COMPANY RESEARCH AND ANALYSIS REPORT

Tanabe Consulting Co., Ltd.

9644

Tokyo Stock Exchange First Section

18-Mar.-2021

FISCO Ltd. Analyst
Yuzuru Sato

FISCO Ltd.
https://www.fisco.co.jp

Tanabe Consulting Co., Ltd.
9644 Tokyo Stock Exchange First Section
18-Mar.-2021
https://www.tanabekeiei.co.jp/en/

Index

Summary 01

1. Overview of the FY3/21 1H results 02
2. FY3/21 results outlook 02
3. Growth strategy 02

Business overview 03

1. Company overview 03
2. Business description 05

Result trends 09

1. FY3/21 1H results overview 09
2. Trends by business segment 10
3. Financial condition and management indicators 14

Business outlook 15

1. FY3/21 results outlook 15
2. Outlook by business segment 16
3. Medium-term business plan 18

Shareholder return policy 20

Information security policy 21

We encourage readers to review our complete legal statement on “Disclaimer” page.

Tanabe Consulting Co., Ltd.
9644 Tokyo Stock Exchange First Section
18-Mar.-2021
https://www.tanabekeiei.co.jp/en/

Summary

Companies with strengths in the M&A and digital marketing domains have been made subsidiaries. The Company is accelerating the pace of growth through pursuing synergies.

Tanabe Consulting Co., Ltd. <9644> (hereafter, also "the Company"), which is approaching the 64th anniversary of its foundation, is a pioneer in management consulting in Japan. Its corporate mission is "First Call Company –Our aim is to be a First Call Company now and 100 years into the future together with our client companies." 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 medium-sized companies (mainly those with net sales in a range of ¥5bn to ¥100bn), including listed companies, nationwide. It is the only company in the industry to conduct its business from offices in the 10 main cities nationwide tailored to each region. For its medium-term business strategy, the Company is promoting a "C&C (Consulting & Conglomerate) strategy" (diversification of consulting domains) and a "consulting platform strategy" (provision of high-quality consulting value in every region nationwide). In October 2019, it made a subsidiary of Leading Solutions Co., Ltd. which provides digital-marketing support for B-to-B companies, and it started disclosing consolidated results from FY3/20.

C&C strategy

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

We encourage readers to review our complete legal statement on "Disclaimer" page.

Tanabe Consulting Co., Ltd.

9644 Tokyo Stock Exchange First Section | 18-Mar.-2021
https://www.tanabekeiei.co.jp/en/

Summary

1. Overview of the FY3/21 1H results

In the FY3/21 1H (April to September 2020) consolidated results, net sales decreased 3.6% year-on-year (YoY; comparison to standalone results in the same period in the previous fiscal year, same below) to ¥3,993mn, and operating profit decreased 54.7% to ¥156mn. This was mainly because some services, including consulting and seminars, were temporarily suspended and postponed due to the impact of the novel coronavirus pandemic, so sales and profits declined in the mainstay Management Consulting Business. However, operating profit was above the initial forecast (¥80mn) due to the improved productivity from progressing digital transformation (DX) within the Group, including introducing an online conferencing system and ERP, and also from the effects of reducing various costs.

2. FY3/21 results outlook

For FY3/21, the Company has left the initial forecasts unchanged, which are for net sales to increase slightly YoY to ¥9,395mn and operating profit to fall 29.1% to ¥700mm. Although the impact of the novel coronavirus pandemic will continue, it will utilize online conferences and online seminars and capture needs for management consulting toward the post-coronavirus period. In addition, it has started to provide a consulting service for shifting to digital marketing, which is a new service jointly developed with Leading Solutions Co., Ltd., and will work toward new customer acquisition. It will also respond to needs for digital promotions for which demand is rising during the coronavirus pandemic. Moreover, Growin' Partners Inc., which was newly made a subsidiary at the end of January 2021, will be a factor adding more than ¥200mn to net sales. Growin' Partners' main services include general M&A support, including for cross-border M&A, and consulting for back office work, such as support for introducing ERP and RPA. Its annual sales are on a scale of slightly more than ¥1bn.

3. Growth strategy

The Company is aiming to achieve sustainable growth by diversify its consulting domains (expanding the consulting menu) through the "C&C strategy" and by making a platform of these domains to realize the provision of value-added services that are of the same high quality on a nationwide scale. Following on from Leading Solutions in the previous period, it recently made Growin' Partners a subsidiary, which at FISCO we think will reinforce the Group in the DX and M&A domains that it has started to focus on and further increase its growth potential. This is because the Group will be able to provide its nationwide customers the expertise and services possessed by these subsidiaries, while it will also make it possible to acquire new customers. The Company has continued to achieve steady growth, with annual growth rates in the last five years of 3.6% for net sales and 5.3% for operating profit. But if it is able to realize synergies with these subsidiaries, we can expect the growth rates to increase even higher, and we shall be paying attention to developments in the future.

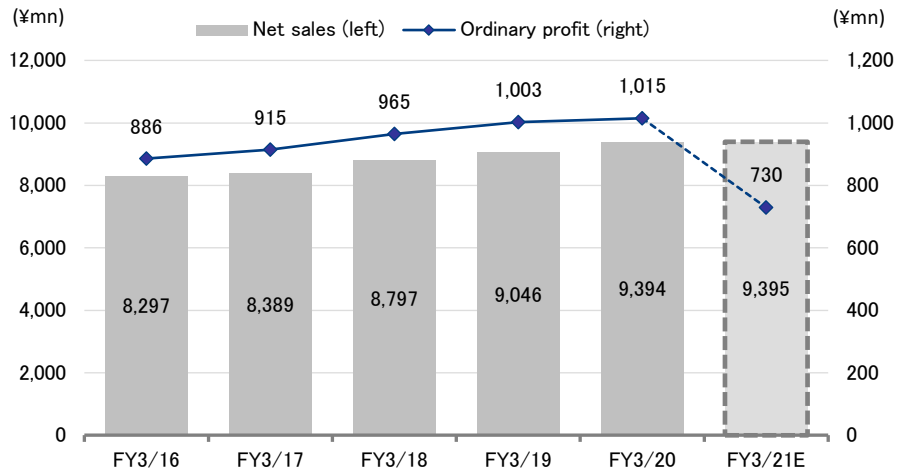
Key Points

- In FY3/21 1H, operating profit declined YoY due to the impact of the novel coronavirus pandemic but was still higher than the initial forecast
- Has left the initial FY3/21 results forecasts unchanged, while in January 2021, made a subsidiary of Growin' Partners, which provides M&A support services and other services
- From FY3/21 onwards, the speed of growth may accelerate through increasing Group synergies for consulting in the M&A and DX domains

We encourage readers to review our complete legal statement on "Disclaimer" page.

Summary

Performance trends



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. It aims to achieve sustainable growth together with its customers by providing them with new consulting value through promoting its "C&C strategy" (diversification of consulting domains) and "consulting platform strategy" (providing high quality consulting value in every region nationwide). Its corporate mission is "First Call Company –Our aim is to be a First Call Company now and 100 years into the future together with our client companies."

