

MEIKO NETWORK JAPAN CO., LTD.

4668

Tokyo Stock Exchange First Section

6-Sept.-2018

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

<http://www.fisco.co.jp>

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Summary

Student numbers continued to fall year on year and the FY8/18 results forecasts were downwardly revised, but is aiming to recover student numbers at an early stage by introducing MEIKO Style Coaching and enhancing learning content that utilizes ICT

MEIKO NETWORK JAPAN CO., LTD. <4668> (hereafter, also “the Company”) offers a variety of educational services centered on the directly operated and franchised operations 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 the Company is aiming to become a top company in human development while proceeding with M&A activities.

1. FY8/18 3Q cumulative results

In the FY8/18 3Q cumulative (September 2017 to May 2018) consolidated results announced on July 11, net sales decreased 3.2% year on year (YoY) to ¥13,573mn and operating income declined 61.9% to ¥664mn. The main reasons for the decreases in sales and profits were the continued decline in student numbers in the mainstay Meiko Gijuku business and that investment in strategic advertising expenses increased by more than ¥500mn alongside the fully fledged launch of MEIKO Style Coaching*, which is the Company’s new learning guidance method.

* MEIKO Style Coaching is a learning guidance method that further raises students’ understanding capabilities during learning through the tutor giving them hints, and the students then solving problems using their own capabilities and explaining what they have understood in their own words to the tutor, and recording this in review notes. It is a guidance method that further evolves the Meiko Style - Independent Learning that the Company has been developing up until now.

2. FY8/18 outlook

The Company has downwardly revised its initial forecasts for the FY8/18 consolidated results (net sales of ¥20,415mn and operating income of ¥2,011mn), to net sales to decline 1.4% YoY to ¥19,120mn and operating income to fall 51.1% to ¥1,280mn. The main reasons for this revision were that the number of students in the Meiko Gijuku business, which was expected to recover toward the end of the period, continued to slump, falling 6.3% YoY at the end of the current 3Q, and that in the preparatory school business operated by a subsidiary, the number of new students in the spring of 2018 was less than initially forecast.

3. Measures for the renewed growth of the Meiko Gijuku business

Aiming for the renewed growth of the Meiko Gijuku business, the Company fully launched MEIKO Style Coaching in the spring of 2018 as its differentiation strategy, and it is also introducing learning content that utilizes ICT. Both of these measures appear to have been favorably received by parents and students, it seems to be receiving many inquiries for English content, including Meiko Mirai Eigo (Meiko Future English) for elementary school students and Meiko Chugaku Listening (Meiko Junior High English) for junior high school students. While the effects of the introduction of MEIKO Style Coaching have not yet been realized, this method is in line with the Japanese governments’ educational reform policy that promotes independent learning, and it is considered that going forward, this will lead to a rise in student numbers alongside the improvement in name awareness. Recently, there has been a tendency for an increasing number of parents and students to decide on a tutorial school after looking at comparison websites. So it is thought that the key to realizing renewed growth will be how well the Company can appeal to them through differentiating itself from its industry peers, and we will be paying attention to this strategy going forward.

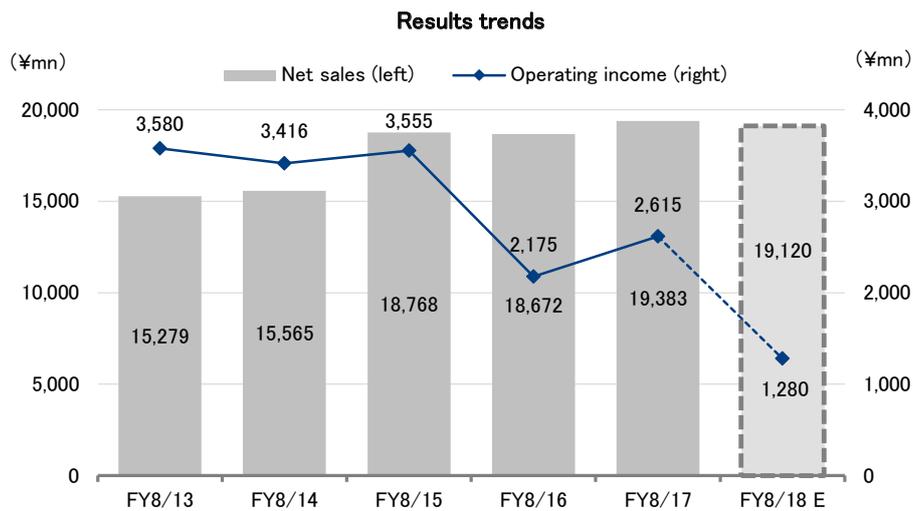
Summary

4. Policy for returning profits to shareholders is to continue to increase dividends

The Company's policy on returns to shareholders is to maintain its initial forecasts. For dividends, it intends to continue the consecutive increases in dividends that it has maintained since its listing. In FY8/18, it is planning to increase its dividend per share by ¥2.0 YoY to ¥42.0, regardless of the downward revision. Moreover, under the shareholder benefit program, the Company gives QUO cards worth ¥1,000-5,000 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 5-7% level at the current share price (¥1,015 as of September 6).

