

Meiko Network Japan

4668 Tokyo Stock Exchange First Section

18-Feb.-16

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■ Q1 Results Show Increases in Sales and Operating Income, with Enhanced Efforts to Attract Students from the Q2

On January 12, Meiko Network Japan Co., Ltd. <4668> announced its consolidated results for FY8/16 Q1 (September – November, 2015). Both sales and income increased, with net sales increasing 6.0% year on year (YOY) to ¥4,111mn, operating income increasing 14.4% to ¥379mn. However, as the company recorded adjustment for tutors' salary of ¥449mn as an extraordinary loss, it recorded a loss attributable to owners of the parent of ¥94mn (profit of ¥353mn in the same period of the previous fiscal year). In the mainstay Meiko Gijuku business (including franchised schools), the number of schools at the end of November 2015 stood at 2,130, down 1 from a year earlier. The number of students was almost unchanged at 144,178, up 86.

Competition between private tutorial schools is increasing with the continued decline in the birthrate, and the company is continued to experience faltering growth in student numbers. To break out of this situation, the company intends to advertise aggressively through TV commercials and Internet advertising from Q2, and strengthen its ability to attract student numbers by boosting its brand image. It plans to increase spending on attracting students by ¥658mn from the initial plan. Mainly due to this increase in expenditure company has revised its consolidated performance forecasts for FY8/16 downward. Net sales is forecast at ¥19,639mn, up 4.6% YOY (down ¥179mn from the initial plan), operating income at ¥2,870mn, down 19.3% YOY (down ¥830mn from the initial plan), and profit attributable to owners of the parent at ¥1,441mn, down 39.1% YOY (down ¥958mn from the initial plan). However, this additional expense is a one-time expense, and the company is expecting to return to growth in sales and profits from FY8/17 onward.

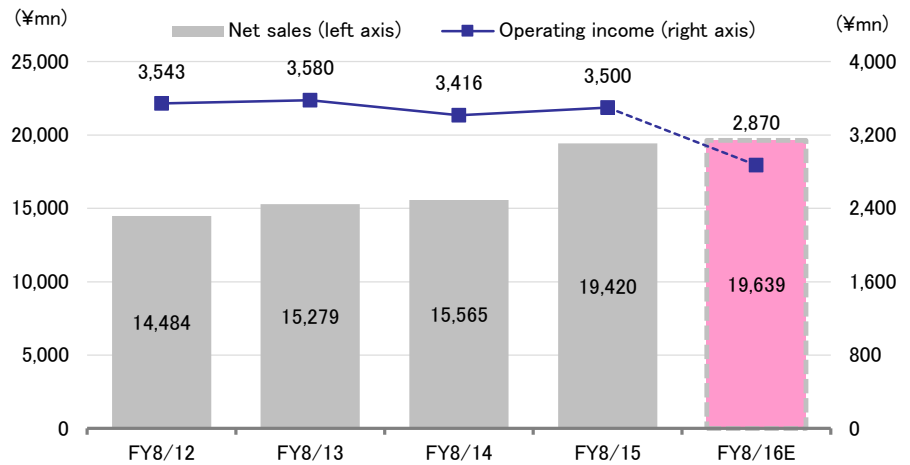
In other educational service businesses, sales have generally been growing steadily. The business scale is still small, so the businesses are still making a slight loss overall; however, they are growing steadily both in school numbers and in student numbers. In particular, the Waseda EDU Japanese Language School for foreigners and the Meiko Kids Schools, which provide services to meet demand for nursery care for preschool children and after-school care for elementary school children, are among the company's businesses with high growth potential and are expected to grow going forward.

The company's policy on capital allocation is to continue its current proactive stance. For dividends, the company still has the same basic policy of increasing the dividend payout ratio in stages to around 80%, continuing the consecutive increases in dividends that it has maintained since its listing. Although it has revised its forecast financial results for FY8/16 downward, the forecast for dividend per share remains unchanged from the initial plan with an increase of ¥4.0 to ¥38.0 (dividend payout ratio of 70.6%). Moreover, under the shareholder benefit program, the company will give QUO cards worth ¥1,000 to ¥5,000 to shareholders as of the end of August, according to the number of shares held and the ownership length. The gross investment yield per share unit, including the shareholder benefit program, is at the 4% - 6% level at the current share price (¥1,020 as of January 20, 2016).