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

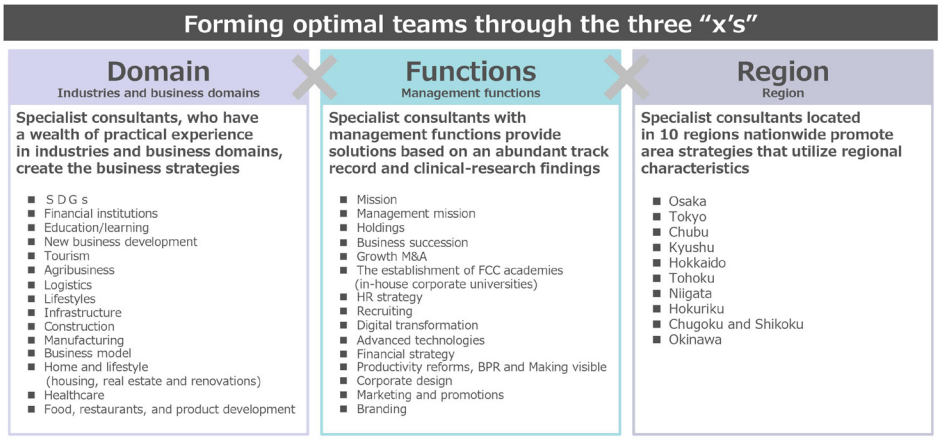
We encourage readers to review our complete legal statement on "Disclaimer" page.

Business overview

The Company provides consulting services nationwide mainly to medium-sized companies, including listed companies, as a “business doctor” working closely with company managers. It covers all general management, from formulating management philosophies, management missions, and management strategies, through to consulting for organizations, personnel, finance, BPR, DX, M&A, and business succession. It also provides human resources (HR) development consulting, from “establishing FCC Academies (in-house corporate universities) and providing made-to-order education (training) for human resources ranging from managers and businesses successors through to new employees. In addition, it provides marketing consulting to offer companies ranging from major companies and listed companies through to medium-sized companies with support from a one-stop service, from planning promotions and branding strategy through to creative- and design-related. 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.”

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.

Team consulting



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

We encourage readers to review our complete legal statement on “Disclaimer” page.

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 to and the aims of making it a subsidiary is that the market for digital-marketing support services in the B-to-B business is expected to grow and that companies' consulting needs for DX are increasing, and that in this situation, by making it part of the Group, the Company intends to integrate the strengths of the respective companies, which including Leading Solution's menu of digital-marketing support services, and to further improve the added value of its consulting services and strengthen its competitiveness. In terms of the specific measures for this, from FY3/21, it started to develop and provide new consulting services by combining the services of both companies, while for existing customers, it will increase the value of the services provided to the customers of both companies through joint consulting and exchanges of personnel. Also, the Company dispatched management-level personnel to Leading Solutions to provide support, including to strengthen the management structure and for sales activities and administrative work. In addition, the policy is to build a mutually cooperative structure for the recruitment and training of human resources and to strengthen the business foundation in the digital-marketing field for both companies.

* 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

(¥mn)

	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21 E
Net sales	308	328	403	443	500
Operating profit	26	10	45	46	
Net profit	20	8	32	33	
Net assets	70	79	111	138	
Total assets	133	163	216	251	

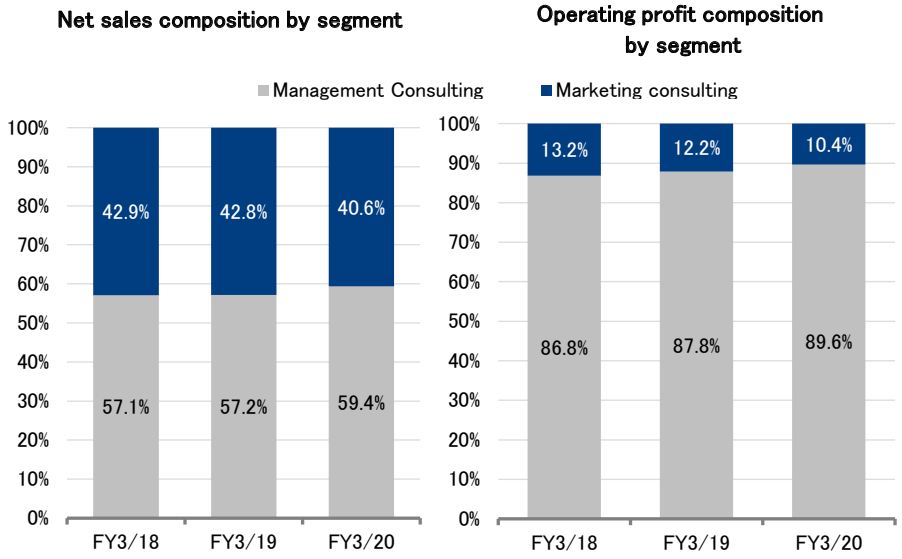
Note:
Leading Solutions has 22 personnel, its main customers are B-to-B companies, and the investment ratio is 60%
Investment ratio, 60% (10-year straight-line amortization of goodwill, ¥168mn)
Source: Prepared by FISCO from the Company's results briefing materials

A business model accumulating spot-type products and services with an earnings foundation in which long-term contract services account for about 50% of net sales

2. Business description

The Company has two business segments: the Management Consulting Business and the Marketing Consulting Business (formerly the SP Consulting Business). In terms of the percentages of total net sales in the most recent three fiscal periods, the Management Consulting Business provided slightly less than 60%, while it also provided nearly 90% of segment profit. A reason for this is that the Marketing Consulting Business includes sales of purchased productions, such as promotions products. But the last few years, the Company has been focusing on the high added-value marketing consulting domain and working to improve the profit margin.

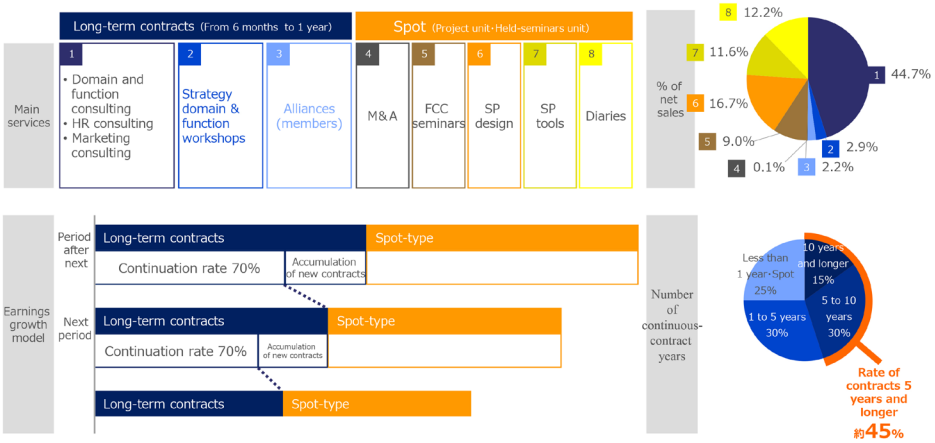
We encourage readers to review our complete legal statement on "Disclaimer" page.



