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■ Profitable mainstay business maintains stable earnings growth

Meiko Network Japan (4668) announced on January 8, 2014 that in the first quarter (September - November 2013) of the fiscal year ending August 31, 2014 (FY8/14) sales declined by 0.3% YOY to ¥3,316 million and operating profit decreased by 17.7% YOY to ¥612 million on a consolidated basis. The number of students in the Meiko Gijuku school business remained largely unchanged from the previous fiscal year at 144,819 (as of November), and expenses for recruiting teachers and students increased, contributing to the profit decline. It will be interesting to see if the number of students increases in supplementary education or any of the other businesses.

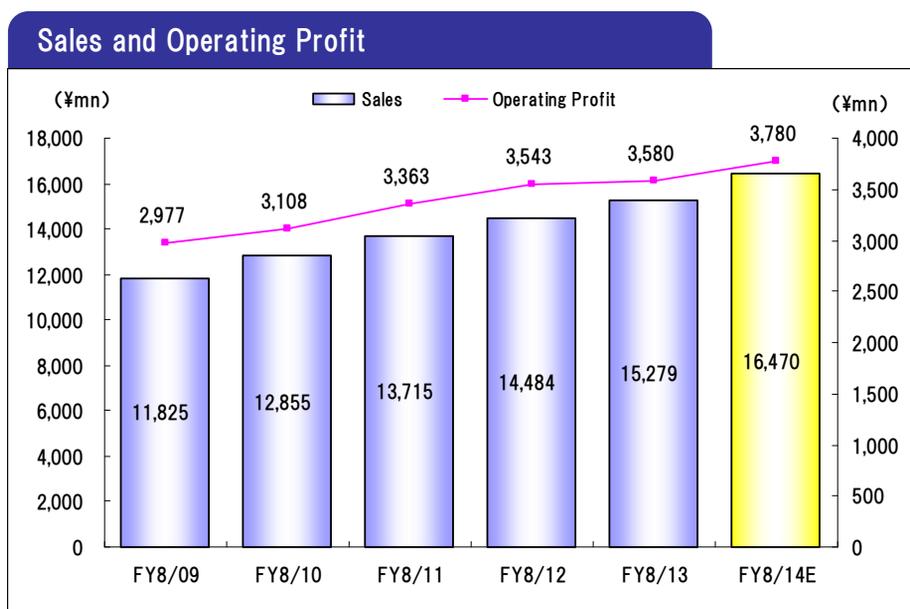
The company's initial forecast on a consolidated basis for FY 8/14 of sales increasing 7.8% YOY and operating profit rising 5.6% YOY remains unchanged. Increasing the number of students in its mainstay Meiko Gijuku School business is the key to success. The company will increase student numbers from the spring of 2014 by taking its standardized approach to counseling for admission and applying it not only to directly operated schools, but to franchised schools as well.

With the growing need for after-school care programs for children due to increasing double-income households, the future development of the Meiko Kids service will be closely watched. Previously, it operated one school, but because it has now established a management system, it plans on opening two schools in the spring of 2014. Student recruiting appears to be going well for both schools and it has drawn up expansion plans to open up to 10 schools within three years.

The company is expected to achieve stable earnings by increasing the number of students in Meiko Gijuku and becoming profitable in its mainstay businesses including Meiko Soccer Schools and Meiko Kids. Its shareholder return policy is to gradually raise its standard dividend payout from 35% to 50% and it will continue to raise its dividend during FY8/14. Meiko Network Japan is attracting attention as a company with promising earnings and dividend growth.

■ Check Points

- Pronounced growth in number of students of mainstay businesses in first quarter
- Sales and profit growth expected for full FY8/14, efforts to increase number of students should succeed
- 16th successive dividend increase planned and continuous dividend payout growth expected



Business Overview

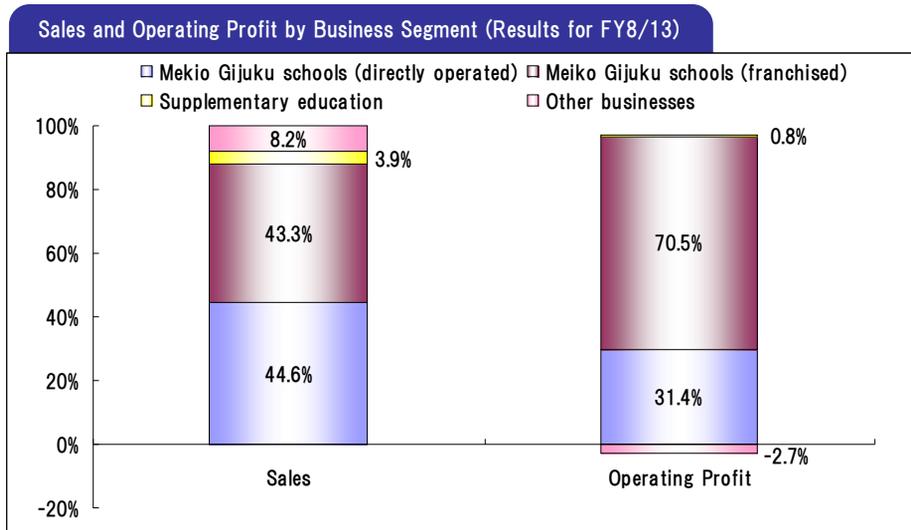
Expansion of mainstay Meiko Gijuku and other educational services now underway

The company's business is comprised of four business segments, namely, Meiko Gijuku school business, an industry leader in supplementary education tutoring, via the directly operated and the franchised, the preparatory school business specializing in the medical college entrance exam launched by its subsidiary Tokyo Ishin Gakuin (Tokyo Medical School Preparatory Institute), and other businesses.