■ Check Point

- Sales increased for all segments, with the mainstay Meiko Gijuku business driving earnings
- Full-year financial results forecasts have been revised downward, but added expenses for attracting students are a one-time cost
- Policy to increase the dividend payout ratio in stages to around 80%

Trends in net sales and operating income



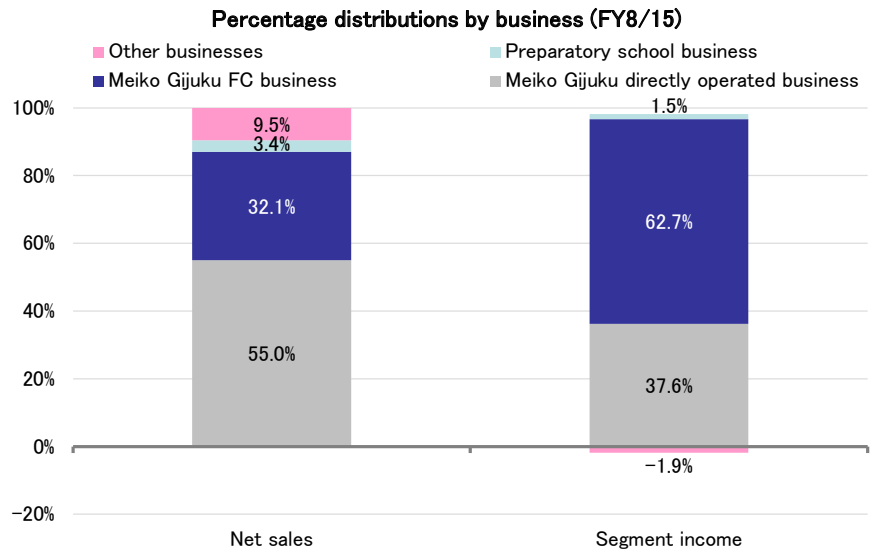
■ Description of Businesses

Mainstay Meiko Gijuku business leads the private tutorial school industry while other education services continue to expand

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 educational service businesses.

Among its other businesses outside tutorial and supplemental education are Meiko Soccer Schools for children. There is also Waseda Academy Kobetsu Schools, which provides tutorial instruction to junior high school and high school students seeking entry into prestigious high schools and universities. Meiko Kids Schools provides nursery care for preschool children and after-school care for elementary school children. Waseda EDU, which serves overseas students, is a subsidiary acquired in October 2014. 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.

As detailed in the bar chart below, in FY8/15 the Meiko Gijuku business (directly operated and franchised operations) is the core source of 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.



■ Business Trends

Q1 sales and operating income increase, while adjustment for tutors' salary is recognized

(1) Overview of Q1 FY8/16

In consolidated operating results for Q1 FY8/16, net sales rose 6.0% YOY to ¥4,111mn, operating income rose 14.4% to ¥379mn, ordinary income declined 19.2% to ¥369mn, and loss attributable to owners of parent was ¥94mn (profit of ¥353mn in the same period of the previous fiscal year).

Q1 FY8/16 results (consolidated)

(unit: ¥mn)

	Q1 FY8/15		Q1 FY8/16		
	Actual	vs. Sales	Actual	vs. Sales	YOY
Net sales	3,876	-	4,111	-	6.0%
Cost of sales	2,733	70.5%	2,949	71.8%	7.9%
SGA expenses	811	20.9%	781	19.0%	-3.7%
Operating income	331	8.6%	379	9.2%	14.4%
Ordinary income	457	11.8%	369	9.0%	-19.2%
Net extraordinary income (loss)	101	2.6%	-403	-9.8%	-
Net income attributable to owners of the parent	353	9.1%	-94	-2.3%	-

Number of students enrolled at Meiko Gijuku schools, number of schools, total system-wide sales (directly operated, franchised)

Number of schools	2,131		2,130		0.0%
Number of students	144,092		144,178		0.1%
Total system-wide sales	11,173		11,160		-0.1%

Note: Total system-wide sales = the sum of 1) total sales of directly operated schools, including admission fees, lesson fees, fees for educational materials, and fees for test materials, and 2) sales from admission fees and lesson fees at franchised schools.

Sales increased across all segments, mainly in the mainstay Meiko Gijuku business. Operating income increased, reflecting the effect of higher sales, as well as a decrease in selling, general and administrative (SGA) expenses due to the curbing expenses. Ordinary income declined, mainly reflecting the absence of ¥82mn recorded in the same period of the previous fiscal year for gain on valuation of investment securities and gain on reversal of loss on valuation of investment securities, in addition to recording ¥57mn as allowance for doubtful accounts in Q1 FY8/16.

