Additionally, the Company is dispatching management personnel to Leading Solutions with the aim of strengthening management capabilities, assisting sales activities and administrative work, building mutual cooperative operations in hiring and training, and reinforcing the business foundation in mutual digital marketing areas.

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

Leading Solutions Co., Ltd.'s business results

	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21
Net sales	308	328	403	443	466
Operating profit	26	10	45	46	46
Net profit	20	8	32	33	32
Net assets	70	79	111	138	171
Total assets	133	163	216	251	288

Note: has 24 personnel, its main customers are B-to-B companies, and the investment rate is 60%

Investment ratio, 60% (10-year straight-line amortization of goodwill, ¥168mn)

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

Furthermore, the Company added Growin' Partners as a Group company (50.1% stake) in January 2021. Growin' Partners mainly provides general M&A assistance (including cross-border deals) and assists DX and productivity enhancement in accounting, financial, and other back-office work through deployment and utilization of digital technologies (such as ERP and RPA) for listed corporate groups and also invests in companies preparing for IPOs and invests in venture companies that receive management assistance. According to disclosed materials, FY6/20 results were ¥1,075mn in net sales and ¥99mn in operating profit with growing demand for M&A and DX assistance in back-office operations as drivers. The executive team has many people who previously worked at auditing firms and just under half of the 78 employees (as of February 2021; including 14 certified public accountants and one tax accountant) are consultants. Clients are mainly listed companies. Growin' Partners hopes to leverage this M&A and DX knowhow to recruit projects for business succession, business revitalization assistance, back-office DX solution projects, and other areas and expand business with its customer base (mid-sized companies nationwide) and network of alliances with financial institutions and others. Synergies are manifesting quickly, including joint orders with the Company for business succession and other projects obtained through financial institutions.

Growin' Partners Inc. – Business results

	FY7/18	FY6/19	FY6/20
Net sales	843	773	1,075
Operating profit	45	5	99
Ordinary profit	53	5	98
Net profit	41	5	46
Net assets	190	195	241
Total assets	396	418	604

Source: Prepared by FISCO from the Company's materials

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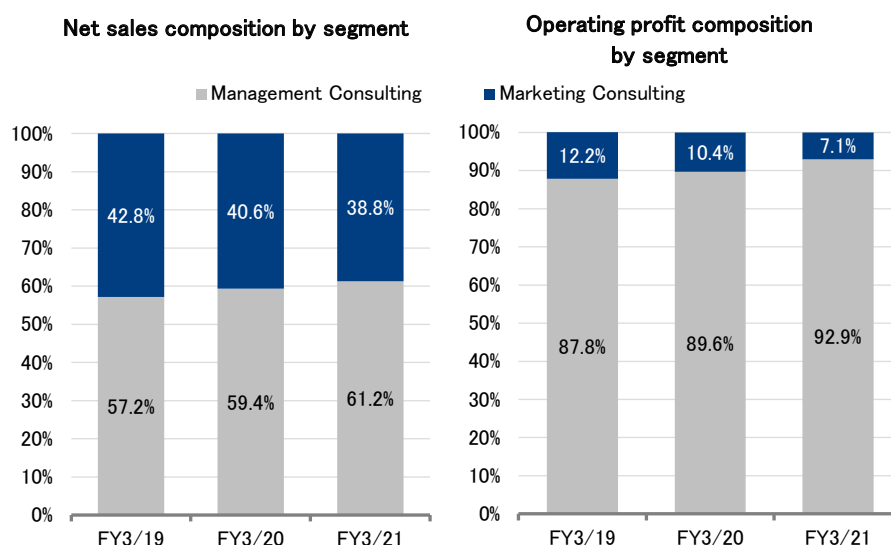
Business overview

The Company's position in the consulting industry with the addition of these two companies as Group firms enables it to address demand for business succession, format conversion and business rebuilding, and DX and productivity enhancement nationwide that is likely to accelerate, and it also substantially broadened scope for client targets from the unique market of mid-sized companies (¥5-100bn in sales) and large companies.

A business model in which long-term contract services, which provide around 50% of sales, constitute the earnings base, and sales of spot-type products and services are accumulated

2. Business description

The Company discloses results in two business segments – Management Consulting Business and Marketing Consulting Business. In the past three years, Management Consulting covers about 60% of sales and roughly 90% of segment profit. Since Marketing Consulting business includes procurement sales of promotional products and other items, nominal profitability is lower. Nevertheless, the Company has been taking steps to boost profitability in recent years through focus on Marketing Consulting services with high added value, such as corporate branding.



* Consolidated values from FY3/20

Note: operating profit is before the deduction of head office administrative expenses

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

As the earnings model, the Company realizes sustainable growth through a stable earnings base from long-term contract services and accumulating sales of spot-type products and services. The continuation rate for consulting services, which constitute the majority of long-term contract services that provide around 50% of net sales, is approximately 70%, with sales accumulating from the remaining approximately 30% from completed contracts and added extra from new contracts. Roughly 45% of team consulting contracts (579 contracts in FY3/21) has a length of five or more years. The Company achieves the high continuity rate through understanding the full extent of client management and continuous provision of high-quality service that fits the rates as a business doctor for executives.