In other businesses, various educational services are being offered including Meiko Soccer Schools for children, Waseda Academy Kobetsu Schools, tutorial supplementary education for students preparing for entrance exams to top-notch schools, Meiko Kids after-school care program for children, Abrakadoodle Art Studios, which provide art classes for infants and up to elementary school students, and MEIKO PLUS Academy, which provides individual tutoring to Korean students. In addition, the company's subsidiary You DEC Co., Ltd publishes a magazine containing information on entrance exams, prepares practice exams, sells educational materials, and operates a supplementary education business within schools. Moreover, Koyo Shobo Corporation, a subsidiary of You DEC Co., Ltd., is in the business of publishing specialized scholarly books.

Recent sales and operating profit by business segment are as shown in the graph below, with Meiko Gijuku accounting for the majority of sales and profit. The company's medium-term strategy is to pursue growth for the entire group through the sustained growth of the Meiko Gijuku business as well as the expansion of other educational services.

Business Overview

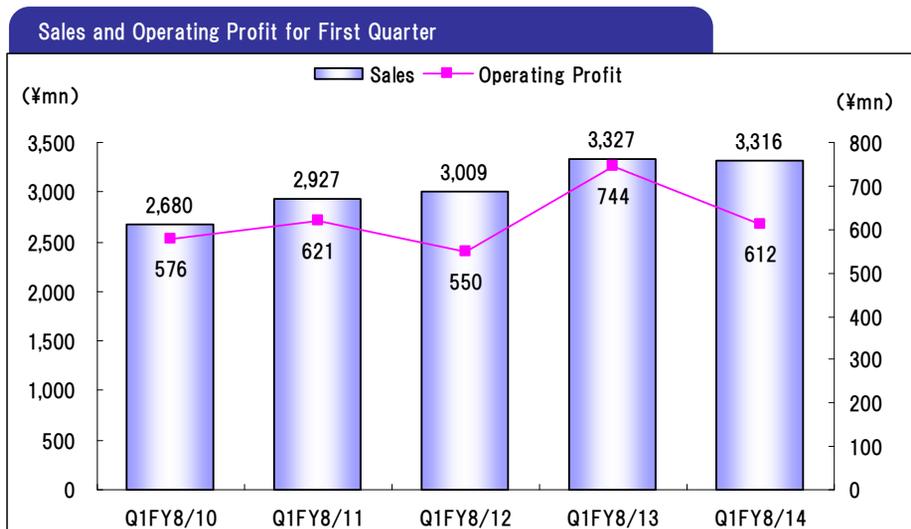


Business Trends

Pronounced growth in number of students of mainstay businesses in first quarter

(1) First Quarter of FY8/14

As announced by the company on January 8, 2014, in the first quarter (September - November 2013) of FY8/14 sales decreased by 0.3% YOY to ¥3,316 million, operating profit declined by 17.7% to ¥612 million, recurring profit dropped by 16% to ¥641 million, and net profit fell by 16.1% to ¥382 million on a consolidated basis. Amid a continuing decline in school-age population due to lower birth rates and fiercer competition in tutorial supplementary education, the primary reason for the earnings decline was a temporary drop in earnings of its mainstay Meiko Gijuku business. The number of students is increasing in all of its mainstay businesses including supplementary education, Waseda Academy Kobetsu Schools, and Meiko Kids.



