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FISCO Ltd. Analyst  
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## ■ Good progress in mid-term plan, increasing shareholder value

For the fiscal year ending in August 2013 (FY8/13), the final year of the company's current three-year management plan, issued in October 2010, the company projects sales of ¥16,307 million (mn) and recurring profit of ¥3,877mn. This plan calls for an expansion of profits through an increase in the number of franchised Meiko Gijuku schools, an increase in the number of students per school and the number of classes offered at each school, yielding an increase in the profits of each school. In order to build foundations for other main businesses, the firm is launching new businesses, helping it to expand its customer base.

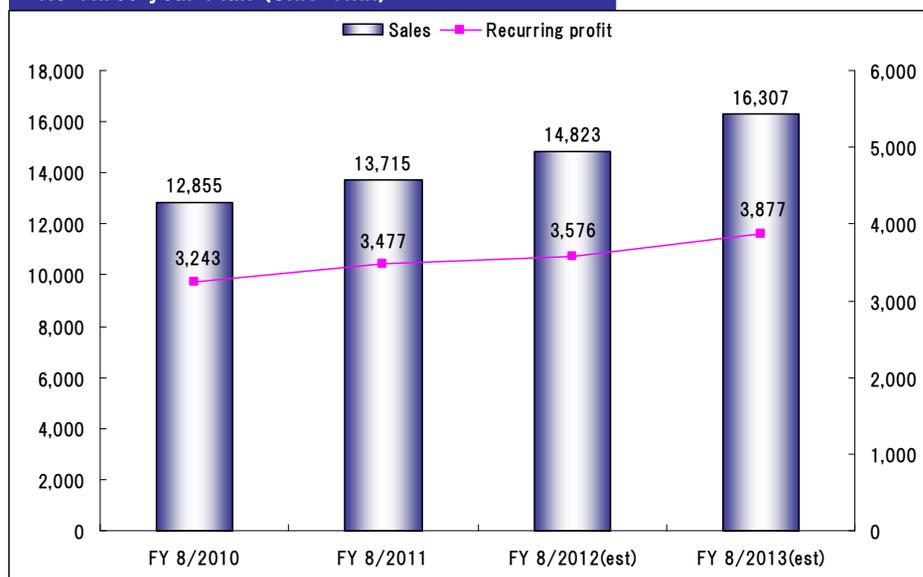
In FY8/13 and ensuing years, Meiko Network Japan foresees growth from its main business of Meiko Gijuku schools and from contributions of new businesses, such as Waseda Academy Kobetsu (Individual) Schools and Meiko Soccer Schools. Meiko Network Japan remains aggressive in mergers and acquisitions. In June, it took a 40% stake in Life Support Co., which provides home care for the elderly and infirm and operates day care centers for young children. Life Support is now an affiliate of Meiko Network Japan, accounted for by the equity-in-earnings method in Meiko Network Japan's consolidated results. At the end of July, Meiko Network Japan raised its stake affiliate Youdec to 63%, making it a fully consolidated subsidiary. The company is on track to achieve the goals of its three-year management plan due to the expansion of its Meiko Gijuku business and its development of new businesses.

For maximizing returns to its shareholders, the company maintains a dividend payout ratio of about 35% and has increased its dividend for 13 consecutive years. The company has announced that it will distribute to each of its shareholders as of August 31, 2012 a ¥3,000 QUO card. It plans to pay a dividend of ¥25 per share for FY8/12, or ¥2,500 to a holder of a minimum lot of 100 shares. Based on the company's closing share price on August 23, 2012, a minimum lot cost ¥81,300.

## ■ Check Points

- The market share of flagship Meiko Gijuku schools is expanding
- The company is developing new businesses, mainly through M&A
- The company is raising shareholder returns by consecutively increasing dividends and starting shareholder awards

Targets for FY8/12 and FY8/13 According to its Three-year Plan (Unit: ¥mn)



## ■ Three-year Management Plan

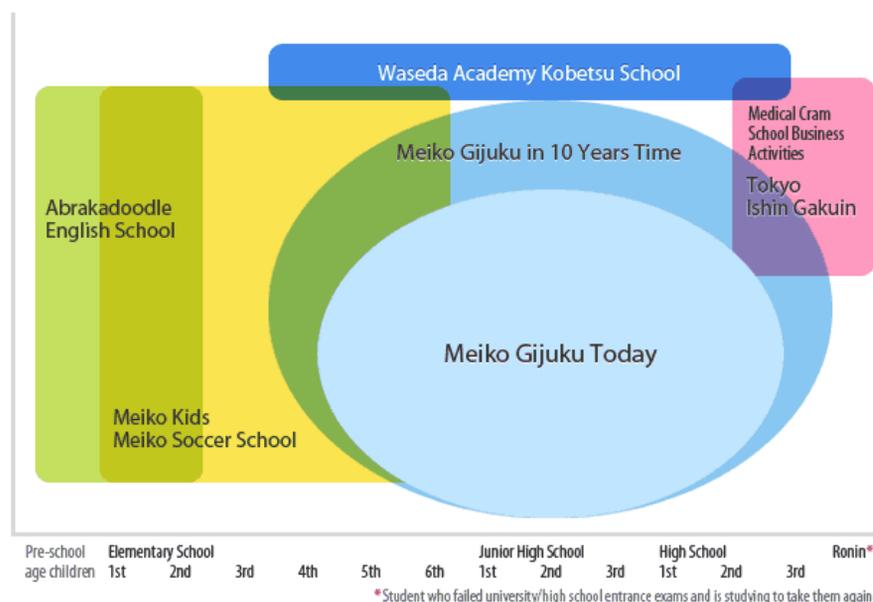
### Broadening its business scope, including the age range of customers

The company has announced new strategies to achieve the goals of its three-year management plan issued in October 2010. This plan calls for an expansion of profits through an increase in the number of franchised Meiko Gijuku schools, an increase in the number of students per school and the number of classes offered at each school, yielding an increase in the profits of each school. In order to build foundations for other main businesses, the firm is launching new businesses, helping it to expand its customer base.