Moreover, the company also recorded ¥449mn as adjustment for tutors' salary under extraordinary losses. This resulted from the discovery of certain inappropriate points relating to the management of working hours and payment of wages for part-time tutors. The company made one-time payments to tutors for whom the adjustment was deemed necessary. The company has increased training and guidance to ensure appropriate management and implementation of the working hour management for part-time tutors, and is working to prevent a recurrence and to improve the working environment. Despite concerns that personnel expenses for part-time tutors per school may increase slightly, we consider that the company will be able to absorb the increase through initiatives for increasing the number of students per schools and the sales per student.

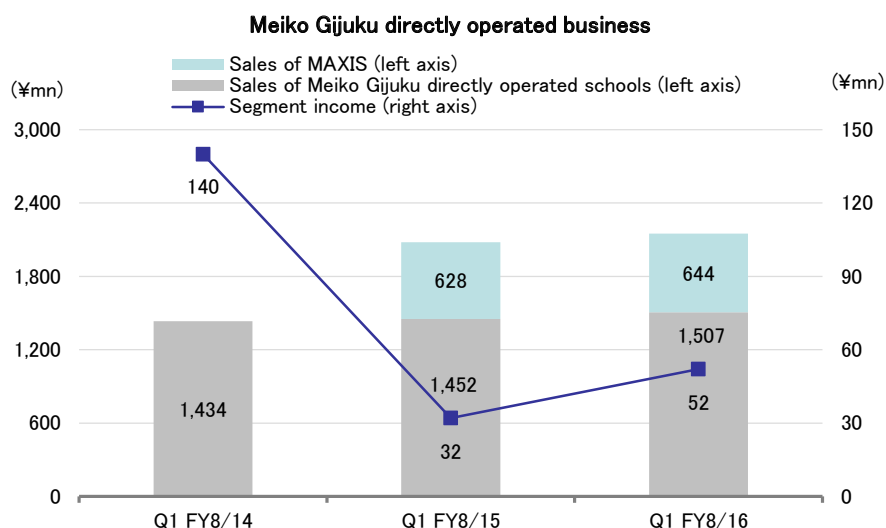
Sales increased for all segments, with the mainstay Meiko Gijuku business driving earnings

(2) Business segment trends

○Meiko Gijuku directly operated business

Sales in the Meiko Gijuku directly operated business segment increased by 3.4% YOY to ¥2,152mn, and segment income (operating income) increased by 62.6% YOY to ¥52mn. Of this, for MAXIS Education (hereinafter MAXIS), which was consolidated in FY8/15, the company recorded ¥644mn in sales, ¥81mn in operating loss, and ¥35mn in amortization of goodwill.

The number of directly operated schools increased by 3 YOY to 313 and the number of students rose by 664 to 25,964. Efforts to improve customer satisfaction by conducting counseling with students and parents, and initiatives upgrade the classroom environment and relocate and renew schools have increased the number of students per school by 2.3 YOY. This has also contributed to the increase in sales and income.

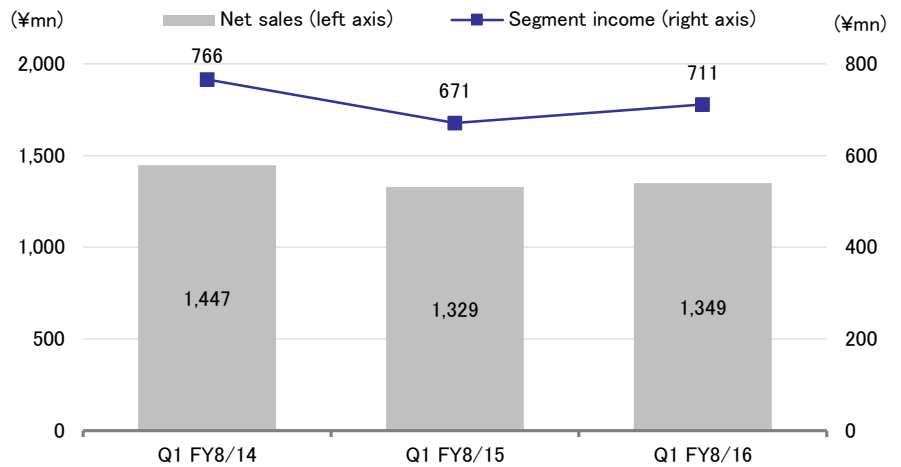


○Meiko Gijuku FC business

Sales in the Meiko Gijuku FC business segment increased 1.5% YOY to ¥1,349mn. Segment income rose 5.9% YOY to ¥711mn. The number of franchised schools declined by 4 YOY to 1,817 and the number of students fell by 578 to 118,214. The declining trend in student numbers continued, reflecting increasingly intense competition in particular.