Key Points

- The FY8/18 results forecasts were downwardly revised due to the delay in the recovery of Meiko Gijuku student numbers and that students numbers were less than forecast in the preparatory school business
- Toward recovering student numbers, its policy going forward is to strengthen MEIKO Style Coaching, Meiko e-Po, and the enhancement of new content as its differentiation strategy
- The Company plans to increase the dividend for the 20th consecutive fiscal period
Also has a shareholder benefit program and actively returns profits to shareholders



Source: Prepared by FISCO from the Company's financial results

■ Business Overview

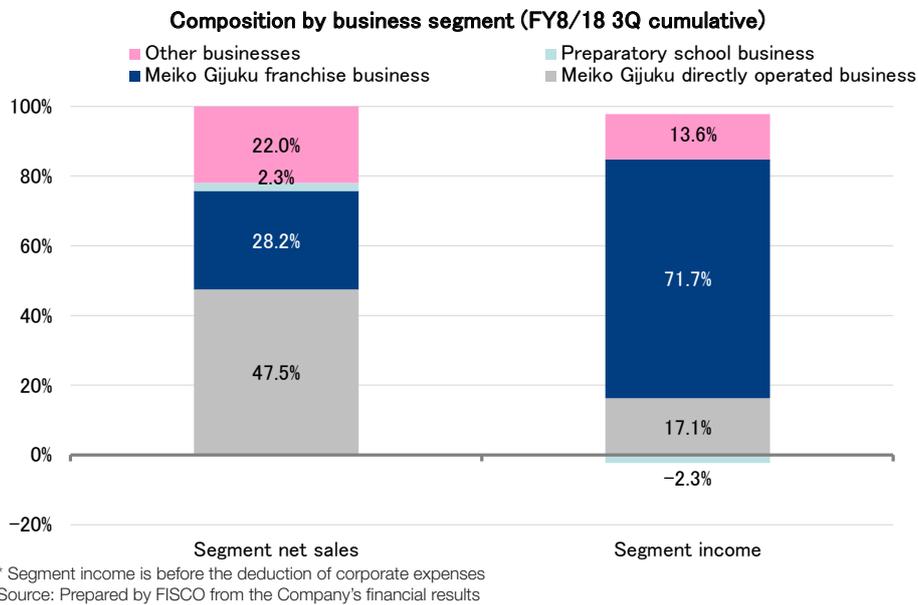
Aiming to become a top company in human development through expanding the mainstay Meiko Gijuku business and other educational services

Based on its educational philosophy of human development through independent learning, the industry leader in private tutorial schools primarily operates the Meiko Gijuku business (directly operated and franchised operations). The Company is also actively expanding into other businesses related to educational services. Specifically, it operates the Meiko Soccer Schools, 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. Additionally, its subsidiaries operate Tokyo Ishin Gakuin, a preparatory school that specializes in the medical university field, and Waseda EDU Japanese language school and JCLI Japanese language schools as schools that cater to overseas students learning Japanese. Other businesses include subsidiary Kotoh Jimusho Co., Ltd., which operates businesses related to university education and exams; subsidiary Youdec Co., Ltd., which publishes an exam information magazine, produces mock exam questions, sells educational materials, and offers private instruction to students at their schools; and Youdec's subsidiary Koyo Shobo Co., Ltd., which is involved in the academic publishing business.

In 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 Corporation, Inc. (equity-method affiliate; 23.7% stake), which operates private tutorial schools in South Korea, and Taiwan-based Meiko Bunkyo (affiliated company not accounted for by the equity method; 25% stake), which operates the Meiko Gijuku business in Taiwan. By business segment for FY8/18 3Q cumulative, the Meiko Gijuku business (directly operated and franchised operations) is clearly the primary source of the Company's income at 75.7% of net sales and 88.7% of profits. The Meiko Gijuku franchised operations business in particular accounted for exceeding 70% for all segments in terms of income base, and is becoming a flagship business. The Company's policy, as its medium-term strategy, is to aim for Group-wide growth by maintaining the expansion of the Meiko Gijuku business while developing its other educational services businesses.

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Business Overview



Business performance

In the FY8/18 3Q cumulative results, sales and profits declined due to the impact of the fall in the number of Meiko Gijuku students

1. Overview of FY8/18 3Q cumulative results

The Company's basic policies for FY8/18 include strengthening the Meiko Gijuku business, bolstering the profitability of all businesses, and developing human resources. In particular, for the Meiko Gijuku business, it is advancing measures including introduction of its MEIKO Style Coaching, which is a new learning guidance method, and Meiko e-Po*, an e-portfolio system, into franchise schools, and introduction of English content that utilizes ICT for elementary and junior high school students. Also, as promotion measures to acquire students, the Company is strengthening web advertising and establishing a contact center structure. Moreover, from 2Q, it began broadcasting TV commercials that feature the Olympic gymnast Mr. Kohei Uchimura. Also, in April 2018, the Company made a wholly owned subsidiary of K. Line Co., Ltd., which is a Meiko Gijuku franchisee. It will be reflected in the consolidated balance sheet with the end of the current 3Q as the acquisition date, and it results will be incorporated into the fiscal period results from the current 4Q.

* A system that records learning records, etc., through the schools' tablet devices and students' smartphones. Not only the students, but also the parents and guardians can check the progress of their child's learning on their smartphones.

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Business performance

While advancing these measures, in the current 3Q cumulative consolidated results, net sales decreased 3.2% YoY to ¥13,573mn, operating income declined 61.9% to ¥664mn, ordinary income fell 60.1% to ¥757mn, and net income attributable to owners of the parent was down 81.3% to ¥273mn. The main reason for these declines was that in the mainstay Meiko Gijuku business (directly operated and franchised operations), school and student numbers continued to fall below the numbers in the previous year. At the end of the current 3Q, there were 2,032 Meiko Gijuku schools, down 2.1% year on year, and there were 102,645 students, down 6.3%. In the current 3Q cumulative, total system-wide sales decreased 5.3% YoY to ¥29,691mn.