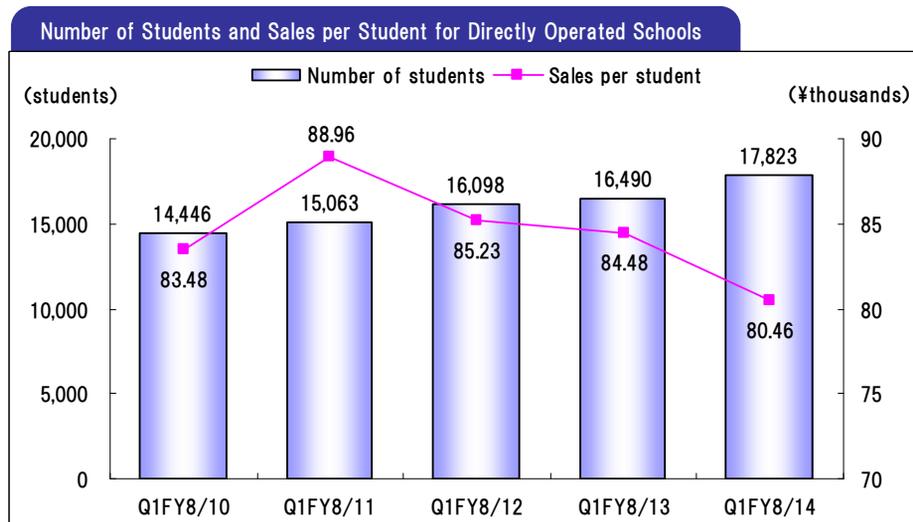
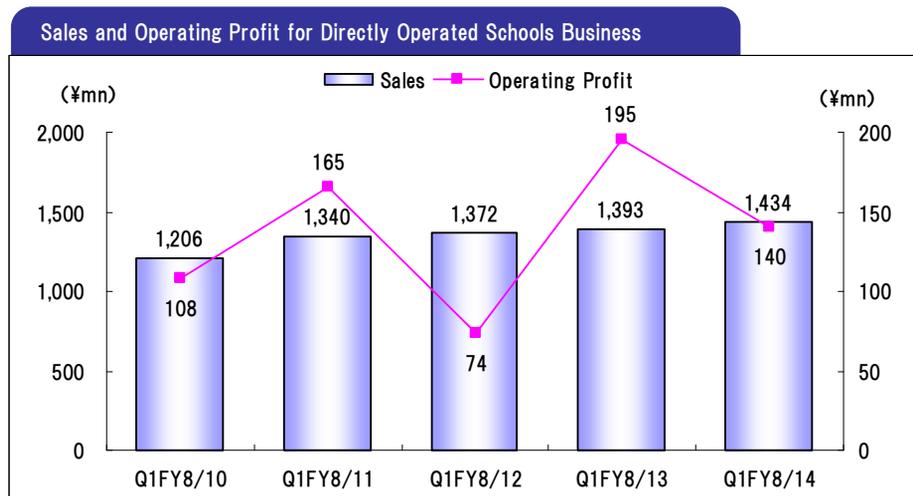
Number of students is increasing and earnings are growing in directly operated Meiko Gijuku schools business

(a) Directly operated Meiko Gijuku schools business

In the directly operated Meiko Gijuku business, sales rose 3.0% YOY to ¥1,434 million, operating profit declined 28.3% to ¥140 million, an increase in both sales and profit. At the end of the first quarter of FY8/14, the number of schools and students was growing steadily, with 210 directly operated schools (an increase of five schools YOY) and 17,823 students (up 8.1% YOY).

Despite a decrease in sales per student, the increase in the average number of students per school has led to higher revenue. The increase in the number of students per school shows that efforts taken in the previous fiscal year to standardize its approach at the time of admissions counseling has begun to succeed.

The reasons for the profit decline are increased costs related to teacher and student recruitment due to fiercer market competition, higher costs from relocating and refurbishing schools, and other factors. Also contributing were increased upfront investments to develop new demand segments. The company is meeting diversifying educational needs by offering the Meiko ♪ Elementary School Student Study Course, MEIKO MUSE, a video course for high school students, and other courses.



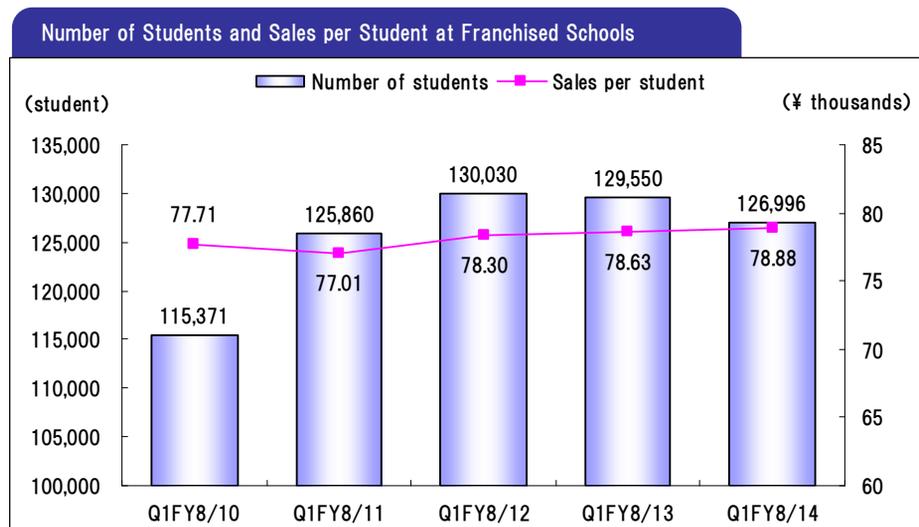
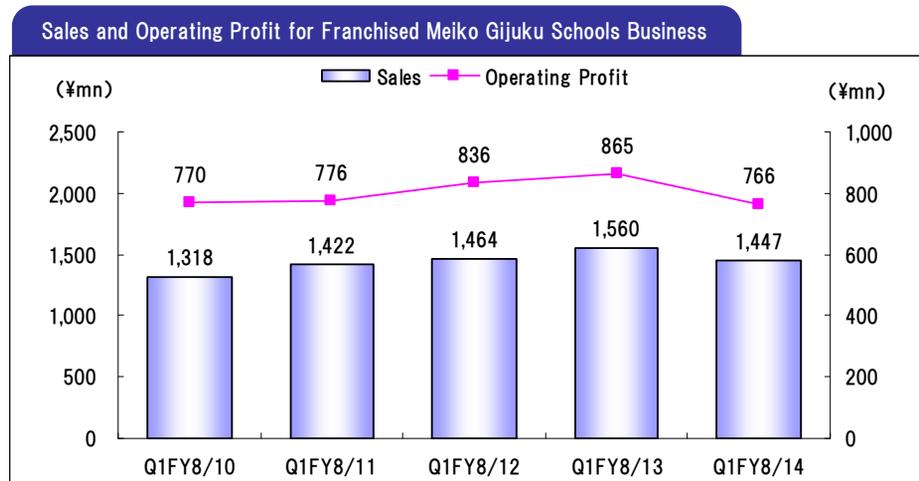
Business Trends