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. Of the team consulting contracts (616 contracts in FY3/20), the percentage of contracts of a length of 5 years or more is high, at around 45%. For these contracts, it is considered that the Company's "business doctors" who work closely with company managers come to understand the customer companies' management as a whole and provide them with high quality services, and this continuously produces results and leads to the high continuation rate.

Earnings growth model

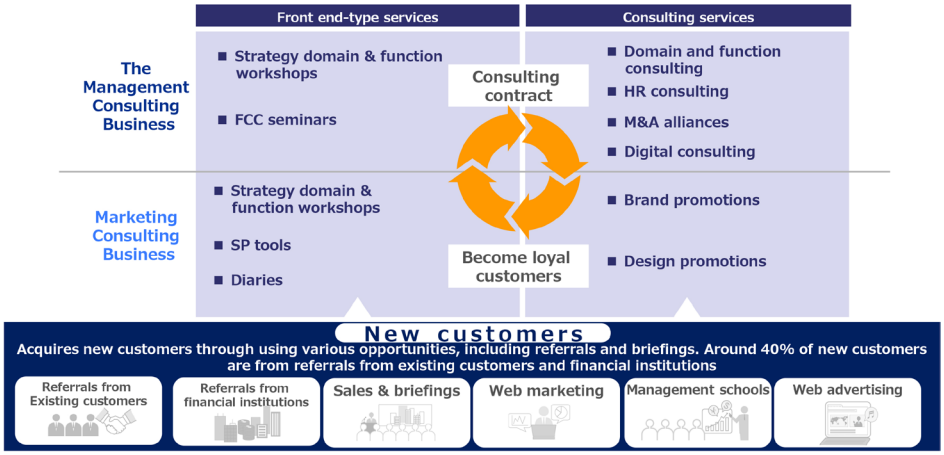


Source: Prepared by FISCO from the Company's results briefing materials

We encourage readers to review our complete legal statement on "Disclaimer" page.

The Company's customer creation model is to not only receive referrals from existing customers and partner financial institutions, but also to have various points of contact with new customers, including conducting Web marketing and holding free briefing presentations. It creates loyal customers through their continuous use of services, not only of consulting services, but also their participation in the strategy domain & function workshops and the 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.

Customer creation and relationship model



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

(1) The Management Consulting Business

The Management Consulting Business mainly targets medium-sized companies, including listed companies. The service content is divided into domain and function consulting and HR consulting, and also the digital consulting provided by the Group company, Leading Solutions.

Domain and function consulting, which provides approximately 76% of net sales in this business, includes management consulting on the themes of "the formulation and promotion of medium-term business plans (visions)," "organizational design and support for activating the organization," and "junior boards (next-generation management team development)." It also includes services such as "strategy domain & function workshops" that guide potential customers to management consulting contracts, and "M&A consulting" provided in cooperation with the partner financial institutions and others.

For HR consulting, which provides approximately 21% of net sales in this business, the Company provides a one-stop service for solutions that meet a wide range of needs, including consultations related to constructing and operating a personnel system that incorporates work-style reforms and establishing a digital-based FCC Academy (in-house corporate university), and FCC seminars that serve as education and training programs according to the employee level, from managers and business successors through to new recruits.

Digital consulting includes the KPO work relating to digital marketing and website construction of Leading Solutions. Leading Solutions is able to provide total support through a one-stop service, from formulating marketing policies by utilizing digital through to planning, implementation, and improvements. Going forward, through combining the expertise it has accumulated in the digital marketing field with the Company's management consulting expertise, it will enhance the high value-added consulting services menu to support the implementation of DX for management as a whole.

We encourage readers to review our complete legal statement on "Disclaimer" page.

(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 major companies and listed companies through to medium-sized 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 large companies, and the Company has provided products and services to more than 3,000 companies. The percentages of total net sales are that marketing consulting provides approximately 54%, SP tools around 18%, and diaries approximately 28%.

Also, in this business, the Group provides consulting services that target the “children and child-raising families” market. It is participating in the Kid-Centric PROJECT, a project participated by approximately 8,000 private kindergartens nationwide, and the Company provides an exclusive branding and promotion service to serve as a bridge between the companies and kindergartens. Also, needs are rising particularly among large companies from the perspective of the possibilities of this market, in which there can be expected to be customers in the future, and the series of SDGs.

Examples of marketing consulting strategies

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

Other than the above, the Company is also focusing on online promotions consulting for the many regional B-to-B companies facing issues, mainly for branding. Recently, it has been progressing collaborations with the Management Consulting Business, and case studies are increasing in which management consultants supports customer companies' business strategies and organizational strategies, while marketing consultants undertakes tasks including expanding product sales channels and branding, formulating CI, event promotions to attract customers, and annual promotions. While management consulting remains the mainstay service, the point that the Company is also able to respond to needs through marketing consulting that has design functions and product-sales functions can be said to be one of its strengths not possessed by other consulting companies

We encourage readers to review our complete legal statement on “Disclaimer” page.

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 47% of operating profit were earned in the 3Q.

Result trends

In FY3/21 1H, operating profit declined due to the impact of the novel coronavirus but was still higher than the initial forecast

1. FY3/21 1H results overview

In the FY3/21 1H consolidated results, sales and profits declined compared to the standalone results in the same period in the previous fiscal year, with net sales decreasing 3.6% to ¥3,993mn, operating profit falling 54.7% to ¥156mn, ordinary profit declining 52.9% to ¥169mn, and net profit attributable to owners of parent decreasing 47.0% to ¥146mn. This was mainly because some services, including consulting contracts and seminars, were temporarily suspended or postponed due to the impact of the novel coronavirus pandemic, so sales and profits decreased in the mainstay Management Consulting Business.

Compared to the initial forecasts, the Marketing Consulting Business exceeded the forecast due to favorable performance in promotions planning, which includes products to prevent infection by the novel coronavirus and teleworking-related products. But in the Management Consulting Business, net sales were 3.1% below forecast following the impact of the temporary cancellations and postponements of consulting contracts, FCC seminars, and strategy domain & function workshops was huge. Conversely, operating profit was strong and was 95.9% above forecast, including due to the improved productivity through promoting in-Group DX, such as introducing an online conferencing system and ERP, and the reduction in SG&A expenses, mainly transportation expenses and meeting expenses, following the introducing of the teleworking system. The effects on results of Leading Solutions being made a subsidiary was an addition of ¥209mn to net sales, while for profits, it seems it was a slight profit-increase factor, even with a ¥8mn addition in amortization of goodwill.