Consolidated FY8/18 3Q cumulative results

	FY8/17 3Q cumulative		FY8/18 3Q cumulative		YoY
	Results	% of sales	Results	% of sales	
	(¥mn)				
Net sales	14,028	-	13,573	-	-3.2%
Cost of sales	9,331	66.5%	9,517	70.1%	+2.0%
SG&A expenses	2,953	21.1%	3,390	25.0%	+14.8%
Operating income	1,743	12.4%	664	4.9%	-61.9%
Ordinary income	1,897	13.5%	757	5.6%	-60.1%
Extraordinary income/loss	544	3.9%	-4	-0.0%	-
Net income attributable to owners of the parent	1,458	10.4%	273	2.0%	-81.3%
Number of students enrolled at Meiko Gijuku schools, number of schools, and total system-wide sales (directly operated and franchised operations)					
Number of schools (end of May)	2,075		2,032		-2.1%
Number of students (end of May)	109,525		102,645		-6.3%
Total system-wide sales	31,338		29,691		-5.3%

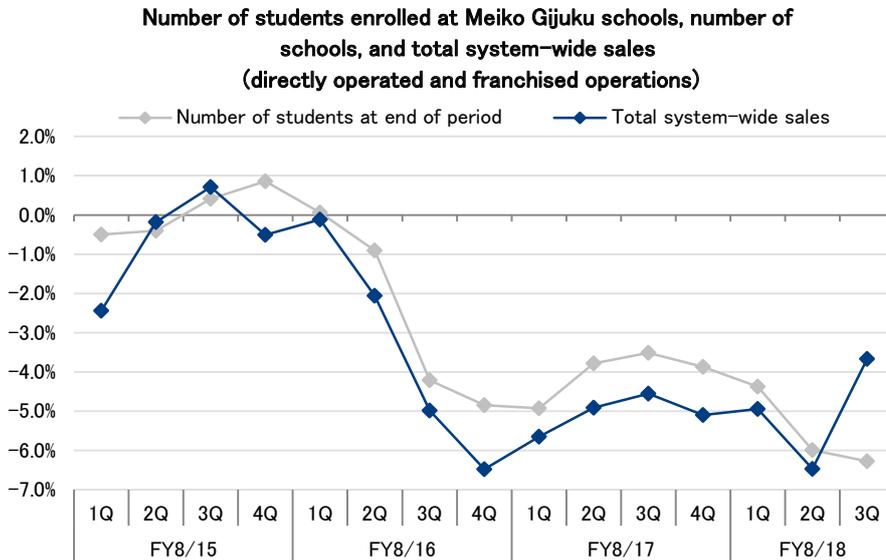
Note: The number of schools refers to the number of schools operational in the final month. Total system-wide sales = the sum of 1) total sales of directly operated schools, including admission fees, lesson fees, fees for educational materials, and test fees, and 2) total sales of franchised operations including admission fees and lesson fees.

Source: Prepared by FISCO from the Company's financial results

Looking at the trends in the growth rates by quarter, the number of students has been falling below the number in the previous year since FY8/16 2Q, and no improvement was seen in 3Q either. This is considered to be mainly due to the fact that within the intensification of competition to acquire students between private tutorial schools, in an increasing number of cases, parents and students are using comparison websites to decide on a tutorial school, and the amount of time they spend on comparing and deciding has become longer. It is also because that in the franchise-operations schools, it is requiring some time to introduce the various measures, including MEIKO Style Coaching, Meiko e-Po, and new content that utilizes ICT.

However, although total system-wide sales decreased 3.7% YoY in the current 3Q, the extent of the decrease was reduced. Moreover, on looking at the sales unit price per student, we see that it changed direction and increased for the first time in 12 quarters, since FY8/15 3Q, so some positive signs can be seen. The factors behind this increase in the sales unit price per student would seem to be the rise in the number of students attending new content courses, including Meiko Mirai Eigo, which is English content utilizing ICT for elementary school students, and Meiko Chugaku Listening, which is English content for junior high school students.

Business performance



Source: Prepared by FISCO from Company materials

The reasons for the decline in operating income included that, in addition to the lower net sales, there were increases in advertising expenses toward improving the name recognition of Meiko Gijuku's MEIKO Style Coaching and in sales promotion expenses relating to student recruitment activities. Also, in the same period in the previous fiscal year, the Company recorded extraordinary income from a gain on the sale of non-current assets, which caused the rate of decrease in net income to become larger on a quarterly basis.

Smoothly growth of the Kids Schools business and Japanese language schools

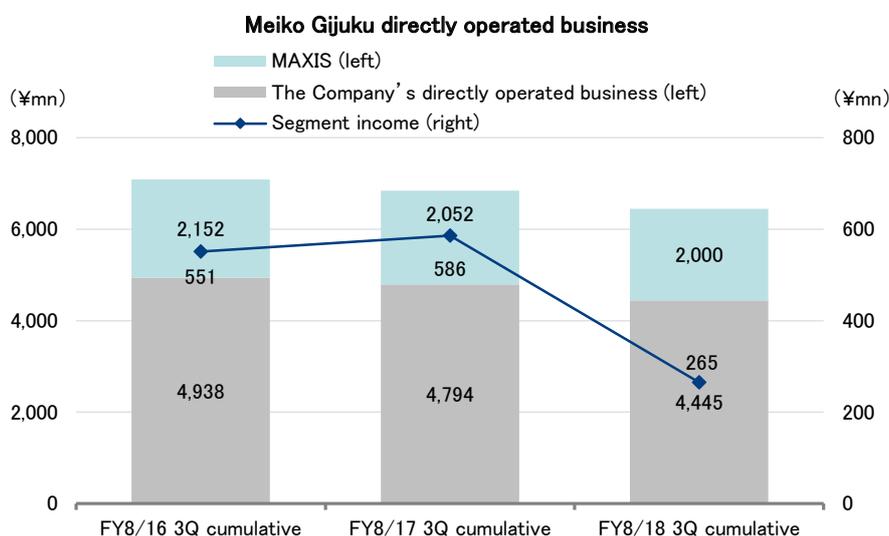
2. Segment trends

(1) Meiko Gijuku directly operated business

In the Meiko Gijuku directly operated business, net sales decreased 5.8% YoY to ¥6,446mn and segment income declined 54.8% to ¥265mn. In addition to the lower sales due to the decline in student numbers, the main reason for the fall in profits was the increase in strategic upfront investment, including in advertising expenses and to enhance ICT content.

