

**Meiko Network Japan**  
4668 Tokyo Stock Exchange  
First Section

21-May-14

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## ■ Meiko Gijuku school business is recovering, and new businesses are establishing a base for profitability

On April 10, 2014, Meiko Network Japan announced its consolidated results for the first half of the fiscal year through August 2014, i.e., H1 FY8/14. Its consolidated sales rose 2.0% year-on-year (YOY) to ¥7,837mn, while its operating profit fell 4.8% YOY to ¥1,987mn. Operating profit declined primarily because the costs of Meiko Gijuku directly operated schools increased and royalty income from Meiko Gijuku franchised schools decreased. However, in Q2 FY8/14, consolidated operating profit grew 2.3% YOY, the first increase in five quarters.

To increase the number of students at its Meiko Gijuku schools, the company standardized an entry counseling service at its Meiko Gijuku directly operated schools in FY8/13, and as a result, the number of students per Meiko Gijuku directly operated school is increasing. In FY8/14, the company is promoting this service at its franchised schools through periodic training sessions. Thus, the number of students at all Meiko Gijuku schools, which had declined in recent years, has begun to recover and is likely to grow.

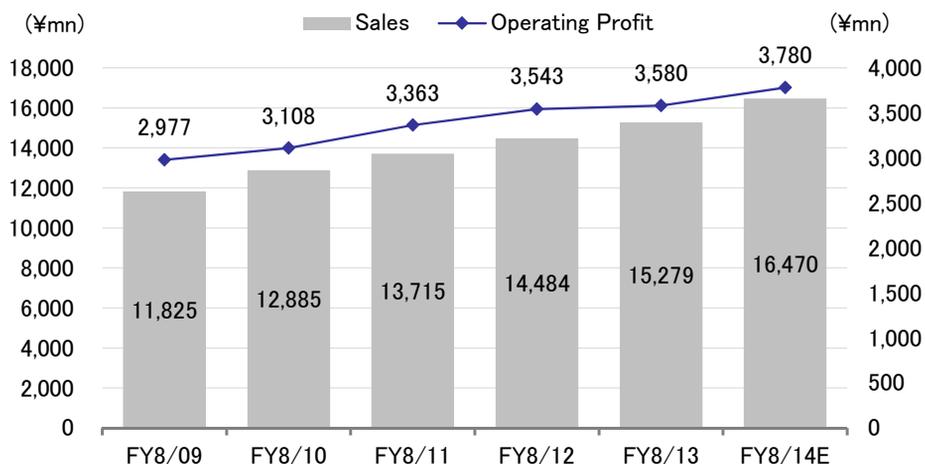
New businesses are also establishing a basis for profitability, as the Meiko Kids Schools started operating several schools from April 2014, emulating the increase in the number of Meiko Soccer Schools and Waseda Academy Kobetsu Schools. The company plans to open several new schools per year in each of these businesses. Thus, the Meiko Soccer Schools and the Meiko Kids Schools are likely to turn profitable soon, supplementing the profit now provided by the Waseda Academy Kobetsu Schools.

The company's management plan for the three fiscal years through FY8/16 targets consolidated sales of ¥18,720mn and recurring profit of ¥4,500mn for FY8/16. Results in H1 FY8/14 indicated that these targets are realistic. Sales and profits are likely to expand steadily, mainly due to growth in the Meiko Gijuku school business. Management plans to raise the company's dividend payout ratio to 50% in stages, increasing its dividend for FY8/14. Thus, sales, profits and dividends are set to rise.

## ■ Check Points

- New businesses, such as Meiko Soccer Schools, are increasing the number of their students
- Company should achieve sales and profit growth in FY8/14 by increasing the number of students at most of its schools
- Company will raise its dividend in FY8/14, gradually lifting its dividend payout ratio to 50%