The new enterprises include Waseda Academy Kobetsu schools, Meiko Kids, Abrakadoodle Art Studios, Tokyo Ishin Gakuin, and English schools developed through a business and capital alliance concluded with ALC in July 2011. The main customer segment of Meiko Gijuku schools has been students between the fourth year of elementary school and the final year of high school, with the volume zone being students whose performance at school is in the middle of their respective classes. The Waseda Academy Kobetsu schools offer individual instruction to good students seeking to enter academically challenging junior high schools, high schools, and universities. Meiko Kids and Abrakadoodle Art Studios cater to younger children, while Tokyo Ishin Gakuin prepares high school students and graduates to enter medical schools. As mentioned previously, the alliance with ALC is aimed towards expanding into English language schools. The firm remains fully committed to developing these new businesses and, by FY8/13 it aims to derive at least 10% of its total sales from them.



## Business Area Expansion



Source: Company

## Mid-term Business Plan (unit: ¥1 million)

	FY 8/2010	FY 8/2011	FY 8/2011	FY 8/2012	FY 8/2013
	Results	Projection	Results	Projection	Projection
Sales volume	12,855	13,711	13,715	14,823	16,307
Meiko Gijuku	12,134	12,838	12,977	13,624	14,496
Tokyo Ishin Gakuin	633	700	594	850	1,000
Soccer School	87	90	93	95	99
Waseda Academy Kobetsu School	-	66	45	146	496
Meiko Kids etc.	-	15	4	107	214
Recurring profit	3,243	3,258	3,477	3,576	3,877
Term net profit	1,897	1,768	1,922	2,030	2,206

## Franchising Waseda Academy Kobetsu Schools

In FY8/13 and ensuing years, the company anticipates continued profit growth from its Meiko Gijuku schools and greater profit contributions from its new businesses, such as the Waseda Academy Kobetsu Schools and the Meiko Soccer Schools. Meiko Network Japan intends to pursue profit growth by applying its knowledge of operating franchise chains to its new businesses.

## ■ Three-year Management Plan

The company plans to continue to open 90-100 new Meiko Gijuku schools per year, mainly franchised schools. It therefore projects steady sales growth of 1-5% per year from these schools. As the number of children in Japan continues to decline, the Japanese market for private educational services is unlikely to grow. However, Meiko Gijuku schools now command about 13% of the Japanese market for supplementary group education, and the company expects this share to increase, as its approach to education is based on independent study and individual instruction and its franchise system is outstanding. It aims to grow by increasing its market share.

Meiko Network Japan foresees greater profit contributions from its new businesses, particularly from the Waseda Academy Kobetsu Schools, which it started in 2011 in cooperation with Waseda Academy (4718). This business combines the high-level materials and instruction knowhow of Waseda Academy with the personalized instruction and franchise operation knowhow of Meiko Network Japan and enabled Meiko Network Japan to enter the market niche of individual tutorial private educational services for accomplished students seeking entry to prestigious schools and universities. At the end of May 2012, Meiko Network Japan operated two Waseda Academy Kobetsu Schools, both in Saitama Prefecture, with 153 students, and Waseda Academy operated two schools, both in Tokyo. Many owners of Meiko Gijuku school franchises have expressed a desire to start operating a Waseda Academy Kobetsu School. Thus, Meiko Network Japan opened seven franchised Waseda Academy Kobetsu Schools in the final quarter of FY8/12. Over the next five years, it plans to open 20 franchises per year, bringing the total to 100 franchised schools, which are estimated to generate annual sales of ¥5-6 billion.

## ■ Recent Acquisitions

### Entering nursery and elderly care industry to expand its business towards “continuing education”

At the end of May, Meiko Network Japan’s equity ratio stood at 70.1%, and its cash and cash equivalents totaled ¥4,741mn, which was more than 35% of its total assets. In other words, the company was cash rich, enabling it to pursue mergers and acquisitions aggressively. Since June, it has announced the following two acquisitions.

#### Life Support Co.

In June, the company invested slightly more than ¥500mn to take a 40% stake in Life Support Co., making it an affiliate accounted for by the equity-in-earnings method. Life Support Co. provides social welfare services, specifically, care for children and the elderly. It operates its own day care centers and day care centers built by local governments, and it sends personnel to homes to care for children. It operates its own nursing homes, dispatches personnel to homes to care for the elderly, and supports care for the elderly at home and at facilities for elderly people able to walk to these facilities. Its registered day care centers are located in Tokyo, and the company operates Yurarin day care centers registered by the government of Tokyo. It operates fee-based Yurari nursing homes in Tokyo and Saitama Prefecture. These two main businesses each provide about half of Life Support’s sales. The company has concluded many contracts with large corporations and hotels to provide child care at homes and to operate child care centers on behalf of these customers.