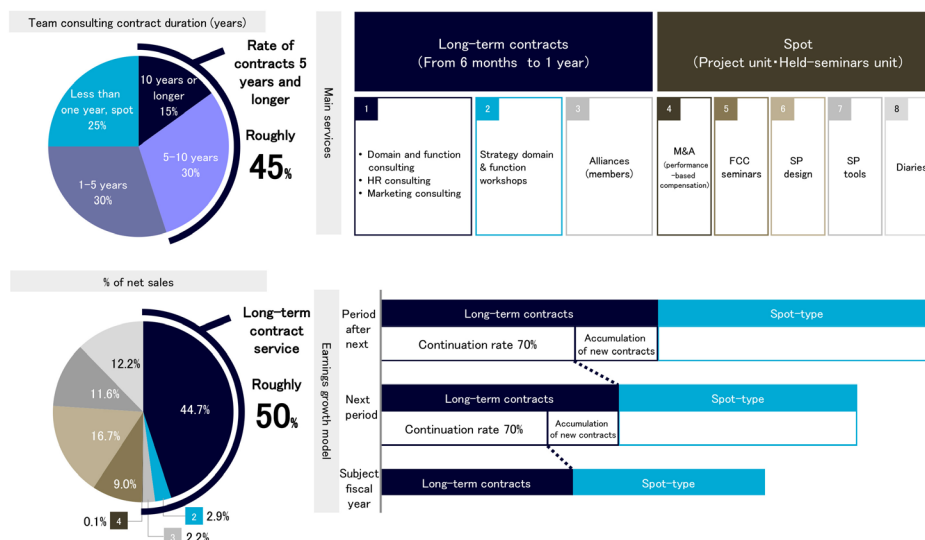
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Business overview

Earnings growth model



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

As a client creation model, the Company not only receives introductions from existing clients and partner financial institutions but also establishes contact with new customers through Web marketing and at free briefing events, and it not only delivers consulting services but also pursues conversion to a loyal customer through continuous service utilization, such as participation in strategy domain & function workshops and FCC seminars. Over the last few years, the Company has expanded the themes for the strategy domain & function workshops, and around 60% of the new customers for consulting services are companies that attended these workshops and seminars.

(1) The Management Consulting Business

Management Consulting business targets from large companies to mid-sized companies, including listed companies, and service content divides into domain and function consulting, HR consulting, and digital consulting.

Domain and function consulting, which generates about 68% of segment sales, consists of corporate mission and longer-term vision formulation, team consulting for business strategy by industry, financial strategy, productivity reforms, and other themes, the strategy domain & function workshops that feeds into management consulting contracts, and M&A consulting in collaboration with partner financial institutions and Growin' Partners.

HR consulting, which provides about 19% of segment sales, delivers one-stop solutions that satisfy a broad range of needs related to corporate personnel cultivation, such as consulting related to constructing and operating a personnel system that incorporates work-style reforms and establishment of an FCC Academy (in-house corporate university) and holding FCC seminars as education and training programs for individual layers from executives and successors to new employees.

Digital consulting covers KPO tasks related to digital marketing and Web site construction assistance tasks from Leading Solutions and back-office DX assistance services from Growin' Partners. Leading Solutions provides one-stop assistance from strategy formulation to planning, implementation, and improvement for marketing measures utilizing digital technology at BtoB companies. Through integration of knowhow accumulated from assistance results at over 300 companies since the founding in 2004 and the Company's knowhow in management consulting, the Company intends to expand the menu of consulting services with high added value that assist in promoting DX for the full range of management activities.

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Business overview

(2) The Marketing Consulting Business

The Marketing Consulting Business provides marketing consulting that supports various tasks, from the planning through to the implementation and progression of promotions and branding strategies for companies nationwide, ranging from medium-sized companies through to major global companies (including design promotions, in which specialist consultants design and produce original promotions goods and other goods, and workshops in the marketing domain). It is also comprised of work such as the planning and sales of SP tools (novelties for which it conducts name-insertion processing on standard items) and the planning and sales of diaries (business planners and calendars). There are a wide range of customer groups, from regional medium-sized companies that want to have strong brand power through to major global companies, and the Company has provided products and services to more than 3,000 companies. The sales breakdown (FY3/21 results) has marketing consulting at about 53%, SP tools at 20%, and diaries at 27%.

This segment also focuses on sales DX consulting for local BtoB companies. It has recently pursued collaboration with the Management Consulting Business and has a growing number of examples in which management consultants assist in business strategies and organizational strategies for clients and marketing consultants handle product sales channel expansion and branding, CI formulation, event promotion to attract customers, and anniversary promotions. While Management Consulting is the primary service, the Company's ability to handle marketing consulting with design and product sales capabilities is a strength not found at other consulting firms.

Sales of diaries are concentrated in the 3Q, so on looking at the quarterly results in a typical year, this is a seasonal factor causing earnings to be concentrated in the 3Q. In the average for the most recent 3 years, 33% of net sales and 48% of operating profit were earned in the 3Q.

Result trends

Sales and profits declined in FY3/21 due to COVID-19 impact though returned to increases in 4Q

1. FY3/21 results summary

In FY3/21 consolidated results, the Company had sales and profit declines at ¥9,213mn in net sales (-1.9% YoY), ¥751mn in operating profit (-23.9%), ¥771mn in ordinary profit (-24.0%), and ¥498mn in net profit attributable to owners of the parent (-28.4%). Decline in mainstay Management Consulting profit due to temporary suspensions and delays in consulting contracts and seminars in the first half of the period caused by the COVID-19 pandemic and suspensions and delays in various events conducted by Marketing Consulting caused setbacks in sales and profits.

Nevertheless, consulting demand gradually recovered in the second half of the fiscal year with the addition of Growin' Partners and recruitment of new consulting deals, and the Company restored sales and profit increases in 4Q. Furthermore, while sales slightly missed guidance, profit levels were higher than planned.

