

Meiko Network Japan

4668 Tokyo Stock Exchange
 First Section

1-Dec.-16

Important disclosures
 and disclaimers appear
 at the end of this document.

FISCO Ltd. Analyst
 Yuzuru Sato

■ Provides educational services mainly through the Meiko Gijuku business, highly profitable with robust financial standing

Meiko Network Japan <4668> (hereafter, also “the Company”) offers a variety of educational services centered on the directly operated and franchised operations business for the Meiko Gijuku private tutorial schools, but that also include soccer schools, medical-related preparatory schools, after-school care, and Japanese language schools for overseas students. Its strengths include its expertise in franchised operations and its features are that its business is highly profitable and it has a strong financial position.

In the FY8/16 consolidated results, net sales decreased 0.5% year-on-year (YOY) to ¥18,672mn and operating income fell 38.8% to ¥2,175mn, the first profit decline in two years. In the mainstay Meiko Gijuku business, the number of students during the year dropped 2.1% YOY because time spent to resolve the part-time tutor labor management problem from fall 2015 prevented the Company from sufficiently engaging in student recruitment activities. Weaker profit primarily stemmed from investing in promotions in order to enhance student acquisition and improve brand power.

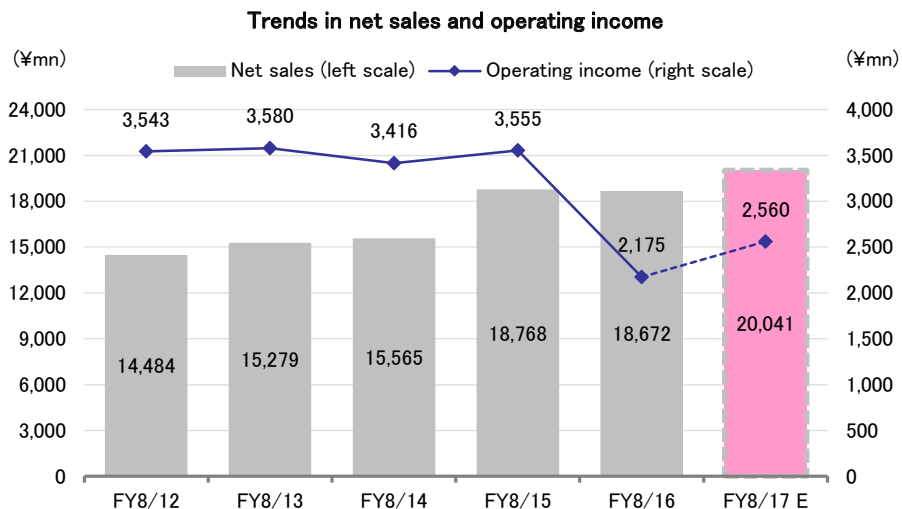
For FY8/17, the Company projects higher sales and profits with net sales rising 7.3% YOY to ¥20,041mn and operating income climbing 17.7% to ¥2,560mn. It anticipates a return to higher profit by restoring sales promotion expenses, which it increased by just over ¥500mn in FY8/16, to a normal-year level.

The newly announced medium-term management plan calls for basic strategies of reinforcing the Meiko Gijuku business, strengthening profitability in all businesses, and expanding business scope to deliver sustainable growth. The Company targets ¥22,541mn in net sales and ¥3,620mn in operating income in FY8/20. For the Meiko Gijuku business, it intends to offer educational guidance that realizes student-centric learning and promote better efficiency using IT, thereby differentiating itself from peers. It hopes to expand the number of students from 130,000 at the end of FY8/16 to 150,000.

The Company’s policy on returns to shareholders is to continue its current proactive stance. For dividends, it intends to continue the consecutive increases in dividends that it has maintained since its listing. In FY8/17, it is planning a dividend per share of an increase of ¥2.0 to ¥4.0 (dividend payout ratio of 70.3%). 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 length of time held. The gross investment yield per share unit including the shareholder benefit program, is at the 5% to 7% level at the current share price (¥972 as of October 14).

■ Check Point

- Targets sustainable growth in the mainstay Meiko Gijuku business and is expanding other educational services
- Meiko Gijuku business sales fell, but sales increased in preparatory schools and other businesses
- Likely to post higher sales and profits for the first time in two years in FY8/17 with the part-time tutor labor management problem largely resolved



■ Business Overview

Targets sustainable growth in the mainstay Meiko Gijuku business and is expanding other educational services