Meiko Network Japan invested in Life Support Co. to develop a day care business through which to attract more younger students and to develop a nursing care business through which to attract more adult students to “continuing education”. Meiko Network Japan intends to forward a director to Life Support Co. In the fiscal year through September 2011 (FY9/11), Life Support Co. raised its sales to ¥3,123mn, from ¥2,726mn in FY9/09, its net profit to ¥87mn, from ¥45mn, its earnings per share (EPS) to ¥17,494, from ¥9,172, and its book value per share (BPS) to ¥121,834, from ¥94,641. In FY9/11, the company’s operating profit declined, but its non-operating account was bolstered by government subsidies for the construction of new day care centers, so its recurring profit grew by double digits.

## ■ Recent Acquisitions

## Consolidated a publishing company with the top share of the Greater Osaka market for magazines providing information on school entrance exams

### Youdec Co.

In July, Meiko Network Japan invested ¥105mn to raise its stake in equity-accounted affiliate Youdec from 19.2% to 63.1%, making it a fully consolidated subsidiary. The additional shares were purchased from Youdec president Kawahigashi and from Up Co., and With-Us Co.(9696), both are operating private preparatory schools in the Greater Osaka.

Youdec publishes a magazine called Gakuan in the Greater Osaka area of Japan. This magazine provides information about entrance exams for private junior high schools and high schools in the Greater Osaka area. In sales volume, Gakuan is the top-selling magazine of this sort in Greater Osaka. Youdec also sells practice exams for academic advancement throughout Japan and materials for supplementary group education, and provides supplementary education at schools. Youdec has been preparing practice exams and selling educational materials for Meiko Network Japan, and Meiko Network Japan has forwarded a director to Youdec. Now that Youdec has become a consolidated subsidiary of Meiko Network Japan, the parent company will encourage its new subsidiary to expand its business of providing supplementary education at schools. Meiko Network Japan also expects that Youdec will help improve the quality of the standardized tests used by Meiko Network Japan. In FY9/11, Youdec raised its sales to ¥695mn, from ¥577mn in FY9/09, its net profit to ¥25mn, from ¥14mn, its earnings per share (EPS) to ¥12,803, from ¥7,439, and its book value per share (BPS) to ¥98,377, from ¥82,745.

Meiko Network Japan's stake in Life Support Co. allows the company to enter the business of care for the aged. Meiko Network Japan expects that this business will help it to enter the businesses of education and cultural events for the aged in the future.

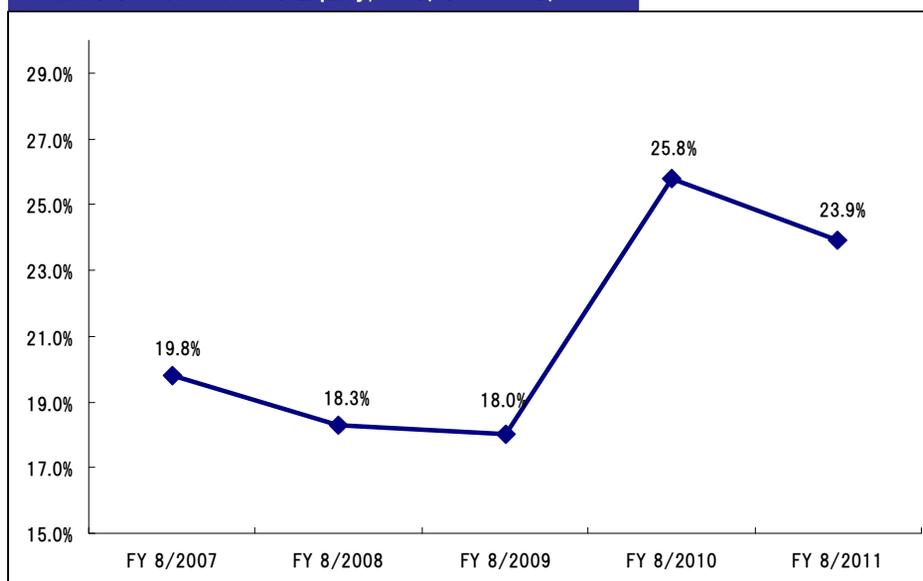
Meiko Network Japan plans to closely examine all opportunities for mergers and acquisitions that would contribute to its growth and that conform to its business principles of developing people through education and culture and of supporting its self-realization through the dissemination of its franchising knowhow. The Meiko Gijuku business will probably remain a stable base of sales and profit growth, while new businesses should contribute more to profits in coming years.