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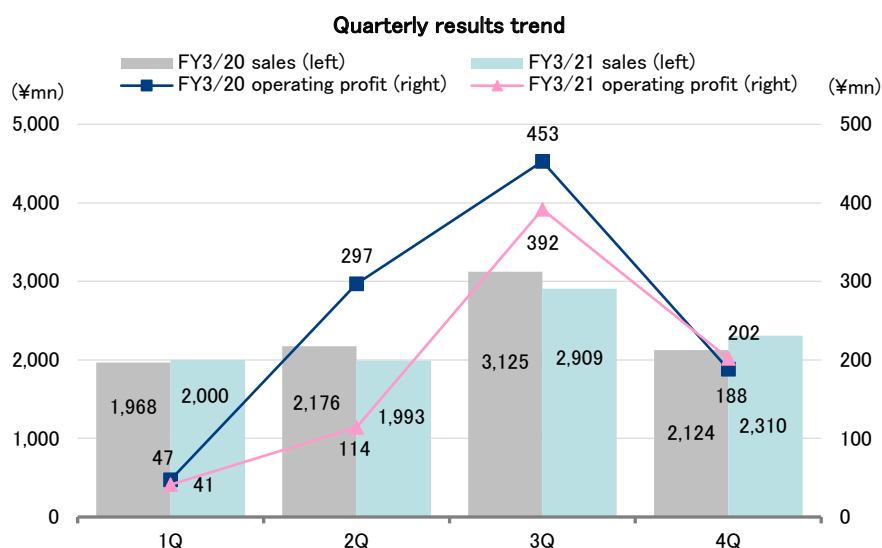
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Result trends

FY3/21 results

	FY3/20		The Company forecasts	FY3/21			
	Results	Ratio to sales		Results	Ratio to sales	YoY	vs. forecast
Net sales	9,394	-	9,395	9,213	-	-1.9%	-1.9%
Gross profit	4,294	45.7%	3,890	4,107	44.6%	-4.4%	5.6%
SG&A expenses	3,306	35.2%	3,190	3,355	36.4%	1.5%	5.2%
Operating profit	987	10.5%	700	751	8.2%	-23.9%	7.4%
Ordinary profit	1,015	10.8%	730	771	8.4%	-24.0%	5.7%
Net profit attributable to owners of parent	696	7.4%	490	498	5.4%	-28.4%	1.7%

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



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

In important KPI, long-term contract service sales dropped 6.3% YoY to ¥4,090mn, team consulting sales were down 0.4% to ¥3,952mn, and the average number of team consulting contracted companies during the period slipped 6.2% to 579 companies due to setback from temporary suspensions and other impacts on the first half of the fiscal year. Long-term contract service sales had a larger decline rate than team consulting sales because of COVID-19 impact that caused suspensions of many strategy domain & function workshops in the first half of the year, despite an increase in online events in the second half.

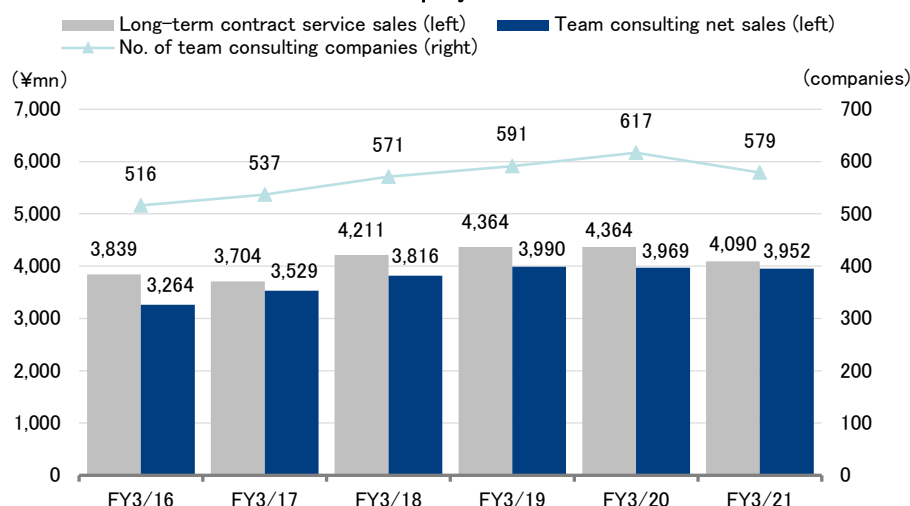
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Result trends

Long-term contract service and team consulting sales and contracted company volume



* Consolidated values from FY3/20

*1 Long-term contract service sales = Consulting (domain, function, and HR) + marketing consulting (monthly contracts) + strategy domain & function workshops + alliances (members)

*2 Team consulting = Consulting (domain, function, and HR) + marketing consulting (monthly contracts) (period-average contract volume)

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

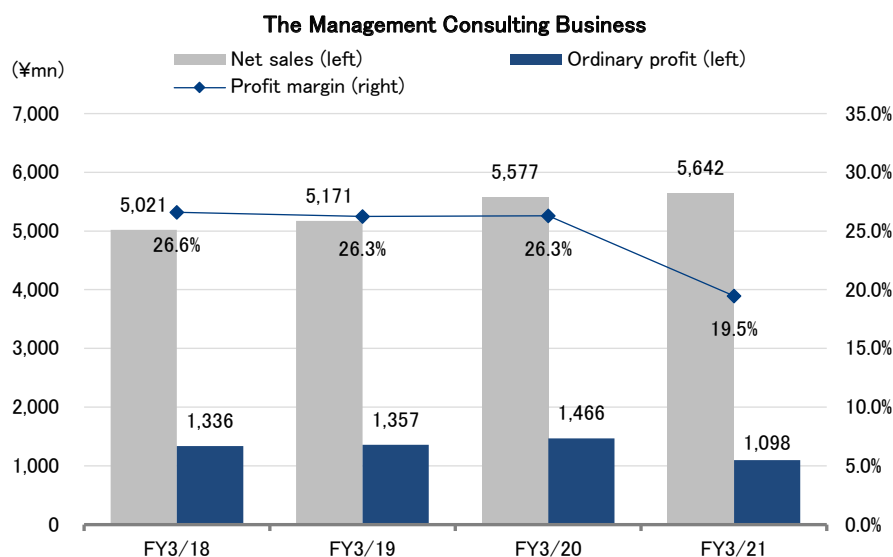
Management Consulting Business at lower profits on a rise in sales, Marketing Consulting Business had lower sales and profits