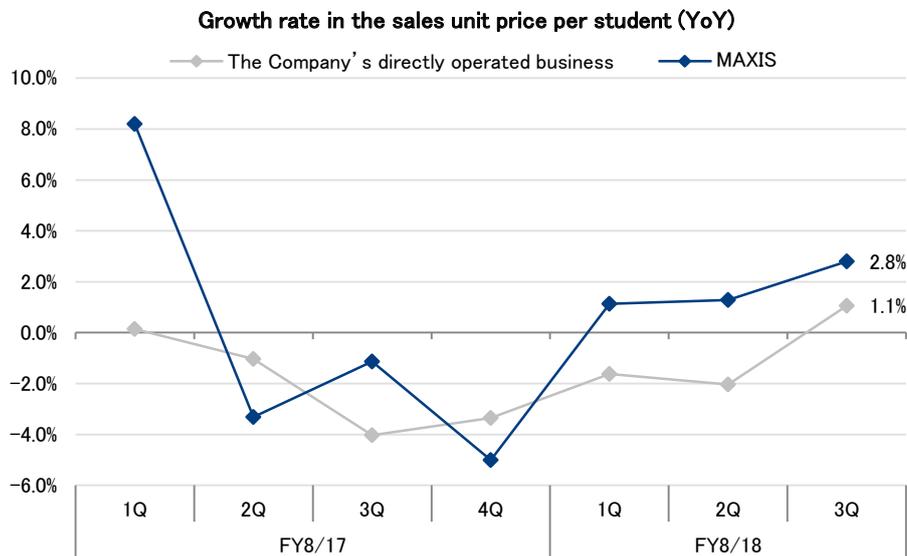
Business performance

Within the above amounts, in the Company's directly operated business, net sales decreased 7.3% YoY to ¥4,445mn and operating income fell 48.5% to ¥324mn, while in the subsidiary MAXIS Education Co., Ltd. (hereafter, MAXIS), net sales declined 2.5% to ¥2,000mn and operating income was down 18.5% ¥53mn (amortization of goodwill, ¥107mn). Looking at the various indicators, in the Company's directly operated schools, at the end of the current 3Q the number of schools had increased by 1 on the end of the previous fiscal year to 234 schools, the number of enrolled students had decreased by 6.1% to 13,936 students, and the number of students per school had fallen 6.5% to 59.6 students. In MAXIS, the number of schools had fallen by 2 to 93 schools, the number of enrolled students had declined 4.0% to 5,618 students, and the number of students per school had decreased 1.9% to 60.4 students. So all the numbers continued to be lower than in the previous year, but on looking at the YoY growth rate in the sales unit price per student, in the current 3Q we see that in the Company's directly operated business, it increased for the first time in six quarters, up 1.1%, and that in MAXIS also, it rose 2.8%, the third consecutive quarter it has risen, so an improvement trend can be seen.



Source: Prepared by FISCO from the Company's financial results

Business performance



Source: Prepared by FISCO from Company materials

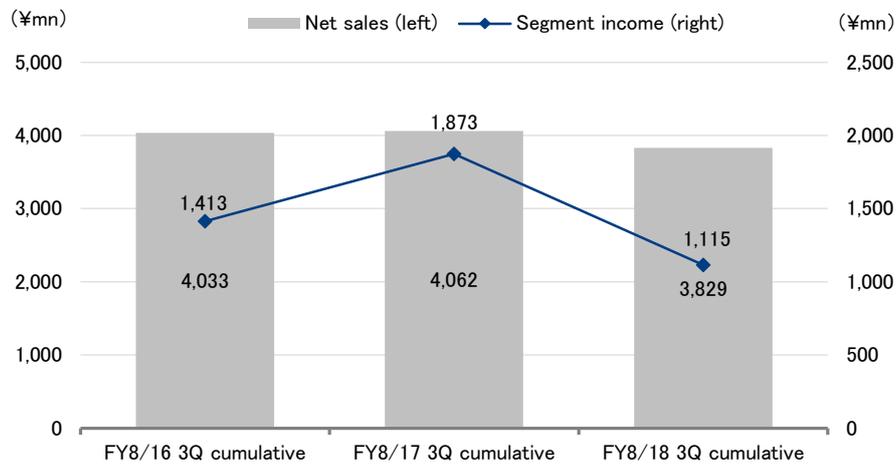
(2) Meiko Gijuku franchised operations business

In the Meiko Gijuku franchised operations business, net sales decreased 5.7% YoY to ¥3,829mn and segment income declined 40.5% to ¥1,115mn. As previously explained, since the spring of 2018 the Company has been holding training sessions toward the fully fledged introductions of the new learning guidance method of MEIKO Style Coaching, Meiko e-Po, and also English content for elementary and junior high school students. In addition, as part of its policy for student recruitment activities, it has been conducting counseling training and other such initiatives jointly with the directly operated schools. However, the effects of these initiatives have not yet been realized, and the reasons for the decline in profits were the decrease in royalty sales alongside the fall in student numbers and the increase in strategic upfront investment, including advertising expenses.

Each of the various indicators declined, as at the end of the current 3Q the number of schools had fallen by 42 YoY to 1,705 schools, the average number of enrolled students had decreased 6.5% to 83,091 students, and the average number of students per school was down 4.2% to 48.7 students. The Company is progressing scrap & build at schools that are unprofitable due to the decline in student numbers, and it would seem that the decrease in the number of schools will continue for the time being. However, in the current 3Q, the sales unit price per student increased for the first time in 10 quarters, up 2.9% YoY, so positive signs have started to appear.