Due to the decline in student numbers and other factors, royalty revenue from franchised schools declined. However, the segment achieved increases in sale and income due to an increase in advertising materials to franchised schools and efforts to curb expenses.

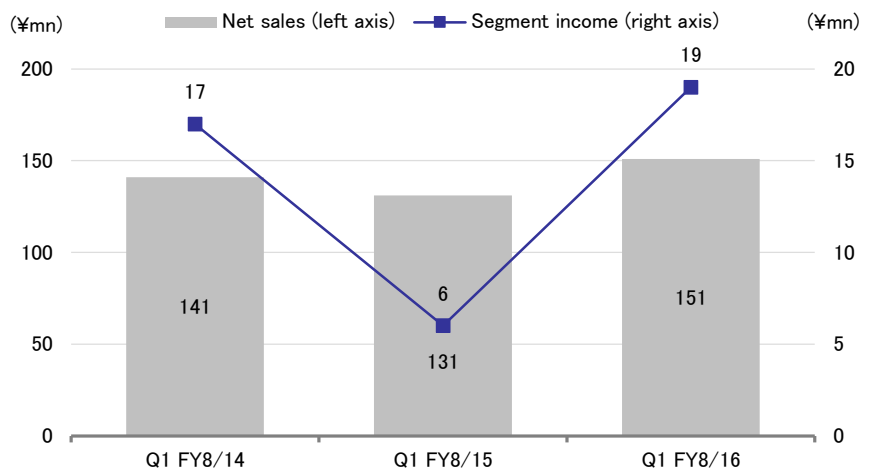
Meiko Gijuku franchised schools



○Preparatory school business

Sales in the preparatory school business increased 15.9% YOY to ¥151mn. Segment income rose 215.0% YOY to ¥19mn. The increases in sales and income reflect an increase in the number of enrolled students by 11 year on year to 158, as well as an increase in the sales per student due to aggressively promoting special classes and model examinations.

Preparatory school business



○Other businesses

Sales in the other businesses increased 36.2% YOY to ¥457mn. Segment loss was ¥59mn (¥52mn in Q1 FY8/15). By operation, Meiko Soccer Schools posted sales of ¥32mn (¥30mn in Q1 FY8/15) and an operating loss of ¥2mn (¥4mn in Q1 FY8/15). The number of schools as of November 30, 2015 decreased by 1 YOY to 14, for a total of 16 schools, including two franchised ones. Still, the number of students as of the end of November was up 40 YOY to 1,013.

At Waseda Academy Kobetsu Schools, sales increased, but losses also widened. Sale steadily increased to ¥104mn (¥80mn in Q1 FY8/15 and the operating loss increased to ¥19mn (¥12mn in Q1 FY8/15). This was mainly due to an increase in system network-related expenses. The number of schools as of November 30, 2015 increased by 4 from Q1 FY8/15 (directly operated Meiko schools increased by 2, directly operated MAXIS schools increased by 2, directly operated Waseda Academy schools increased by 3, franchised schools decreased by 3) to 29 (directly operated Meiko schools: 6, directly operated MAXIS schools: 4, directly operated Waseda Academy schools: 10, franchised schools: 9). The number of enrolled students increased significantly by 477 to 2,220, mainly due to progress on increasing recognition.

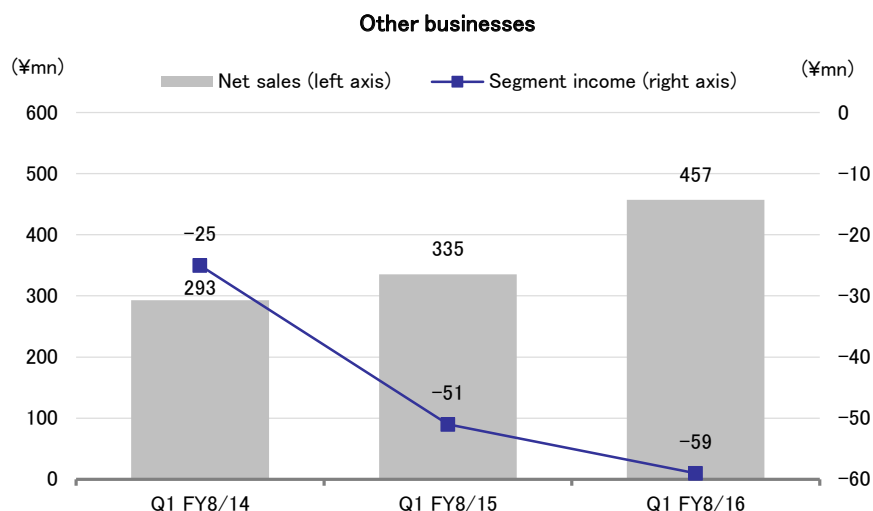
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The number of Meiko Kids Schools as of November 30, 2015 increased by 4 YOY to 7, (including 1 school scheduled to open in spring 2016). The number of students enrolled also climbed by 136 to 311. Sales expanded steadily, but the operation made a loss as it is still in the upfront investment stage (1 school has become profitable).