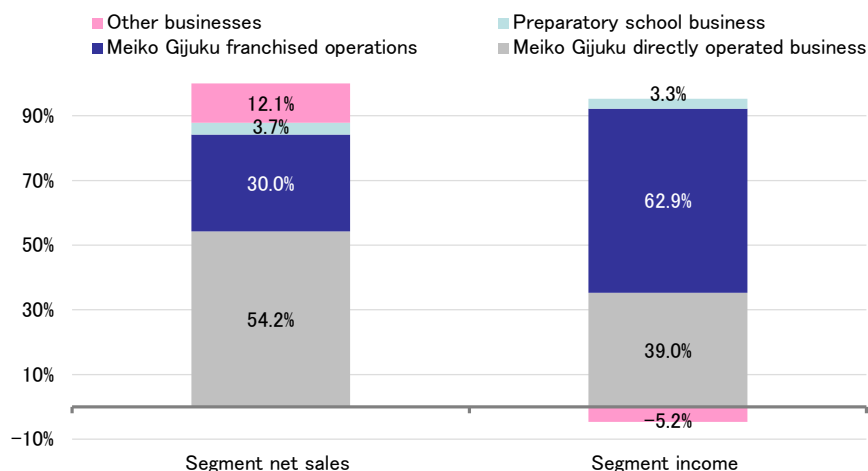
The main revenue pillars are the Meiko Gijuku directly operated business and the franchised operations business, which lead the private tutorial schools industry. Based on its educational philosophy of developing human resources through independent learning, it is also actively developing educational-services businesses other than Meiko Gijuku.

Specifically, it operates Meiko Soccer Schools for 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; and Meiko Kids Schools, which provide nursery care for preschool children and after-school care for elementary school children. Its subsidiaries operate specialist preparatory schools for students wishing to enter into medical universities and Japanese language schools for overseas students. Another of the Company's subsidiaries, Youdec Co., Ltd., publishes a magazine featuring information about the content of entrance examinations, produces model examination questions, sells educational materials, and offers private instruction to students at their schools. In addition, Youdec's subsidiary, Koyo Shobo Co., Ltd., is involved in the academic publishing business. In March 2016, it newly made a subsidiary of Kotoh Jimusho, which will operate a business for university entrance exams and university education.

As overseas businesses, the Company operates a nursery school for Japanese residents in Singapore (non-consolidated subsidiary COCO-RO PTE LTD) and has invested in NEXCUBE CORP, INC. (equity-method affiliate; 23.7% stake), which operates private tutorial schools in South Korea, and Taiwan-based Meiko Bunkyo (equity-method affiliate; 25% stake), a joint venture with a local firm that operates Meiko Gijuku business in Taiwan.

In percentages by business segment for FY8/16, the mainstay Meiko Gijuku business (directly operated and franchised operations) is clearly the primary source of Meiko Network Japan's income at over 80% of net sales and over 90% of profits. The Company's policy, as its medium-term strategy, is to aim for growth in the entire Group and be Japan's top company in human development through maintaining the growth of the Meiko Gijuku business while developing its other educational-services businesses.

Percentage distributions by business segment (FY8/16)



Note: Totals are after removal of in-group transactions

■ Business performance

Sales and profits declined in FY8/16

(1) Overview of FY8/16 results

In FY8/16 consolidated results, net sales decreased 0.5% YOY to ¥18,672mn, operating income fell 38.8% to ¥2,175mn, ordinary income declined 38.8% to ¥2,325mn, and net income attributable to owners of the parent decreased 60.2% to ¥944mn. Both sales and profits missed the initial plan, but were roughly on track with the revised plan announced in July.

FY8/16 results (consolidated)

(Unit: ¥mn)

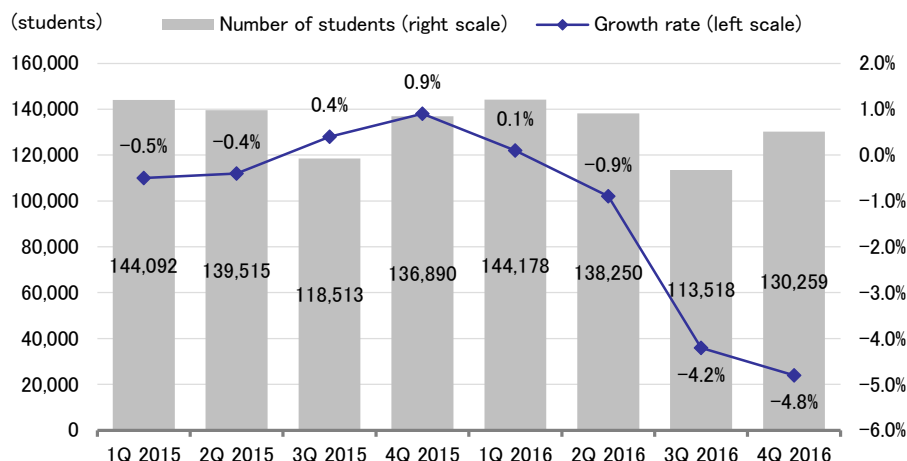
	FY8/15		FY8/16					Versus the revised plan
	results	% of sales	Initial plan	Revised plan	results	% of sales	YOY	
Net sales	18,768	-	19,818	18,988	18,672	-	-0.5%	-1.7%
Meiko Gijuku directly operated business	10,321	55.0%	10,779	-	10,123	54.2%	-1.9%	-
Meiko Gijuku franchised operations	6,017	32.1%	6,139	-	5,597	30.0%	-7.0%	-
Preparatory school business	640	3.4%	700	-	689	3.7%	7.7%	-
Other businesses	1,788	9.5%	2,198	-	2,260	12.1%	26.4%	-
Cost of sales	11,792	62.8%	12,163	-	12,165	65.2%	3.2%	-
SG&A expenses	3,420	18.2%	3,954	-	4,331	23.2%	26.6%	-
Operating income	3,555	18.9%	3,700	2,225	2,175	11.7%	-38.8%	-2.2%
Ordinary income	3,803	20.3%	3,881	2,212	2,325	12.5%	-38.8%	5.2%
Extraordinary income (loss)	95	0.5%	0	-	-508	-2.7%	-	-
Net income	2,369	12.6%	2,400	866	944	5.1%	-60.2%	9.0%