## ■ Shareholder Return Policy

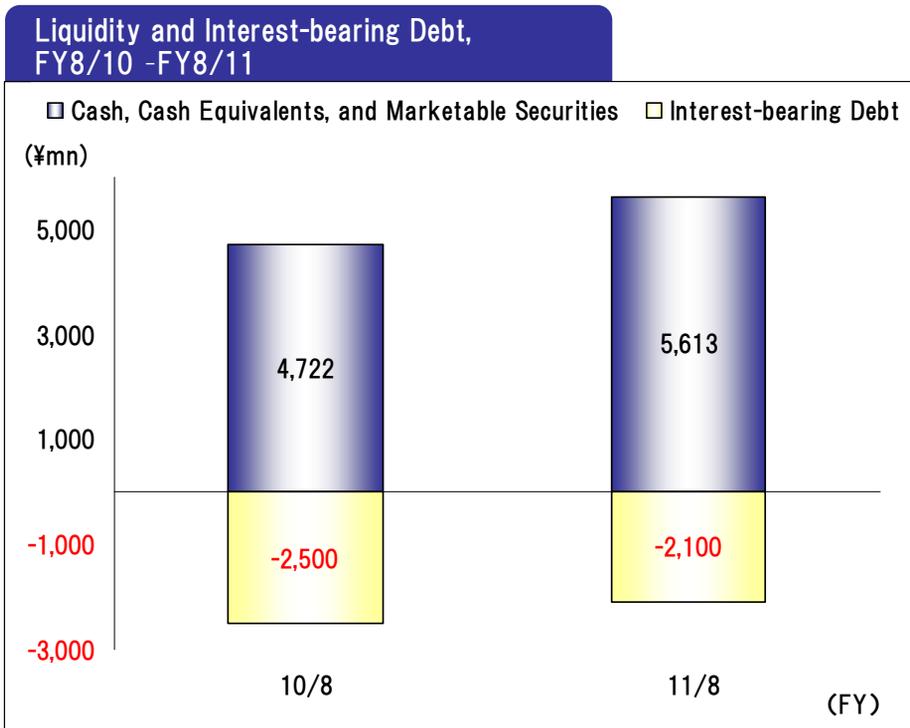
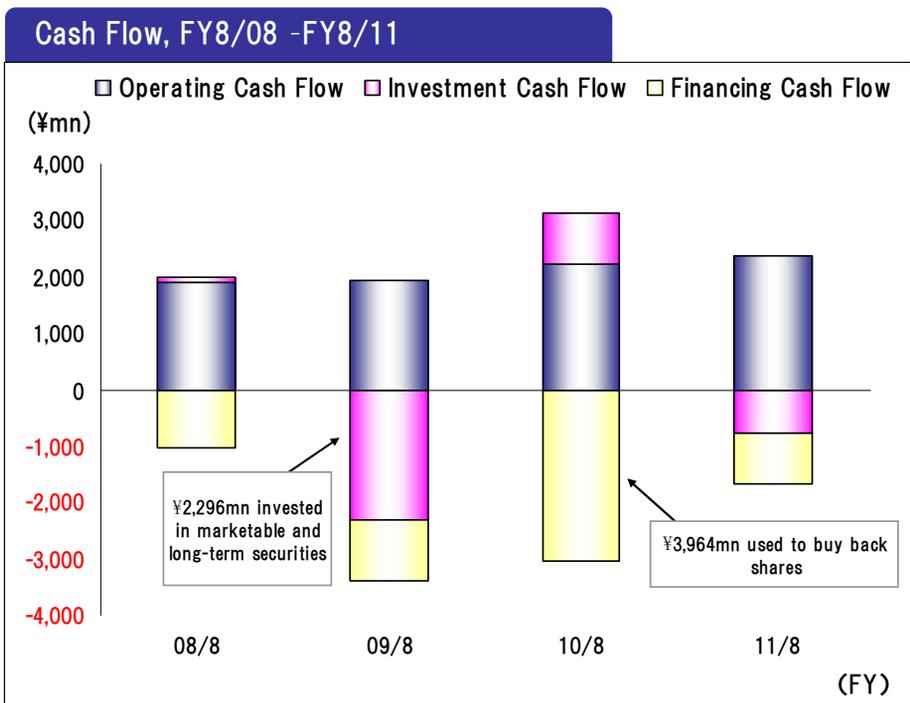
### Solid balance sheet allows the company great discretion in use of funds

Meiko Network Japan maintains a strong balance sheet because its business model of developing franchise chains requires little capital investment and provides a steady flow of cash. Over the past few years, the company has steadily increased its return on equity (ROE) by buying back and disposing of its own shares, so its ROE now exceeds 20%. It maintains an operating cash flow of about ¥2 billion per year, while its cash outflow has been limited mainly to dividend payments and share buybacks. Thus, its cash, cash equivalents and marketable securities have grown steadily. At the same time, its interest-bearing debt has declined steadily. Thus, its current ratio exceeded 300% at the end of H1 FY8/12. The company can freely decide how to use its ample cash. It may acquire other companies or increase its dividend payments or buy back shares.

