

COMPANY RESEARCH AND ANALYSIS REPORT

Tanabe Management Consulting Co., Ltd.

9644

Tokyo Stock Exchange First Section

3-Aug.-2018

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

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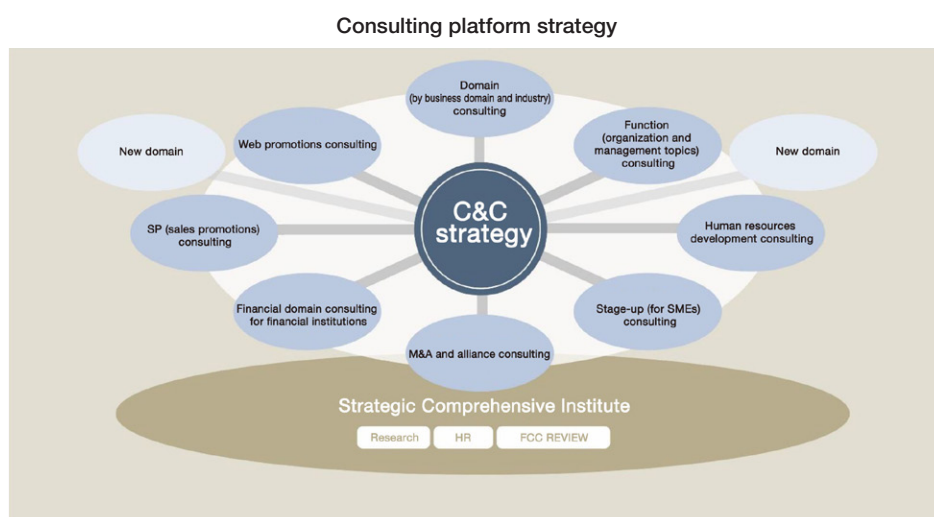
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Summary

Outlook is to continue to achieve steady profit growth on the twin axes of management consulting and SP consulting

Tanabe Management Consulting Co., Ltd. <9644> (hereafter, also “the Company” or “Tanabe”), which is approaching the 61st anniversary of its foundation, is a pioneer and a major presence in private sector management consulting in Japan. Its corporate mission is to “assist in the creation of ‘first call companies’ that will be selected even 100 years from now.” It is aiming to realize sustainable, stable growth by expanding its “domain (business strategy) x function (organization strategy) x region (regional strategy) team consulting.” As its medium-term business strategy, the Company is promoting a “Consulting & Conglomerate (C&C) strategy,” and from the stage up to the present time, of “a strategy to diversify consulting domains,” it is evolving to a stage of accelerating “a consulting platform strategy” that utilizes its strength of developing bases in a business firm format in 10 major cities nationwide. It practices strong, debt-free management, and its strengths also include its solid financial structure with an equity ratio of more than 80%.



Source: The Company's results briefing materials

1. FY3/18 results

Both sales and profits increased in the FY3/18 results, with net sales rising 4.9% year-on-year (YoY) to ¥8,797mn and ordinary profit growing 5.5% to ¥965mn, while both results were also above the Company forecasts (net sales of ¥8,550mn and ordinary profit of ¥945mn). In the management consulting business, the number of contracts for management consulting, which includes business strategy, business succession, and branding strategy, and for human resources development consulting, steadily increased. Also, in the SP consulting business, high-value-added SP consulting performed well, and the Company achieved higher sales and profits in both businesses. The main KPI also steadily increased, with the number of team consulting* contracting companies rising by 80 YoY to 946 companies and net sales growing 8.1% to ¥3,816mn.

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

Summary

2. FY3/19 outlook

The forecasts for the FY3/19 results are for net sales to increase 2.3% YoY to ¥9,000mn and ordinary profit to grow 2.6% to ¥990mn. In the management consulting business, the Company is aiming for higher sales and profits through improving the management consulting added value and increasing the number of contracts. In this fiscal period, it will newly add two services, “M&A consulting” and “stage-up consulting” to its service menu for small- and medium-sized enterprises (SMEs), and strengthen measures for these services. For “M&A consulting,” it provides consulting for companies on the buyer side that are aiming for growth, and the outlook is for a few contracts per year. Also, in the SP consulting business, it is aiming to increase sales and profits by strengthening proposals for “sales promotions and Web promotions consulting” and “SP design,” and by improving added value and increasing the number of contracts.

3. Medium-term business plan

The Company newly formulated “Tanabe Vision 2020 (2018 to 2020)” with the slogan of “from change to growth” in order to realize sustainable growth from 2020 onwards. As the growth strategy for the future, it is advancing the “creation of a consulting platform” on a nationwide scale and aiming to grow team consulting sales while expanding the customer base. The FY3/21 results targets are net sales of ¥9,600mn and ordinary profit of ¥1,060mn. For the average annual growth rates, the policy is to continuously achieve steady growth of around 3% for both net sales and ordinary profit. Also, it plans to increase the number of consultants, who will be the driving force behind growth, from 218 people at the end of FY3/18 to 291 people at the end of FY3/21. It will not only employ new graduates, but also strengthen its recruitment of mid-career hires with practical work experience in various industries and develop each as consultant candidates at an early stage, thereby further strengthening its business foundation.