*Revised plan from July 2016

Net sales recorded a slight decline, despite higher sales in preparatory schools business and other businesses, owing to decline in sales for the mainstay Meiko Gijuku business. We attribute the drop in Meiko Gijuku business sales to the lower number of students and a decline in average spending per student. Besides facing a difficult market environment with Japan's shrinking child population and tougher competition in the private tutorial education industry, time spent to resolve the part-time tutor labor management problem from fall 2015 prevented the Company from sufficiently engaging in student recruitment activities.

In the mainstay Meiko Gijuku business, number of schools was down by 35 YOY to 2,102 schools at the end of FY8/16, average number of students during the period slipped 2.1% YOY to 132,088 students (period-end number of students was down 4.8% to 130,259), and total sales were down 3.4% to ¥46,122mn. The impact of the Company's inability to sufficiently recruit students during the key recruitment period of February to April showed up during 2H.

Trend in number of students at Meiko Gijuku



Main profit setbacks were decline in sales in the Meiko Gijuku business and a ¥547mn increase in promotional costs (TV commercials, Web advertising, etc.) to strengthen student recruitment and enhance the brand in this business. SG&A expenses climbed ¥911mn YOY, including ¥789mn from higher promotional costs.

The large decline rate in net income reflects extraordinary losses of ¥408mn for tutor salary adjustments, ¥104mn for related company liquidation losses, and ¥50mn for valuation losses on investment securities.

Meiko Gijuku business sales fell, but sales increased in preparatory schools and other businesses

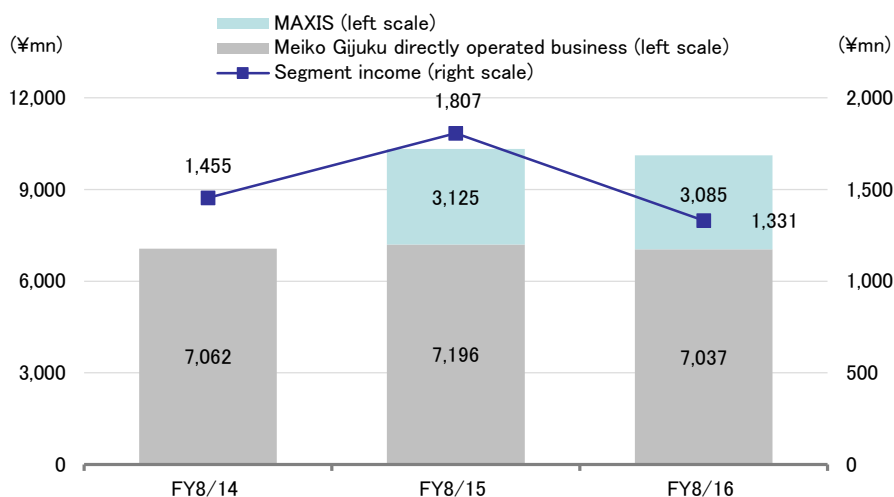
(2) Segment trends

a) Meiko Gijuku directly operated business

In the Meiko Gijuku directly operated business, net sales decreased 1.9% YOY to ¥10,123mn and segment income fell 26.4% to ¥1,331mn. Within these amounts, in the Company's directly operated business, net sales were down 2.2% to ¥7,037mn and operating income declined 23.1% to ¥1,185mn. At the subsidiary MAXIS Education Co., Ltd. (hereafter, MAXIS), net sales decreased 1.3% to ¥3,085mn and operating income dropped 29.5% to ¥146mn. The amount of the amortization of goodwill for MAXIS was ¥143mn.

The number of schools at the end of August increased by 10 YOY to 323 schools, which included some transfers from the owners of franchise operations schools. The Company has been working on measures to improve customer satisfaction by enhancing communication with students and their guardians, and also to establish an environment conducive to learning through creating schools that are safer and easier for students to attend. It has also been conducting measures to improve the unit price per student, including introducing as a new service into all schools on online learning service for science and sociology, targeting middle-school school students. Despite these efforts to boost sales, sales per student fell and served as a setback to net sales. Segment income declined by double digits due to lower net sales as well as a rise in labor costs, including higher tutor recruitment expenses and an increase in tutor wages.