Increasing number of students per school in franchised businesses has become a challenge

(b) Franchised Meiko Gijuku Schools Business

In the franchised Meiko Gijuku Schools business, sales declined 7.3% YOY to ¥1,447 million and operating profit was down 11.5% to ¥766 million. Although the number of franchised schools at the end of the first quarter was 1,902 (an increase of 27 schools YOY), the number of students continued on a downward trend, coming to 126,996 (down 2.0% YOY).

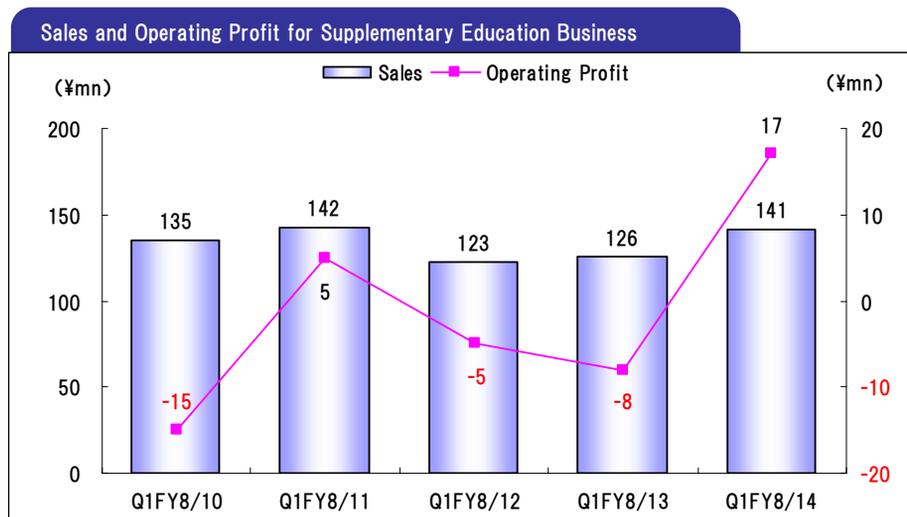
The number of students per school remained on a downward trend, even though sales per student remained largely unchanged YOY. A decrease in royalty income (10% of sales) due to a decline in the number of students and a slower pace in school growth owing to a lower willingness to invest on the part of franchise owners are factors behind the earnings decline. As a result, increasing the number of students per school and stimulating the willingness of franchise owners to make new investments have become challenges.



Supplementary education business restores profitability with stronger student recruitment effort

(c) Supplementary education

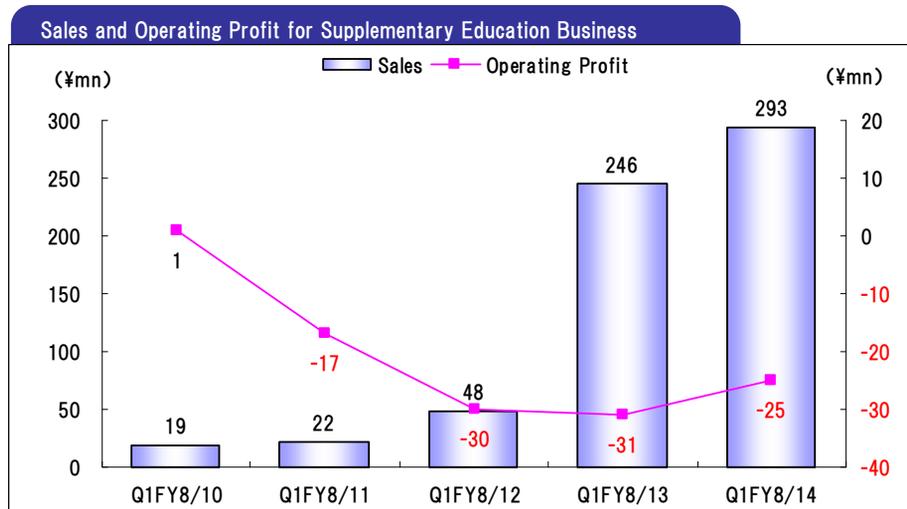
Sales in the supplementary education business related to the Tokyo Medical School Preparatory Institute increased 11.2% YOY to ¥141 million, while operating profit amounted to ¥17 million (a loss of ¥8 million was recorded in Q1 FY8/13). Due to stronger student recruitment efforts such as the implementation of a unique curriculum including special courses and admissions counseling, the number of students at the end of the first quarter has increased steadily, rising by 23 YOY to 152, which contributed to higher earnings. In addition, fixed costs were lowered and profitability improved through the relocation and reduction of schools carried out in FY8/13.