Ratio of Net Profit to Equity, FY8/07 - FY8/11



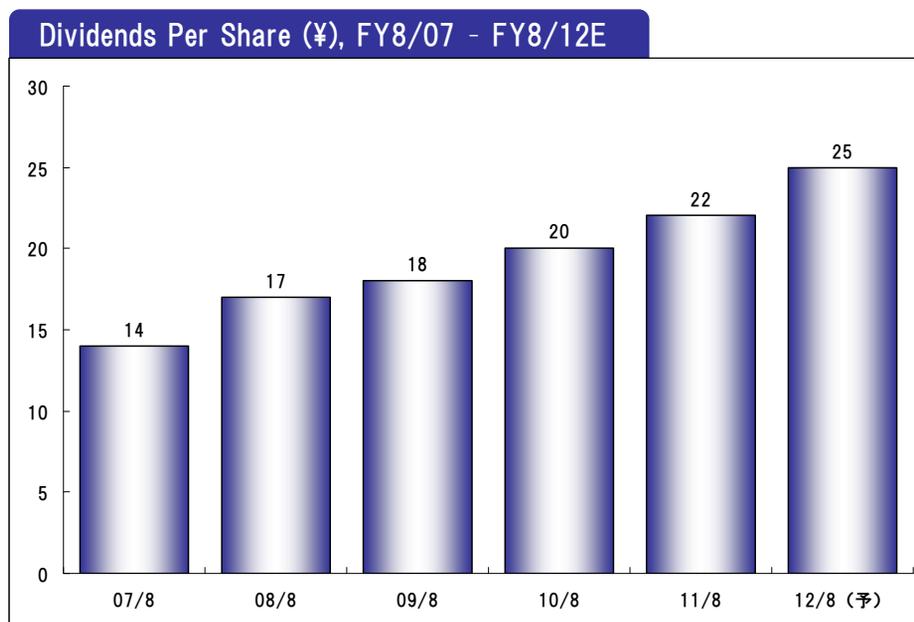
■ Shareholder Return Policy



## ■ Shareholder Return Policy

## To distribute ¥3,000 QUO cards to shareholders as of August 31, 2012

For maximizing returns to its shareholders, the company maintains a dividend payout ratio of about 35% and has increased its dividend for 13 consecutive years. The company has announced that it will distribute to each of its shareholders as of August 31, 2012 a ¥3,000 QUO card. It plans to pay a dividend of ¥25 per share for FY8/12, or ¥2,500 to a holder of a minimum lot of 100 shares. Based on the company's closing share price on August 23, 2012, a minimum lot cost ¥81,300. Given its financial strength, its firm growth, and its steady increase in shareholder returns, the company will probably be more highly appraised by investors in coming years.