2. Trends by business segment

(1) The Management Consulting Business

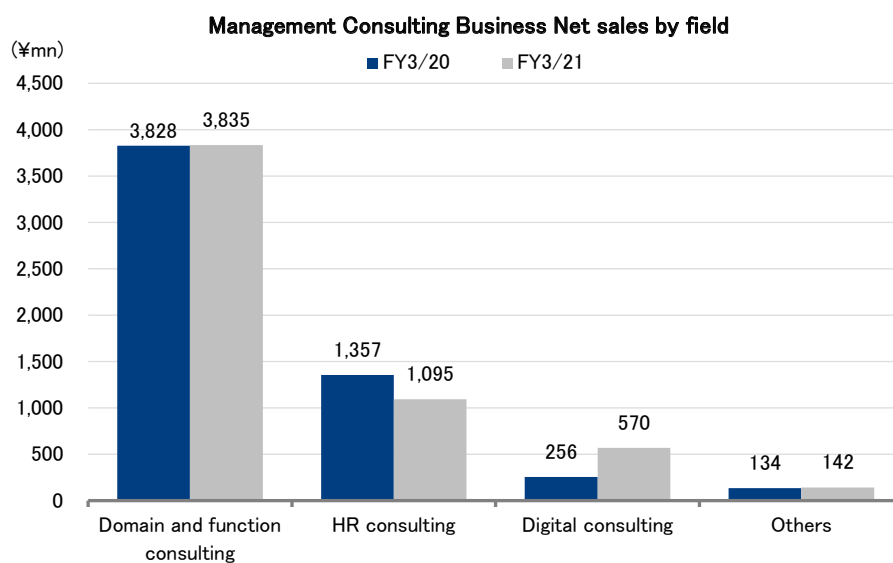
Management Consulting Business reported ¥5,642mn in net sales (+1.2% YoY) and ¥1,098mn in operating profit (-25.1%). Amid significant restrictions on corporate activities accompanying the government's issuance of a state of emergency declaration in Apr-May due to the COVID-19 pandemic, this segment confronted temporary suspensions and delays of consulting contracts and suspensions and delays of strategy domain & function workshops and FCC seminars that feed into consulting contracts. From June after removal of the state of emergency declaration, meanwhile, corporate activities started picking up, besides a few exceptions, and conditions are generally recovering on upturn in consulting demand for revamping management strategies to address With and After COVID-19 phases and DX initiatives. Furthermore, the addition of Growing' Partners to the Group in January 2021 supported the segment's sales increase.

Result trends



* Consolidated values from FY3/20

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



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

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Result trends

In the sales breakdown, domain and function consulting had ¥3,835mn (+0.2% YoY). While this business struggled in the first half of the fiscal year due to COVID-19, it bolstered follow-up with existing customers and promoted online capabilities in service provision and has increased projects since 3Q with themes of “formulation and promotion of a longer-term vision for the With COVID-19 era,” “business succession,” “workflow and productivity improvements,” and “sales strategy and capacity reinforcement.” Team consulting average contract volume slipped from 487 contracts in FY3/20 to 464 contracts. On a quarterly basis, however, volume has risen after a bottom at 427 contracts in 1Q. By region, the Chubu area and Kyushu area appear to have been relatively upbeat. Furthermore, the Company substantially expanded M&A consulting with the addition of Growin’ Partners to the Group. In strategy domain & function workshops, meanwhile, despite sales decline from event suspension and delays due to COVID-19, it is holding hybrid events with live distribution and real-world gatherings and making other adjustments.

HR consulting business slowed to ¥1,095mn (-19.3% YoY). Cancellations of real-world gatherings and event suspensions from the start of the period affected income. However, the Company conducted consulting in the HR area on themes of “constructing and operating a personnel system that incorporates work-style reforms” and “transitioning to a job-type personnel system” and had upbeat inquiries for “establishing FCC Academy (in-house corporate university),” the online-based internal education system, and the number of companies deploying FCC Academy increased from 97 companies to 120 companies at the end of FY3/21 (the Company aims to reach 300 companies). Additionally, the Company started on-demand distribution and online distribution of seminars and more than 2,000 business owners and executives participated in the First Call Company Forum 2020 and Management Strategy Seminar.

Digital consulting sales expanded to ¥570mn (+122.7% YoY) with upbeat trends in one-stop assistance services that ranges from strategy formulation to planning, implementation, and improvement in digital marketing measures from Leading Solutions and consulting services with a theme of DX assistance for back-office operations from Growin’ Partners.