Expansion of revenue base in mainstay businesses including Meiko Soccer

(d) Other businesses

In other businesses, sales climbed 19.1% YOY to ¥293 million, while the ¥31 million operating loss of Q1 FY8/13 was reduced to ¥25 million. This was attributable to the expansion of the revenue base caused by the steady increase in the number of students in mainstay businesses including Meiko Soccer School, Waseda Academy Kobetsu School and Meiko Kids.

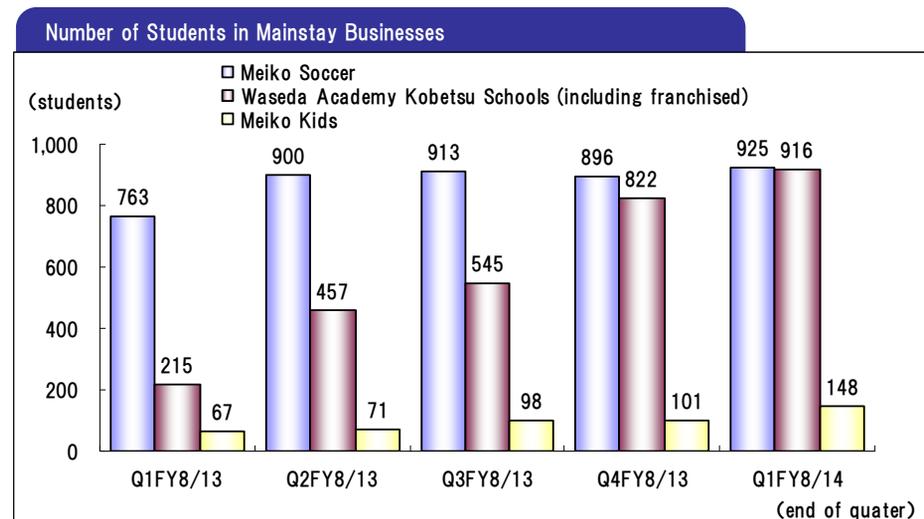


■ Business Trends

Meiko Soccer has 16 schools (two of which are franchised), an increase of nine schools compared with Q1 FY8/13, and the number of students has grown to 925 (compared with 763 in Q1 FY8/13). In the first quarter of FY8/14, the company has undertaken new initiatives such as opening new soccer schools in privately-owned nursery schools and after-school care programs for children, and launched Meiko Juniors' Team. Although sales have grown to ¥31 million (compared with ¥26 million in Q1 FY8/13) due to an increase in the number of students, an operating loss of ¥6 million (compared with an operating loss of ¥0.8 million) was recorded. The main reasons for the loss were higher costs resulting from an increase in schools and start-up costs for building new schools, but the company expects to improve earnings by increasing student numbers.

Waseda Academy Kobetsu Schools business has 16 schools (14 of which are franchised), an increase from the 10 schools (8 of which are franchised) operated in the first quarter of FY8/13, and the number of students has increased to 916 (of which 698 are from franchised schools). Sales from this business now reach ¥55 million, and with operating profit of ¥0.7 million, it has turned a small profit.

The Meiko Kids business also fared well. Meiko Kids (one school) has 148 students, more than twice as many as the 67 students in the previous fiscal year. Further, You DEC Co., Ltd., a consolidated subsidiary, performed well overall, with brisk orders from major supplementary education schools for practice admissions exams, a mainstay product, and the development of new customers in its supplementary education business within schools.



Sales and profit growth expected for full FY8/14, efforts to increase number of students should succeed

(2) Company forecasts for FY8/14

For FY8/14, the company projects that its sales will grow by 7.8% YOY to ¥16,470 million, operating profit will rise by 5.6% to ¥3,780 million, recurring profit will increase by 4.3% to ¥3,880 million, and net profit will climb by 7.4% to ¥2,330 million. The initial forecast of increases in both sales and profit remains unchanged.

■ Business Trends

In the first quarter (September - November 2013) of FY8/14 the company's progress against its full-year targets for sales was 20.1% and for recurring profit was 16.5%, slightly below the average for the most recent four-year period. However, because the weighting of the first quarter is low vis-à-vis the entire fiscal year and the results of efforts to increase the number of Meiko Gijuku students are likely to be achieved, it is possible that the company will attain higher sales and profit for full FY8/14, in our view.

Consolidated Targets

(Unit: ¥mn)

	FY8/13	FY8/14	YoY	FY8/14E	Progress
	Q1	Q1		(full-year)	
Sales	3,327	3,316	-0.3%	16,470	20.1%
Operating profit	744	612	-17.7%	3,780	16.2%
Recurring profit	763	641	-16.0%	3,880	16.5%
Net profit	456	382	-16.1%	2,330	16.4%

Efforts to increase the number of students in the Meiko Gijuku business include the company's standardization of its approach at the time of admissions counseling, begun in the previous fiscal year, and applying it in its training at directly operated schools. These efforts have produced results and the number of students per classroom at directly operated schools is on an upward trend.

Therefore, the company plans to spread this approach nationwide beginning in 2014 to franchised schools as well. The number of students in franchised schools is expected to reverse and increase in the spring 2014, admissions season for schools, at the earliest. If the number of students per school increases, this should restore the willingness of franchise owners to invest and again accelerate the rate of growth in the number of schools, which had slowed.

In the supplementary education business, with the growing popularity of medical colleges, the outlook is for solid growth in the number of students from the spring of 2014 and after, and for sales and profits to increase. Other businesses are expected to improve earnings including Meiko Soccer Schools, Waseda Academy Kobetsu Schools, and Meiko Kids.

Waseda Academy Kobetsu Schools, although its sales volume is small, already turned profitable in the first quarter of FY8/14. Its strategy is to expand the scale of its business by increasing the number of schools through franchising and increasing student numbers. Moreover, Meiko Soccer business earnings are expected to improve.

With the growing need for after-school care programs for children due to increasing double-income households, the future development of the Meiko Kids business will be closely watched. At present, the company operates one school, the Shakujii Koen School (in Nerima Ward, Tokyo), but because it has now established management system, it plans on opening two more schools in the same ward in the spring of 2014. Because it is streamlining its advertising and school management costs through a strategy of dominance, student recruitment seems to already be progressing smoothly. As there is a strong need for after-school care programs for children, the company plans to expand the number of schools to 10 within three years.

In December 2013, the company sold off all of its shares in former equity-accounted affiliate Life Support Co. to Hinokiya Holdings (1413). As a result, the company expects to record extraordinary profits of ¥94 million in the second quarter (December - February 2014) following the sale of this stock, and the absence of an investment loss on equity method (amounting to several 10 millions of yen) will also be a positive factor.



■ Business Trends

Performance by Business

(Unit: ¥mn)

	FY8/10	FY8/11	FY8/12	FY8/13	FY8/14E	YoY
Sales						
Meiko Gijuku schools (directly operated)	6,287	6,574	6,864	6,814	7,437	9.1%
Meiko Gijuku schools (franchised)	5,846	6,402	6,736	6,613	6,950	5.1%
Supplementary education	633	594	559	597	621	3.9%
Other businesses	87	143	324	1,253	1,460	16.5%
Total sales	12,885	13,715	14,484	15,279	16,470	7.8%
Operating profit						
Meiko Gijuku schools (directly operated)	1,128	1,315	1,443	1,461	-	-
Meiko Gijuku schools (franchised)	3,055	3,256	3,313	3,276	-	-
Supplementary education	40	7	-7	37	-	-
Other businesses	7	-174	-120	-126	-	-
Company-wide operating costs	-1,123	-1,041	-1,086	-1,068	-	-
Total operating profit	3,108	3,363	3,543	3,580	-	-
Operating profit margin (%)						
Meiko Gijuku schools (directly operated)	17.9%	20.0%	21.0%	21.5%	-	-
Meiko Gijuku schools (franchised)	52.3%	50.9%	49.2%	49.5%	-	-
Supplementary education	6.5%	1.3%	-	6.2%	-	-
Other businesses	8.0%	-	-	-	-	-
Total operating profit margin	24.2%	24.5%	24.5%	23.4%	-	-

■ Medium-Term Management Plan

Start of new three-year management plan, aiming for double-digit growth in supplementary education and other businesses

The company has a vision for the year 2020 of “Striving for further growth with educational and cultural activities as the core, we aim to become the top human resource development company.” To achieve this vision, the company initiated its new three-year medium-term management plan from FY8/14. As shown in the chart below, the gist of the company’s management strategy is to promote “three-dimensional growth of increasing the number of schools, the number of students, and the number of classes” and to expand new business, and then implement organizational reforms and develop human resources in order to achieve this expansion.

Outline of New Medium-Term Management Strategy

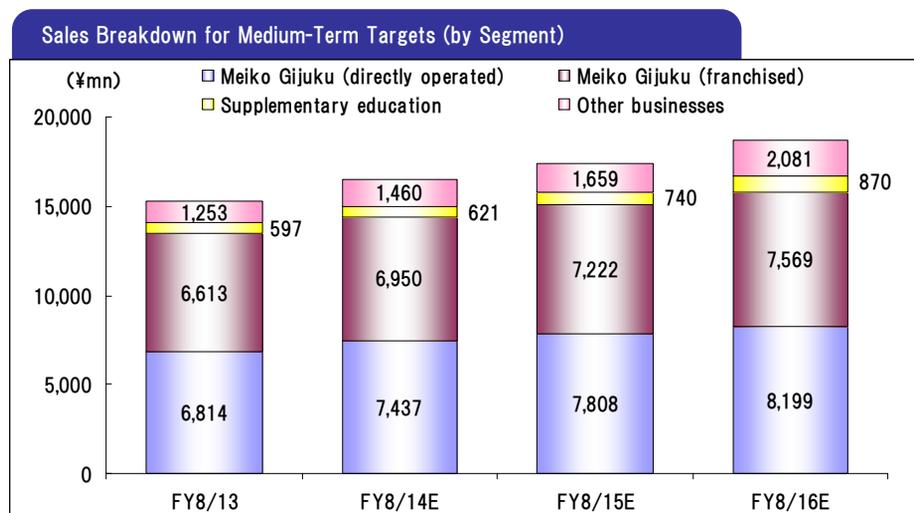
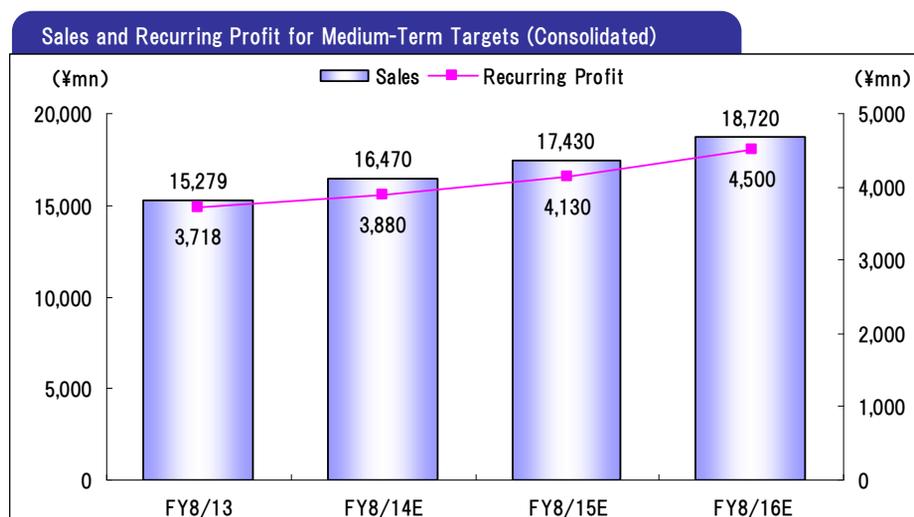
(1) Strengthen System of Headquarters Leadership
Further strengthen collaboration of supervisors and area managers with headquarters and support organized schools while standardizing and streamlining teaching content.
(2) Establish Three-Dimensional Growth for Meiko Gijuku Business
Increase the number of schools by opening satellite schools and reorganizing areas while at the same time rigorously implementing “Meiko-Style Independent Study,” establishing optimal teaching methods for each student, raising student’s academic skills, attaining a position as the region’s most trusted tutorial supplementary education. We will seek to increase the number of students and courses by offering new educational services including video courses for high schools students and study courses for elementary school students.
(3) Develop a New Meiko Gijuku
Develop a next-generation model of Meiko Gijuku to respond to an evolving society, educational changes, and diversifying educational needs.
(4) Establish Operating Base for New Businesses and Expand Business Domains
In order to speed up the growth track by establishing the next core businesses and expanding business domains, seek the group’s own unique added value, build a differentiated high-level competitive edge, create value in new markets, and raise the visibility of new businesses through aggressive sales and promotion activities. At the same time, develop an organization with advanced management capabilities and the human resources to support the foregoing activities.
(5) Achieve Strong Headquarters Organization through Organizational Reforms and Human Resource Development
To increase competitive edge, appoint the right people to the right jobs in order to stimulate employee growth, raise human resource capabilities through aggressive recruiting of female managers, and build an organization that provides meticulous support to schools by closely collaborating with each division.
(6) Increase Corporate Value
Create new value with attractive shareholder returns, capital policies, and the use of alliances and M&A.

■ Medium-Term Management Plan

In the new medium-term management plan, the company has set management targets for FY8/16 of sales of ¥18,720 million, recurring profit of ¥4,500 million, net profit of ¥2,840 million, and 2,300 Meiko Gijuku schools (2,112 as of November 2013). The expected average annual growth rate for both sales and recurring profit is around 7%, and the growth rate for the number of schools is about 3%.

Targets by business are shown in the chart below. The projected average growth rate is 5% for the Meiko Gijuku business, 13% for supplementary education business, and 18% for other businesses. Meiko Gijuku will continue to be the mainstay business, but Meiko Soccer Schools, Wasade Academy Kobetsu Schools, and Meiko Kids are all expected to grow.

In addition, the company will continue its M&A efforts. On the shared platform of education, the Meiko Network Group offers various services by age demographic. Over the medium- to long-term, services for seniors and overseas expansion appear to be on the horizon.



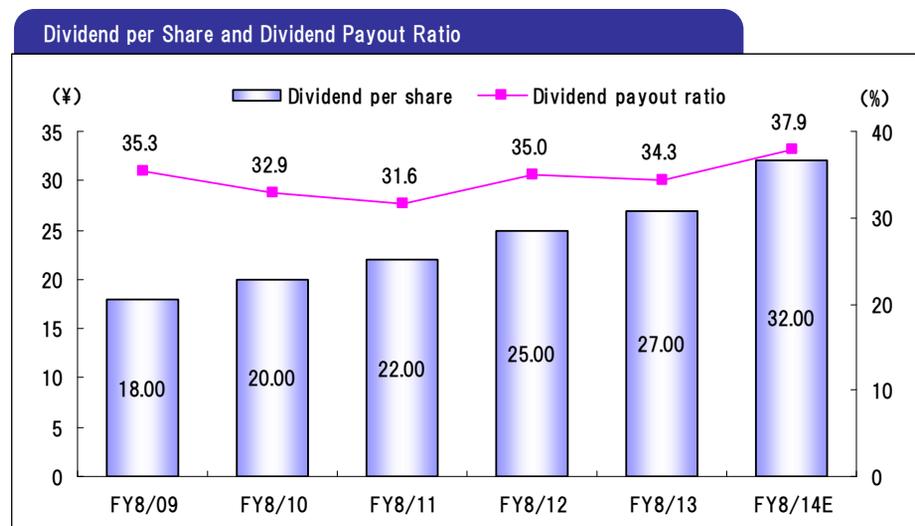
■ Shareholder Return Policy

16th consecutive dividend increase planned, continuous dividend growth expected

The company takes an aggressive approach to shareholder returns. In October 2013, it announced a policy of gradually raising its standard dividend payout ratio from its past 35% to 50%. Since going public, the company has continued its record of dividend increases and plans to increase its dividend per share for FY8/14 by ¥5 YOY to ¥32, making this the sixteenth consecutive fiscal year of dividend increases. It also plans to continue distributing ¥3,000 QUO cards to all holders of a minimum lot of 100 shares, a benefit it began in FY8/12.

The total per share unit yield based on the share price as of January 28 (¥1,102) exceeds 5%. The number of individual shareholders who have evaluated Meiko Network's proactive shareholder return policy has increased markedly and stood at 21,893 individual shareholders as of August 2013, a nearly 10-fold increase from the 2,253 shareholders of two years before.

Meiko Network, which has established its own franchise system in the educational services industry, is expected to maintain stable growth while expanding its business domains, and continuous dividend growth is also expected. ROE, which is growing in importance as an investment indicator, was 19.8% in FY8/13, and continues at a higher than average level for listed companies. The company continues to draw attention as a highly attractive investment.



Consolidated Income Statement

(Unit: ¥mn)

	FY8/10	FY8/11	FY8/12	FY8/13	FY8/14E
Sales	12,855	13,715	14,484	15,279	16,470
YOY growth	8.7	6.7	5.6	5.5	7.8
Cost of goods sold	7,323	7,922	8,403	8,995	-
Cost of goods sold ratio	57.0	57.8	58.0	58.9	-
SGA cost	2,423	2,429	2,537	2,703	-
SGA cost ratio	18.9	17.7	17.5	17.7	-
Operating profit	3,108	3,363	3,543	3,580	3,780
YOY growth	4.4	8.2	5.3	1.1	5.6
Operating profit margin	24.2	24.5	24.5	23.4	23.0
Non-operating income	236	212	238	260	-
Non-operating expenses	102	98	53	123	-
Recurring profit	3,243	3,477	3,727	3,718	3,880
YOY growth	6.0	7.2	7.2	-0.2	4.3
Recurring profit margin	25.2	25.4	25.7	24.3	23.6
Extraordinary profits	47	26	24	0	-
Extraordinary losses	81	169	166	110	-
Pretax profit	3,209	3,334	3,585	3,608	-
YOY growth	9.3	3.9	7.5	0.6	-
Pretax profit ratio	25.0	24.3	24.8	23.6	-
Corporate taxes	1,312	1,411	1,616	1,433	-
Effective tax rate	40.9	42.3	45.1	39.7	-
Net profit	1,897	1,922	1,969	2,169	2,330
YOY growth	11.4	1.4	2.4	10.2	7.4
Net profit ratio	14.8	14.0	13.6	14.2	14.1
Measures of profitability					
Average number of shares outstanding (thousand)	31,190	27,647	27,587	27,599	-
EPS (¥)	60.82	69.55	71.38	78.60	84.43
DPS (¥)	20.00	22.00	25.00	27.00	32.00
BPS (¥)	267.76	316.93	366.72	426.82	-
Dividend payout ratio	32.9	31.6	35.0	34.3	37.9
ROE	25.8	23.9	20.9	19.8	-

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