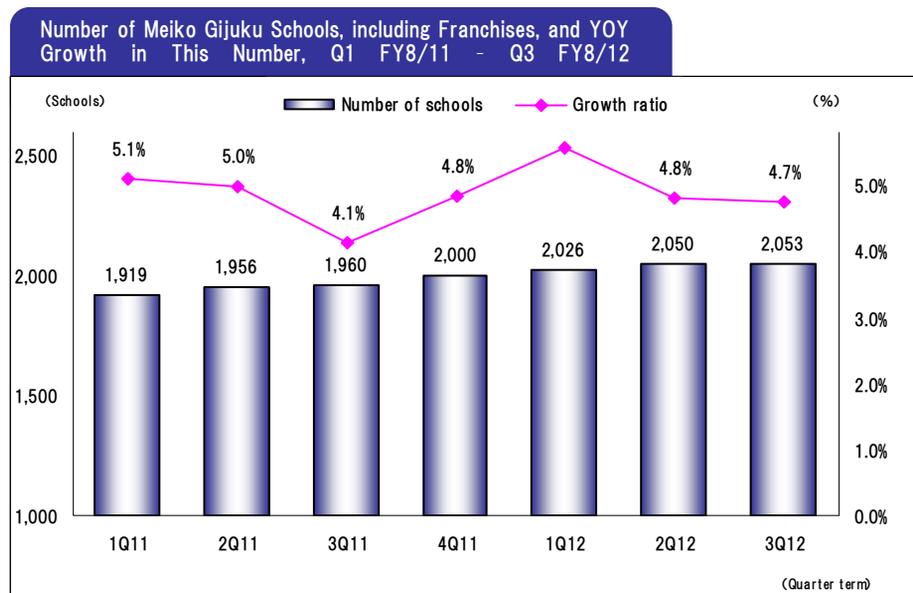
## Business Trends

### The market share of flagship Meiko Gijyuku schools is expanding

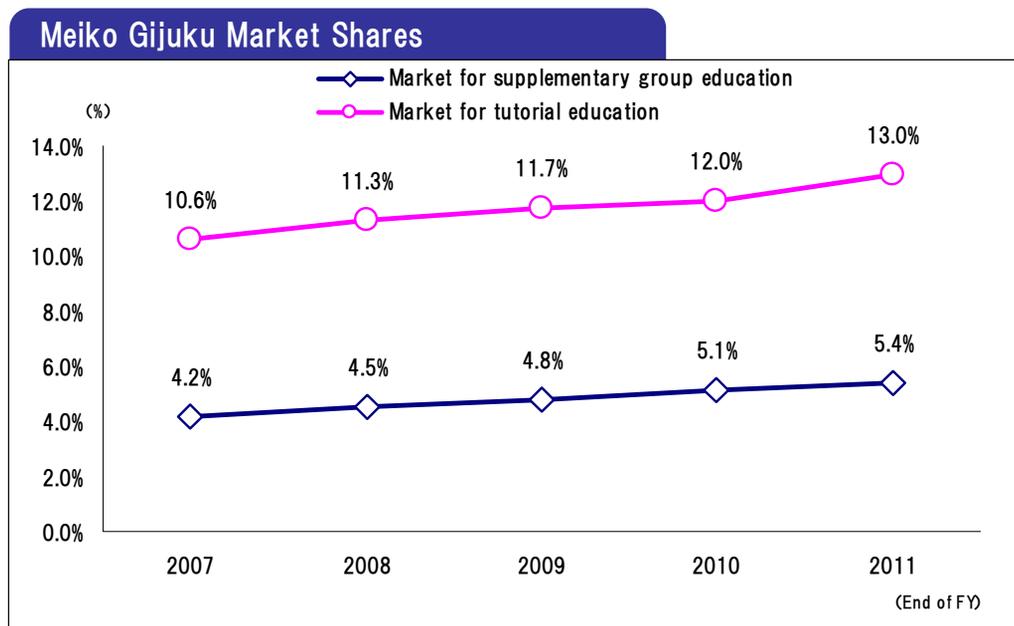
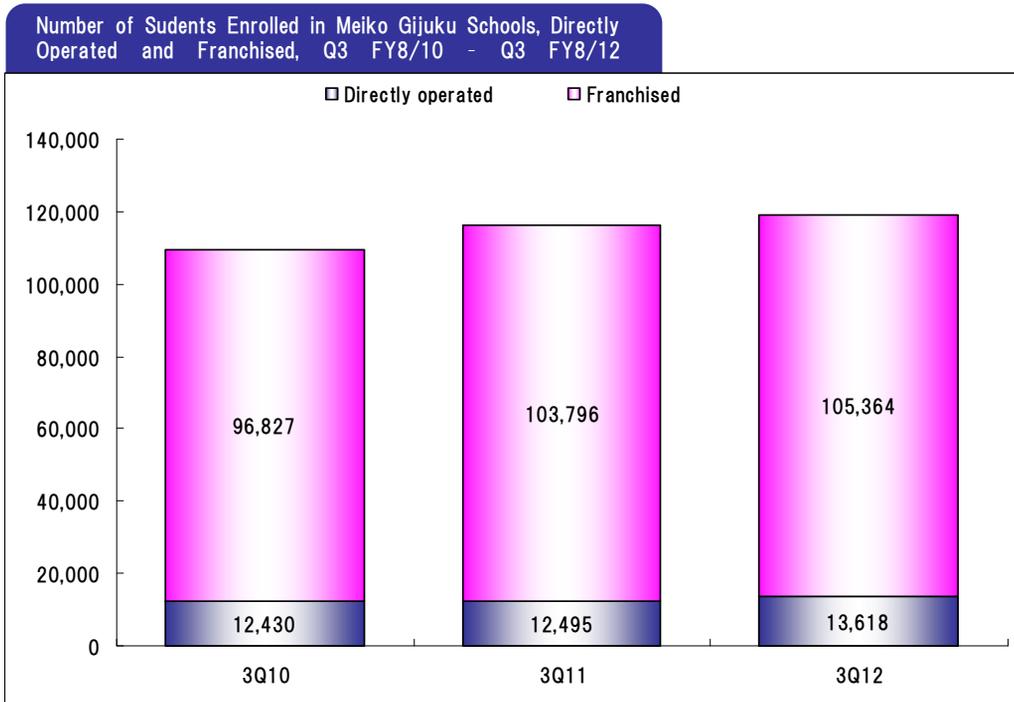
#### (1) Results in First Nine Months of FY8/12

As the company announced on July 10, 2012, in the first nine months of FY8/12, i.e. from September 2011 through May 2012, company sales grew by 6.4% year-on-year (YOY) to ¥10,220mn, operating profit declined by 1.5% YoY to ¥2,100mn, recurring profit fell by 1.2% YOY to ¥2,231mn, and net profit grew by 0.5% YoY to ¥1,233mn.

At the end of May 2012, the Meiko Gijyuku school business encompassed 2,053 schools, 4.7% more than it had at the end of May 2011, and it enrolled 118,982 students, 2.3% more than it had enrolled a year earlier. This growth was achieved in an industry that did not grow and contributed to the sales increase. The Meiko Gijyuku school business grows each year by franchising its formats for independent study and individual instruction. Thus, this business increases its share of the Japanese market for private education annually.