Business performance

Meiko Gijuku franchised operations business



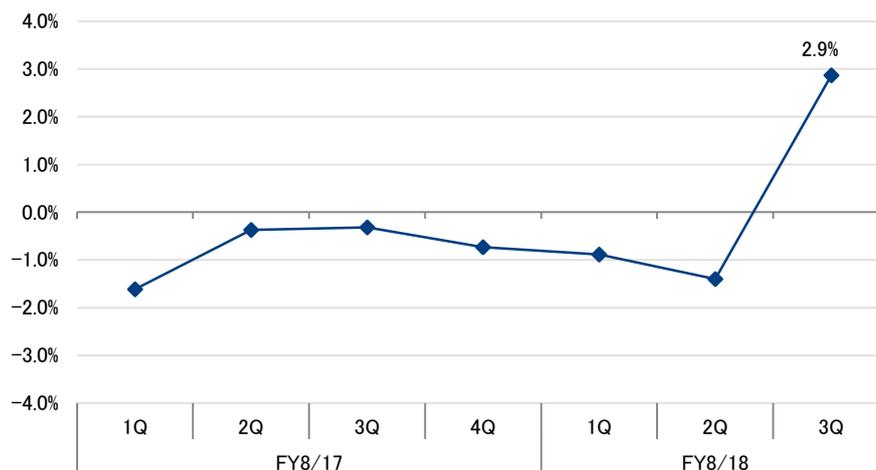
Source: Prepared by FISCO from the Company's financial results

Number of franchised operations schools, number of students, royalty sales

	FY8/17 3Q cumulative	FY8/18 3Q cumulative	Change
Number of schools (end of May)	1,747	1,705	-2.4%
Number of students (end of May)	88,838	83,091	-6.5%
Number of students per school (end of May)	50.9	48.7	-4.2%

Source: Prepared by FISCO from the Company's financial results

Growth rate in the sales unit price per student (YoY)

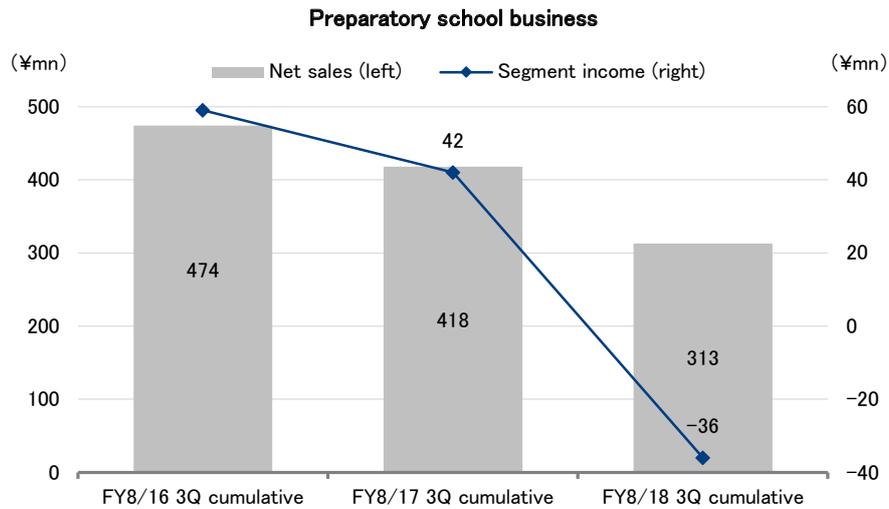


Source: Prepared by FISCO from the Company's financial results

Business performance

(3) Preparatory school business

In the preparatory school business, which is conducted by the consolidated subsidiary Tokyo Ishin Gakuin Co., Ltd., net sales decreased 25.0% YoY to ¥313mn and the segment loss was ¥36mn (compared to operating income of ¥42mn in the same period in the previous fiscal year). The reason for the worsening of sales and profits was that within the situation of the intensification of competition to acquire students among medical-related preparatory schools, the number of new students entering schools in the spring of 2018 was less than in the previous year, and at the end of the current 3Q, student numbers had declined by 24.0% YoY to 79 students.

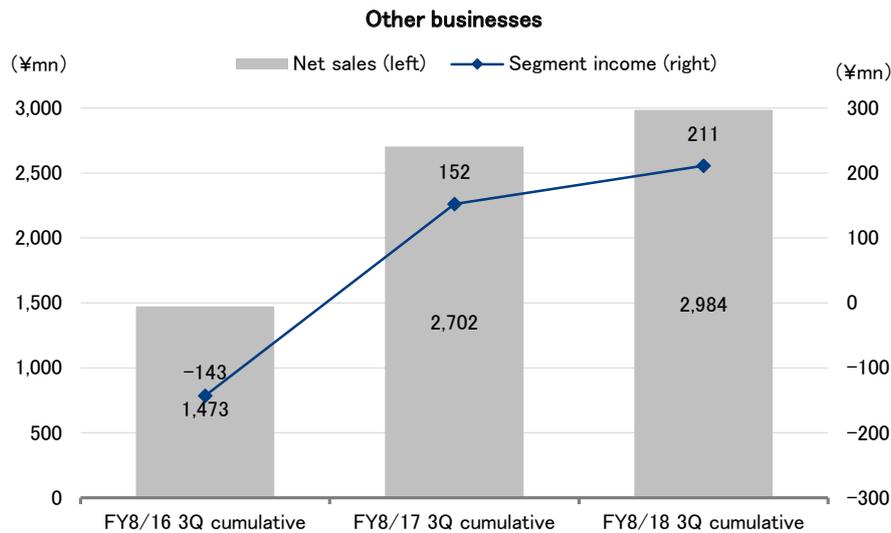


Source: Prepared by FISCO from the Company's financial results

Business performance

(4) Other businesses

In the other businesses, net sales increased 10.4% YoY to ¥2,984mn and segment income rose 38.8% to ¥211mn. The businesses that contributed to the higher sales and profits included those of the Meiko Kids Schools and Japanese language schools, and they are smoothly growing, with double-digit increases in sales.



Source: Prepared by FISCO from the Company's financial results

In the Japanese language schools business, net sales increased approximately 10% YoY to ¥981mn and operating income rose around 20% to ¥63mn. At the end of the current 3Q, the number of enrolled students had declined 0.8% on the end of the previous fiscal year to 515 students in the Waseda EDU Japanese language school (1 school that can accommodate 710 students) and was down by 3.3% to 906 students in the JCLI Japanese language schools (3 schools that can accommodate 1,380 students), and in total, student numbers fell 2.4% to 1,421 students. This was the first decline since it was made a subsidiary, but this is because the number of graduating students in March was greater than in a typical year. In the Japanese language schools, students enter the schools four times a year, in January, April, July, and October, but they graduate only once a year, in March. The number of applications to enter the schools in July has been trending favorably, so at FISCO we think that it is highly likely that the number will have returned to an increase by the time of the end of the fiscal period. JCLI Japanese language schools are scheduled to relocate their school buildings in October 2018.