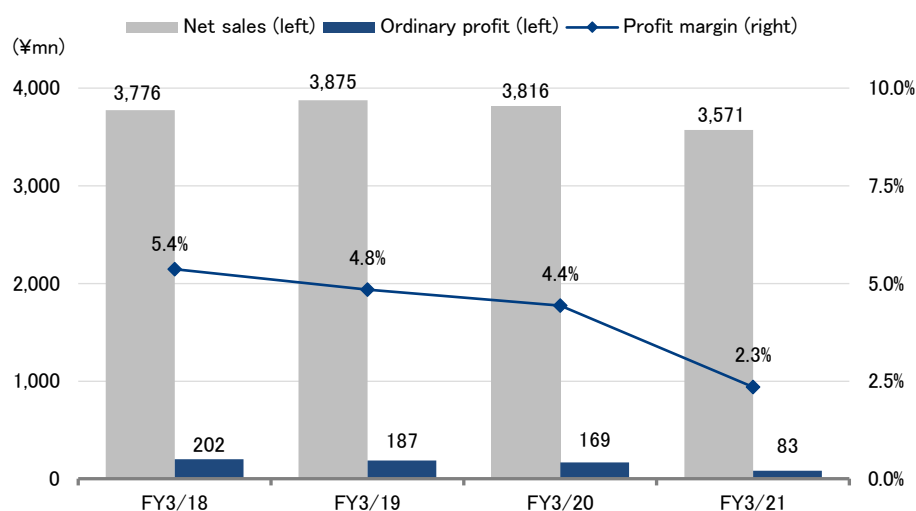
Operating profit setbacks were ¥47mn from decline in gross margin due to changes in sales composition (down 1.5ppt YoY) and ¥321mn from increase in SG&A expenses.

(2) The Marketing Consulting Business

Marketing Consulting Business had ¥3,571mn in net sales (-6.4% YoY) and ¥83mn in operating profit (-50.5%). Despite healthy momentum in the first half of the fiscal year on increased demand for products that prevent infections and telework-related products, sales and profits declined because of less consulting demand, including planning and production of promotional products, accompanying event delays and suspensions and some cancellations of diaries and other items.

Result trends

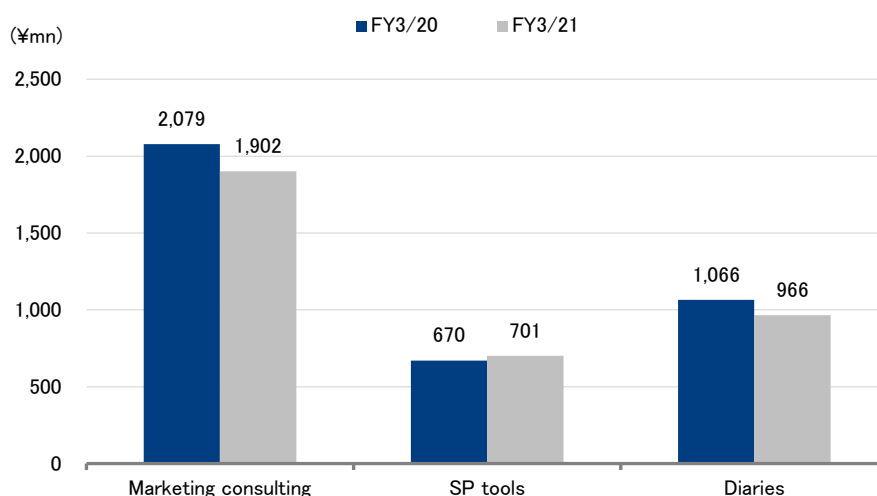
Marketing Consulting Business



* Consolidated values from FY3/20

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

Marketing Consulting Business Net sales by field



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

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Result trends

Looking at sales trends by field, marketing consulting was down 8.5% YoY to ¥1,902mn. In design promotion, while event delays and suspensions reduced planning and production of related promotional products, this business benefited from upbeat activity in products aimed at preventing infections (such as masks, sterilizer liquid, and acrylic panels that stop droplet dispersion) and promotional planning of telework-related products. In brand promotion, Corporate curtailment of promotional activities from 1Q substantially reduced plans for events and campaigns to attract customers. However, the Company focused on new branding promotion assistance utilizing digital technology from 2Q, and this activity was healthy.

Sales of SP tools declined 4.6% YoY to ¥701mn. Sales increased as growth in products aimed at preventing infections and telework-related products more than offset decline in sales of promotional products used at exhibitions and in sales activities. In diaries business, sales dropped 9.4% YoY to ¥966mn because of impact by some cancellations of blue diaries (planners) and other items.

In operating profit changes, decline in SG&A expenses lifted profits by ¥55mn, while lower sales and a drop in gross margin (-1.9ppt YoY) removed ¥141mn.

Healthy financial standing with debt-free management and an equity ratio in the 80% range

3. Financial condition and management indicators

At the end of FY3/21, total assets were up ¥435mn on the end of the previous fiscal period to ¥13,405mn. Main asset changes were an increase of ¥1,142mn in cash/deposits and securities under current assets and a decline of ¥1,560mn in long-term loans and investment securities and an increase of ¥548mn in goodwill related to adding Growin' Partners to the Group in non-current assets. The total of both short- and long-term cash and deposits and securities decreased ¥418mn on the end of the previous fiscal period to ¥8,697mn to constitute 64.9% of total assets and continues to be maintained at a high level.

Total liabilities were down ¥43mn on the end of the previous fiscal period to ¥1,975mn. Liabilities changes were declines of ¥74mn in income taxes payable and ¥107mn in advances received in current liabilities and recognition of ¥71mn in deferred tax liabilities and ¥28mn in provision for loss on guarantees in non-current liabilities. Net assets were up ¥479mn on the end of the previous fiscal period to ¥11,430mn. Non-controlling interests increased by ¥214mn due to recording ¥498mn in net profit attributable to owners or parent against ¥369mn in dividends paid.

Looking at management indicators, the Company continues to maintain excellent financial soundness with the equity ratio holding at a high level of 83.1%, albeit slightly lower than the level from the end of FY3/20, and is sustaining debt-free management with over ¥8bn in cash/deposits and securities. In profitability, meanwhile, ROE, operating profit margin, and other indicators generally declined because of pandemic impact. Nevertheless, growth potential has improved thanks to synergy effect from additions of Leading Solutions and Growin' Partners as Group companies, and FISCO expects profitability to move upward from FY3/22.