At the Japanese language school (1 school) operated by Waseda EDU, which was consolidated in Q2 FY8/15, soaring demand from Chinese and Vietnamese people brought the student roll up to 481 (full capacity 520) as of November 30, 2015. Recently the roll has increased almost to capacity, and the school has been forced to turn away some applicants. Sales for Q1 FY8/16 were ¥75mn, and operating income was just in the black, even taking into consideration amortization of goodwill (¥11mn).



■ Outlook

Full-year forecast revised downward from initial figures as student attraction measures are bolstered

(1) Financial outlook for FY8/16

Meiko Network Japan's forecasts for consolidated financial results for FY8/16 have been revised downward from the initial plan. The revised forecast is for net sales of ¥19,639mn, up 4.6% YOY, operating income of ¥2,870mn, down 19.3% YOY, ordinary income of ¥2,990mn, down 21.4% YOY, and net income attributable to owners of the parent of ¥1,442mn, down 39.1% YOY.

FY8/16 results forecast (consolidated)

	FY8/15		FY8/16				
	Actual	vs. Sales	Initial plan	Revised plan	vs. Sales	YOY	vs. Initial plan
Net sales	18,768	-	19,818	19,639	-	4.6%	-0.9%
Operating income	3,555	18.9%	3,700	2,870	14.6%	-19.3%	-22.4%
Ordinary income	3,803	20.3%	3,881	2,990	15.2%	-21.4%	-23.0%
Net income attributable to owners of the parent	2,369	12.6%	2,400	1,442	7.3%	-39.1%	-39.9%

The forecast for net sales has been revised downward slightly, mainly in the Meiko Gijuku FC business segment, citing an expected continuation of adverse market conditions. Operating income has been revised downward by ¥830mn from the original plan; however, ¥658mn of this reflects additional expenses for strengthening measures to attract students (sales promotion and advertising expenses, etc.) Specifically, to further cement the competitive advantage of Meiko Gijuku schools in attracting students, the company intends to advertise aggressively through TV commercials and Internet advertising from Q2 onward, aiming to expand student numbers by boosting its brand image. These additional expenses are a one-time expense, and if student numbers return to an increasing trend going forward, the Meiko Gijuku business is expected to return to growth in sales and profits.

The preparatory school business and other businesses are projected to perform steadily, with higher sales expected to be driven by increases in the numbers of schools and students from Q2 onwards. In particular, the company is examining options for establishing a branch school for the Waseda EDU Japanese Language School, which is experiencing a surge in demand, and is currently searching for a property.

Sales by segment

	(¥mn)				
	FY8/13	FY8/14	FY8/15	FY8/16 Initial plan	Growth
Meiko Gijuku directly operated business	6,814	7,062	10,321	10,779	4.4%
Meiko Gijuku FC business	6,613	6,565	6,017	6,139	2.0%
Preparatory school business	597	593	640	700	9.4%
Other businesses	1,253	1,345	1,788	2,198	22.9%
Total	15,279	15,565	18,768	19,818	5.6%

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Release of “YO! Saboro” smartphone app for learning management

(2) Growth strategy of Meiko Gijuku business

The growth strategy of the Meiko Gijuku business has traditionally been focused on three-dimensional growth (increase the number of schools × increased the number of students × increase in sales per student). However, in FY8/16, the company has adopted a policy of focusing on increasing the number of students and sales per student. The franchised schools in particular are seeing faltering growth in student numbers due to intensifying competition, and this is also a factor in waning investment motivation among franchise owners. The company is therefore prioritizing efforts to increase the profitability per school by first increasing the number of students per school and the sales per student.