In the Waseda Academy Kobetsu Schools business, net sales increased 4% YoY to ¥365mn and operating loss was ¥21mn (compared to a loss of ¥14mn in the same period in the previous fiscal year). Sales grew due to the increase in student numbers, but profits were down because of higher fixed expenses following the opening of one new directly operated school. At the end of 3Q, the number of schools had increased by 3 YoY to 35 schools. Breaking this down, the Company's directly operated schools (including MAXIS) increased by 1 to 12 schools, franchised operations schools also increased by 2 to 12 schools, and Waseda Academy directly operated schools remained unchanged at 11 schools. Also, the number of enrolled students at all schools increased steadily, up 7.8% to 2,211 students. It would seem the main factor behind this was the improvement in name recognition among private tutorial schools due to the increase in the number of students passing exams to enter prestigious junior high and high schools.

We encourage readers to review our complete legal statement on "Disclaimer" page.

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Business performance

In the Kids Schools business, net sales increased 30% YoY to ¥205mn and the operating loss was ¥4mn, meaning the extent of the loss continues to contract. There are seven directly operated Meiko Kids schools providing nursery care for preschool children and after-school care for elementary school children, which is the same number YoY, but student numbers are trending upward in each school against the backdrop of the strong demand. In addition, there was 1 nursery care club facility, the same YoY, and 11 consignment operations schools, which is an increase of 4 schools, and in total the number of enrolled school students increased 14.5% to 969 students. Since April 2018, the Company started conducting consignment operations for on-campus after-school care at the private Urawa Lutheran Elementary School (Saitama City, Saitama Prefecture), for the Sakitori Kids School at the Maejima Gakuen Sakitori Kindergarten (Hiratsuka City, Kanagawa Prefecture), and for the after-school J Smile Kids in collaboration with JS Corporation, and the expansion of the consignment operations business is contributing to the increases in sales and profits. Going forward, the Company's policy is to expand not only the directly operated Meiko Kids Schools business, but also the consignment operations business.

In the Meiko Soccer Schools business, net sales decreased 6% YoY to ¥104mn and operating income was ¥1mn (compared to a loss of ¥4mn in the same period in the previous fiscal year). At the end of the current 3Q, the number of schools had decreased by 1 YoY to 13 schools (of which, 12 are directly operated schools), while the number of students had fallen 11.9% to 850 students. With the objective of strengthening the profitability of existing schools, the Company has reviewed the schools' operating system. More specifically, it would appear that operations were conducted by clearly dividing school guidance policies between schools with the purpose of learning standard techniques that allow students to play on a global level, and schools that provide the enjoyment of becoming better at soccer while learning practical skills.

Looking at the developments in the other consolidated subsidiaries, in Kotoh Jimusho, the business of solutions to university entrance exam questions is steadily expanding, and in Youdec, the businesses of solutions to entrance exam questions, private instruction to students at their schools, and model entrance examinations and other services, are performing well. In addition, in Koyo Shobo, the numbers of new publications and resale points are rising and greatly exceeding expectations, and sales and profits are increasing.

Healthy financial standing with abundant surplus cash and effectively debt-free operations

3. Financial position and management indicators

Looking at the financial condition at the end of FY8/18 3Q, net assets were down ¥811mn on the end of the previous fiscal year to ¥18,502mn. The main change factors were that in current assets, cash and deposits decreased ¥2,096mn, which was mainly due to expenditure of ¥600mn to acquire the shares of K. Line, and also for the payment of dividends. On the other hand, in non-current assets, goodwill increased ¥304mn on the end of the previous fiscal year, while investment securities grew ¥927mn due to the rise in the market values of securities held.

Total liabilities were down ¥545mn compared to the end of the previous fiscal year to ¥4,352mn. In current liabilities, income taxes payable decreased ¥874mn and accrued expenses decreased ¥268mn, while advances received increased ¥270mn. In non-current liabilities, deferred tax liabilities increased ¥271mn. Net assets were down ¥266mn compared to the end of the previous fiscal year to ¥14,150mn. Also, valuation difference on available-for-sale securities increased ¥542mn, while retained earnings decreased ¥815mn.

Business outlook

Looking at business indicators, the equity ratio increased from 74.5% at the end of the previous fiscal year to 76.3% because of the decrease in liabilities. The Company also maintains effectively debt-free operations with an interest-bearing debt ratio of 0.5%, and we think that its financial position continues to be healthy.

Consolidated balance sheet and management indicators

	(¥mn)				
	FY8/15	FY8/16	FY8/17	FY8/18 3Q cumulative	FY8/18 3Q cumulative
Current assets	9,828	6,865	10,431	8,267	-2,164
(Cash and deposits)	7,345	4,633	7,822	5,725	-2,096
Non-current assets	8,852	10,105	8,883	10,235	+1,352
Total assets	18,680	16,970	19,314	18,502	-811
Current liabilities	3,357	3,059	4,168	3,327	-841
Non-current liabilities	694	701	729	1,025	+296
Total liabilities	4,052	3,760	4,897	4,352	-545
(Interest-bearing debt)	96	82	70	70	0
Net assets	14,628	13,209	14,416	14,150	-266
Management indicators					
(Stability)					
Equity ratio	78.0%	77.4%	74.5%	76.3%	
Interest-bearing debt ratio	0.7%	0.6%	0.5%	0.5%	

Source: Prepared by FISCO from the Company's financial results

Business outlook

The FY8/18 results forecasts were downwardly revised due to the delay in the recovery of Meiko Gijuku student numbers

1. FY8/18 outlook

At the same time as it announced the 3Q results, the Company announced that it had downwardly revised the FY8/18 consolidated results forecasts. It is now forecasting that net sales will decrease 1.4% YoY to ¥19,120mn, operating income will decline 51.1% to ¥1,280mn, ordinary income will fall 50.5% to ¥1,390mn, and net income attributable to owners of the parent will decrease 64.3% to ¥730mn. Compared to the initial forecasts, net sales have been downwardly revised by 6.3% and operating income by 36.4%.

In terms of the reasons for the revisions, in the Meiko Gijuku business, the number of students, which was initially expected to recover from the 2H, is not recovering and it seems that it will continue to decline YoY in 4Q as well. In the preparatory school business also, the number of new students entering the schools in the spring of 2018 was less than anticipated, so net sales are also set to fall below the initial forecast. The other businesses are expected to perform basically in line with the initial forecasts.

From the current 4Q, K. Line's results will be included in the consolidated results. K. Line operates 42 schools in metropolitan Tokyo, Kanagawa Prefecture, Shizuoka Prefecture, and Aichi Prefecture. In FY8/17, it recorded net sales of ¥1,267mn and an operating loss of ¥120mn. Previously, its sales were recorded in the Meiko Gijuku franchise operations business as royalty sales, but the same as with MAXIS, it will be incorporated into the Meiko Gijuku directly operated business.

Business outlook

FY8/18 outlook (consolidated)

	FY8/17		YoY			
	Results	YoY	Initial forecasts	Revised forecasts	YoY	vs. initial forecasts
Net sales	19,383	3.8%	20,415	19,120	-1.4%	-6.3%
Meiko Gijuku directly operated business	9,647	-4.7%	10,107	-	-	-
Meiko Gijuku franchised operations business	5,586	-0.2%	5,680	-	-	-
Preparatory school business	573	-16.9%	578	-	-	-
Other	3,576	+58.2%	4,049	-	-	-
Operating income	2,615	+20.2%	2,011	1,280	-51.1%	-36.4%
Ordinary income	2,806	+20.7%	2,100	1,390	-50.5%	-33.8%
Extraordinary income	533	-	-	-	-	-
Net income attributable to owners of the parent	2,042	+116.4%	1,191	730	-64.3%	-38.7%

Source: Prepared by FISCO from the Company's financial results

Going forward, the Company intends to strengthen MEIKO Style Coaching, Meiko e-Po, and the enhancement of new content as its differentiation strategy in order to recover student numbers

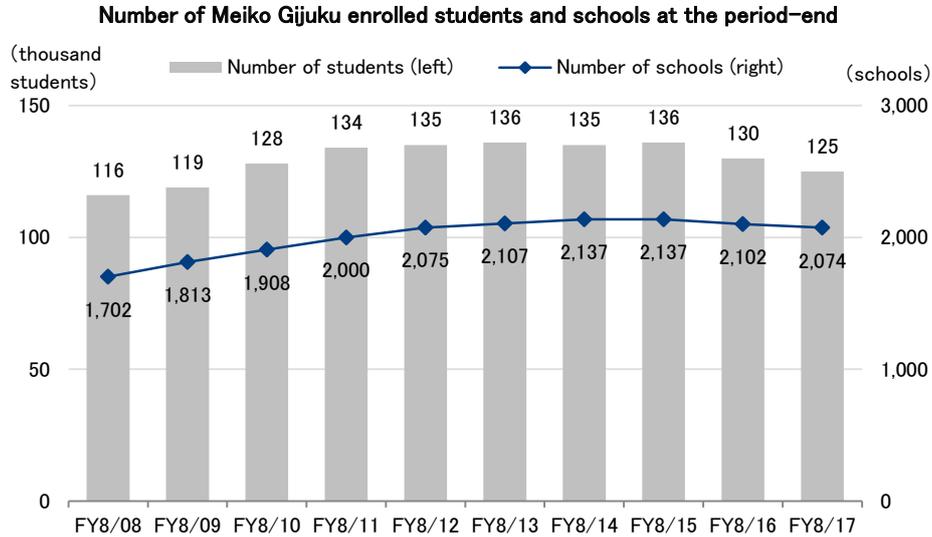
2. Measures for the renewed growth of the Meiko Gijuku business

(1) The reasons for the slump and the issues in the Meiko Gijuku business

The Company leads its industry as the pioneer of private tutorial schools, and it has continued to grow by developing its franchised operations to increase the numbers of schools and students. However, since peaking in FY8/15, both the number of schools and the number of students have been declining, and in recent years, it has been forced to struggle. The number of companies entering the private tutorial schools industry is increasing, and amidst competing businesses' wide-ranging pricing strategies, branding strategies, and establishment of new classrooms to acquire students, it has not been able to successfully appeal to students and their parents and guardians about its educational philosophy of fostering creativity through "independent learning," which is a characteristic of Meiko Gijuku.

Looking toward the future, some positive signs are starting to appear. The sales unit price per student in both the directly operated and franchise operations schools changed direction and increased YoY from the current 3Q. This is thought to be due to the progress made in enhancing content, including English content that utilizes ICT, and the sales unit price is expected to rise in the future also from the further enhancement of this new content. Moreover, net sales for elementary school students, which has continued to trend downward since FY8/13, is expected to change direction and increase in FY8/18 for the first time in five fiscal years, which is another positive sign. Enhancing learning content can be expected to lead to an increase in the number of students, and Meiko Mirai Eigo for elementary school students had been favorably received. So we can expect the number of elementary school students to increase, which will contribute to a rise in the sales unit price.

Business outlook



Source: Prepared by FISCO from Company materials

(2) Priority measures toward renewed growth

Toward renewed growth from FY8/19 onwards, the Company’s policy is to first to work to recover the number of students per school. Within the continuing intense competition, since the fall of 2017 it has been working to introduce the new learning guidance method of MEIKO Style Coaching and Meiko e-Po, and also to enhance learning content that utilizes ICT, as its differentiation strategy. In addition, at the same time it is strengthening web marketing and enhancing the contact center to improve service quality.