4. Shareholder return policy

As its policy to return profits to shareholders, the Company pays dividends and also provides gifts to shareholders. Its benchmark for dividends is a payout ratio of 60% and it determines the dividend while considering results and other factors. In FY3/19, it plans to increase the dividend by ¥1.0 to ¥42.0 (for a payout ratio of 53.5%), for the seventh consecutive fiscal year of higher dividends. It also intends to continue to increase sales, profits and dividends in the future. In addition, the Company provides a gift to shareholders on record as of the end of September of its original Blue Diary scheduler (worth about ¥3,000). The dividend yield was about 2.0% and the investment return was around 3.4% including the shareholder gift, based on the share price of July 10, 2018 (¥2,154).

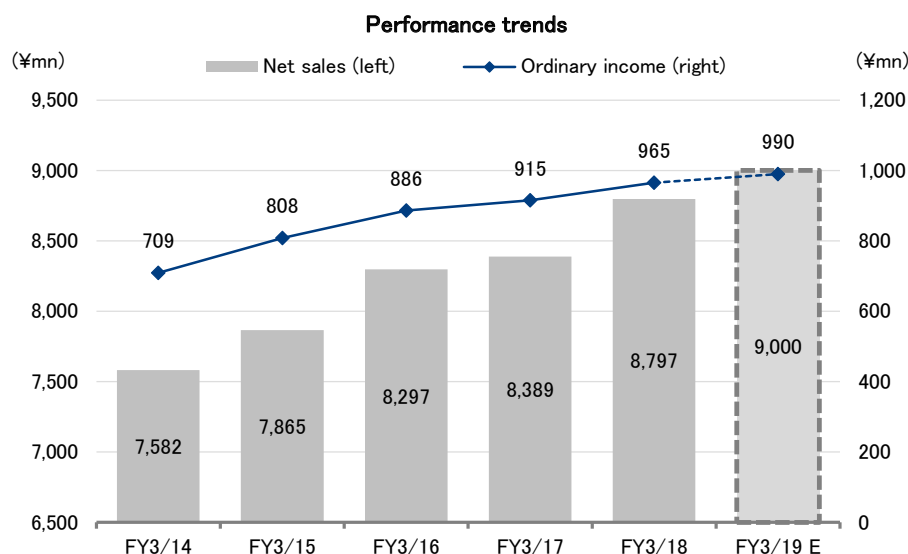
Key Points

- A major management consulting company that is continuing to grow based on “business strategy x organization strategy x regional strategy team consulting,”
- Is utilizing its strength, that it can provide a variety of consulting services, and the outlook is for the higher sales and profits to continue in FY3/19 also
- Its policy is to advance the “creation of a consulting platform” on a nationwide scale and to realize sustainable growth from 2020 onwards

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Summary



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

Business overview

A major management consulting company that is continuing to grow based on “business strategy x organization strategy x regional strategy team consulting”

1. Company overview

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

Criteria for becoming a first call company

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

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

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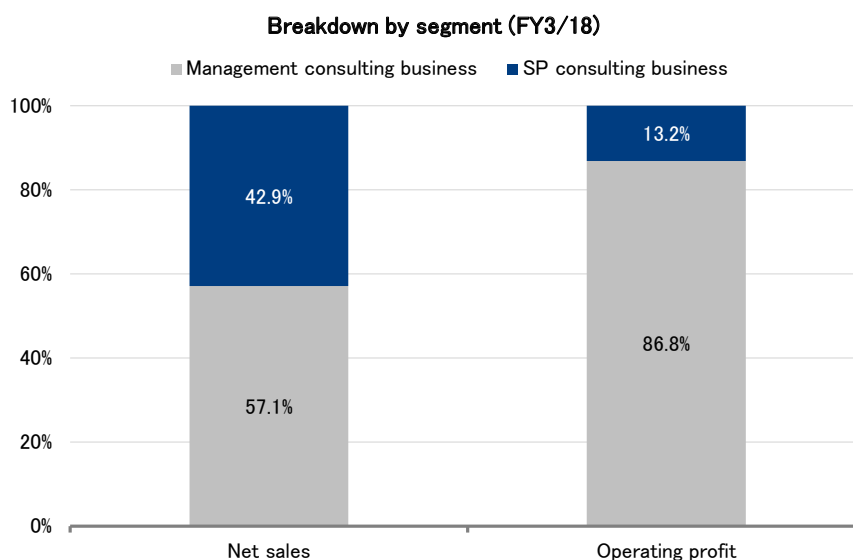
Business overview

As a strategic partner, the Company provides consulting services for customers nationwide for the full scope of their management needs, from formulating business strategies to organizational design, building management systems, and developing next-generation management operations, as well as human resource training consulting, from executives and business successors through to new recruits, and also SP (sales promotion) consulting. It is characterized by its provision of “team consulting” in which it selects the optimum number of specialist consultants and forms them into a team in accordance with the issues facing the customer, from the viewpoint of “business x organization x region.”

It conducts its business from its bases in 10 major cities nationwide, from Hokkaido to Okinawa. The features and strengths of the Company include that, within its industry, only it conducts a nationwide business in a business firm format and only it can provide consulting services tailored to each specific region. Also, in April 2017 it raised the status of the Tokyo Headquarters to the Tokyo Head Office. By establishing a dual head office structure with the Tokyo Head Office responsible for IR and PR, recruitment, and M&A functions, as well as the Strategic Comprehensive Institute, which plans and produces various consulting services, analyzes information from consulting sites and elsewhere, and disseminates information to member companies and society, along with the Osaka Head Office, the Company is aiming to supplement its customer service nationwide and achieve further growth.