Result trends

Balance sheet

	FY3/18	FY3/19	FY3/20	FY3/21	Change
Current assets	7,006	7,027	7,732	8,889	1,157
(cash, deposits, and securities)	6,294	6,138	6,936	8,078	1,142
Non-current assets	5,797	5,742	5,237	4,516	-721
(long-term deposits and investment securities)	2,396	2,453	2,178	618	-1,560
Total assets	12,804	12,769	12,969	13,405	435
Current liabilities	1,778	1,679	1,642	1,418	-223
Non-current liabilities	591	374	375	556	180
Total liabilities	2,369	2,054	2,018	1,975	-43
Net assets	10,434	10,715	10,951	11,430	479
(management indicators)					
Equity ratio	81.4%	83.8%	83.9%	83.1%	-0.8pt
ROA	7.6%	7.9%	7.8%	5.9%	-1.9pt
ROE	6.6%	6.6%	6.4%	4.5%	-1.9pt
Operating profit margin on sales	10.6%	10.7%	10.5%	8.2%	-2.3pt

* Consolidated values from FY3/20

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

Business outlook

Announced TCG Future Vision 2030, a new medium-term business plan, that aims for strong annual growth in the 10% range through increased Group synergies

1. Overview of the medium-term business plan

The Company announced TCG Future Vision 2030, a five-year medium-term business plan (2021-25) that started in FY3/22. It intends to build a consulting value chain with professional DX service and accelerate growth with the aim of creating the Tanabe Consulting Group (TCG) as a one & only consulting Group.

The Company's previous medium-term business plans confirmed reliable management that targeted and consistently attained steadfast 3-4% annual earnings growth. Results goal announced this time, meanwhile, call for high growth deviates from the past image. Specifically, the Company sets final-year (FY3/26) goals of ¥15bn in net sales, ¥1.8bn in operating profit, 10% ROE, and 15% ROA. It expects double-digit growth in five-year average annual rates of 10.2% in sales and 19.1% in operating profit. In profitability, it wants to increase operating margin from FY3/21's 8.2% to 12.0% and ROE from 4.5% to 10%. By steadily expanding Management Consulting Business with high added value, it envisions increase in this segment's sales share from FY3/21's 61.2% to 75.3% in FY3/26.

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Results goals

	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25	FY3/26	CAGR*
Net sales	9,213	10,200	11,250	12,300	13,500	15,000	10.2%
Operating profit	751	900	1,015	1,230	1,485	1,800	19.1%
Operating margin	8.2%	8.8%	9.0%	10.0%	11.0%	12.0%	-
ROE	4.5%	-	-	-	-	10.0%	-
ROA	5.9%	-	-	-	-	15.0%	-
Number of employees (people)	457	480	560	640	720	800	-

* Five-year average annual growth rates

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

In sales goals by business areas, the Company expects the largest growth in DX consulting to ¥3,800mn, though this includes ¥2,000mn from companies added to the Group in future M&A (roughly three companies). Even after adjusting for this, the sales increase goal is substantial. Since M&A and alliance consulting business had small results in FY3/21, the Company forecasts a large contribution to improved sales, similar to DX consulting. These advances factor in strong gains from synergies with Leading Solutions and Growin' Partners added as Group companies through M&A.

Sales goals by business areas

	FY3/21	FY3/26	CAGR
The Management Consulting Business	5,662	11,290	14.8%
Domain, function, and HR	2,261	2,750	
M&A and alliance		1,320	12.5%
DX*	648	3,800	42.4%
Regional	2,753	3,420	4.4%
Marketing Consulting Business	3,571	3,810	1.3%
Design promotion branding tools	2,751	2,910	1.1%
Brand promotion	820	900	1.9%

* The DX consulting sales goal for FY3/26 includes ¥2,000mn in sales for addition of three Group companies

Source: FISCO from medium-term business plan materials

FISCO thinks the latest medium-term business plan's strong growth outlook largely benefits from building operations capable of continuous provision of services from business model reforms and marketing and other strategy design (upstream process) to operations and other specific issue deployment and execution (downstream process). In particular, mid-sized companies targeted by the Company are lagging in workflow DX and offer robust consulting demand for management strategies in With and After COVID-19 phases, DX strategy and other areas. They also have extensive needs for business succession and business revitalization. Given these conditions, FISCO believes it is possible for the Company to achieve double-digit annual growth by recruiting this demand. Furthermore, the absence of consulting companies targeting the same customer segment with the ability to deliver one-stop services covering upstream to downstream processes, similar to the Company, provides the Company with an excellent opportunity to achieve robust growth.

Aims to achieve earnings growth through expansion of professional DX services and reinforced cultivation of consulting human resources

2. Growth strategy

To achieve its goal of “One & Only- Creation of TCG, the New Globally Unrivaled Consulting Group,” the Company intends to promote deployment of five growth models and M&A strategy and pursue corporate strategy that realizes sustainable growth.

(1) Implementing five growth models

a) TCG professional DX service model

The Company hopes to attain ¥10bn in sales through expansion of consulting value (strategy formulation function), its core value, and realize ¥15bn in sales by expanding “professional DX service (deployment and operation function),” a new field, through M&A. While the target scope of M&A is likely to be broad because professional DX services differ for each consulting segment, the Company plans to accelerate sales growth by quickly implementing M&A and reinforcing a continuous “consulting value chain.”