Meiko Gijuku directly operated business



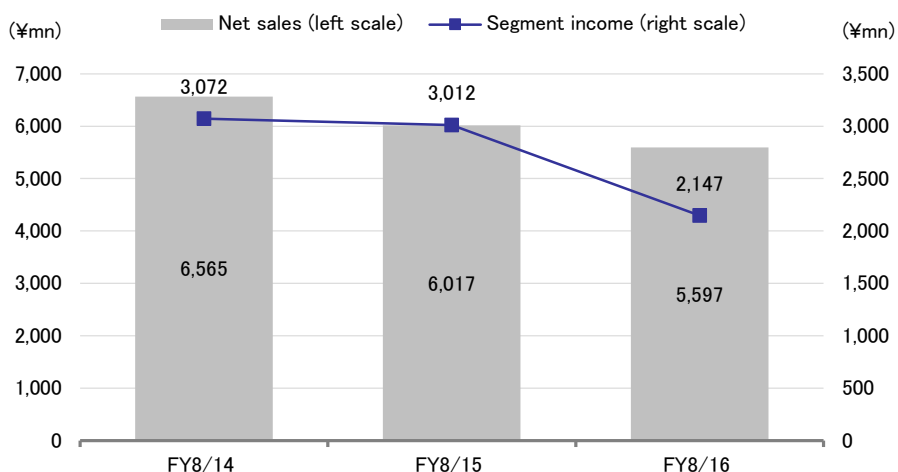
Number of directly operated schools, Number of student, Sales per student

	Meiko Network directly operated schools			MAXIS directly operated schools		
	FY8/15	FY8/16	Change	FY8/15	FY8/16	Change
Number of schools (end of August)	222	230	+8	91	93	+2
Number of students (average during the period)	17,364	17,441	+77	7,016	6,963	-53
Average number of students per school (average during the period)	78.2	75.8	-2.4	77.1	74.9	-2.2
Sales per student (¥1,000)	414.4	403.5	-10.9	445.4	443.1	-2.3

b) Meiko Gijuku franchised operations business

In the Meiko Gijuku franchised operations business, net sales decreased 7.0% YOY to ¥5,597mn and segment income fell 28.7% to ¥2,147mn. The number of schools at the end of August was down 45 to 1,779 schools (excluding MAXIS directly operated schools), while number of students during the period also fell 5.3% to 105,473 students. The main factors behind the decline in number of students were scrap-and-build activity, including the closure of unprofitable schools, and inadequate recruitment activities to acquire new students.

Meiko Gijuku franchised operations business



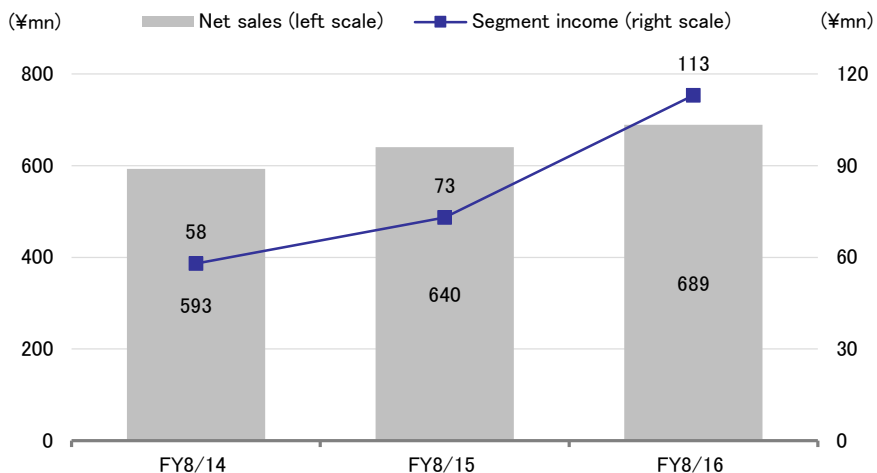
Number of FC schools, Number of students

	FY8/15	FY8/16	Change
Number of schools (end of August)	1,824	1,779	-45
Number of students (average during the period)	110,505	107,685	-2,821
Average number of students per school (average during the period)	60.6	59.7	-0.9