MEIKO Style Coaching is a new learning guidance method incorporating coaching techniques that further evolves Company’s conventional educational philosophy of “independent learning.” It further raises students’ understanding capabilities during learning through the tutor giving them hints during the class, and the students then solving problems using their own capabilities and explaining what they have understood using their own words to the tutor. As the tools to advance MEIKO Style Coaching, the Company is utilizing review note and Meiko e-Po. In the review note, the students themselves write out the content they have learned on that day and also other information, such as their learning plans for the future. A feature of Meiko e-Po is that it is a platform on which students’ learning records and other information are accumulated via a tablet PC, and the parents can use their smartphones to check on their child’s learning records and improvement in academic performance. Up until now, confirmation of matters such as a child’s performance at a school could not be done outside of a periodic consultation. At FISCO, we think that through providing MEIKO Style Coaching, the students’ academic performance will improve, which in turn will lead to an improvement in customer satisfaction and a recovery in student numbers.

The Company began to introduce MEIKO Style Coaching and Meiko e-Po into directly operated schools from the fall of 2017, and it also began introducing them into franchise operations schools from April 2018. It plans to have introduced them into all schools by the spring of 2019.

Business outlook

As new learning content that utilizes ICT, a feature of Meiko Mirai Eigo for elementary school students, which has been favorably received, is that incorporates the four elements of listening, speaking, reading, and writing that are needed to acquire communication skills in English, and the students can enjoy learning using a tablet device. It seems that for English education, the Japanese government's new Courses of Study, which it will introduce in 2020, will prioritize classes that educate students in communication skills such as listening and speaking, as well as the former grammar-centric classes that focused on reading and writing. Therefore, the number of students taking this course is expected to increase in the future. The same can also be said for Meiko Chugaku Listening, which is English content for junior high school students. Since the past the Company has provided various learning content that utilizes ICT, including its Risha Quipper online materials for junior high school students and MEIKO MUSE, which is a video course for high school students. They are also expected to contribute to a rise in the sales unit price per student in the future.

(3) FY8/19 outlook

There has been no change to the fact the key to the FY8/19 results will be whether and to what extent the Company can recover student numbers in the Meiko Gijuku business. Also, at FISCO we think that even if student numbers remain basically unchanged, it is highly likely that net sales in the Meiko Gijuku business will increase for the first time in four fiscal periods from the rise in the sales unit price per student. In addition, in FY8/18 the Company conducted strategic investment, including in advertising expenses and sales promotions expenses, but it has not yet decided the extent of this investment in FY8/19, so it would seem that profits will change depending on the level of this investment.

In the preparatory school business, as the number of new students in the spring of 2018 remained at a low level, the FY8/19 results are also set to remain at a low level up to the 1H. On the other hand, the other businesses, including the Kids Schools business and the Japanese language schools business, will come to play a driving role, and it is forecast that they will continue to achieve higher sales and profits.

■ Shareholder return policy

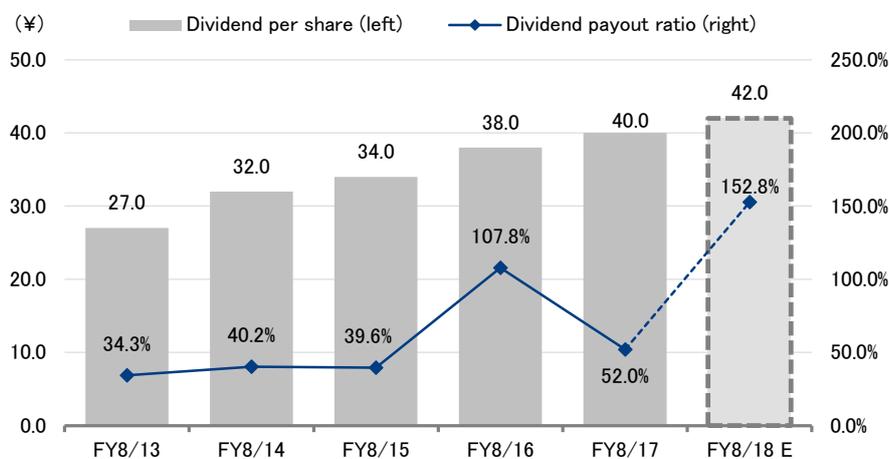
The Company plans to increase the dividend for the 20th consecutive fiscal period Also has a shareholder benefit program and actively returns profits to shareholders

The Company is considered to have taken an active stance on returning profits to shareholders. It has continued to consecutively increase dividends since it listed on the JASDAQ in April 1997, and has also introduced a shareholder benefit program. The Company's basic policy on dividends remains the initial forecasts. In FY8/18, it is planning a dividend per share of ¥42.0, up ¥2.0 YoY, with a payout ratio of 152.8%, making the 20th consecutive fiscal period of increased dividends.

Shareholder return policy

Under the shareholder benefit program, the Company gives QUO cards worth ¥1,000-5,000 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 gross investment yield per share unit, including the shareholder benefit program, is at the 5-7% level at the current share price (¥1,015 as of September 6). The Company's capital policy is to strengthen its equity and to flexibly consider acquiring treasury stock when possible, taking into account the share price and financial position.

Dividend per share and payout ratio



Source: Prepared by FISCO from the Company's financial results

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: Shareholders became eligible for the program from August 31, 2016.

Source: Prepared by FISCO from Company materials

Information security policy

The Company manages tutorial schools and also concludes contracts with member companies based on its own franchise system, and it provides continuous school management guidance. In the school management process, it obtains personal information on students, parents and guardians, and tutors. It manages this personal information in accordance with its Regulations on the Protection of Personal Information. It also examines measures to prevent the leakage of information through the Risk Management Committee and verifies the operational statutes of measures to protect personal information.



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