2. Business details

The Company has two business segments, the management consulting business and the SP (sales promotion) consulting business. In terms of the percentages of total net sales (in FY3/18), the management consulting business provided 57.1% and the SP consulting business 42.9%, but the majority of operating profit is provided by the management consulting business, at 86.8%. This is because the SP (sales promotion) consulting business includes the purchases and sales of promotions products and other products, and therefore its profit margin is comparatively low. However, in this business, the Company is focusing on the high-value-added consulting domain, and in the last few years its operating margin has also been trending upward.



Note: Operating profit shows the value prior to deduction of headquarters management costs.

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

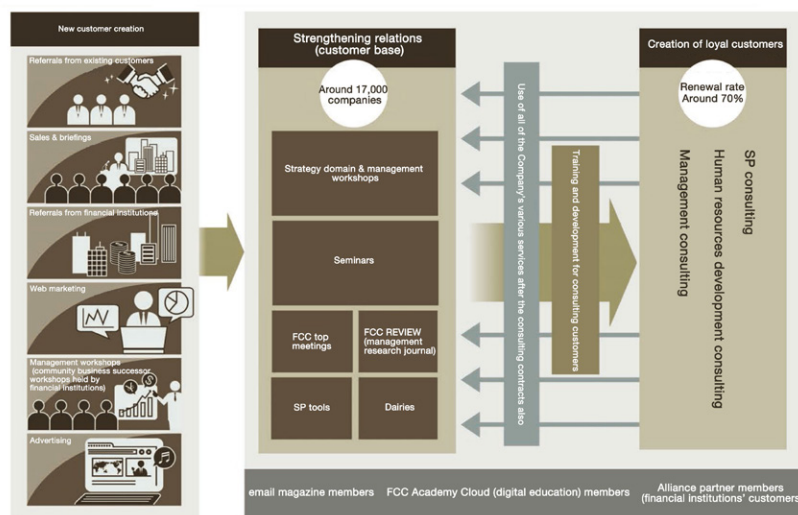
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Business overview

The Company's customer creation model is to have various points-of-contact with new customers, including via referrals from existing customers, the Web, referrals from financial institutions, and new sales, to hold strategy domain & management workshops and seminars for them, and to attract as customers those companies with a variety of management issues, which leads to contracts for team consulting (management consulting, human resources development consulting, and SP consulting), which in turn leads to the creation of loyal customers. The mechanism is that finally, the customer companies use the Company's various services and aim to become first call companies. Over the last few years, it has increased the topics for its strategy domain & management workshops, and among the new customers, it seems that around 70% are companies that attended these workshops and various types of seminars. Also, some customers are members of services, including for the email magazine, FCC Academy Cloud (digital education), and FCC REVIEW (management information magazine).

The customer creation and relations model



Source: The Company's results briefing materials

(1) Management consulting business

Under its management consulting business, the Company breaks down sales into the following categories: management consulting, human resource development consulting (including customized education programs and human resource development programs for alliance partners such as partner financial institutions and accounting firms), seminars (targeting audiences from executives and business successors through to new recruits), FCC workshops (workshops covering various strategic domains and management topics, "first call company" executive groups), and alliances. Of these, management consulting services account for more than 50% of segment sales.

For management consulting, the Company mainly targets medium-sized companies, to which it provides various consulting services, including formulating and implementing medium-term management plans; recruiting, training, and utilizing human resources; business succession (building next-generation management structures); establishing FCC academies (corporate universities); and branding strategies. Recently, there has been an increase in the need to conduct M&A among customer companies that are aiming to diversify their businesses, so the Company also plans to incorporate a full range of M&A consulting services into its service menu and expand this business while utilizing its network, such as with its partner financial institutions.

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Business overview

(2) SP (sales promotion) consulting business

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

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

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

Result trends

Against the backdrop of the growth in consulting demand, in FY3/18 achieved higher net sales and ordinary profit for the 8th consecutive fiscal period

1. FY3/18 results overview

In FY3/18, net sales increased 4.9% YoY to ¥8,797mn, operating profit rose 6.6% to ¥936mn, ordinary profit grew 5.5% to ¥965mn, and net profit increased 5.8% to ¥675mn. Each result exceeded the initial Company forecast, and this was the eighth consecutive year of higher sales, operating profit and ordinary profit.

FY3/18 results

	FY3/17		Forecast	FY3/18			
	Results	Ratio to sales		Results	Ratio to sales	YoY	vs. forecast
Net sales	8,389	-	8,550	8,797	-	+4.9%	+2.9%
Gross profit	3,931	46.9%	4,155	4,157	47.3%	+5.8%	+0.1%
SG&A expenses	3,052	36.4%	3,240	3,221	36.6%	+5.5%	-0.6%
Operating profit	878	10.5%	915	936	10.6%	+6.6%	+2.3%
Ordinary profit	915	10.9%	945	965	11.0%	+5.5%	+2.1%
Extraordinary losses	-2	-0.0%	-	-1	-0.0%	-	-
Net profit	638	7.6%	645	675	7.7%	+5.8%	+4.7%

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

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Result trends

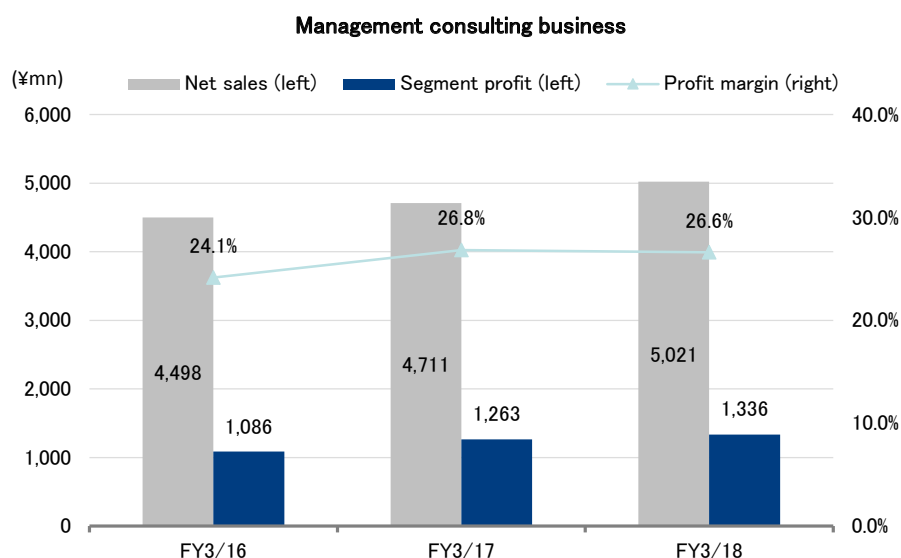
Aided by the slow but steady recovery in the domestic economy, net sales finished up 6.6% YoY at the management consulting business and were up 2.7% at the sales promotion consulting business. Driving growth at the management consulting business was growing demand for consulting in the areas of business strategy, business succession planning, and human resource development. Sales promotion consulting benefited from an ongoing increase in companies looking for expert advice and assistance to grow sales and improve their branding. Operating profit rose 6.6% as benefits stemming from strong top-line growth absorbed expenditures for recruiting new consultants, investments in IT and promotion, and other strategic investments. As of the end of March 2018, the Company had a total of 218 consultants, an increase of 3 over March 2017.

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

2. Segment trends

(1) Management consulting business

In the management consulting business, net sales increased 6.6% YoY to ¥5,021mn and segment profit rose 5.7% to ¥1,336mn. At the end of FY3/18, the number of management consultants (including human resources development consultants) had increased by 6 on the end of the previous fiscal year to 160 people. Due to the increases in recruitment expenses and personnel expenses, the segment profit margin declined 0.2 of a percentage point, but compared to the Company forecasts, net sales were 4.2% and segment profit 5.2% above their respective forecasts.



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

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Result trends

Looking at how sales trended by product and service, sales in the mainstay management consulting were strong, up 7.3% YoY. With an eye to post 2020, there continues to be significant needs for consulting on topics such as “the formulation and implementation of a medium-term management plan (vision), “the recruitment, development, and utilization of human resources,” and “business succession and the development of next-generation management teams (junior boards).” In terms of regions also, overall sales are increasing not only from the three major metropolitan areas, but also from the regional bases. In addition, as a new measure it is progressing, the Company has introduced “the establishment of FCC academies (corporate universities)” into a cumulative total of around 50 companies, which contributed to the increase in sales. As a result, the number of management consulting contracts, as the average during the period, rose by 21 YoY to 457 contacts, which is a new record high.

Sales from human resource development consulting rose 4.7% YoY, driven by growing demand among client companies for the training of future executives and customized workshops for current executives. The Company’s alliance partners among financial institutions and accounting firms also contracted for additional employee training to give their people the consulting skills necessary to help the companies they finance and advise grow and prosper.

Seminar sales rose 9.6% YoY. The main reason for this were the increases in the number of people attending the start-up seminars for new company employees, which were held in April 2017 and March 2018, and the Team Leader School, which was held from July to September 2017. A record number of people also attended the management strategy seminars, which were held from November to December. The number of companies attending the seminars rose by 354 to 4,340 companies.

Sales of FCC workshops continued to grow by double digits, up 10.8% YoY, even though they are of small scale. The main factors behind this growth were the addition of topics to the strategy domain & management workshops from September 2017, of “leading-edge technologies,” “new business development,” and “education and tutorial business”, and also “Aiming to be the financial institution selected first” from October. So together with the existing topics, the number of seminars held increased. The number of attending companies also increased, by 120 YoY to 997 companies, and together with the higher sales, this contributed greatly as a path toward the conclusion of consulting contacts.

Sales from alliance services declined 9.7%, the only business with lower sales. The Company conducted “management workshops” at its alliance partners of financial institutions and accounting firms, and it worked to provide original programs and services to support medium-sized companies and SMEs. But despite these efforts sales declined, with the main factors being the fall in the number of alliance partners by 9 YoY to 139 because of the progress made in the restructuring of regional financial institutions, and also the decline in the number of members in various organizations, including subscribers to the management information magazine.

(2) SP (sales promotion) consulting business

In the SP (sales promotion) consulting business, net sales increased 2.7% YoY to ¥3,776mn and segment profit rose 28.8% to ¥202mn. Sales of high-value-added SP consulting were strong, and the segment profit margin continued to trend upward, up 1.1 percentage points to 5.4%. Compared to the Company forecasts also, net sales were 1.2% and segment profit 22.8% above their respective forecasts, and it can be said that the Company is making steady progress in the measures to improve profitability that it has been advancing in the last few years. At the end of FY3/18, the number of SP consultants had declined by 3 on the end of the previous fiscal year to 58 people. But the main reason for this was the transfer of the “SP Design Lab,” which includes SP design consultants, to the Strategic Comprehensive Institute as the “design lab” (the Strategic Comprehensive Institute personnel increased by 9 on the end of the previous fiscal year to 32 people).

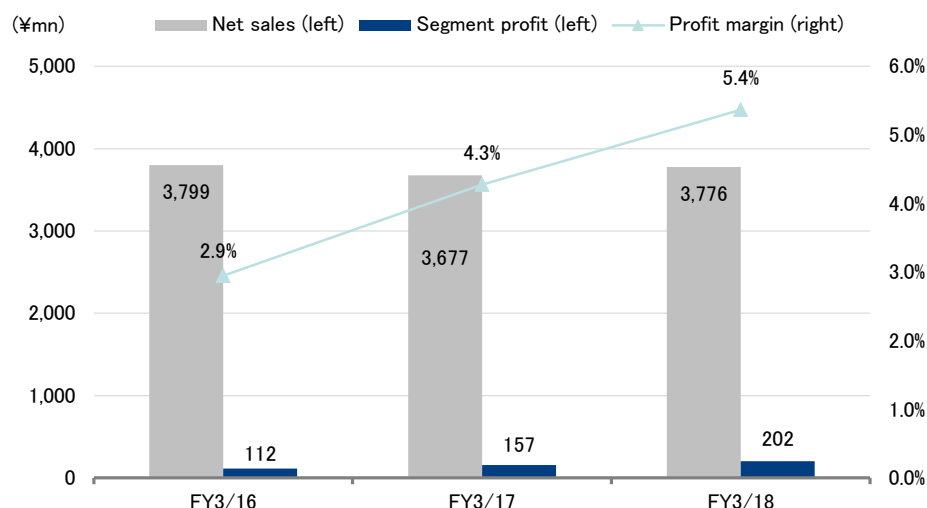
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Result trends

SP consulting business



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

Looking at how sales trended by product and service, sales were strong in the mainstay field of SP consulting, up 17.2% YoY, and its percentage of total sales also increased, from around 40% in the previous fiscal year to approximately 50%. Sales greatly increased thanks to the rise in the number of consulting contracts through proposals in collaboration with the management consulting business, and also from orders for major projects for the original and high-value-added promotions products (SP design) designed by the Company's specialist consultants. In the SP domain also, it is holding strategy domain workshops on topics for which interest is high and implementing measures to attract potential customers, which is contributing to the higher sales. In FY3/18, it newly launched workshops on the topics of "food sales promotion strategies" and "housing market customer-attraction promotions," so it held a total of three workshops, together with the "child and child-rearing families market growth strategy" workshop that it has held since 2016.

Sales of SP tools (novelty goods created by adding the client company's name to a standard item) finished down 10.3% YoY. The Company said there were still many repeat orders but that its efforts to convince client companies to switch to higher value-added designs was responsible for the decline in sales of SP tools.

Sales of diaries (business planners and calendars) were basically unchanged YoY. The Company has been conducting re-branding activities for the Blue Diary celebrating its 60th anniversary, to be published in 2019. As a part of this, it has changed its logo mark, produced a branding book, and renewed its website, which are leading to stable and continuous orders.

Result trends

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

3. Financial position and management indicators

At the end of FY3/18, total assets were up ¥272mn on the end of the previous fiscal year to ¥12,804mn. Looking at the main change factors, in current assets, cash, deposits and marketable securities increased ¥309mn due to the growth in sales, while in non-current assets, investment securities declined ¥40mn following the reassessment of their market valuations. Long-term and short-term adjusted cash, deposits and marketable securities increased ¥269mn to ¥8,691mn, which constituted 67.9% of total assets.

Total liabilities were down ¥39mn on the end of the previous fiscal year to ¥2,369mn. In current liabilities, there were increases in outstanding payments of ¥27mn and advances received of ¥21mn, but decreases in accounts payable of ¥48mn and income taxes payable of ¥79mn. In non-current liabilities, lease obligations increased ¥13mn and the provision for directors' retirement benefits rose ¥10mn. Net assets were up ¥312mn on the end of the previous fiscal year to ¥10,434mn. Due to the recording of net profit of ¥675mn and dividend payments of ¥346mn, retained earnings increased ¥328mn.

The equity ratio was 81.4% and continues to be maintained at above 80%. As the Company has no interest-bearing debt, it can be judged that its financial position continues to be extremely good. The indicators of profitability are also steadily rising, with the operating margin increasing 0.1 of a percentage point YoY and ROA climbing 0.2 of a percentage point. The ROE level of 6.6% is slightly lower than the average of listed companies, but it is considered that this is due to the Company's basic policy of conducting solid management as a consulting company.

Balance sheet

	As of March 31, 2015	As of March 31, 2016	As of March 31, 2017	As of March 31, 2018	(¥mn) From end of previous fiscal year
Current assets	5,960	6,967	6,911	7,127	+216
(Cash/deposits and marketable securities)	5,016	6,021	5,984	6,294	+309
Non-current assets	5,832	5,118	5,620	5,676	+55
(Long-term time deposits and investment securities)	2,640	1,977	2,437	2,396	-40
Total assets	11,792	12,086	12,531	12,804	+272
Current liabilities	1,697	1,682	1,844	1,778	-65
Non-current liabilities	542	570	564	591	+26
Total liabilities	2,240	2,253	2,409	2,369	-39
Net assets	9,552	9,833	10,122	10,434	+312
(Management indicators)					
Equity ratio	81.0%	81.4%	80.8%	81.4%	+0.6pt
ROA	7.0%	7.4%	7.4%	7.6%	+0.2pt
ROE	3.3%	6.0%	6.4%	6.6%	+0.2pt
Operating margin	9.7%	10.3%	10.5%	10.6%	+0.1pt

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

Business outlook

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

1. Outlook for FY3/19

The outlook for the FY3/19 results is for the higher sales and profits to continue, with net sales forecast to increase 2.3% YoY to ¥9,000mn, operating profit to rise 3.6% to ¥970mn, ordinary profit to grow 2.6% to ¥990mn, and net profit to increase 0.7% to ¥680mn. In the context of the continued recovery of the Japanese economy, the Company is aiming for stable growth by progressing its “Consulting and Conglomerate (C&C) strategy,” (creating a consulting platform), while aiming to meet various consulting needs, from the viewpoint of “domain (business strategy) x function (organization strategy) x region (regional strategy).”

In both the management consulting business and the SP (sales promotion) consulting business, high-value-added team consulting contacts are expected to grow and the forecast is for the gross profit margin to rise 1.1 percentage points YoY to 46.4%. On the other hand, SG&A expenses are expected to rise 5.0%, which will be mainly due to the introduction of a new personnel system and wage system, and also higher personnel expenses and human resources recruitment expenses alongside the increase in the number of consultants (up 33 on the end of the previous fiscal year to 251 people), so the SG&A expenses ratio is set to rise 0.9 of a percentage point. The operating margin is forecast to increase 0.2 of a percentage point to 10.8% due to the improvement in the gross profit margin.

The 1H forecast is for a decrease in profits, with operating profit to fall 22.7% YoY. But this is mainly because human resources recruitment expenses are concentrated in the 1H, and also due to an expected increase in expenses, including to invest in upgrading offices in order to improve working environments, mainly at the Tokyo Headquarters.

FY3/19 outlook

	FY3/18 results		FY3/19			
	Full-year results	YoY	1H forecast	YoY	Full-year forecast	YoY
Net sales	8,797	+4.9%	4,000	+1.3%	9,000	+2.3%
Gross profit	3,988	-	-	-	4,175	+4.7%
SG&A expenses	3,051	-	-	-	3,205	+5.0%
Operating profit	936	+6.6%	330	-22.7%	970	+3.6%
Ordinary profit	965	+5.5%	340	-23.2%	990	+2.6%
Net profit	675	+5.8%	235	-22.5%	680	+0.7%
Earnings per share (¥)	77.95		27.13		78.49	

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

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

2. Outlook by segment

(1) Management consulting business

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

a) Domain and function consulting

In domain (by business domain and industry) and function (by organization and management topic) consulting, the Company will utilize its strength, that it has business offices at 10 bases nationwide from which it can provide a variety of consulting services all of the same quality, and it will focus on capturing demand by meeting the consulting needs of regional companies. In the “strategy domain & function workshops,” it plans to increase the current 25 topics to 30 topics during FY3/19, while also progressing scrap & build. It has already confirmed a number of topics, including “apparel, recruitment, productivity enhancement consulting, 100 year management, academies (human resources development), stage-up, and promotions,” and the strategy is to attract potential customers by expanding the workshops, which will lead to team consulting contacts. Also, going forward, in addition to creating new workshops, it will form and deploy specialist consulting teams in the Osaka and Tokyo headquarters, with the aim of building a system that can provide high-value expertise to customers throughout the country.

b) Human resources development consulting

In human resources development consulting, the Company is advancing the “FCC academies (corporate universities)” concept as the learning platform for companies that intend to be “first call companies (FCC).” It offers one-stop solutions to support companies’ human resources development needs through providing three services: “consulting” to support the establishment of corporate universities, including by building education systems, developing educational content, and producing in-company lecturers; “Cloud” to provide a learning environment using digital devices in which the place and time is not selected; and “Real” that provides seminars and made-to-order training. In terms of services for human resources development, various other companies provide e-learning and talent management systems, but each are only partial services and the Company’s strength is that it is one of the very few companies that can respond to companies’ needs for human resources development with total solutions.

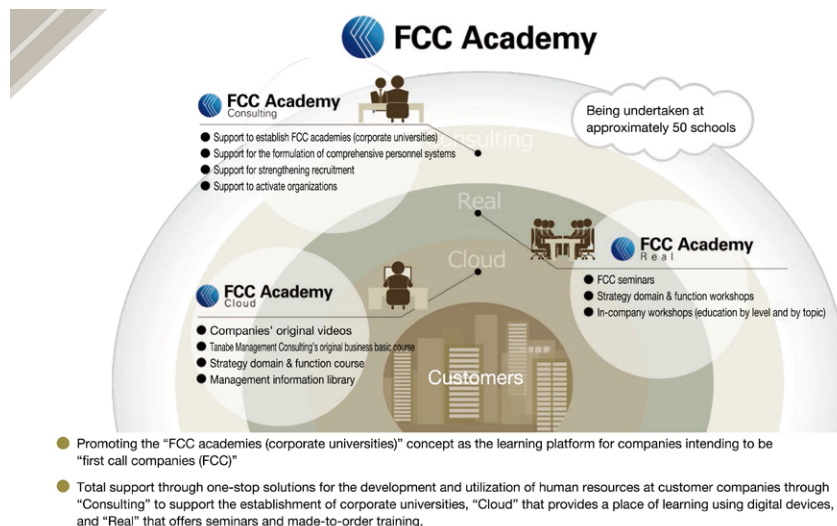
The extent of Cloud services contribution to profits is small, as their annual usage fees are set at the low cost of only around a few thousand yen per ID. But if including “Consulting” prior to their introduction and also the “Real” consulting services after their introduction, their sales scale becomes larger, and there are major expectations for their contribution to profits in the future. At the end of FY3/18, the number of companies introducing them had steadily risen to around 50, and the Company is aiming for 100 companies to have introduced them by 2020. Currently, many of the companies introducing them are medium-sized, but the policy going forward is to promote their introduction by major companies also. By industry, they are being introduced by companies in the construction, foods, and healthcare-related (such as dispensing pharmacies) industries. The Company plans to incorporate the case studies of introductions by around 50 companies into the newly established program of workshops in FY3/19, and for the future also, it is investigating building an open platform by industry that will connect introducing companies within the same industry.

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Business outlook

Human resources development consulting strategy



Source: The Company's results briefing materials

c) Alliance consulting

In alliance consulting, in addition to conventional consulting for financial institutions, through alliances with approximately 100 financial institutions the Company's policy is to newly systemize and focus on a menu for "stage-up consulting," targeting its alliance partners' approximately 7,000 customer companies (mainly SMEs), and also "M&A consulting" in collaboration with its alliance partners.

In "stage-up consulting," the Company provides consulting necessary for companies to get beyond the barrier of each stage of sales of ¥100mn, ¥300mn, ¥500mn, and ¥1bn. Also, as a measure to find potential customers, in April 2018 it launched simple diagnostic services on its website. Specifically, it provides simple diagnostic services in order for companies to ascertain their own conditions, such as an organization and personnel diagnosis, a brand survey, and a Web diagnosis, and the results of these diagnoses identify the needs for consulting, which leads to consulting proposals. Up to the present time, the Company has mainly provided consulting for medium-sized companies, but its policy is to also broaden its horizon to target start-ups and SMEs and to strengthen its consulting menu for such companies.

In "M&A consulting," while coordinating with its alliance partners, the Company introduces candidates for an acquisition to companies that intend to conduct an M&A for growth (the buyer side). Previously also, it provided such a service on an individual basis, but the needs for M&A consulting are strong, so it has organized an "M&A alliance" and has clarified and is providing a menu of services for it. The target customers are medium-sized companies and for FY3/19, the Company is aiming to conclude a few contracts over the year.

(2) SP (sales promotion) consulting business

The forecasts for FY3/19 are net sales to increase 2.0% YoY to ¥3,850mn and segment profit to rise 3.6% to ¥210mn. The Company is aiming to achieve higher sales and profits by strengthening proposals for "sales promotions and Web promotions consulting" and "SP design," and by improving added value and increasing the number of contracts. By the end of FY3/19, it plans to increase the number of consultants by 7 on the end of the previous fiscal year to 65 people. Diary sales are forecast to be at around the same level as the previous fiscal year.

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As the business strategy to be implemented during this fiscal period, the Company will enhance expertise from the viewpoints of domain (industry) and function (promotion topic), and at the same time, it will build a structure that can advance team SP consulting through reviewing business processes. It will also focus on progressing optimal Web promotions and acquiring large-scale design orders, and on supporting customers' sales promotions through providing one-stop, total solutions. In addition, it plans to widen the sales areas, from the previous four main bases (Osaka Headquarters, Tokyo Headquarters, Chubu Head Office, and Kyushu Head Office) to branch offices nationwide.

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

3. Medium-term business plan

The Company newly formulated "Tanabe Vision 2020 (2018 to 2020)" with the slogan of "from change to growth" in order to realize sustainable growth from 2020 onwards. It is aiming to advance the "creation of a consulting platform" on a nationwide scale, expand the customer base while collaborating with alliance partners, and grow sales, mainly of team consulting. As previously mentioned, it is expanding the sales area to nationwide for SP consulting as well. To deal with high-level management issues, it is preparing a structure to select and dispatch professional consultants in the relevant field on a nationwide level.

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

Numerical targets in the medium-term business plan

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

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

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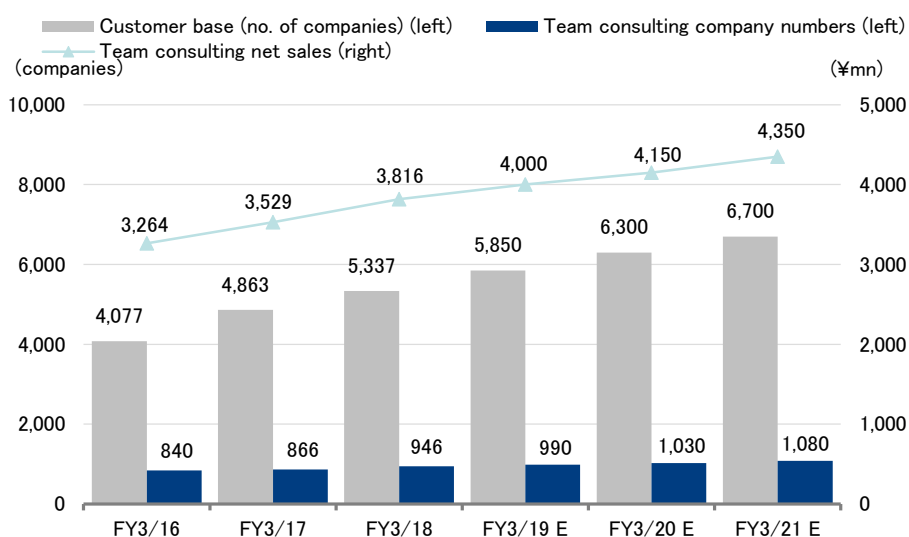
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Business outlook

Team consulting net sales, which is a main KPI, are expected to grow from ¥3,816mn in FY3/18 to ¥4,350mn in FY3/21. This will be an average annual growth rate of 4.5%, slightly above the Company-wide average, while their percentage of total net sales is forecast to rise from 43.4% in FY3/18 to 45.3%. The Company also plans to increase the number of consultants, who will be the driving force behind growth, from 218 people at the end of FY3/18 to 291 people at the end of FY3/21. It intends to train new graduates and recruit mid-career hires with advanced expertise as consultants to further strength its business foundation.

Trends in the team consulting company numbers and net sales

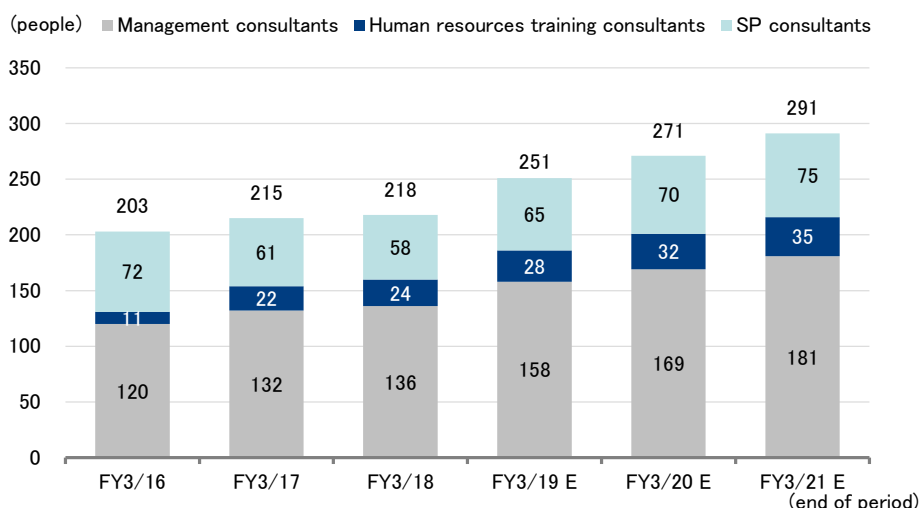


Note: customer base = strategy domain & function workshops + FCC seminars

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

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

Number of consultants



Note: excludes the consultants belonging to the Strategic Comprehensive Institute

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

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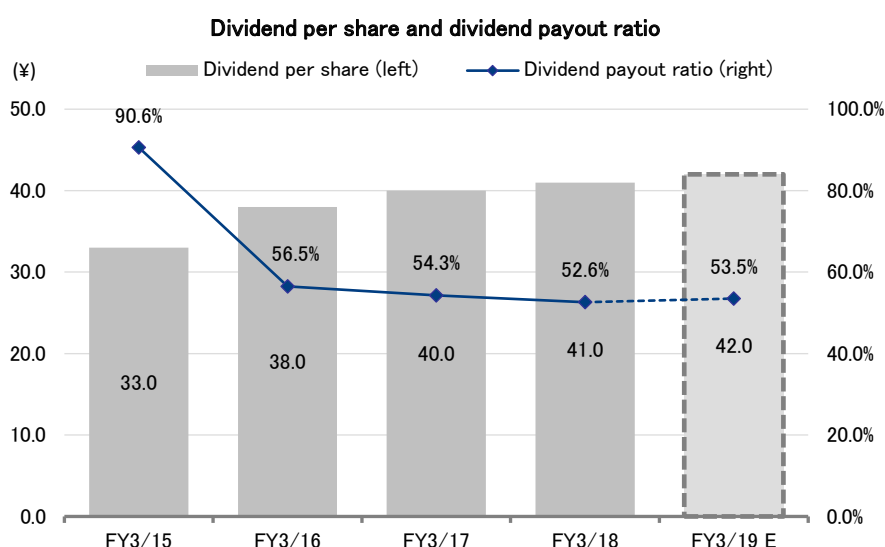
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Shareholder return policy

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

Shareholder returns include dividends and shareholder gifts. Tanabe decides the dividend while taking into account earnings and other factors (excluding extraordinary items) with a goal of a 60% of dividend payout ratio. It plans to raise the dividend by ¥1.0 to ¥42.0 (53.5% payout ratio) in FY3/19, for a seventh straight fiscal year, and to continue lifting sales, profits and the dividend.

It also provides a gift to shareholders on record as of end-September of its original Blue Diary scheduler (worth about ¥3,000). Dividend yield worked out to about 2.0% and investment return comes to roughly 3.4% including the shareholder gift, based on the share price on July 10 (¥2,154).



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

Information security policy

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

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

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