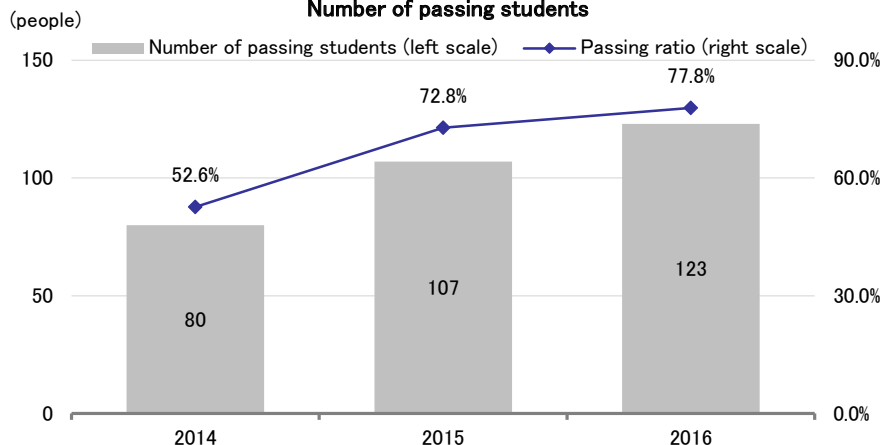
c) Preparatory schools

In the preparatory schools business operated by consolidated subsidiary Tokyo Ishin Gakuin, Co., Ltd., net sales climbed 7.7% YOY to ¥689mn and segment income rose 54.4% to ¥113mn, posting all-time highs for a second straight year (the first time since acquisition as a subsidiary in 2009). While the average number of students during the period stayed almost flat YOY, summer and winter courses performed well and sales per student improved. Profits benefited from higher sales and cost savings from closure of the Yokohama school in March and the resulting establishment of a three-school structure. While number of students fell by 14 YOY to 138 students at the end of August due to the decline in the number of schools, the number of students passing entrance exams and the success rate in the spring of 2016 exceeded levels in the previous fiscal year, delivering strong results. This performance has positive implications for increasing the number of new students going forward.

Preparatory school business



Number of passing students



*Passing ratio = Number of passing students ÷ Number of students at the end of November 2015
Source: the Company's website

Number of passing students for medical, dentistry, veterinary, and pharmacological departments (including recommended and AO)

d) Other businesses

In other businesses, net sales rose 26.4% YOY to ¥2,260mn and the segment loss was ¥178mn (segment loss of ¥90mn in the previous fiscal year).

Breakdown of other businesses

(Unit: ¥mn)

	FY8/14	FY8/15	FY8/16	Value change
Net sales	1,434	1,906	2,405	+499
Waseda Academy Kobetsu Schools	258	298	355	+57
Meiko Kids Schools	70	124	179	+55
Meiko Soccer Schools	131	140	147	+7
Waseda EDU	-	205	294	+89
Kokusai Jinzai Kaihatsu	-	-	172	+172
Kotoh Jimusho	-	-	30	+30
Youdec	749	810	815	+5
Koyo Shobo	210	217	246	+29
MAXIS (besides Meiko Gijuku)	-	103	147	+44
Others	11	4	16	+12
Operating profit	-44	-90	-178	-88
Waseda Academy Kobetsu Schools	4	-32	-52	-20
Meiko Soccer Schools	-20	-10	-6	+4
Others	-28	-48	-120	-72

*Net sales values include internal transactions

Looking at the trends according to business, the Waseda Academy Kobetsu Schools' net sales increased ¥57mn to ¥355mn and the operating loss was ¥52mn (a loss of ¥32mn in the same period in the previous fiscal year). At the end of August, the number of schools had increased by 2 (up 2 Company directly operated schools, up 1 MAXIS directly operated schools, and down 1 franchised operations school) to 30 schools (7 Company directly operated schools, 4 MAXIS directly operated schools, 10 Waseda Academy directly operated schools, and 9 franchised operations schools) and the number of students enrolled in all schools increased 17.4% to 2,355 students. The average number of students per school also steadily increased from 71.6 students in the same period in the previous fiscal year to 78.5 students. The Company ranked first within the private tutorial schools in terms of the number of students passing entrance exams in the spring of 2016 for GMARCH*. Thanks to the rise in passing students in challenging middle-school and high school exams, number of students is trending upward on greater awareness of the schools' track recording in achieving pass results for its students to enter prestigious schools, and this is also a factor behind the higher sales. The operating loss grew modestly because of the impact of higher personnel and other expenses from the increase in the number of Company directly operated schools.

In the Kids Schools business, sales rose ¥55mn to ¥179mn. While this business is continuing to record losses because most schools have only opened recently, the first school has already stabilized and is profitable. Profits are expected to improve over the passage of time due to robust demand for after-school care for young children. The business is operating seven schools, and it also handles extra-hour classes at nursery school and after-school sessions at private elementary schools on a consignment basis in six locations. Number of students climbed by 87 YOY to 608 students.

Meiko Soccer Schools' net sales increased ¥7mn to ¥147mn and its operating loss was ¥6mn (a loss of ¥10mn in the same period in the previous fiscal year). The number of schools at the end of August was unchanged from the previous fiscal year at 16 (1 was a franchised operations school), while number of students declined by 16 to 971 students. The business is strengthening measures to improve school teaching capabilities, such as reinforcing instruction training, and reviewing framework of school operations. It is also conducting customer satisfaction surveys, adjusting class make-up, and improving the school environment. It aims to promptly achieve profitability by focusing on expansion of number of students per school in the near term.