FY3/21 1H results

(¥mn)

	FY3/20 1H		FY3/21 1H				
	Results	Ratio to sales	Company forecasts	Results	Ratio to sales	YoY	vs. forecast
Net sales	4,145	-	4,120	3,993	-	-3.6%	-3.1%
Management Consulting Business	2,661	64.2%	2,720	2,474	61.9%	-7.0%	-9.0%
Marketing Consulting Business	1,483	35.8%	1,400	1,519	38.1%	2.5%	8.6%
Gross profit	1,972	47.6%	1,680	1,719	43.1%	-12.8%	2.3%
SG&A expenses	1,626	39.2%	1,600	1,563	39.1%	-3.9%	-2.3%
Operating profit	345	8.3%	80	156	3.9%	-54.7%	95.9%
Ordinary profit	360	8.7%	95	169	4.2%	-52.9%	78.5%
Net profit attributable to owners of parent	276	6.7%	63	146	3.7%	-47.0%	132.7%

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

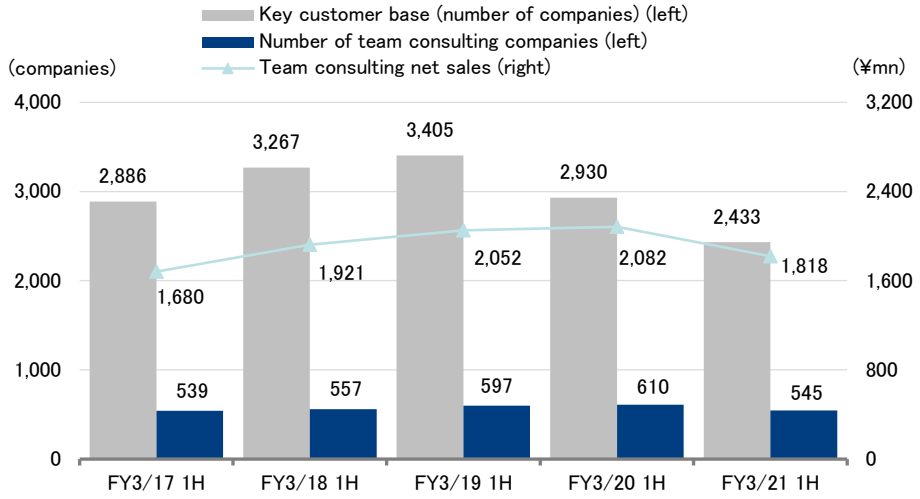
We encourage readers to review our complete legal statement on "Disclaimer" page.

Result trends

Each of the Company's main KPI declined. The number of companies in the key customer, base* decreased for the second consecutive period, down 17.0% YoY to 2,433 companies, including due to the impact of the novel coronavirus pandemic. The average number of team consulting companies during the period fell 10.7% to 545 companies, while net sales declined 12.7% to ¥1,818mn. Due to the decrease in sales of high value-added team consulting, the gross profit margin fell from 47.6% in the same period in the previous fiscal year to 43.1%.

* Key customer base = strategy domain & function workshops + the number of FCC seminars

Trends in the number of team consulting companies and net sales



Note: Team consulting = consulting (domain, function, and HR) + marketing consulting (monthly contracts) (all are the average number of contracts during the period)
Source: Prepared by FISCO from the Company's financial results briefing materials

Sales and profits decreased in the Management Consulting Business, while sales increased but profits decreased in the Marketing Consulting Business

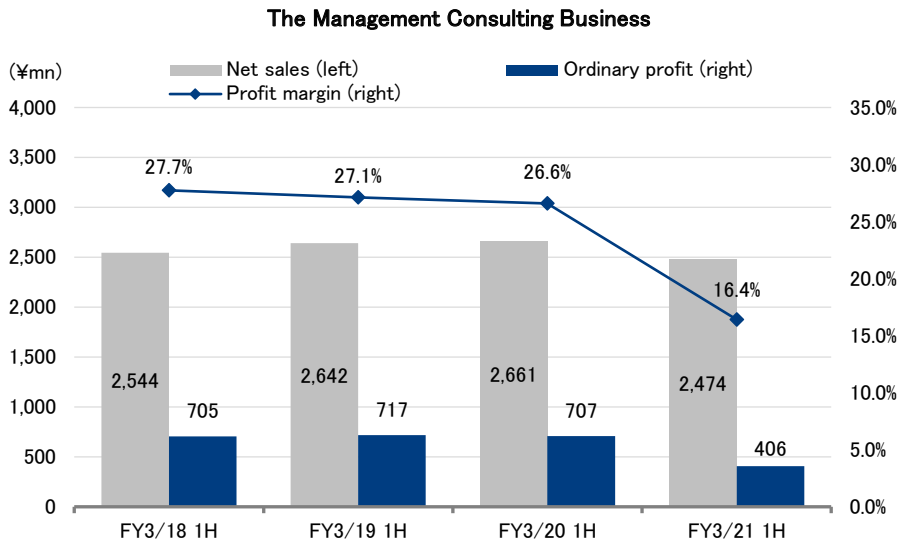
2. Trends by business segment

(1) The Management Consulting Business

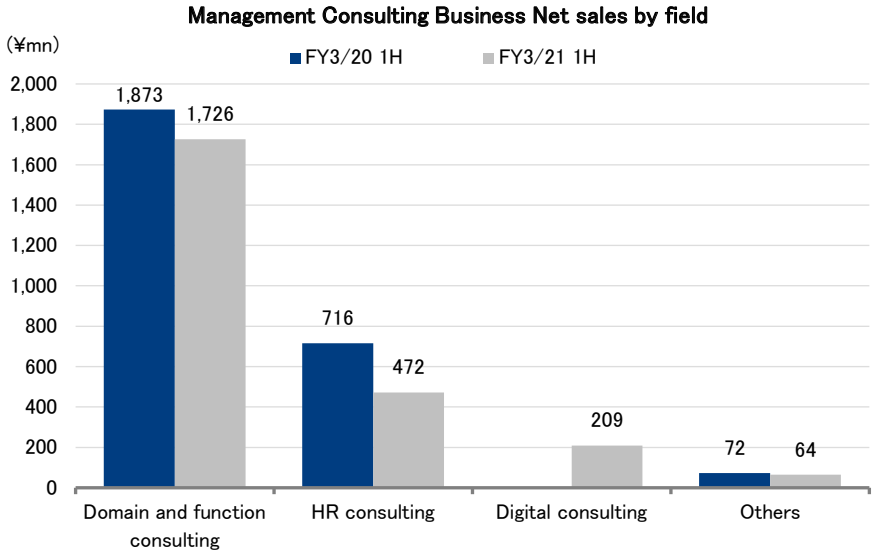
In the Management Consulting Business, net sales decreased 7.0% YoY to ¥2,474mn and operating profit declined 42.6% to ¥406mn. If looking on a standalone basis, it seems net sales decreased approximately 15%, which is the biggest decline since the Lehman Shock recession period (FY3/10). Due to the government's declaration of a state of emergency because of the novel coronavirus pandemic, corporate activities were restricted, and in this situation, consulting contracts were temporarily suspended and postponed, while strategy domain and function workshops and FCC seminars, which play the role of guiding participants to consulting contracts, were also cancelled and postponed. Sales decreased of high value-added team consulting, while SG&A expenses increased following Leading Solutions being made a subsidiary. Therefore, the operating profit margin also declined from 26.6% in the same period in the previous fiscal year to 16.4%.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Result trends



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



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

We encourage readers to review our complete legal statement on "Disclaimer" page.

Looking at the breakdown of net sales, domain and function consulting decreased 7.8% YoY to ¥1,726mn. Due to the progress made in team consulting branding (TCB), which is a high value-added service on themes for which needs are high, the average unit price per consulting contract rose. But sales declined because the management environment deteriorated due to the novel coronavirus pandemic, and against this backdrop, there occurred temporary suspensions and postponements in the provision of services and the average number of contracts during the period fell from 482 in the same period in the previous fiscal year to 443 contracts. The Company progressed measures to counter the novel coronavirus pandemic and to shift to online, but the pandemic's second wave arrived on entering August, so the recovery was limited. Consulting needs continued to be high for themes such as "The formulation and promotion of medium-term visions during the coronavirus," "Junior boards (next generation management team development), and "Corporate regeneration." In the M&A and alliance field, sales of the Management School's study groups to customers, including financial institutions nationwide, decreased greatly due to the impact of the novel coronavirus pandemic. But conversely, growth M&A consulting grew significantly, with the number of projects handled increasing by 2.4 times YoY to 26 projects, because needs for business succession-type and business reorganization-type consulting were strong, and also as the Company developed project referral channels and strengthened the structure. For strategy domain & function workshops, it responded by combining live streaming using the Internet with real set-type workshops, but sales still decreased due to the impact of cancellations and some postponements in the 1Q.

In HR consulting, net sales decreased 34.0% YoY to ¥472mn. Due to the novel coronavirus pandemic, from the start of the period some consulting contracts were temporarily suspended and postponed, and although progress was made in shifting to online, the recovery was limited due to the pandemic's second wave from August onwards. However, inquiries were strong for the establishment of FCC Academies (in-house corporate universities), including as this service is an online-based human resource development platform, and the number of potential customers guided to contracts increased from 97 at the end of the previous period to more than 100 companies. For FCC seminars, due to the impact of the novel coronavirus pandemic, some real set-type seminars were cancelled in the 1Q, and there also occurred delays in the recording of sales due the postponements of the starting periods of some events. On the other hand, the Company newly started on-demand delivery, and over 2,000 managers and executives participated in the First Call Company Forum 2020.

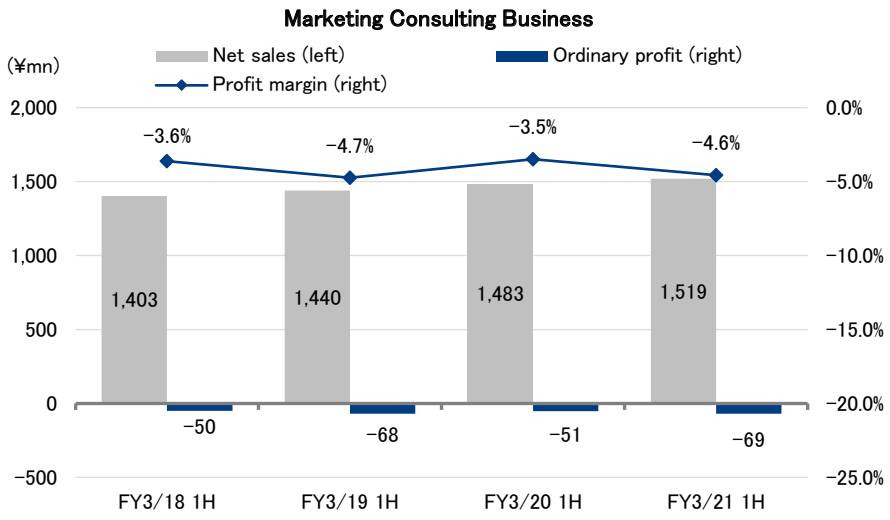
In digital consulting, net sales were ¥209mn. Benefitting from companies' implementation of DX, digital marketing services, which are provided by Leading Solutions, performed strongly.

(2) The Marketing Consulting Business

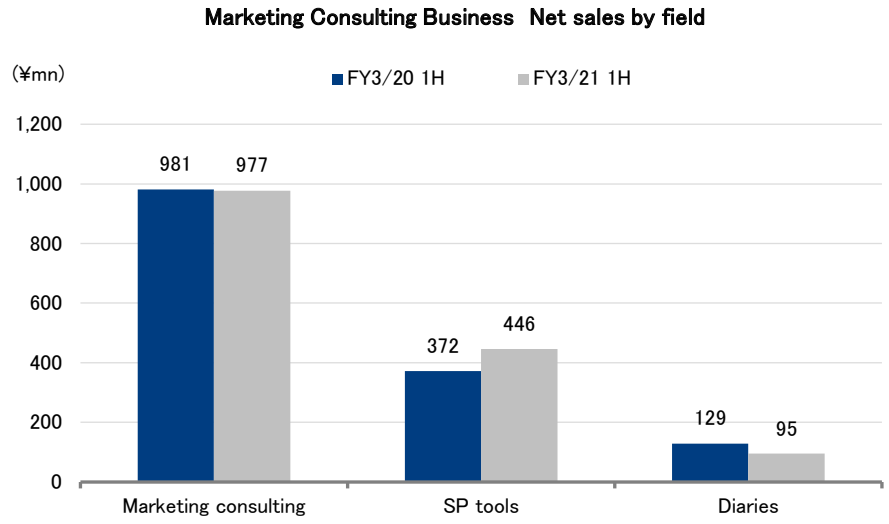
In the Marketing Consulting Business, net sales increased 2.5% YoY to ¥1,519mn and the operating loss was ¥69mn (a loss of ¥51mn in the same period in the previous fiscal year). Sales increased in promotions, which includes virus infection prevention products and teleworking-related products. But due to the temporarily suspensions and postponements of management consulting services, the number of projects in collaboration with the Management Consulting Business decreased, which was a factor adversely impacting profit-loss.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Result trends



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



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

Looking at how sales trended by field, marketing consulting declined 0.3% YoY to ¥977mn. Design promotions performed strongly, including virus infection prevention products (masks, disinfectants, anti-splash acrylic panels, etc.) and promotions planning for teleworking-related products. Conversely, brand promotions, large-scale campaigns and other services declined significantly, mainly due to the self-restraint on holding events. But digital branding and promotions support, such as creating companies' customer databases and building websites, performed well.

In SP tools, net sales increased 19.6% YoY to ¥446mn. Sales of promotions products used at exhibitions and other events decreased, but overall sales still increased, as demand for virus infection prevention productions grew significantly.

We encourage readers to review our complete legal statement on "Disclaimer" page.

In diaries, net sales decreased 26.0% YoY to ¥95mn. Sales declined mainly because in the previous year, demand was generated in advance of the consumption tax hike and the sales level was actually higher than in a typical year, and also as there occurred some cancellations in this period due to the impact of the novel coronavirus pandemic.

Practices debt-free management and the financial condition is sound, and is also investing funds in growth through M&A

3. Financial condition and management indicators

At the end of the FY3/21 1H, total assets were down ¥466mn on the end of the previous fiscal period to ¥12,503mn. Looking at the breakdown of the main change factors, in current assets, cash and deposits and securities increased ¥657mn. In non-current assets, long-term deposits and investment securities decreased ¥1,578mn. The total of both long-term and short-term cash and deposits and securities was ¥8,194mn, down ¥920mn on the end of the previous fiscal period, but its percentage of total assets was maintained at the high level of 65.5%.

Total liabilities were down ¥246mn on the end of the previous fiscal period to ¥1,772mn. In current liabilities, income taxes payable declined ¥65mn and the provision for bonuses decreased ¥57mn. Net assets were down ¥219mn on the end of the previous fiscal period to ¥10,731mn, because although net profit attributable to owners of parent of ¥146mn was recorded, expenditure on dividends was ¥368mn.

Looking at the management indicators, the equity ratio was 85.2% and the Company continues to maintain it at above 80%, while it is also maintaining debt-free management and has an abundance of cash and deposits and securities, of more than ¥8bn. Therefore, it can be judged that its financial condition continues to be highly sound. Conversely, the Company's ROE level is in the 6% range, which is a slight issue in terms of capital efficiency. However, in the 2H of the previous period it made a subsidiary of Leading Solutions, and continuing from this, in January 2021 it announced that it had spent approximately ¥800mn to make a subsidiary (percentage of voting rights, 50.1%) of Growin' Partners, which provides support for M&A and for back office DX. In such ways, it has started to strengthen investment in growth, so at FISCO we expect that aspects such as growth potential and ROE will improve in the future.

Balance sheet

(¥mn)

	FY3/18	FY3/19	FY3/20	FY3/20 1H	Change
Current assets	7,006	7,027	7,732	8,485	753
(cash and deposits, and securities)	6,294	6,138	6,936	7,594	657
Non-current securities	5,797	5,742	5,237	4,017	-1,219
(long-term deposits and investment securities)	2,396	2,453	2,178	600	-1,578
Total assets	12,804	12,769	12,969	12,503	-466
Current liabilities	1,778	1,679	1,642	1,419	-223
Non-current liabilities	591	374	375	352	-23
Total liabilities	2,369	2,054	2,018	1,772	-246
Net assets	10,434	10,715	10,951	10,731	-219
(management indicators)					
Equity ratio	81.4%	83.8%	83.9%	85.2%	+1.3pt
ROA	7.6%	7.9%	7.8%	-	
ROE	6.6%	6.6%	6.4%	-	
Operating profit margin on sales	10.6%	10.7%	10.5%	-	

* Figures are consolidated from FY3/20 onwards
Source: Prepared by FISCO from the Company's financial results

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business outlook

For FY3/21, has left the initial forecasts unchanged In January 2021, made a subsidiary of Growin' Partners, which provides M&A support services

1. FY3/21 results outlook

For the FY3/21 consolidated results, the Company has left the initial forecasts unchanged, which are for net sales to be unchanged YoY at ¥9,395mn, operating profit to decrease 29.1% to ¥700mn, ordinary profit to decline 28.1% to ¥730mn, and net profit attributable to owners of parent to fall 29.6% to ¥490mn. On a profits basis, the 1H results were higher than forecast, but the Company has left the forecasts unchanged as the future remains unclear, including whether there will be a third wave of the novel coronavirus pandemic.

FY3/21 results outlook

(¥mn)

	FY3/20 full-year results	FY3/21			
		1H results	2H forecast	Full-year forecast	YoY
Net sales	9,394	3,993	5,402	9,395	0.0%
Management Consulting Business	5,577	2,474	3,221	5,695	2.1%
Marketing Consulting Business	3,816	1,519	2,181	3,700	-3.0%
Gross profit	4,294	1,719	2,171	3,890	-9.4%
SG&A expenses	3,306	1,563	1,627	3,190	-3.5%
Operating profit	987	156	544	700	-29.1%
Ordinary profit	1,015	169	561	730	-28.1%
Net profit attributable to owners of parent	696	146	344	490	-29.6%
Earnings per share (EPS) (¥)	80.86	17.02	39.87	56.89	

Source: Prepared by FISCO from the Company's financial results. The FY3/21 1H increase-decrease rates are comparisons with the non-consolidated results for the previous fiscal year

On January 29, 2021, the Company announced that it had acquired 50.1% of the shares of Growin' Partners and made it a subsidiary, and signed a capital and business alliance agreement. Growin' Partners' main businesses are general support for M&A (including cross border), and support for implementing DX for and improving the productivity of back office work in accounting and finance departments, through introducing and utilizing digital technologies (ERP, RPA, etc.), mainly targeting listed-company groups. It also conducts a VC business, in which it provides investment and management support for companies preparing for an IPO. In its most recent results in FY6/20, it recorded net sales of ¥1,075mn and operating profit of ¥99mn, and its results are growing against the backdrop of the increasing needs for M&A and DX. Its management team includes many former members of auditing corporations and consultants account for nearly half of its 86 employees (as of October 2020; 18 certified public accountants and 1 tax accountant), and it can be said to be a group of professionals in the M&A field.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business outlook

Summary of Growin' Partners

(¥mn)

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

Business description
• Support for M&A in general, including cross border (a track record of more than 500 transactions in total)
• Support for implementing DX and improving the productivity of back office work in accounting and finance departments, through introducing and utilizing digital technologies, such as ERP and RPA
• VC business, of investment and management support for companies preparing for an IPO
Acquisition amount: ¥802mn (including ¥51mn for advisory costs, etc.)
Percentage of voting rights: 50.1%, share-acquisition date: January 29, 2021

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

Within its medium-term management plan, the Company is progressing a consulting domains diversification strategy. Its strategy is to aim for further growth through collaborating with Growin' Partners, which has an abundant track record and a wealth of expertise in the M&A consulting and DX consulting domains.

The specific content of the business alliance are the following four points.

a) Combine the Company's management consulting knowledge and expertise with Growin' Partners' knowledge and expertise in M&A and DX to strengthen the functions of existing services and to launch new businesses.
b) Through joint consulting for existing customers and personnel exchanges, increase the value of services provided to the customers of both companies.
c) The Company will dispatch executives to Growin' Partners and aim to strengthen its management structure
d) The Company will support Growin' Partners' customer-creation activities and in addition, by building a mutual cooperation structure for human resources recruitment and training with an aim to strengthen the business foundations of both companies, they will capture demand in the nationwide business-succession market, the business reorganization market, and the DX market.

From 2H, started providing a consulting service for shifting to digital marketing, a service developed jointly with Leading Solutions

2. Outlook by business segment

Results outlook by segment

(¥mn)

	FY3/20 full year results	FY3/21			
		1H forecast	2H forecast	Full-year forecast	YoY
Net sales	9,394	3,993	5,402	9,395	0.0%
Management Consulting Business	5,577	2,474	3,221	5,695	2.1%
Marketing Consulting Business	3,816	1,519	2,181	3,700	-3.0%
Operating profit	987	156	544	700	-29.1%
Management Consulting Business	1,466	406	819	1,225	-16.4%
Marketing Consulting Business	169	-69	189	120	-29.0%
Head office administrative expenses	-647	-179	-466	-645	-0.3%

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

We encourage readers to review our complete legal statement on "Disclaimer" page.

(1) The Management Consulting Business

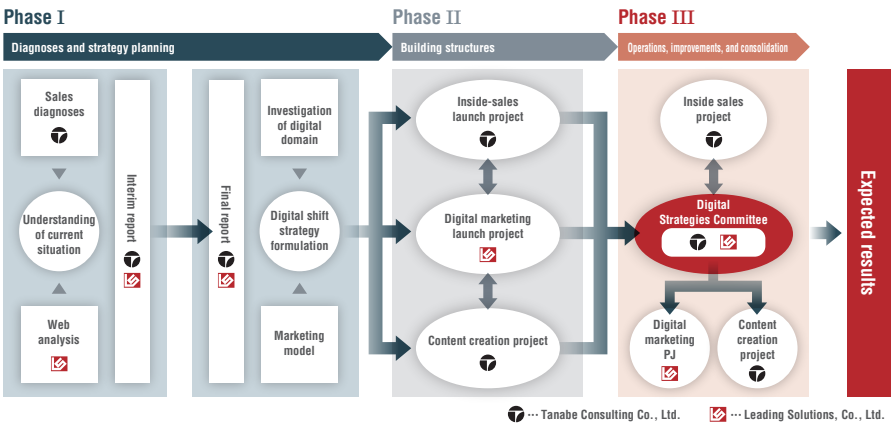
In the Management Consulting Business, sales of Leading Solutions will contribute for the full fiscal year (FY3/20, ¥257mn→FY3/21 forecast, ¥500mn), and the sales of Growin' Partners will contribute slightly more than ¥200mn in the 4Q, so net sales are forecast to increase 2.1% YoY to ¥5,695mn. However operating profit is forecast to decline 16.4% to ¥1,225mn due to the declines in earnings from domain and function consulting and HR consulting.

In society that is coexisting with the novel coronavirus pandemic, the Company will promote providing consulting services to support the growth of companies in selecting and diversifying businesses. This includes constructing group management systems and training group managers. In addition, for the FCC seminars and strategy domain & function workshops, it will work to recover the number of companies in the key customer base and the number of consulting contracts, which declined in the 1H, through utilizing live delivery and on-demand delivery using online communication tools on the Internet, in addition to holding real events.

Also, for growth M&A consulting, the Company will focus on acquiring business succession-type and business reorganization-type projects, for which needs continue to be high. In addition, for the consulting service for shifting to digital marketing, which is a service that it jointly developed with Leading Solutions and that will be fully launched in the 2H, it will target an increase in orders as a consulting service tailored to the growing needs for digital marketing during the coronavirus pandemic. Regional B-to-B companies are lagging behind in terms of digital marketing measures, so potential demand remains large. However, the consulting menu in the digital marketing domains has been insufficient and previously it was difficult to acquire orders. But this problem will be eliminated through the collaboration with Leading Solutions, and it is expected to be an initiative that will lead to acquisitions of new customers.

In terms of the specific content of the service, in total it has been divided into three phases, each of approximately six months in duration, to be conducted jointly by both companies. In the first phase, they will carry out diagnoses and strategy planning (formulating strategy for a digital shift from the present awareness, such as from the customer companies' sales methods and website analysis); in the second phase, they will build structures (launching digital marketing projects, inside-sales projects, content-creation projects, etc.); and in the third phase, they will conduct operations, improvements, and consolidation (the Digital Strategies Committee will carry out evaluations, analyses, improvement measures, etc.)

The consulting service for shifting to digital marketing



Source: reprinted from the Company's website

We encourage readers to review our complete legal statement on "Disclaimer" page.

(2) The Marketing Consulting Business

The forecasts for FY3/21 are for net sales to decrease 3.0% YoY to ¥3,700mn and operating profit to fall 29.0% to ¥120mn. Due to the impact of the novel coronavirus pandemic, it is anticipated that sales of promotion projects, such as events, will decrease. However, exhibitions, including events held online, are gradually reopening, while in promotions, sales of virus infection prevention products and other products have continued on entering the 2H as well, while needs for branding and promotions utilizing digital are increasing among regional companies. Therefore, results may be higher than forecast, the same as in the 1H. The outlook for diaries is that sales will be solid, although they may weaken slightly due to the deterioration of economic conditions.

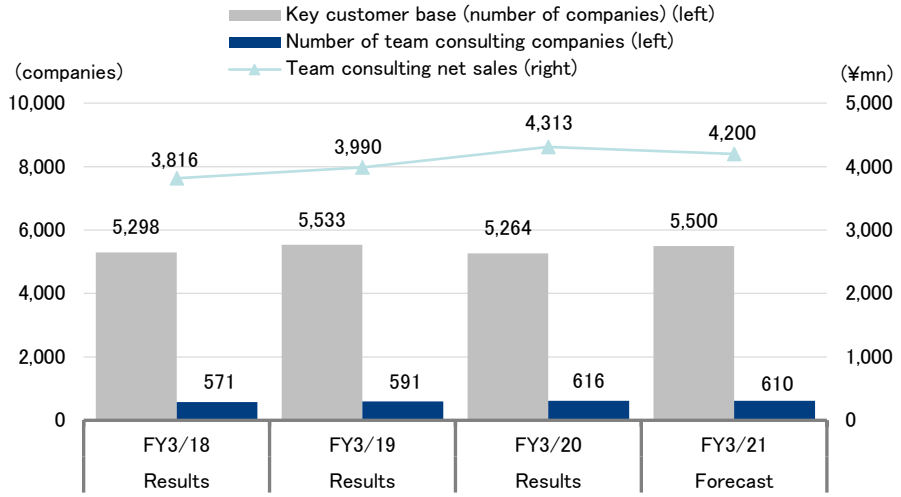
In consulting for the M&A and DX domains, the speed of growth may accelerate from FY3/21 onwards through increasing Group synergies

3. Medium-term business plan

In May 2018, the Company announced Tanabe Vision 2020 (2018 to 2020), its medium-term business plan under the slogan “From Change to Growth.” The basic strategies are the C&C strategy and the consulting platform strategy, and the Company has been working to build an earnings foundation capable of sustainable growth through diversifying the consulting domains, expand the consulting menu, and provide high-quality consulting value nationwide and in every region.

In terms of the initial results targets for FY3/21, which is the plan’s final fiscal year (net sales of ¥9,600mn and operating profit of ¥1,040mn), due to the impact of the novel coronavirus pandemic, the Company previously lowered them to net sales of ¥9,395mn and operating profit of ¥700mn, and it has not changed these revised targets at the current time. It is also maintaining the revised target values for the number of team consulting contracting companies and net sales, which are key performance indicators (610 contracting companies and team consulting net sales to decrease 2.6% YoY to ¥4,200mn).

Trends in the number of team consulting companies and net sales



Note: Team consulting = consulting (domain & function, and HR) + marketing consulting (monthly contracts) (all are the average number of contracts during the period)
Source: Prepared by FISCO from the Company’s financial results briefing materials

We encourage readers to review our complete legal statement on “Disclaimer” page.

The progress made for the main measures is basically as planned in the medium-term management plan. But during the coronavirus pandemic, societal styles are greatly changing and companies' measures to implement DX are accelerating, while in addition, needs for M&A are strong. In order to capture the needs for consulting in these domains, the Company's approach is to actively capture demand in these markets by making subsidiaries of Leading Solutions and then of Growin' Partners. At FISCO, we think that if synergies with these subsidiaries are realized from FY3/22 onwards, then the speed of growth will accelerate.

(1) Measures for the M&A strategy and the DX strategy

Due to the novel coronavirus pandemic, reforms are necessary for management crises and business models, and potential business succession and reorganization needs are increasing. In addition, the situation is that measures to implement DX, which lead to improved work efficiency and productivity, are accelerating.

In this situation, in growth M&A consulting, precisely because management consulting is the main service, the Company is able to provide integrated consulting services, from formulating an M&A strategy through to due diligence, post-M&A PMI (management integration), and growth support. For business expansion in the future, in addition to project referrals by strengthening collaborations with clients such as financial institutions and accounting firms, as in the past, its policy is also to aim to further expand the M&A domain, including cross border M&A, by making Growin' Partners a subsidiary. In addition, by providing growth M&A consulting services from the perspective of the buyer, it is aiming to capture needs for business succession and reorganization and to contribute to revitalizing regional companies and economies.

In DX consulting, the Company provides work-improvement support services utilizing RPA through its collaboration with Works ID Co., Ltd., which develops and provides RPA tools and with which it concluded a business alliance agreement in FY3/20. In the digital marketing domain also, its strategy is to acquire new customers by advancing the collaborations with Leading Solutions, and also with Growin' Partners to support the implementation of DX for back office work in financial, accounting and personnel departments, by introducing and utilizing ERP, RPA, and other technologies.

(2) Progress made for the key policies

a) Regional doubling FCC (first call consulting firm) strategy

Has newly added DX consulting to the menu and has started providing digital marketing support services to B-to-B companies nationwide jointly with Leading Solutions.

b) Domain and function consulting strategy

There were 29 strategy workshop themes in FY3/20 (an increase of 4 themes on FY3/19), while the number of strategy leaders specializing in each domain and function is also steadily increasing, rising to 28 people in FY3/20 (an increase of 12 people on FY3/19).

c) HR (Human Resources) consulting strategy

The number of companies opening FCC Academies (in-house corporate universities) was 108 companies at the end of November 2020 (an increase of 11 companies YoY), achieving the medium-term target. Going forward, the target is 200 companies.

d) Marketing consulting strategy

The Company is concentrating management resources in the Osaka and Tokyo head offices in order to strengthen organizational functions, while it has also strengthened levels of expertise, including for the housing industry and the child-raising market.

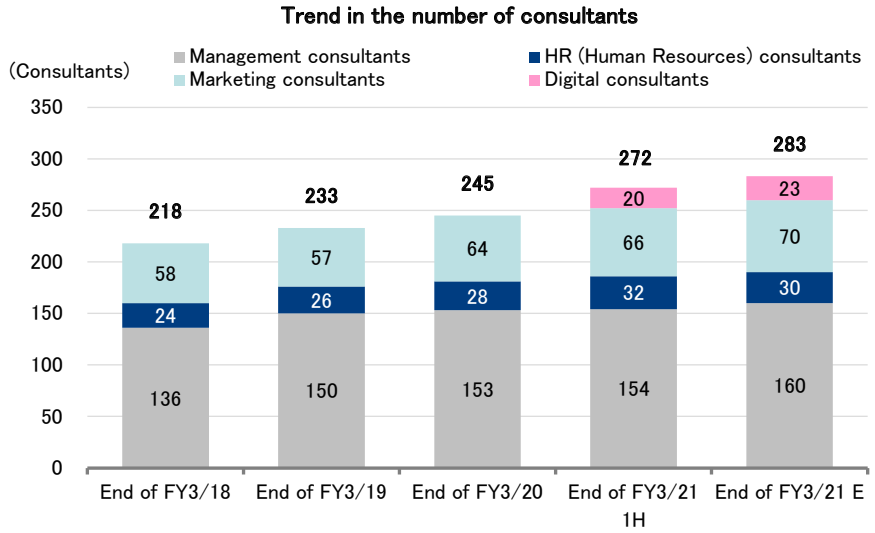
e) Corporate strategies

Toward realizing new workstyles and improved productivity, the Company has introduced technologies, such as an online conferencing system and a new ERP package. It is also working to strengthen corporate communication functions and to promote PR for Group-wide branding and products and services.

We encourage readers to review our complete legal statement on "Disclaimer" page.

(3) Trend in the number of consultants

By the end of FY3/21, the number of consultants is forecast to have increased by 38 on the end of the previous fiscal period to 283 consultants, due to the addition of the digital consultants of Leading Solutions. The consultants of Growin' Partners have not been added to this number, so in actually, it is possible that it will increase by around an additional 40 consultants. Consultants are the source of the Group's competitiveness, so going forward, the policy is to strengthen recruitment, mainly of professional consultants who are experts in their respective industries, and the Company is working to recruit people including those wanting to make an I-turn or a U-turn in their careers



Note: Excludes consultants in the Strategic Comprehensive Institute. Consolidated basis from FY3/21.
Source: Prepared by FISCO from the Company's financial results briefing materials

Shareholder return policy

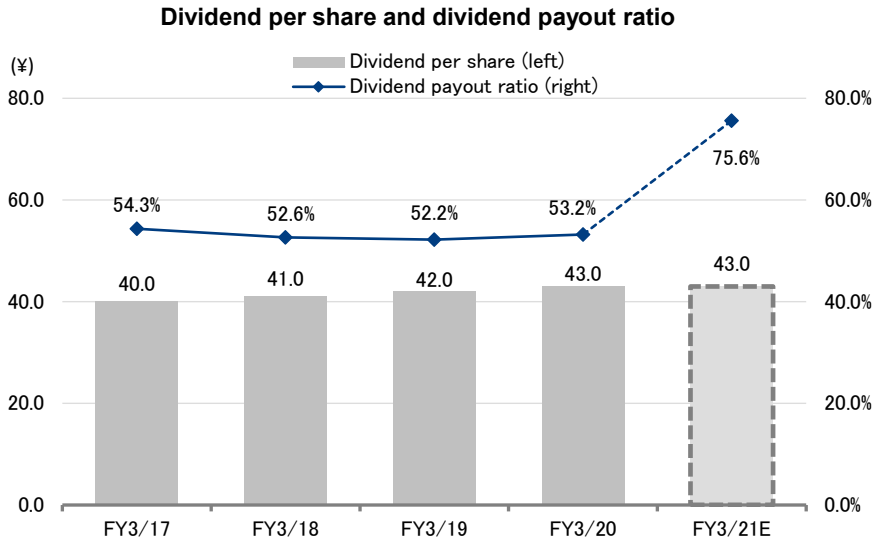
Targets a dividend payout ratio of 60%
Policy is to pay dividends stably and continuously in accordance with earnings growth

Based on its shareholder returns policy, the Company pay dividends and also provides shareholders with gifts. For the dividend amount, it targets a dividend payout ratio of 60%, while also taking into account results and other factors (excluding special factors). Although profits are forecast to decline in FY3/21, it still plans to pay a dividend per share unchanged YoY of ¥43.0 (dividend payout ratio, 75.6%).

It also provides a gift, its original Blue Diary scheduler (worth about ¥3,000), to shareholders holding 100 shares or more as of the end of September every year. Dividend yield worked out to about 3.0% and investment return comes to roughly 5.2% including the shareholder gift, based on the share price on February 8, 2021 (¥1,410).

We encourage readers to review our complete legal statement on "Disclaimer" page.

Shareholder return policy



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.

We encourage readers to review our complete legal statement on “Disclaimer” page.

FISCO

Disclaimer

FISCO Ltd. (“FISCO”) offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers’ securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ 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