In increasing the number of students per school, the company will continue its current initiatives, such as sharing best practices for entry counseling, strengthening the support system for enrolled students and their parents, and sharing information between directly operated schools and franchised schools. In addition, the company aims to increase the number of students through measures for attracting students for which it has budgeted additional expenses. At directly operated schools, student numbers have already shown an increasing trend since 2H FY8/15; however at franchised schools, student numbers in Q1 were only level YOY and the focus will be on the trend for Q2 onward.

In initiatives to improve the sales per student, the company has launched an online learning service for junior high school students from FY8/16. In detail, the service offers students a collection of practice questions on two subjects—science and social studies—which they answer using a tablet. The service is currently available only for directly managed schools, but the company plans to roll it out for franchised schools in the future. The ratio of students taking courses in science and social studies had been low, but the numbers have been increasing steadily since the start of the online learning service, and it is expected to lead to an increase in sales per student. Both the directly managed and franchised schools offer the “MEIKO MUSE” video lessons for high school students preparing for university entrance examinations.

In another new initiative, the company released a learning management smartphone app, “YO! Saboro” for junior high school students in January 2016. It is a free app designed to be used by anybody, and features a learning plan chart creation and history function to help with measures for regular tests, and a function for communication with friends. The conceptual basis for the app was “to lower the threshold for children to study,” and it was developed to provide a system for students to get through their regular tests in an enjoyable way. While it does not have a direct impact on the company’s earnings, if it becomes popular it will contribute to boosting Meiko Gijuku’s brand power.

■ Dividend and capital policies

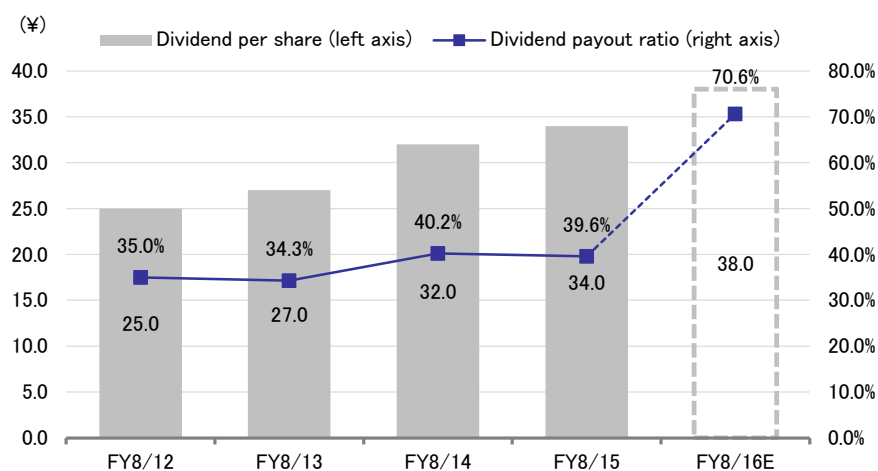
Policy of raising the dividend payout ratio in stages to around 80%

The company is considered to have an active stance on returning profits to shareholders. It has continued to make consecutive dividend increases since its listing, and has introduced a shareholder benefit program. The company's basic policy on dividends is to continue increasing dividends going forward, and it has stated a policy of increasing the dividend payout ratio in stages to around 80%. Although it has revised its forecast financial results for FY8/16 downward, the forecast for dividend per share remains unchanged from the initial plan with an increase of ¥4.0 YOY to ¥38.0 (dividend payout ratio of 70.6%).

Moreover, under the shareholder benefit program, the company will give QUO cards worth ¥1,000 to ¥5,000 to shareholders as of the end of August, according to the number of shares held and the ownership length. Those holding 100 shares for less than three years will receive a ¥1,000 QUO card, but those holding the same number of shares continuously for three years will receive cards with a value of ¥3,000.

The company's capital policy is to strengthen its equity and to acquire treasury stock when possible, taking into account the share prices and financial position a view to focusing on ROE in its management going forward. The company has already bought back 1,040,000 shares for ¥1,499mn in FY8/16.

Dividend per share and dividend payout ratio



Shareholder benefit program

QUO gift card distribution (once annually, for shareholders as of August 31)		
Number of shares held	Value of gift cards for holding stock for less than three years	Value of gift cards for holding stock for three years or more
100 to 499 shares	¥1,000	¥3,000
500 to 999 shares	¥2,000	¥4,000
1,000 or more shares	¥3,000	¥5,000

Note: The program will apply to shareholders as of the end of August 2016

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