Sales at the one Japanese language school operated by consolidated subsidiary Waseda EDU climbed ¥89mn YOY to ¥294mn thanks to receiving more overseas students from countries such as China and Vietnam. The Company added this entity as a subsidiary from 2Q FY8/15, and sales were up ¥14mn for the same 2Q - 4Q period.

Number of students at the end of August was up 26 YOY to 461 students, and the school increased capacity from 520 to 600 students. The school expects to be at practically full capacity including October applicants.

* The name is from the initials of Gakushuin, Meiji, Aoyama Gakuin, Rikkyo, Chuo, and Hosei universities.

The JCLI Japanese Language Schools(three schools) operated by Kokusai Jinzai Kaihatsu, which the Company added to consolidated scope in 4Q, booked ¥172mn in sales and had 919 students as of the end of August (versus a capacity of 1,380 students). This business expects number of students to surpass 1,000 students including October applicants.

The Company also added Kotoh Jimusho to consolidated scope from 4Q, and this business had ¥30mn in sales. It is recruiting new customers mainly in the examination question solutions business, and results are steadily rising.

Sales climbed ¥5mn YOY to ¥815mn at consolidated subsidiary Youdec, despite sluggish book sales of past high-school examination question, mainly because of robust demand for model entrance exams, particularly to major cram schools, and saw a steady growth in private instruction to students at their schools. In addition, sales at subsidiary Koyo Shobo improved ¥29mn YOY to ¥246mn thanks to posting a new high in mainstay university textbook release volume in recent years with support from bolstering sales efforts, such as setting up new channels.

Separately, MAXIS delivered a healthy ¥44mn YOY increase in sales from other businesses besides Meiko Gijuku (English schools, etc.) to ¥147mn, and overseas business momentum is upbeat with the Taiwanese joint venture opening seven new schools in 2H and posting a steady rise in number of students.

■ Outlook

Likely to post higher sales and profits for the first time in two years in FY8/17 with the part-time tutor labor problem largely resolved

(1) Outlook for FY8/17 results

For the FY8/17 consolidated results outlook, the Company targets ¥20,041mn in net sales (up 7.3% YOY), ¥2,560mn in operating income (up 17.7%), ¥2,650mn in ordinary income (up 13.9%), and ¥1,510mn in net income attributable to owners of the parent (up 59.9%). It expects a return to higher sales and profits for the first time in two years. The outlook forecasts recoveries in the number of students and sales per student thanks to having largely resolved the labor management issues for part-time tutors and recently eliminating the shortage of tutors (tutor applicants are increasing YOY now). In spending, meanwhile, it factors in non-recurrence of the ¥547mn in extra sales promotion expenses allocated in FY8/16. The Company also projects higher net income owing to disappearance of extraordinary expenses.

FY8/17 results outlook (consolidated)

(Unit: ¥mn)

	FY8/16		FY8/17				
	results	% of sales	1H plan	YOY change	Full-year plan	% of sales	YOY
Net sales	18,672	-	9,891	5.0%	20,041	-	7.3%
Meiko Gijuku directly operated business	10,123	54.2%	5,002	-5.4%	9,975	49.8%	-1.5%
Meiko Gijuku franchised operations	5,597	30.0%	2,759	-1.5%	5,696	28.4%	1.8%
Preparatory school business	689	3.7%	326	-7.9%	704	3.5%	2.2%
Other businesses	2,260	12.1%	1,803	84.7%	3,664	18.3%	62.1%
Cost of sales	12,165	65.2%	6,469	8.1%	13,235	66.0%	8.8%
SG&A expenses	4,331	23.2%	2,072	10.0%	4,245	21.2%	-2.0%
Operating income	2,175	11.7%	1,349	-13.0%	2,560	12.8%	17.7%
Ordinary income	2,325	12.5%	1,406	-10.9%	2,650	13.2%	13.9%
Extraordinary income (loss)	-508	-	0	-	0	-	-
Net income	944	5.1%	754	39.5%	1,510	7.5%	59.9%

Looking at segment sales targets, the Company expects a 1.5% YOY decline to ¥9,975mn for the Meiko Gijuku directly operated business and a 1.8% increase to ¥5,696mn in franchised operations. In regard to number of schools, the Company plans to continue with scrap-and-build initiatives and launch about 20 new schools, on par with FY8/16. The Company forecasts combined sales for these two businesses at roughly the same level as FY8/16 with support from higher sales per student. It has been reorganizing school deployment areas since FY8/16 and aims to promote school openings in areas without schools and bolster efforts to lift the student coverage ratio in regions.

The outlook projects a 2.2% YOY rise in sales for the preparatory schools business to ¥704mn. While it expects a 7.9% decline in 1H because number of students at the end of August was down 9.2% YOY, the plan factors in a recovery from 2H due to reinforcement of student recruitment efforts.

The outlook guides for a 62.1% YOY increase in sales for other businesses to ¥3,664mn based on a full-year contributions from Kotoh Jimusho and growth in Waseda Academy Kobetsu Schools, Meiko Kids Schools, and other areas.