Business Trends

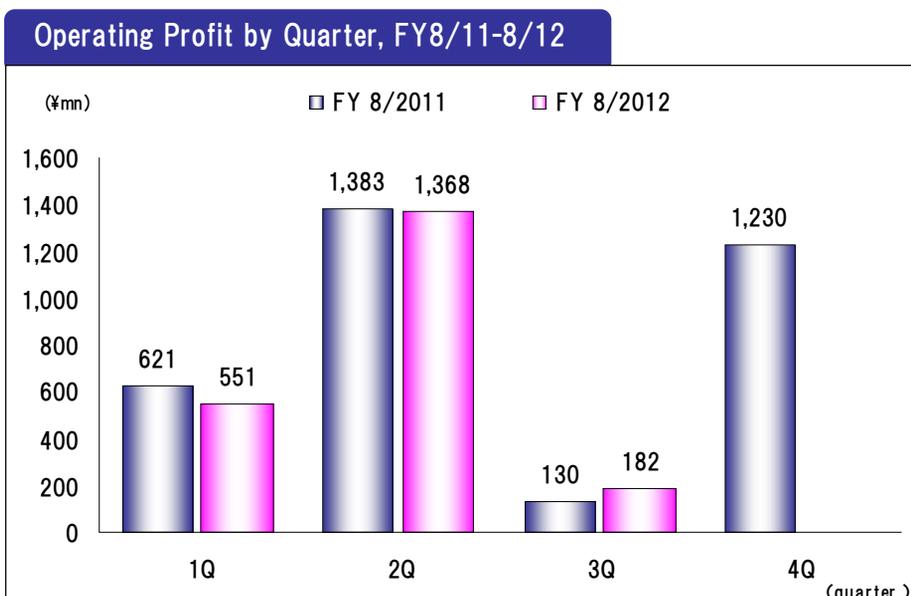


Source: Yano Research Institute



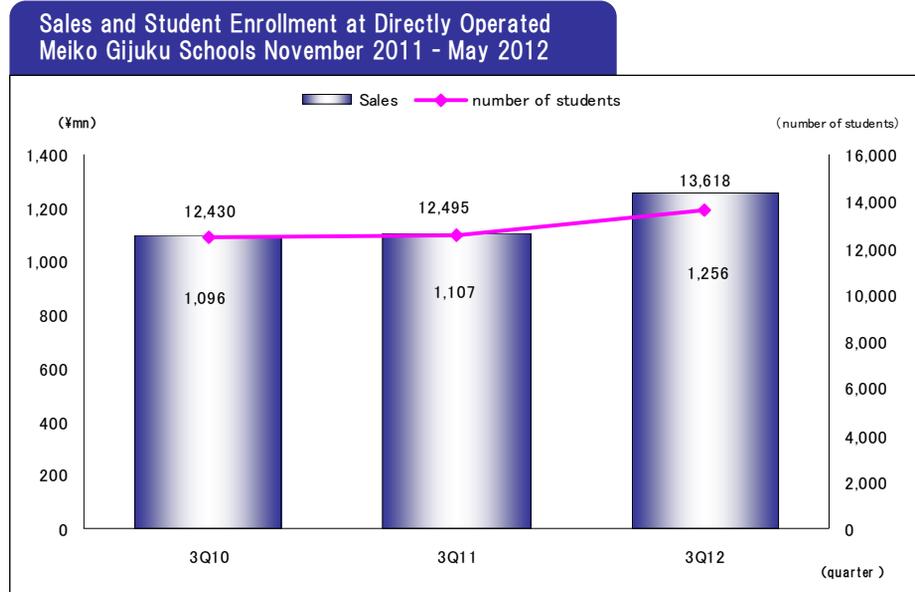
## ■ Business Trends

Operating and recurring profits declined slightly YOY in the first nine months of FY8/12 because of costs incurred to relocate and renovate schools to improve the learning environment and because of the costs of building new businesses. However, in the third quarter of FY8/12 (Q3 FY8/12), i.e., in March-May 2012, operating profit grew 40.6% YOY to ¥182mn, for the first YOY increase in four quarters, reflecting cost-cutting.

**(a) Directly operated Meiko Gijuku schools**

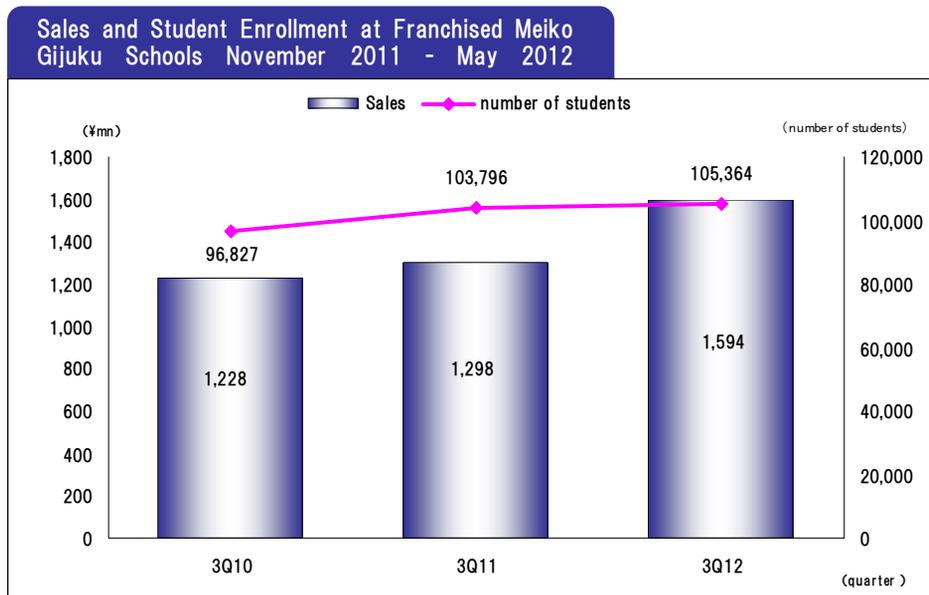
In the business of directly operating Meiko Gijuku schools, sales increased by 4.6% YOY to ¥4,771mn, but operating profit declined by 9.6% YOY to ¥733mn because of the costs of relocating and renovating schools. At the end of May 2012, the company directly operated 214 schools, unchanged YOY, but 13,628 students were enrolled in these schools at the end of May 2012, 9% more than had been enrolled a year earlier. The increase in the number of students enrolled was partially a rebound from a decline in the number of students in FY8/11 due to the impact of the Great East Japan Earthquake of March 11, 2011. However, it also reflected other factors, including 1) an increase in satisfaction with the schools by both students and their guardians, because of thorough counseling, 2) the superior facilities for teachers, which allows students to complete their terms of study without anxiety about a possible change in teacher, and 3) the improved learning environment resulting from the relocation and renovation of schools. The YOY increase in the number of students enrolled supported the sales rise.