For example, in the marketing area, the Company wants to formulate marketing strategy as a consulting service (core value), provide SFA, CRM, and MA tools as professional DX services (new M&A strategy area), and enhance service value by working through the PDCA cycle. It aims to develop 10 professional DX service brands in the downstream process annually and 50 brands over five years.

b) TCG C&C development model

The Company intends to launch teams to address needs, issues, and new themes and plan and develop team consulting brands (TCB) and workshops and seminars and form a team consulting organization out of these efforts (consulting segmentation). The next step is commercialization as a consulting business and expansion of sales by broadening the organization, market, and services utilizing M&A.

As consulting segments, the Company has identified eight segments (domain, M&A, function, HR, marketing, design, brand, and DX) and plans to cultivate and strengthen each of these segments. It intends to expand the Group from three companies currently to a six-company format through M&A.

c) TCG marketing model

The Company aims to recruit new customers with its regional strategy and unique marketing model (acquisition of potential customers through various seminars, workshops, and top executive meetings) from a target segment of roughly 4mn companies (large companies to mid-sized companies including listed ones) and realize a consulting contract renewal rate of at least 70%. It hopes to further enhance this effect with database marketing by the Strategic Comprehensive Institute, digital strategy at the corporate headquarters, and corporate communication strategy.

d) TCG team-up and 100 partners model

Through collaboration with the TCG C&C development model, the Company intends to build a management system (training program via the in-house corporate university, etc.) to find new leaders in existing organizations and teams and cultivate these leaders into partners and thereby double the number of partner personnel from 50 people to 100 people. Partner personnel refers to people who are capable of running a consulting team (5-10 people). Cultivation of 100 partner human resources means that the Company is capable of having 100 consulting teams. In particular, the Company aims to expand teams in local areas.

Business outlook

To double partner human resources over five years, the Company plans to strengthen hiring of external professionals, in addition to cultivation of human resources from inside the company, and has revised the personnel system to support this activity. FISCO thinks expansion of professional DX service by implementing new acquisitions and increase in partner human resources are vital to realization of medium-term results goals and therefore will be closely monitoring progress in these areas.

e) TCG academy model

The Company plans to update the “Tanabe FCC Academy” education and training system that integrates online and real-world learning launched as an in-house corporate university to “TCG Academy” through program development and expansion and accelerate cultivation of professional human resources (this is a two-year goal). It also intends to promote human resource interaction, share programs, and increase academy studios in order to utilize TCG Academy as a Group strategy.

Furthermore, the Company intends to create the TCG Leadership Academy to cultivate partner human resources and the Digital Academy to cultivate and increase digital human resources. In hiring, it plans to add about 100 people annually (30 new university graduates and 70 mid-career hires).

(2) Corporate strategies

a) TD&I (Tanabe Diversity & Inclusion) strategy

The TD&I strategy defines themes of “high compensation and motivation,” “smart DX and high productivity,” “diverse workstyles,” and “happiness for everyone” and calls for collaboration among Group companies to promote measures for these themes.

TD&I strategy measures

High compensation and motivation	Diverse workstyles
- Rank in the best 100 in lifetime annual income - Improvement in annual incomes through professionalization of all employees - Deployment of a new human resources program for 800-person operations (including 100 partner human resources)	- Deployment of telework and shift work programs - Formation of a short-term exchange program for Group human resources - Introduction of the TD&I program (diverse workstyles)
Smart DX and high productivity	Happiness for everyone
- Accelerated investments in DX strategy - Investments in ConsultingTech - Increase Academy studios and remote consulting booths - Full utilization of the NETSUITE new mission-critical system	65th anniversary events - Continuation of sound management - Implementation of SDGs in management - Investments in the workplace environment with office moves and renovations

Source: FISCO from medium-term management plan materials

b) ESG and SDG initiatives

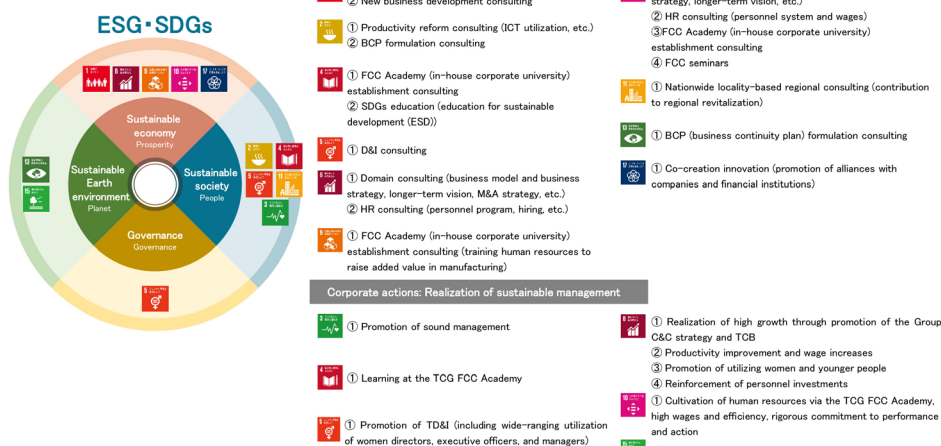
Regarding ESG and SDG initiatives, the Company plans to steadily promote defined themes in accordance with a management philosophy of corporate service business with a goal of updating to suitable activities. Additionally, it intends to identify important issues and KPI and implement actions that prioritize these items.

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SDGs and ESG



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

Intends to restore sales and profit increases at double-digit levels in FY3/22 with support from manifestation of M&A-driven synergies

3. FY3/22 results outlook

In FY3/22, the Company projects a return to sales and profit increases at double-digit levels in consolidated results at ¥10,200mn in net sales (+10.7% YoY), ¥900mn in operating profit (+19.7%), ¥900mn in ordinary profit (+16.6%), and ¥570mn in net profit attributable to owners of the parent (+14.4%).