Aiming for all-time high earnings by strengthening Meiko Gijuku business, improving profitability in all businesses, and expanding business scope

(2) New medium-term management plan

The Company disclosed the new medium-term management plan covering four years through FY8/20. It sets business goals for FY8/20 of 2,180 Meiko Gijuku schools (vs. 2,102 schools at the end of FY8/16), 150,000 students (vs. 130,000 students), ¥22,541mn in net sales (vs. ¥18,672mn), ¥3,600mn in operating income (vs. ¥2,175mn), and continuation of consecutive dividend hikes since its listing. Both net sales and operating income targets are all-time highs. The Company also aims in its 2020 Vision to pursue further growth mainly in educational and cultural businesses and become a top company in human development.

Anticipated changes in the market environment through 2020 are implementation of reforms to the university entrance exam (2020), updates to government curriculum guidelines, and adoption of English as an official course for elementary students. Reforms to the university entrance exam aim to put more emphasis on ability to think, judge, and express. English, in particular, will focus on communication capabilities, and major changes are coming, including utilization of EIKEN, TOEIC, and other private-sector certification. Kotoh Jimusho, which the Company acquired as a subsidiary in FY8/16, has accumulated knowhow for university exams in response to these changes, and we expect to use its knowhow in development of learning materials, model tests, and other contents. We think the Company's "Meiko Style – Independent Learning" is a good fit with the required independent learning ability to think, judge, and express. While response to English curriculum is an issue that needs to be addressed, we believe these changes in the educational environment offer excellent opportunities for Meiko Network to expand the Meiko Gijuku business.

However, Japan's child population is shrinking and competition continues to intensify for private tutorial schools, and the Company's market share slipped in FY8/16, including the impact of its own problems. We think a key point for renewed growth is the extent to which Meiko Network is capable of clearly differentiating itself from peers.

The new medium-term management plan outlines strategies for reinforcement of and renewed growth in the mainstay Meiko Gijuku business, improving profitability in other businesses, broadening business scope to achieve sustainable growth, cultivating human resources, and enhancing corporate value. Below we review these strategies.

a) Strengthen the Meiko Gijuku business

The Company plans to roll out a new learning guidance style in order to strengthen the Meiko Gijuku business and differentiate itself from rivals. This effort has two key points – 1) adoption of a learning guidance method that realizes student-centric education and 2) incremental deployment of a next-generation school operation system that increases visibility by digitalizing learning progress and records and using this information in guidance.

While the Company already implemented guidance that taught students how to study through "Meiko Style – Independent Learning," the new proposal goes even further.

Additionally, the Company intends to integrate all information, including data from student entry to departure and records of contact with guardians, by connecting and unifying data from the educational site and its backbone network system and to leverage this information to improve marketing. It believes that use of the accumulated data can help in making effective proposals for increasing lesson volume and extending time at the school and in devising detailed measures by region and academic year. Meiko Network hopes to incrementally develop these systems by 2020.

While a growing number of companies are promoting online schools, Meiko Network believes that the learning “location” and supporting “people” are vital to educational service and sees these capabilities as its strength. The medium-term management plan seeks to realize renewed growth by steadily implementing its measures.

b) Strengthen profitability in all business

The Company intends to increase school and number of students and improve profitability in its other businesses, besides Meiko Gijuku business. It plans to expand school operations for Waseda Academy Kobetsu Schools from 30 schools at the end of FY8/16 to 60 schools in FY8/20 and Meiko Kids Schools from 13 schools to 25 schools. It is also targeting increases in number of students at the Japanese language school business from 1,380 to 2,000 students and at Meiko Soccer Schools from 971 to 1,300 students.

The Company intends to share knowhow within the group and integrate administrative divisions and bolster the group’s comprehensive capabilities through pursuit of even greater synergies. It hopes to realize profitability in the other businesses segment by FY8/20.

c) Broaden business scope to support sustainable growth

The Company plans to continue developing businesses in educational and cultural fields based on its group vision and also steadily bolster Meiko Gijuku and pursue M&A and investments that foster collaboration among businesses. In overseas business, it is seeking opportunities in other Asian countries besides South Korea and Taiwan.

d) Human resource cultivation

The Company intends to cultivate human resources to drive the group’s growth while emphasizing work-life balance and promoting awareness changes and productivity enhancements.

e) Improving corporate value

The Company plans to raise corporate value by achieving sustainable earnings growth and implement capital and dividend policies, which are attractive also to investors.

■ **Financial position**

Expecting profitability in the main business to recover at a moderate pace amid continuation of robust financial health

The Company’s financial position at the end of August 2016 was that total assets decreased ¥1,710mn compared to the end of the previous fiscal period to ¥16,970mn. Breaking down the trends, current assets fell ¥2,963mn to ¥6,865mn, mainly due to M&A and the acquisition of treasury stock that depleted cash and deposits item by ¥2,711mn, while non-current assets, increased ¥1,252mn to ¥10,105mn as goodwill climbed ¥1,568mn following the M&A.

Total liabilities decreased ¥291mn compared to the end of the previous fiscal period to ¥3,760mn, mainly based on an increase in advances received of ¥458mn on Kokusai Jinzai Kaihatsu being acquired as a subsidiary, but declines in accrued income taxes and accrued consumption taxes by ¥398mn and ¥187mn respectively. In addition, net assets fell ¥1,419mn to ¥13,209mn primarily due to the acquisition of treasury stock of ¥1,500mn.

Next, we review business indicators. Although the equity ratio fell from 78.0% at the end of the previous fiscal year to 77.4% due to the decrease in net assets, it continued to maintain its previous high level. Moreover, the interest-bearing debt ratio is 0.5% and the Company is essentially debt free, and its financial position can be judged to continue to be in good condition. In profitability, however, operating margin dropped from 18.9% a year ago to 11.7%, mainly because of a decline in income at the highly-profitable Meiko Gijuku franchised operations business. The Company aims to improve operating margin to 16.1% in the final fiscal year of the medium-term management plan assuming a moderate upward trend as this business recovers.

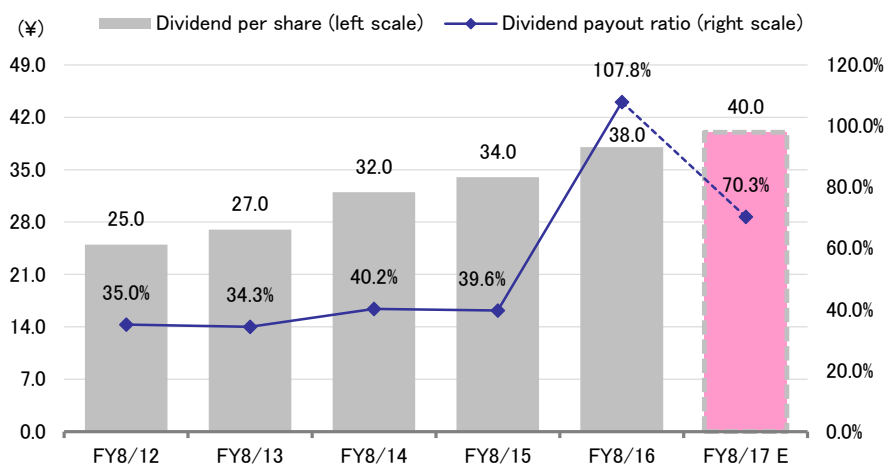
Consolidated balance sheet and business indicators

	FY8/13	FY8/14	FY8/15	FY8/16	Change
Current assets	9,297	9,707	9,828	6,865	-2,963
(cash and deposits)	7,122	7,363	7,345	4,633	-2,711
Non-current assets	7,259	6,860	8,852	10,105	1,252
Total assets	16,557	16,568	18,680	16,970	-1,710
Current liabilities	4,130	2,774	3,357	3,059	-297
Non-current liabilities	613	602	694	701	6
(interest-bearing debts)	1,670	70	96	82	-13
Total liabilities	4,744	3,377	4,052	3,760	-291
Net assets	11,813	13,191	14,628	13,209	-1,419
Management indicators					
Shareholders' equity ratio	71.2%	79.4%	78.0%	77.4%	
Interest-bearing debt ratio	10.1%	0.4%	0.5%	0.5%	
(profitability)					
ROE	19.8%	17.6%	17.1%	6.8%	
Ratio of operating income to net sales	23.4%	21.9%	18.9%	11.7%	

■ Dividends and capital policies
Proactive stance toward shareholder returns and plans to increase the dividend for a 19th consecutive period in FY8/17

The Company is considered to have taken an active stance on returning profits to shareholders since it listed on JASDAQ in April 1997. It has continued to consecutively increase dividends since its listing, and has also introduced a shareholder benefit program. The Company's basic policy on dividends remains the same to continue increasing dividends in the future. In FY8/17, it is planning a dividend per share of an increase of ¥2.0 to ¥40.0 dividend payout ratio of 70.3%), for the 19th consecutive fiscal period of higher dividends.

Moreover, under the shareholder benefit program, the Company gives QUO cards worth ¥1,000 to 5,000 to shareholders as of the end of August, according to the number of shares they hold and the length of time that they have held them. Those holding 100 shares for less than three years will receive a ¥1,000 QUO card, while 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 flexibly acquire treasury stock when possible, taking into account the share price and financial position.

Dividend per share and payout ratio




Meiko Network Japan

4668 Tokyo Stock Exchange
First Section

1-Dec.-16

Shareholder benefit program

QUO 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
100-499 shares	Equivalent to ¥1,000	Equivalent to ¥3,000
500-999 shares	Equivalent to ¥2,000	Equivalent to ¥4,000
1,000 or more shares	Equivalent to ¥3,000	Equivalent to ¥5,000

Note: Program applies to shareholders as of the end of August 2016

Disclaimer

FISCO Ltd. (the terms “FISCO”, “we”, mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “JASDAQ INDEX” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.