Business Trends



**(b) Meiko Gijuku school franchises**

In the business of franchised Meiko Gijuku schools, sales grew by 7.4% YOY to ¥4,875mn, and operating profit increased by 2.7% YOY to ¥2,311 million. The number of franchised Meiko Gijuku schools rose by 5.3% YOY to 1,839, and the number of students at these schools increased by 1.5% YOY to 105,364 students. In the year through May 2012, the company opened 93 franchised schools, continuing its 95-100 school per year pace of expansion. This pace of expansion is attributable to at least three factors. First, the Meiko Gijuku brand of group supplementary education was strengthened because of its formats for independent study and individual instruction. Second, the company improved the management capabilities of franchise owners and classroom supervisors by providing regular training. Third, the company improved its ability to rapidly acquire sites for new schools.



## ■ Business Trends

**(c) Supplemental education**

This division is operated by consolidated subsidiary Tokyo Ishin Gakuin (Tokyo Medical School Preparatory Institute), which prepares students for entry into medical school. In the first nine months of FY8/12, sales at this unit declined by 10.7% YOY to ¥377mn and the unit suffered an operating loss of ¥35mn, larger than the operating loss of ¥15mn suffered in the first nine months of FY8/11. Because of the impact of the Great East Japan Earthquake and tsunami, the number of new students enrolling at this institute from rural areas of Japan declined in spring 2011, and it declined again in spring 2012 because of Japan's weak economy. At the end of May 2012, 117 students were enrolled, 5.6% fewer than had been enrolled a year earlier. To reverse this trend of decline in the number of enrolled students, the institute is advertising its attractions through fine-tuned promotions and recruiting new students year-round.

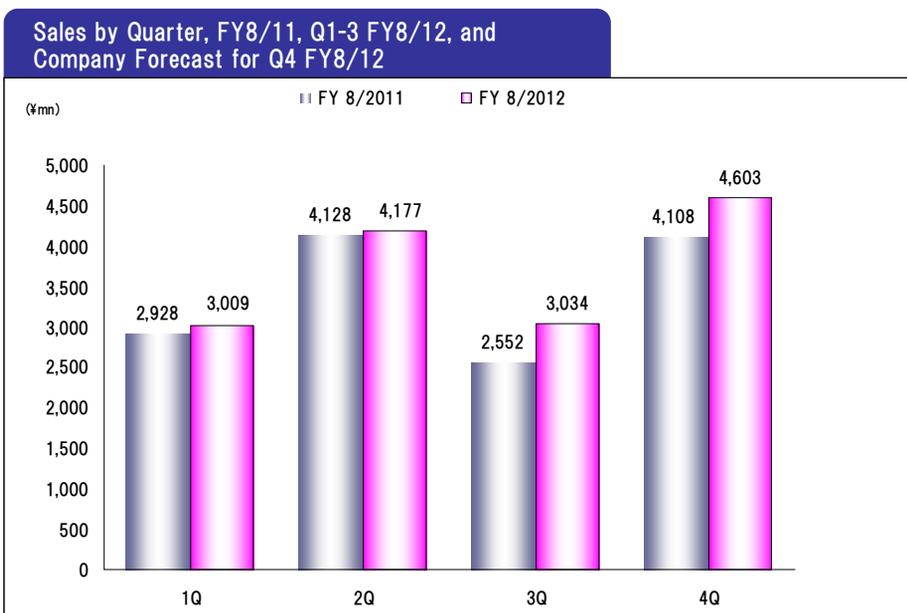
**(d) Other businesses**

Other businesses are new businesses, such as Meiko Soccer Schools, the Waseda Academy Kobetsu Schools, Meiko Kids, and Abrakadoodle Art Studios. In the first nine months of FY8/12, these businesses provided sales of ¥196mn (up 130% YOY) and suffered an operating loss of ¥102mn, smaller than the ¥129mn operating loss suffered in the first nine months of FY8/11. The sales growth was due mainly to an increase in the number of students at Waseda Academy Kobetsu Schools, a business the company started in January 2011. In March 2012, the company opened two new directly operated Meiko Soccer Schools, bringing the total number of these schools to six, and recently, the company opened its first franchised Meiko Soccer School. Thus, in the first nine months of FY8/12, the Meiko Soccer School business increased sales by 10% YOY to ¥75mn and earned an operating profit of ¥1mn.

## Company aims to enroll more students for its summer courses to achieve its projections for FY8/12

### (2) Company Forecasts for FY8/12

For FY8/12, the company maintained its original forecasts: sales of ¥14,823 million (up 8.1% YOY), operating profit of ¥3,576 million (up 6.3% YOY), recurring profit of ¥3,576 million (up 2.9% YOY), and net profit of ¥2,030 million (up 5.6% YOY). If these forecasts are achieved, they will be record highs for the company. To reach these forecasts, sales will have to grow by 12% YOY in the final quarter of FY8/12 and operating profit will have to rise by 20% YOY. To meet its sales forecast, the company is making greater efforts to enroll students for the summer semester. In Q3 FY8/12, its sales grew by 18.9% YOY, and considering that sales in FY8/11 were impaired by the impact of the Great East Japan Earthquake, it appears likely that the company will attain its sales forecast for the full fiscal year.



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