In Management Consulting Business, the Company expects ¥6,800mn in net sales (+20.5%) and ¥1,340mn in operating profit (+22.0%) on full-year income contributions from Growin' Partners and rising demand for consulting projects with DX and M&A themes. In Marketing Consulting Business, meanwhile, it forecasts ¥3,400mn in net sales (-4.8%) and ¥60mn in operating profit (-28.5%) due to backlash decline for provision of products that prevent infection spread and telework-related products with heightened demand during the initial pandemic phase and the prospect of weaker dairy sales.

Business outlook

FY3/22 results outlook

	FY3/21 results	FY3/22			
		1H plan	2H plan	Full-year plan	YoY
Net sales	9,213	4,530	5,670	10,200	10.7%
The Management Consulting Business	5,642	3,230	3,570	6,800	20.5%
The Marketing Consulting Business	3,571	1,300	2,100	3,400	-4.8%
Gross profit	4,107	2,370	2,900	5,270	28.3%
SG&A expenses	3,355	2,140	2,230	4,370	30.2%
Operating profit	751	230	670	900	19.7%
The Management Consulting Business	1,098	550	790	1,340	22.0%
The Marketing Consulting Business	83	-100	160	60	-28.5%
Headquarters management costs	-430	-220	-280	-500	-
Ordinary profit	771	230	670	900	16.6%
Net profit attributable to owners of parent	498	150	420	570	14.4%
Earnings per share (yen)	28.93	8.71	24.38	33.09	

Note: Earnings per share uses share volume after the scheduled 1:2 share split at the end of September 2021

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

The following section reviews business policies for FY3/22.

(1) The Management Consulting Business

As DX strategy, the Company intends to discover DX needs at local companies, expand and promote the DX service menu (from mid-stream to downstream deployment and execution assistance), and develop joint consulting products with Leading Solutions and Growin' Partners. It has already increased collaborative projects with both companies. These activities should boost synergies in FY3/22.

In M&A strategy, the Company aims to broaden M&A scope, including cross-border (overseas M&A deals), with the addition of Growin' Partners to the Group, and promote revitalization of local companies and local economies via M&A initiatives. It also plans to strengthen collaboration with regional financial institutions, accounting firms, and others as part of these efforts.

(2) The Marketing Consulting Business

The Company plans to offer new branding promotion assistance utilizing digital technology, strengthen expertise in upbeat industries (such as consumer goods, distribution, and beauty), and promote online capabilities in service provision.

(3) Others

With the Strategic Comprehensive Institute's client relations, client success, and CRM consulting functions, the Company aims to bolster follow-up with existing customers and acquire new consulting needs. Furthermore, it plans to develop "ConsultingTech" (consulting method x digital technology) that enhances consulting value for clients and improves consultant productivity.

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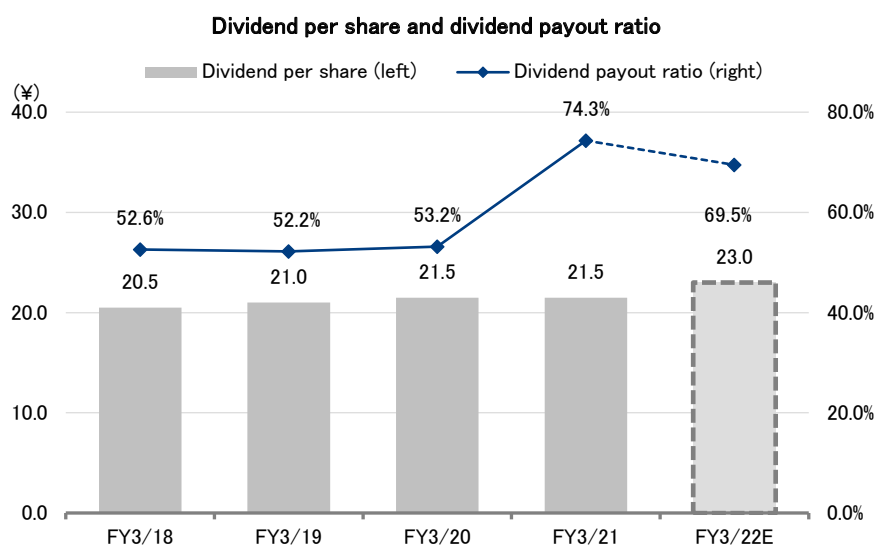
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Shareholder return policy

Aims to realize a 50% total return ratio with dividend hikes and other proactive shareholder return, plans to implement a 1:2 share split at the end of September 2021

The Company clarified a new shareholder return policy in the new medium-term business plan. It previously stably and actively implemented dividends in light of earnings and other factors with a target of 60% dividend payout (raising the dividend in eight straight fiscal years through FY3/20). From FY3/22, it intends to proactively conduct shareholder return with a goal of a 50% gross return ratio. The Company is also scheduled to implement a 1:2 share split at the end of September 2021 with goals of improving share liquidity and expanding investor scope.

In FY3/22, the Company plans to pay a ¥23.0 dividend (69.5% dividend payout), a ¥1.5 YoY increase, using share volume after the scheduled stock split. If the dividend payout drops below 50%, it intends to raise the dividend or conduct share buybacks. The Company has announced the elimination of the shareholder benefit program. For shareholder returns, the Company has decided that dividends based on the number of shares and share buybacks are more appropriate.



* Consolidated values from FY3/20

* Retroactively revises past dividend values for the planned 1:2 share split at the end of September 2021

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

■ Information security policy

Tanabe uses the Internet to convey various services to member companies 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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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp