

Meiko Network Japan4668 Tokyo Stock Exchange
First Section

6-Mar.-15

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Yuzuru Sato**■ During Q1 the Company Proceeded in Line with its Plan and Steadily Expanded New Businesses**

On January 14, 2015, Meiko Network Japan Co., Ltd. announced its consolidated results for the first quarter of the fiscal year through August 2015, i.e., Q1 FY8/15. Overall the company proceeded in line with its plan. Consolidated net sales rose 16.9% year on year (YOY) to ¥3,876mn, while ordinary income fell 28.6% YOY to ¥457mn. Moreover, from FY8/15, the company consolidated MAXIS Education Inc., the largest franchisee in its Meiko Gijuku business, with a resulting increase in net sales of approximately ¥600mn, and a decline in ordinary income of ¥90mn including amortization of goodwill.

The number of students at Meiko Gijuku cram schools as of November 30, 2014 was down 0.5% YOY to 144,092 as growth continued to falter. However, the company has implemented “Meiko-style! Self-supported Learning” as a differentiation strategy, and at this stage is making steady progress on creating an appropriate structure for reigniting growth, including internal organizational reforms and the establishment of the Meiko Support Center. Although these efforts will not produce immediate effects, the number of students is expected to begin gradually increasing in from H2 FY8/15 onwards.

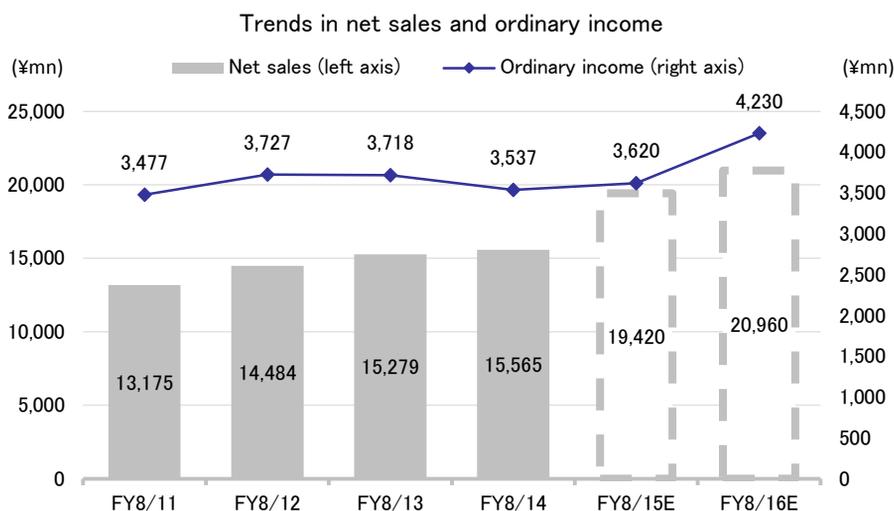
Meanwhile, the new businesses of Waseda Academy Kobetsu Schools, Meiko Soccer Schools, and Meiko Kids Schools have all been expanding steadily. Currently the company is proceeding with upfront investments for increasing the number of schools, and these are expected to need a little more time to begin contributing to profits; however, these investments worth noting, because they will expand the future business base. In particular, with increasing demand for child care Meiko Kids Schools plans to open three new schools in spring of 2015, expanding its total to six, and intends to continue expanding actively going forward.

In Meiko Network Japan’s full-year consolidated forecasts for FY8/15, net sales are expected to increase 24.8% YOY to ¥19,420mn and ordinary income to rise 2.3% to ¥3,620mn, for the first profit increase in three years. Although the education services industry is expected to become increasingly fierce competitive environment due to the declining birth rate, as a result of initiatives to expand the number of students, the company expects number of students enrolled to recover from H2 FY8/15. The company is planning to increase the number of schools by around 60 compared with the end of FY8/14.

The company has an active stance on returning profits to shareholders. For FY8/15, the company plans to raise its dividend per share by ¥2 to ¥34 (dividend payout ratio 41.5%), and plans to raise its dividend payout ratio to around 50% eventually. The company also introduced a shareholder reward program in FY8/12, under which each shareholder of 100 shares or more as of the end of August receives a ¥3,000 QUO card as a gift. Based on the company’s closing share price on January 23, 2015, of ¥1,217, the total yield to holders of a minimum unit of shares (100 shares) is in the 5% level, significantly higher than the average dividend yield for listed Japanese companies of approximately 1.7%.

Check Point

- In FY8/15, the company plans to achieve increases in sales and profits, and also expects to see student numbers increase the first time in two years.
- Currently the company is promoting area reorganization, establishment of support centers, and right-sizing and reallocation of staff.
- The company is aiming to achieve a new record for operating income in FY8/16, the final year of its medium-term plan.



Description of Businesses

Direct and franchised operation of private tutorial schools, “Meiko Gijuku Schools”

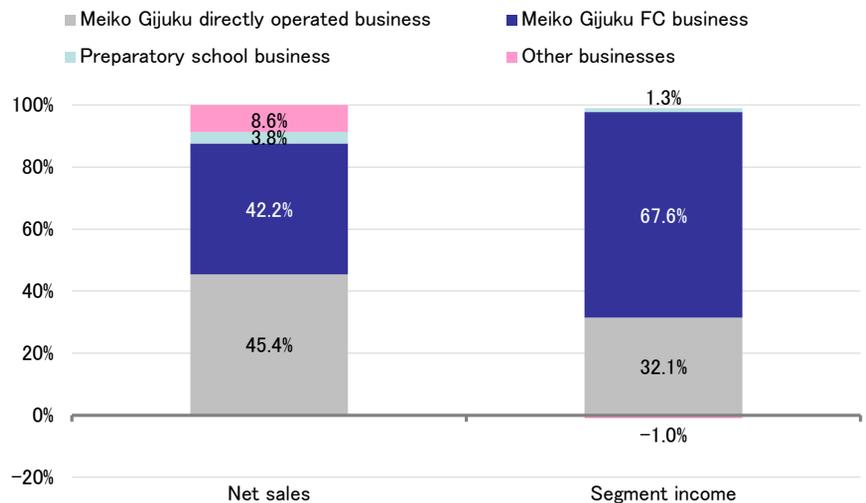
Meiko Network Japan’s main business is Meiko Gijuku Schools. Some of these schools are operated directly, but most are franchised. Meiko Gijuku is the leading brand of private tutorial schools in Japan. Through a subsidiary, Tokyo Ishin Gakuin (Tokyo Medical School Preparatory Institute), Meiko Network Japan also operates a preparatory school business specializing in preparation for medical university. In addition, the company engages in various other education-related businesses.

Its other businesses outside of tutorial and supplemental education, Meiko Network Japan operates Meiko Soccer Schools, which teach basic soccer skills to children, Waseda Academy Kobetsu Schools, which provide tutorial instruction to junior high school and high school students seeking entry into prestigious high schools and universities, Meiko Kids Schools, which provide nursery care for preschool children and after-school care for elementary school children, and Abrakadoodle Art Studios, which teach art to preschool and elementary school children. The company’s subsidiary Youdec Co. publishes a magazine featuring information about the content of entrance examinations for junior high schools and high schools, produces model examination questions, sells educational materials to students of private schools, and offers private instruction to students at their schools. In addition, Youdec’s subsidiary, Koyo Shobo Co., is involved in the academic publishing business.

In September 2014, Meiko Network Japan acquired MAXIS Education, the largest franchisee in the Meiko Gijuku business, as a subsidiary. In October, the company acquired Waseda EDU Japanese Language School, which operates Japanese language schools for overseas students, as a subsidiary. Waseda EDU Japanese Language School's net sales for FY4/14 appear to have had a minimal effect on the company's overall performance, being only small at ¥171mn.

As detailed in the bar chart below, in FY8/14 the Meiko Gijuku business supplied the majority of Meiko Network Japan's total consolidated sales and profits. The company's policy described in its medium-term strategy calls for extending the growth of the Meiko Gijuku business while developing other educational businesses.

Percentage distribution by businesses (FY8/14 actual results)



■ Business Trends

The company made progress as planned during Q1, the conversion of MAXIS into a subsidiary bringing a double-digit increase in sales.

(1) Business Trends in Q1 FY8/15 (September to November 2014)

On January 14, 2015, the company announced its consolidated operating results for Q1 FY8/15 (September to November 2014). Consolidated net sales rose 16.9% YOY to ¥3,876mn, and operating income declined by 45.8% to ¥331mn. From Q1 FY8/15, the company acquired MAXIS Education ("MAXIS") as a subsidiary, which boosted net sales by approximately ¥600mn, while decreasing operating income by approximately ¥90mn (including amortization of goodwill of ¥35mn). Moreover the All-Japan Meiko Gijuku Conference, which has been held in December every year, was brought forward to November causing a ¥50mn increase in expenses.

Ordinary income declined by 28.6% YOY to ¥457mn, mainly reflecting an improvement in investment income and loss from equity-method affiliates and the recording of gain on valuation of investment securities. Net income declined 7.7% to ¥353mn, mainly reflecting the recording of surrender value of insurance under extraordinary income. Overall the company appears to have proceeded in line with its plan for Q1 FY8/15.

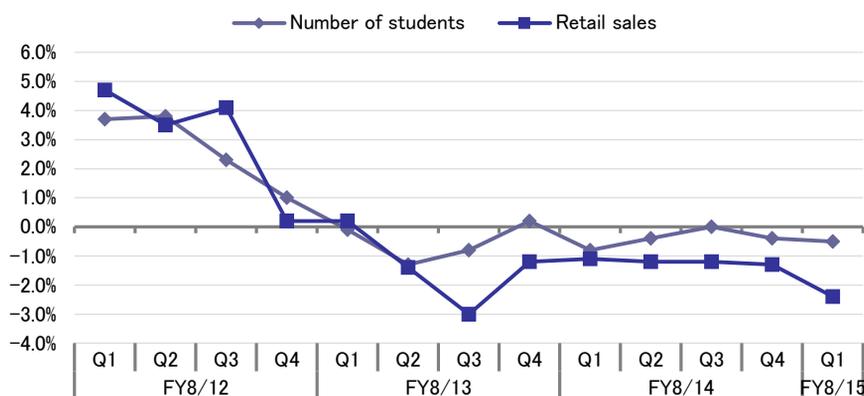
Q1 FY8/15 results (consolidated)

(unit: ¥mn)

	Q1 FY8/14		Q1 FY8/15		
	Actual	vs. Sales	Actual	vs. Sales	YOY
Sales	3,316	-	3,876	-	16.9%
Cost of sales	2,106	63.5%	2,733	70.5%	29.8%
SGA expenses	597	18.0%	811	20.9%	35.8%
Operating income	612	18.5%	331	8.6%	-45.8%
Ordinary income	641	19.3%	457	11.8%	-28.6%
Net extraordinary income	-	-	101	2.6%	-
Net income	382	11.5%	353	9.1%	-7.7%

In the mainstay Meiko Gijuku business (including franchised schools), the number of schools at the end of November 2014 had risen steadily by 19 YOY to 2,131 schools. However, the results were affected by a decline in the number of students by 0.5% to 144,092, and a decline in sales at Meiko Gijuku schools by 2.4% YOY to ¥11,173mn. The competition in the private tutorial schools against the backdrop of declining birth rate is a factor in the decline. However, the company has taken steps to reignite growth, including implementing “Meiko-style! Self-supported Learning” as a differentiation strategy, and at this stage is also strengthening initiatives including internal organizational reforms and the establishment of the Meiko Support Center, use of the Internet, and the development of new services.

Numbers of Meiko Gijuku school students and retail sales (YOY change)

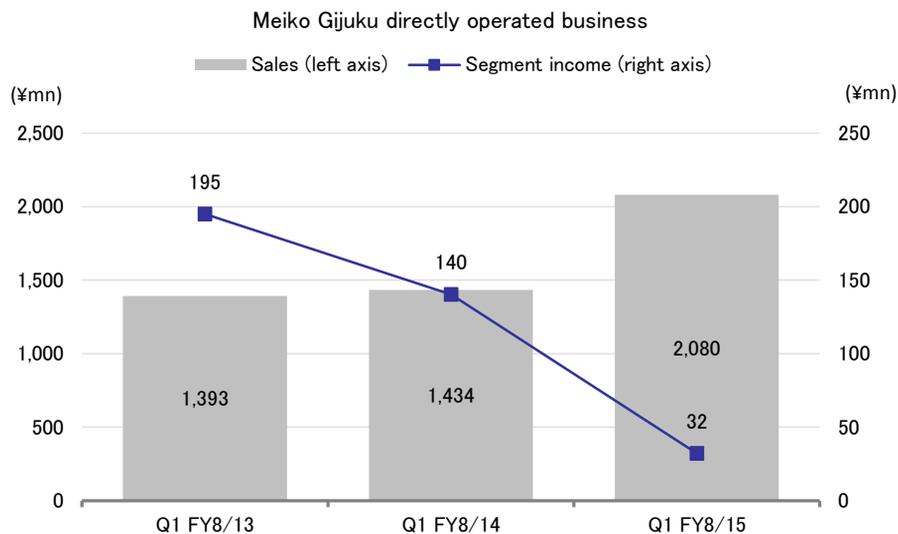


(Note) Includes franchise schools. Numbers of students are as of the end of the fiscal year. Retail sales are total sales from directly operated schools plus sales from admission fees and lesson fees at franchise schools (including fees for educational materials and test materials).

Meiko Gijuku directly operated business

Sales in the Meiko Gijuku directly operated business segment increased by 45.0% YOY to ¥2,080mn, and segment income decreased by 77.0% YOY to ¥32mn. As mentioned above, the acquisition of MAXIS as a subsidiary increased sales by around ¥600mn, and decreased segment income by about ¥90mn (including ¥35mn for amortization of goodwill). Excluding this impact, sales increased 2.7% YOY to ¥1,473mn and segment operating income declined 9.6% to ¥126mn. Factors decreasing profit include an increase in head office expenses for improving service quality (such as personnel expenses involved with the establishment of the Support Center). Furthermore, MAXIS recorded a loss for its first quarter; however this is due to seasonal factors and performance has proceeded as planned.

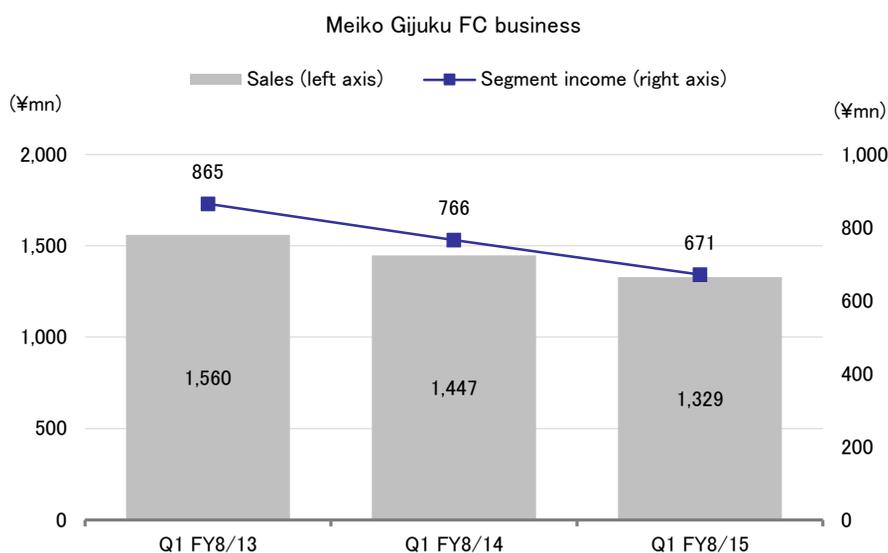
The number of schools at the end of November 2014 had increased by 100 from the end of FY8/14 (including 89 schools under MAXIS) to 310 schools, and the number of students had increased by 7,477 to 25,300 (including 7,235 students at MAXIS). Excluding those of MAXIS, the number of students increased by 1.4% YOY, and sales per student continued to climb for a second consecutive quarter.



○Meiko Gijuku FC business

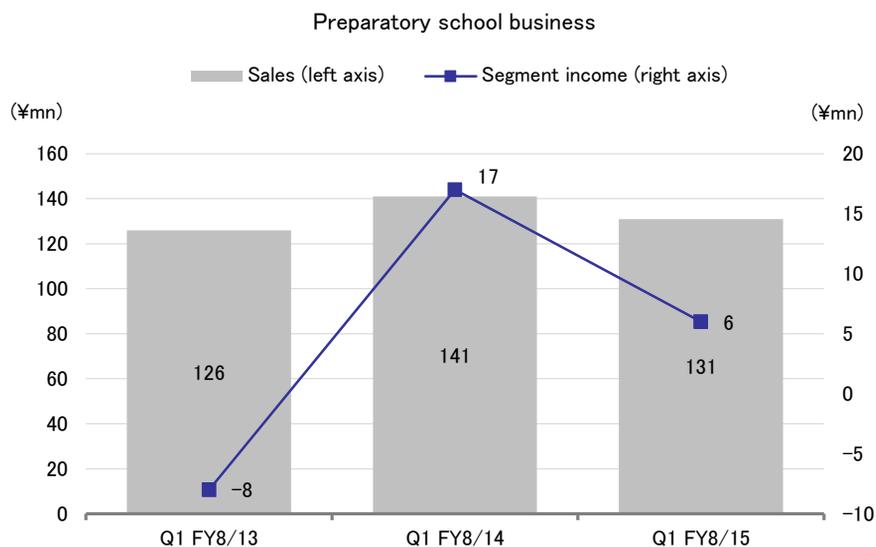
Sales in the Meiko Gijuku FC business segment declined 8.2% YOY to ¥1,329mn, while segment income declined 12.4% to ¥671mn. The decline in sales at franchised schools and in the number of new school openings were factors slump in earnings, while as mentioned above, the Japan Meiko Gijuku conference was brought forward to November, decreasing income by ¥50mn. Furthermore, the impact of acquiring MAXIS as a subsidiary decreased sales by ¥93mn (offset and elimination of royalties and sales from MAXIS, and so forth).

The number of schools in the franchised schools business declined by 81 from the end of FY8/14 to 1,821 school while the number of students declined by 8,204 to 118,792, mainly due to the discounting of schools directly operated by MAXIS. Adding back the portion of MAXIS (comparing by the same standard used in the previous year) the number of students declined by 0.5% YOY, and sales per student continued to decline slightly.



○Preparatory school business

Sales in the preparatory school business operated by Tokyo Ishin Gakuin (Tokyo Medical School Preparatory Institute) decreased by 7.1% YOY to ¥131mn, while segment income decreased by 65.6% YOY to ¥6mn. The number of students declined by 5 YOY to 147, with the low level causing the decline in sales and income. The company has strengthened its efforts to acquire new students in spring 2015, such as conducting consultation sessions for entry into medical universities with the cooperation of private medical universities and proprietary general model examinations.



○Other businesses

Sales for other businesses increased by 14.6% YOY to ¥335mn, and segment loss increased to ¥51mn (compared to a loss of ¥25mn in Q1 FY8/14). Although sales continued an increasing trend with the growth in student numbers, the segment continues to operate below breakeven point due to continuing upfront investments such as for opening more schools.

Breaking down the results by operation, sales from Meiko Soccer Schools were ¥30mn, (¥31mn in Q1 FY8/14) and operating loss was ¥4mn (¥6mn in Q1 FY8/14). The number of directly operated schools increased by 2 YOY to 15 schools, and a total of 17 schools including two franchised schools. Moreover, the total number of students at directly operated and franchised schools and was 973, an increase of 48 from Q1 FY8/14, the highest level to date.

Sales from Waseda Academy Kobetsu Schools were ¥80mn (¥55mn in Q1 FY8/14) and operating loss was ¥12mn (operating profit of ¥0.7mn in Q1 FY8/14). The slight loss despite an increase in sales was due to operating system expenses that had been included in corporate expenses until FY8/14 being attributed to business segment expenses from FY8/15. Excluding this factor, the segment saw a slight increase in income. In the number of schools, the number of directly operated schools was 6 (including 2 schools of MAXIS) and the number of franchised schools was 12, for an increase of 1 school from the end of FY8/14 under the directly operated/franchised category, while the number of Waseda Academy Kobetsu Schools was 7, for an increase of 3 schools. The number of students expanded steadily, increasing by 197 from the end of FY8/14 to 1,743 students.



Meiko Network Japan

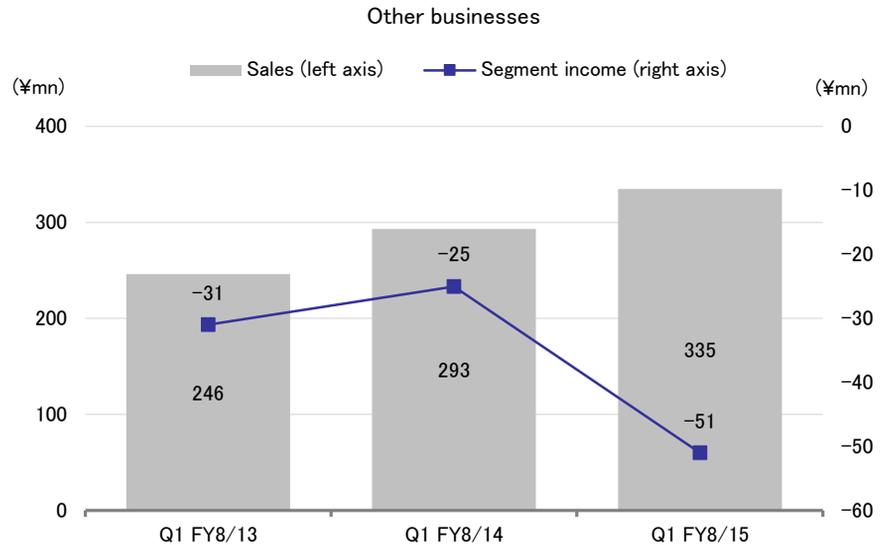
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Meiko Kids Schools opened two schools in spring of 2014, bringing the number of schools to 3. The number of students (regular students only) expanded from 65 in Q1 FY8/15 to 175 students. The company plans to open a further three schools in the spring of 2015 as increased demand for after-school care for children has created strong demand for places in the schools. In terms of profits, the company has not disclosed any information, partly because the business is still in the upfront investment stage.

In other operations, consolidated subsidiary Youdec Co. saw an increase in both sales and income, with sales of ¥175mn and operating income of ¥8mn due to solid sales of model entrance examination questions and private instruction to students at their schools. Moreover, Koyo Shobo Q1 sales and income lacked vigor since sales for its mainstay university educational materials are concentrated between February and April.

In October, the company acquired Waseda EDU a subsidiary, however since the deemed date of acquisition is November 30 Waseda EDU's results will not be reflected until the Q2 onwards.



Current ratio declined as cash and deposits decreased, but shareholders' equity ratio maintained above 70%

(2) Financial status and management indicators

In the Company's financial status as of the end of November 2014, total assets were ¥16,779mn, up ¥210mn from the end of FY8/14. The main increases and decreases were due to the acquisitions of MAXIS and Waseda EDU, which caused cash and deposits to decline by ¥2,162mn while goodwill increased by ¥1,994mn. In addition, the company's assets and so forth also increased with the addition of these new subsidiaries.

Liabilities stood at ¥3,700mn, up ¥323mn from the end of FY8/14. Net assets were ¥13,078mn, down ¥112mn, mainly due to a decrease in retained earnings following the payment of dividends.

Turning to management indicators, although the current ratio declined following a decrease in cash deposits, the equity ratio stayed above 70% and since the company is managed virtually without debt, we consider that it has continued to maintain a good financial status.

Consolidated balance sheet and management indicators

(¥mn)

	FY8/14	Q1 FY8/15	Changes	Factors for change
Current assets	9,707	7,488	-2,219	
(cash and deposits)	7,363	5,200	-2,162	Acquisition of shares of MAXIS, Waseda EDU
Fixed assets	6,860	9,291	2,430	Goodwill increased by ¥1,994mn
Total assets	16,568	16,779	210	
Current liabilities	2,774	2,988	213	
Fixed liabilities	602	712	110	
(interest-bearing debt)	70	107	37	
Total liabilities	3,377	3,700	323	
Net assets	13,191	13,078	-112	Decrease in retained earnings due to dividend payment
[Measures of financial stability] (stability)				
Shareholders' equity ratio	79.4%	77.7%		
Current ratio	349.8%	250.6%		
Ratio of interest-bearing debt to total assets	0.4%	0.6%		
(profitability)				
ROE	17.6%			
Operating margin	21.9%			

■ Financial Outlook and Future Actions

The company plans to increase sales and profits in FY8/15, and also expects to increase students for the first time in two years

(1) Financial outlook for FY8/15

Meiko Network Japan has left its outlook for consolidated financial results for FY8/15 unchanged, projecting net sales of ¥19,420mn, up 24.8% YOY, operating income of ¥3,500mn, up 2.5% YOY, ordinary income of ¥3,620mn, up 2.3% YOY, and income of ¥2,260mn, up 2.7% YOY.

The acquisition of, MAXIS as a subsidiary is expected to increase sales by ¥2,998mn. Eliminating this factor, the company's projection represents a 5.5% increase in real terms. Goodwill amortization expenses for the above acquisition are estimated to be a little less than ¥180mn per year (straight-line amortization over 10 years) and the forecast for operating profit before amortization of goodwill is an 8% increase in real terms.

In sales forecasts for each business, Meiko Gijuku directly operated business (excluding MAXIS) and franchised schools are both expected to increase YOY by 3.4% and 4.9% respectively. These increases are predicated on an increase of 60 schools YOY and the company plans to continue actively opening new schools from Q2 FY8/15 onwards. This is expected to see an increase in the number of students for the first time in two years. Success in increasing the number of students will hinge mainly on how many new students are acquired in the school entrance season between March and April.

With regard to the preparatory school business, the number of students is projected to continue its decline until H2 FY8/15. However, the company has made proactive efforts, such as holding school entrance consultation seminars and model examinations to increase its recognition level, and these are expected to lead to an increase in student numbers from spring onwards. For the full-year, the company is forecasting a 1.2% YOY increase in sales to ¥600mn.

With regard to other businesses, the company's policy is to increase school numbers in Meiko Soccer School, Waseda Academy Kobetsu Schools, and Meiko Kids, respectively, and is forecasting an increase in sales due to the attendant increase in student numbers. In terms of income, the company expects to continue making slight loss in FY8/15 due to the burden of front investments required for establishing new schools.

Sales by Segment

	(¥mn)				
	FY8/12	FY8/13	FY8/14	FY8/15 Plan	Growth
Meiko Gijuku directly operated business	6,864	6,814	7,062	7,300	3.4%
Meiko Gijuku FC business	6,736	6,613	6,565	6,885	4.9%
MAXIS	-	-	-	2,998	-
Preparatory school business	559	597	593	600	1.2%
Other business	324	1,253	1,345	1,638	21.8%
Total	14,484	15,279	15,565	19,420	24.8%

Income by segment

	(¥mn)				
	FY8/12	FY8/13	FY8/14	FY8/15 Plan	Growth
Meiko Gijuku directly operated business	1,443	1,461	1,455	-	-
Meiko Gijuku FC business	3,313	3,276	3,072	-	-
Preparatory school business	-7	37	58	-	-
Other	-120	-126	-44	-	-
Corporate expenses, amortization of goodwill, etc.	-1,086	-1,068	-1,126	-	-
Total	3,543	3,580	3,416	3,500	2.5%

Promoting area reorganization, establishment of support centers, and right-sizing and reallocation of staff

(2) Measures towards promoting the renewed growth of the Meiko Gijuku business

The number of students at Meiko Gijuku schools has continued on a slight declining trend and growth in earnings has faltered amid intensifying competition to capture students with the continuing decline in the birthrate and the appearance of competitors in some areas trying to capture students by offering low prices, and so forth. The company will therefore once again promote its educational policy of "Meiko-style! Self-supported learning," which is a distinctive characteristic and strength of Meiko Gijuku, and has also started various management reform initiatives targeting renewed growth.

"Meiko-style! Self-supported learning," refers to a method of learning instruction that aims to foster human resources with the ability to think and solve questions for themselves. Rather than simply giving students the answers to the questions, lecturers give them hints that lead to the answers in order to foster the students' ability to derive the answers themselves. The method is based on the concept that this will build the students' motivation to study.

Moreover, as part of the company's management reforms, it has taken three broad actions. First, it integrated the Meiko Gijuku Directly Operated Business Division and Meiko Gijuku Franchised Business Division, and has restructured it into seven areas (Business Division Nos. 1 to 7). This integration has created a structure that will enable thorough information sharing for each region, promoting faster and more efficient new school openings and other operations.



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The second action was the establishment of the “Meiko Support Center” for improving business efficiency and customer satisfaction. The “Meiko Support Center” consists of the Customer Support Section, the School Support Section and the Policy and Manual Section. Such functions already existed within the company, but now the newly established specialized unit is expected to enhance the support functions. The School Support Section is in charge of supporting franchised schools, by sending company supervisors to make regular visits to each newly opened school to provide front-line support for a certain period of time.

The third action was appropriate repositioning of human resources in order to promote organizational vitalization and improvement of productivity. All executive officers’ responsibilities have been changed and divisional heads have been transferred, paving the way for internal reforms.

In addition, the company has also conducted training for franchised school owners to strengthen the management capabilities of franchised schools. Specifically, the initiatives of high achieving managers of directly operated schools will be made into manuals to enable their knowledge to be transmitted to franchised school owners through training. In 2014, the company held training sessions on the theme of “Counseling for signing up for FC school” to improve the ratio of people making inquiries about school enrollment who continue on to actual enrollment.

In 2015 the company plans to hold seminars on theme of “Communications with students and parents,” and 2016 on “Lecturer management.” Improving schools communication capabilities with students and parents is expected to curb the rate of student withdrawals from the schools. Meanwhile, the seminar on lecturer management is expected to increase lecturers’ motivation and thereby improve the quality of classes.

The effects of these actions are not expected to be immediately apparent, but they will bear watching going forward as they are expected to increase student numbers.

Aiming to achieve highest operating income on record for FY8/16, the final year of the medium-term business plan

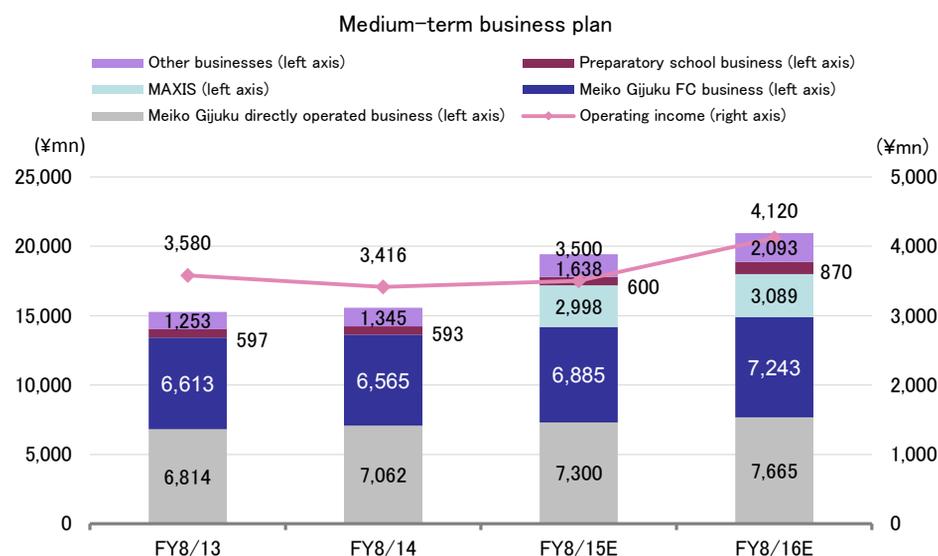
(3) Three-year medium-term business plan

For FY8/16, the final year of the three-year medium-term business plan, the company targeting net sales of ¥20,960mn and operating income of ¥4,120mn. The company aims to return to a growth trajectory from H2 FY8/15, and to achieve a new record for operating income in FY8/16 for the first time in three years.

Looking at the sales plan by business for FY8/16, in Meiko Gijuku directly operated and franchised school businesses, sales are planned to increase by 5% to the targets for FY8/15, while in the preparatory school business and other businesses, sales are forecast to see double-digit increases of 45%, and 28% respectively. In addition to the effect of the aforementioned management reforms in the Meiko Gijuku business, in the supplemental business the company plans to capture a greater number of students given the increase in students hoping to attend medical universities, while in other businesses, the company intends to grow sales by increasing the number of both directly operated and franchised schools in Meiko Soccer Schools, Waseda Academy Kobetsu Schools, Meiko Kids Schools, and also increasing the number of students.

In the Meiko Gijuku business, the company is promoting development of next-generation learning models using the Internet, and plans to commence trial operation in stages from the spring of 2015. Currently the company provides services for a diverse customer needs for example with the “Meiko Elementary School Student Course,” which is a paper-based course for mathematics and Japanese language for elementary school students, and the “MEIKO MUSE” video-based lesson for high school students. However, the introduction of the next-generation learning model is expected to make the company’s offerings even more competitive.

In other initiatives, the company will continue to actively undertake M&As. The target fields will be areas where the company is currently not involved in the education services market, such as lifelong education, nursing care and activity support in the senior segment. Furthermore, as with the recent acquisition of Waseda EDU as a subsidiary, the company is also planning to focus on education services for foreigners.



Shareholder Return Policy

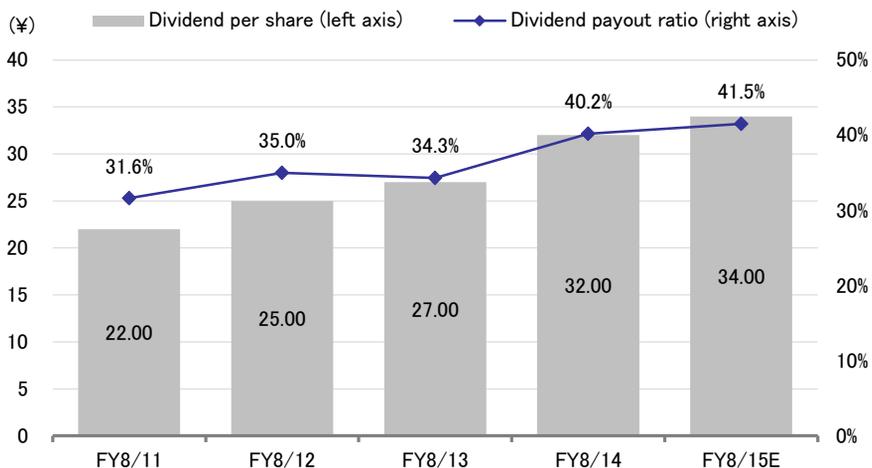
Expectations for steady earnings increase and growth in dividends

The company has been recording continued dividend increases since it was listed on the stock market, and for FY8/15 it plans an increase of ¥2 YOY to ¥34. Thus, the company is highly regarded as having a proactive stance on shareholder returns. The company has established a policy of raising its dividend payout ratio in steps to 50% with continuous increases in dividends as its basic policy from now on.

Also, the Company has a shareholder special benefit plan of giving shareholders on August 31 a QUO card worth ¥3,000 per share unit (100 shares). On the basis of the closing share price of ¥1,217 on January 23, 2015, the gross investment yield per share unit is in the 5% level, which far exceeds the average gross investment yield for listed companies of about 1.7%.

The company has established stable high profitability and a sound financial standing through its unique franchise system in the fiercely competitive educational service industry. Thus, the company is estimated to expand steady earnings and, at the same time, to increase its dividends. Also, with regard to ROE (Return On Equity), which is gaining importance as an investment indicator, the company's actual figure was 17.6% for the previous fiscal year, which far exceeds the average 8.5% for the companies listed on the first section of the Tokyo Stock Exchange, and thus will gain continued attention as an attractive company to invest in.

Dividend per share and dividend payout ratio



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