### Sales and Operating Profit



## Description of Businesses

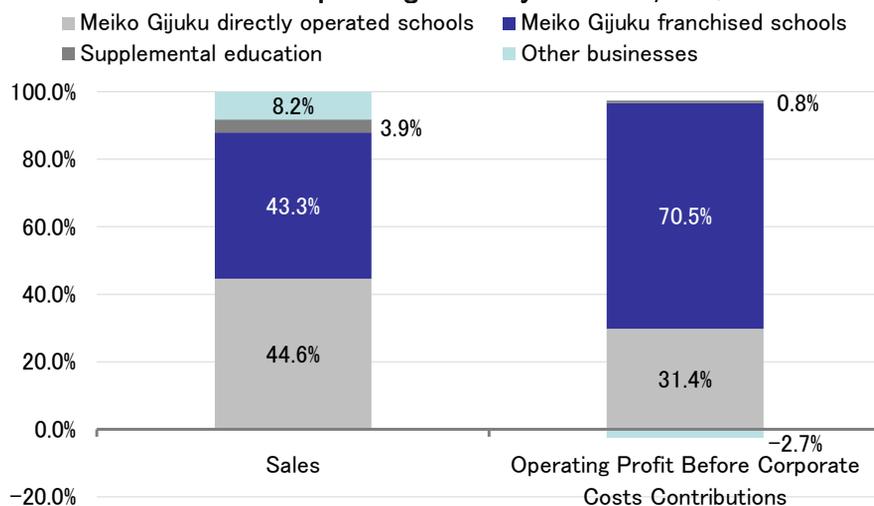
### Meiko Gijuku school business is the mainstay business, expanding other educational services now underway

Meiko Network Japan's main business is the Meiko Gijuku school business. 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, Meiko Network Japan also provides supplemental pre-medical education. In addition, the company engages in other businesses.

The other businesses offer educational services. Meiko Soccer Schools teach basic soccer skills to children. Waseda Academy Kobetsu Schools provide tutorial instruction to junior high school and high school students seeking entry to prestigious high schools and universities. Meiko Kids Schools provide nursery care for preschool children and after-school care for elementary school children, while extending learning experiences. Abrakadoodle Art Studios teach art to preschool and elementary school children. The MEIKO PLUS Academy provides tutorial instruction to Korean students living in Japan. Consolidated subsidiary Youdec Co. publishes the Gakuan magazine, which conveys information about the content of entrance examinations for junior high schools and high schools, sells educational materials to students of private schools, and offers private instruction to students at their schools. Youdec subsidiary Koyo Shobo Co. publishes academic books.

As detailed in the bar chart below, in FY8/13, the Meiko Gijuku school business supplied about 88% of Meiko Network Japan's total consolidated sales and all of the company's profit. The company's medium-term strategy calls for extending the growth of the Meiko Gijuku school business while developing other educational businesses.

### Sales and Operating Profit by Business, FY8/13



## ■ Business Trends

### Profits declined slightly but rose in Q2, overall profitability remained firm

#### Results in H1 FY8/14

On April 10, 2014, the company announced that, in H1 FY8/14, its sales grew by 2.0% YOY to ¥7,837mn, its operating profit decreased by 4.8% YOY to ¥1,987mn, its recurring profit dropped by 6.7% YOY to ¥2,043mn, and its net profit dipped by 0.7% YOY to ¥1,321mn. The profit declines were mainly due to two factors affecting the Meiko Gijuku school business: a decline in the number of students and cost increases stemming from the opening of new schools. However, overall profitability remained firm, as the company achieved a recurring profit margin of 26.1%.

In Q2 FY8/14, sales grew by 3.8% YOY to ¥4,520mn and operating profit increased by 2.3% YOY to ¥1,375mn, the first YOY profit growth in five quarters.

In H1 FY8/14, sales undershot the company's forecast by 4.2% and operating profit was 2.1% below target, mainly because of a weaker-than-expected performance by the Meiko Gijuku school business. However, net profit earned in H1 FY8/14 exceeded the company's forecast by 4.8% because the company reaped an extraordinary gain of ¥111mn on the sale of all of its holdings in Life Support Co., which had been an affiliate accounted for by the equity in earnings method.

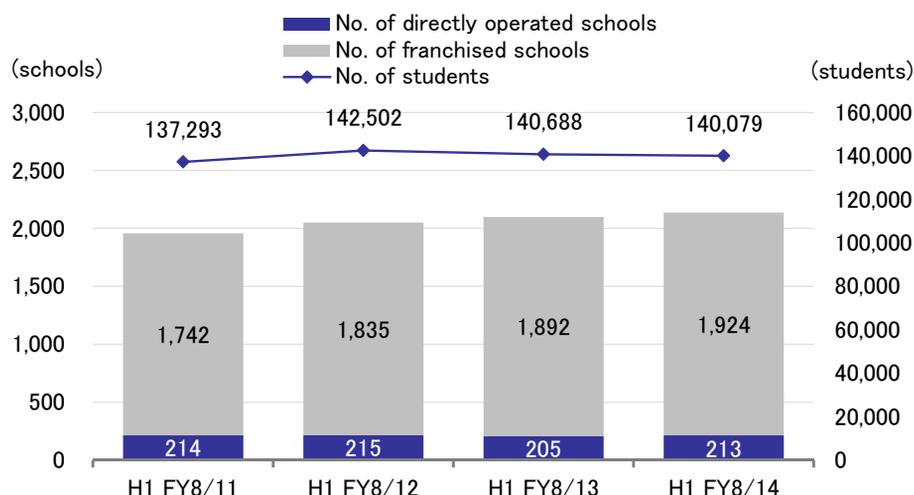
The cost-of-goods-sold ratio rose by 1.6pts YOY to 58.3% in H1 FY8/14, for two main reasons: the company increased its purchases when it consolidated subsidiary Koyo Shobo Co. and personnel cost grew accompanying an increase in the number of Meiko Gijuku directly operated schools. The SGA cost ratio also increased somewhat YOY, reflecting an increase in personnel cost accompanying the consolidation of Koyo Shobo Co. and the cost of public offering.

### Consolidated Results

(unit: ¥mn)

	H1 FY8/13		Plan	H1 FY8/14		YOY	vs. plan
	Actual	vs. Sales		Actual	vs. Sales		
Sales	7,680	-	8,180	7,837	-	2.0%	-4.2%
Cost of sales	4,351	56.7%	-	4,572	58.3%	5.1%	-
SGA cost	1,240	16.1%	-	1,276	16.3%	2.9%	-
Operating profit	2,088	27.2%	2,030	1,987	25.4%	-4.8%	-2.1%
Recurring profit	2,189	28.5%	2,090	2,043	26.1%	-6.7%	-2.3%
Net extraordinary gain/ loss	-5	-0.1%	-	93	1.2%	-	-
Net profit	1,331	17.3%	1,260	1,321	16.9%	-0.7%	4.8%

### Number of Meiko Gijuku Schools and Number of Students



The company increased the aggregate number of its Meiko Gijuku directly operated schools and Meiko Gijuku franchised schools by 40 YOY in H1 FY8/14, bringing the total to 2,137. Furthermore, the number of students at all Meiko Gijuku schools decreased by 609 YOY to 140,079 at the end of H1 FY8/14. Management is currently addressing the problems of slower growth in the number of schools and a drop in the number of students. However, the supplemental education business and several other businesses, including the Meiko Soccer Schools, the Waseda Academy Kobetsu Schools, and the Meiko Kids Schools, increased the number of their students and established a basis for profitability.

### Performance by Business

(unit: ¥mn)

	H1 FY8/12	H1 FY8/13	H1 FY8/14	YOY
Sales				
Meiko Gijuku directly operated schools	3,515	3,504	3,650	4.2%
Meiko Gijuku franchised schools	3,281	3,371	3,276	-2.8%
Supplemental education	272	295	313	6.1%
Other businesses	116	509	596	17.2%
Total sales	7,186	7,680	7,837	2.0%
Operating profit				
Meiko Gijuku directly operated schools	794	907	888	-
Meiko Gijuku franchised schools	1,745	1,766	1,627	-
Supplemental education	(5)	2	49	-
Other businesses	(58)	(68)	(41)	-
Company-wide operating costs, goodwill expense, etc.	(557)	(519)	(536)	-
Total operating profit	1,918	2,088	1,987	-
Operating profit margin (%)				
Meiko Gijuku directly operated schools	22.6%	25.9%	24.3%	-
Meiko Gijuku franchised schools	53.2%	52.4%	49.7%	-
Supplemental education	-	1.0%	15.9%	-
Other businesses	-	-	-	-
Total operating profit margin	26.7%	27.2%	25.4%	-



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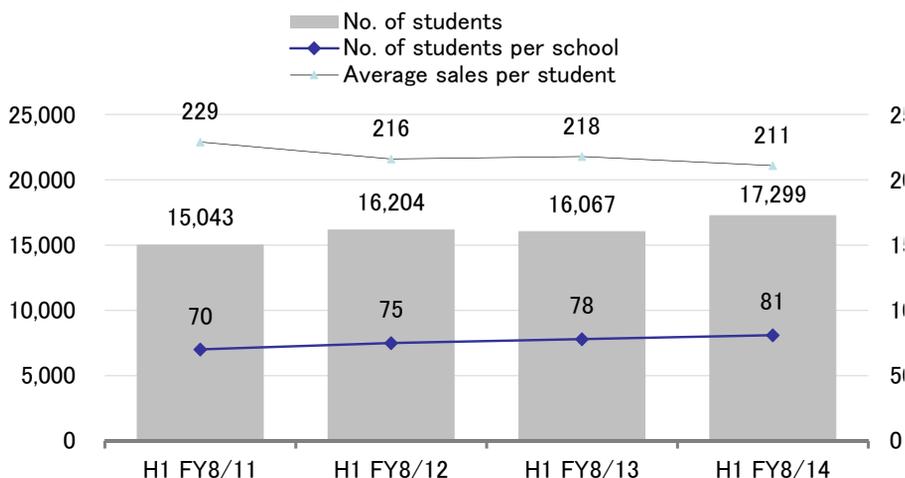
## Numbers of schools and students increased

### Meiko Gijuku directly operated schools

In H1 FY8/14, sales from Meiko Gijuku directly operated schools increased by 4.2% YOY to ¥3,650mn, but operating profit before the deduction of corporate costs fell by 2.1% to ¥888mn. At the end of H1 FY8/14, there were 213 Meiko Gijuku directly operated schools in business, 8 more than the number a year earlier. Furthermore, 17,299 students were enrolled in these schools, which was 7.7% more than the number of students enrolled a year earlier. As shown in the chart below, the average sales per student declined slightly, but the average number of students per school rose, supporting overall sales growth. The average sales per student declined because the proportion of students who normally attend schools often declined. The average number of students per school increased because of the effectiveness of the entry counseling service started in FY8/13. The counseling service increased the satisfaction of students and their parents, which, in conjunction with improvements to the school facilities, led to an increase in the number of students.

Despite the sales increase from Meiko Gijuku directly operated schools in H1 FY8/14, their operating profit before the deduction of corporate costs fell, primarily because of increased operating costs. Personnel cost and other costs rose accompanying an increase in the number of schools. The cost of advertising for teachers and other personnel grew, as did the cost of training employees.

**Number of Students at Meiko Gijuku Directly Operated Schools, Average Number of Students per School**



Note: Sales per student = H1 sales ÷ number of students at the end of February 2014

## Implementing a policy to increase the number of students

### Meiko Gijuku franchised schools

In H1 FY8/14, sales from Meiko Gijuku franchised schools declined by 2.8% YOY to ¥3,276mn and operating profit before the deduction of corporate costs from these schools fell by 7.9% to ¥1,627mn. This was the only business to suffer drops in both sales and profit in H1 FY8/14. The number of Meiko Gijuku franchised schools increased by 32 YOY to 1,924, but the number of students at these schools declined by 1.5% YOY to 122,780.



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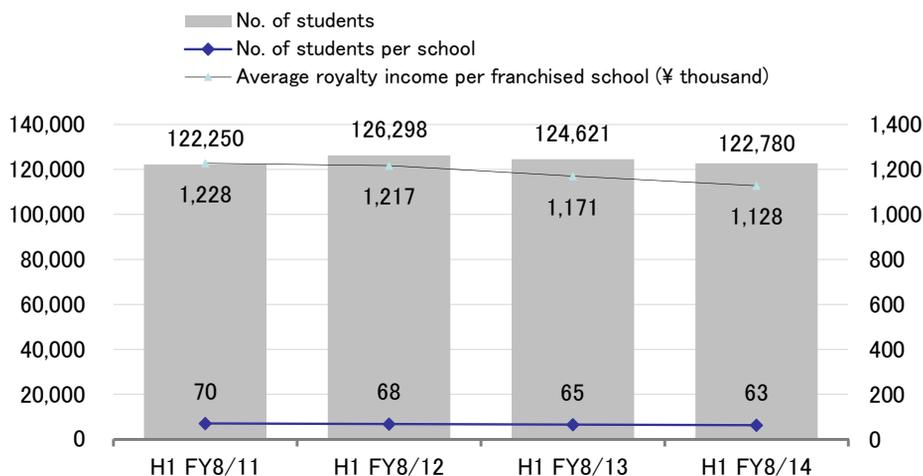
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Accompanying a drop in the average number of students per franchised school, royalty income from franchised schools, equivalent to about 10% of the sales generated by these schools, continued to decrease. Income earned by franchised schools in operation for a year or more fell, discouraging franchise owners from opening new schools. As a result of these factors, there was a net YOY increase of only 32 in the number of franchised schools in H1 FY8/14, down from a net increase of 57 in H1 FY8/13. This slowdown in the number of franchised schools led to a YOY drop in contract revenue for these schools and a YOY fall in royalty income paid by these schools to Meiko Network Japan.

The operating profit decline suffered by Meiko Gijuku franchised schools was attributable to their sales decrease, an increase in personnel to strengthen head office control, and increases in the costs of educational materials, furniture and fixtures, and supplies accompanying the rise in the number of franchised schools.

To increase the number of students per franchised school and the revenue generated by schools in operation for a year or more, thereby motivating franchise owners to open new franchises and returning the franchised school business to growth, the company is introducing to franchised schools the school entry counseling service standardized for directly operated schools in FY8/13. In February and March 2014, training sessions were conducted for all the company's franchised schools, which should use this service to increase the number of their students.

**Average Number of Students per School, and Average Royalty Income per Franchised School**



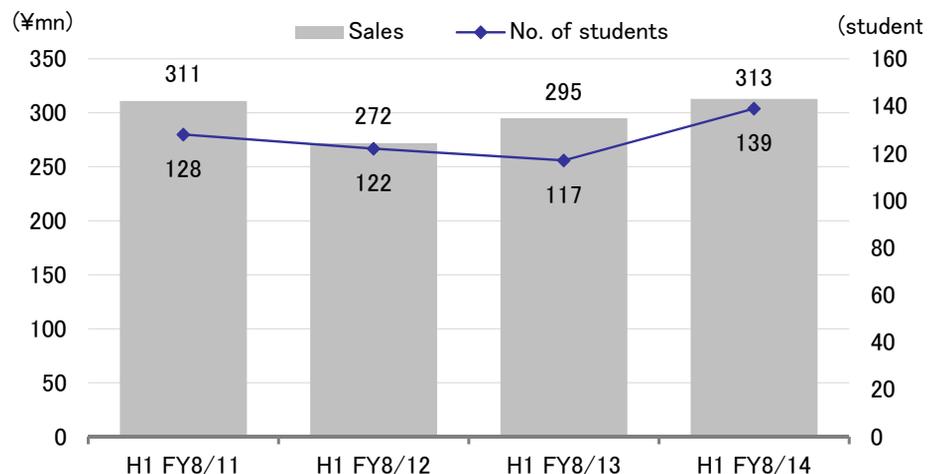
Note: Average Royalty Income per Franchised School = H1 sales ÷ total royalty income at the end of February 2014

## Growing by increasing the number of students and restructuring

### Supplemental education

This division is operated by consolidated subsidiary Tokyo Ishin Gakuin (Tokyo Medical School Preparatory Institute), which prepares students for entry into medical school. In H1 FY8/14, this unit increased its sales by 6.1% YOY to ¥313mn and its operating profit before the deduction of corporate costs to ¥49mn from ¥2mn in H1 FY8/13. The institute improved its student enrollment activities. As a result, it enrolled 139 students at the end of H1 FY8/14, which was 22 more than the number of students enrolled at the end of H1 FY8/13. It also strengthened its independent curriculum by providing a residential program during the winter semester and by offering special lectures. Operating profit before the deduction of corporate costs at the institute surged in H1 FY8/14, reflecting sales growth and a drop in rent expense since the institute reduced the number of its facilities to four, from five, in FY8/13. As a result, the institute's operating profit margin rose to 15.9% in H1 FY8/14 from 1.0% in H1 FY8/13.

Sales Generated by Tokyo Ishin Gakuin and Number of Students

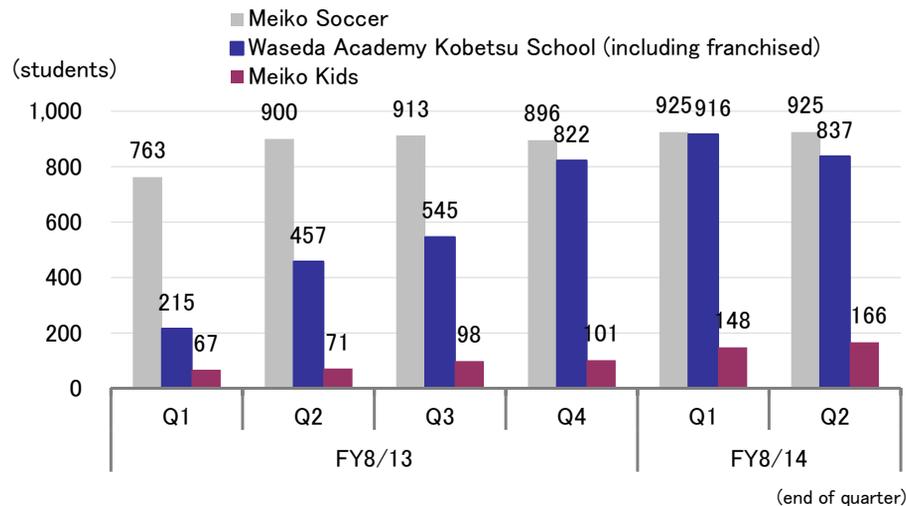


### New businesses including Meiko Soccer Schools, increased the number of their students

#### Other businesses

In H1 FY8/14, other businesses raised their aggregate sales by 17.2% YOY to ¥596mn and lowered their aggregate operating loss to ¥46mn from ¥68mn in H1 FY8/13. Koyo Shobo Co., which was consolidated in FY8/13, contributed substantially to sales growth and modestly to profit improvement. Excluding the sales contribution of Koyo Shobo Co., the aggregate sales of other businesses increased by about 5% YOY. Meiko Soccer Schools, Meiko Waseda Academy Kobetsu Schools, and Meiko Kids Schools increased their numbers of students, establishing a basis for profitability.

## Number of Students At New Businesses



Note: Numbers for Waseda Academy Kobetsu Schools do not include students at schools operated by Waseda Academy

The Meiko Soccer School business added three new directly operated schools in the year through H1 FY8/14, bringing its total number of schools to 15, including two franchised schools. The number of students enrolled at these schools grew to 925 in H1 FY8/14 from 900 a year ago. Thus, the Meiko Soccer School business raised its sales to ¥65mn in H1 FY8/14 from ¥60mn in H1 FY8/13. However, the business suffered an operating loss of ¥10mn in H1 FY8/14, up from a loss of ¥5mn in H1 FY8/13 because of the investment in the three new directly operated schools.

The Waseda Academy Kobetsu School business opened four new franchised schools in the year through H1 FY8/14. Thus, at the end of H1 FY8/14, it had 16 franchised schools and two directly operated schools, unchanged YOY. At the end of H1 FY8/14, the number of student schools increased to 837 students including 644 students in franchised schools from 457 including 255 students in franchised schools at the end of H1 FY8/13. Sales by the Waseda Academy Kobetsu School business grew to ¥138mn in H1 FY8/14 from ¥132mn in H1 FY8/13, and the business earned an operating profit before the deduction of corporate costs of ¥18mn. Sales generated by the Waseda Academy Kobetsu School business grew more slowly than the number of students for two reasons. First, all of the growth in the number of students was seen at franchised schools. Second, the business opened only two new franchised schools in H1 FY8/14, whereas it had opened five new schools in H1 FY8/13. Thus, contract revenue declined YOY. However, the success rates of Waseda Academy Kobetsu School junior high school and high school students in entering prestigious senior high schools and universities rose. These rates are most important to attract new students. Thus, the brand power of these schools increased.

The Meiko Kids Schools operated one school, in Shakuji Park, Nerima Ward, Tokyo. The number of students at this school grew to 166 at the end of H1 FY8/14 from 71 at the end of H1 FY8/13, and the service generated sales of ¥15mn in H1 FY8/14, up from ¥6mn in H1 FY8/13.

In H1 FY8/14, consolidated subsidiary Youdec Co. received more orders from leading private schools for mock exams for academic advancement. One more school contracted with Youdec for in-house instruction, bringing the total number of such schools to 16. As a result of this progress, Youdec's sales grew by 4.0% YOY to ¥341mn, and the company earned an operating profit ¥7mn, unchanged from its operating profit in H1 FY8/13.

## Basically debt free and financial stability improved

### Financial Condition

At the end of H1 FY8/14, the company's total assets were ¥15,885mn, down by ¥672mn from the level at the end of FY8/13. This decrease mainly reflected a ¥495mn drop in cash and deposits due to the repayment of bank borrowings and a ¥365mn decline in long-term investments in securities following the sale of all holdings in former affiliate Life Support Co. in December 2013. Total liabilities fell by ¥1,590mn between the end of FY8/13 and the end of H1 FY8/14, mainly because the company repaid ¥1,600mn of short-term interest-bearing debt. Total equity grew by ¥918mn, due mainly to a ¥935mn increase in retained earnings.

Measures of financial stability improved. Following the repayment of debt, the ratio of interest-bearing debt to total assets fell from 10.1% in FY8/13 to 0.4% in H1 FY8/14. The company is now basically debt-free. The equity ratio rose from 71.2% at the end of FY8/13 to 80.0% at the end of H1 FY8/14.

### Summary Balance Sheet and Reasons for Changes

(unit: ¥mn)

	8/13	2/14	Changes	Reason for change
Current asset	9,297	9,054	▲ 243	
(Cash and deposits)	7,122	6,627	▲ 495	Repaid borrowings
Fixed assets	7,259	6,830	▲ 429	Reduced long-term investments by ¥365mn
Total assets	16,557	15,885	▲ 672	
Current liabilities	4,130	2,559	▲ 1,571	Repaid ¥1,600mn of short-term borrowings
Fixed liabilities	613	594	▲ 19	
(Interest-bearing debt)	1,670	70	▲ 1,600	
Total liabilities	4,744	3,153	▲ 1,590	
Equity	11,813	12,731	918	Retained earnings by ¥935mn
Measure of financial stability				
Equity ratio	71.2%	80.0%		
Current ratio	225.1%	353.8%		
Ratio of interest-bearing debt to total assets	10.1%	0.4%		

## Company should achieve sales and profit growth in FY8/14 by increasing the number of students at most of its schools

### Forecast for FY8/14

For FY8/14, the company forecasts sales growth of 7.8% YOY to ¥16,470mn, a 5.6% rise in operating profit to ¥3,780mn, a 4.3% increase in recurring profit to ¥3,880mn, and a 7.4% upturn in net profit to ¥2,330mn.

In H1 FY8/14, the company achieved 47.6% of its full-year sales forecast and 52.7% of its full-year recurring profit forecast. Both these proportions were somewhat lower than the average proportions over the past four fiscal years. However, as explained previously, the company is taking steps to increase the number of students at its Meiko Gijuku schools, which should improve enrollment at these schools. In fact, in March 2014, the number of students enrolled at all Meiko Gijuku schools increased by 0.6% YOY to 130,705. This was the first YOY increase in seven months. The average number of students per school is also beginning to improve. The company foresees further improvement and projects 9.1% YOY sales growth for its Meiko Gijuku directly operated schools and 5.1% sales growth for its Meiko Gijuku franchised schools in FY8/14.

In the supplemental education business, Tokyo Ishin Gakuin has seen a slight YOY decline in the number of new students for the academic year beginning in April 2014. However, by offering more special lectures to assist students in entering their desired medical schools, the institute is likely to increase its sales and profits in FY8/14.

In the other businesses division, the three main new businesses are increasing the numbers of their students, so their sales are likely to grow. In April 2014, the Meiko Kids Schools opened its second school, in Hikarigaoka, Nerima Ward, Tokyo, and this school quickly filled all available spots. The number of Japanese families with children in which both parents work is growing, so the demand for child care provided by the Meiko Kids Schools should increase.

#### Performance by Business

	FY8/10	FY8/11	FY8/12	FY8/13	FY8/14E	YOY
Meiko Gijuku directly operated schools	6,287	6,574	6,864	6,814	7,437	9.1%
Meiko Gijuku franchised schools	5,846	6,402	6,736	6,613	6,950	5.1%
Supplemental education	633	594	559	597	621	3.9%
Other businesses	87	143	324	1,253	1,460	16.5%
Total	12,885	13,715	14,484	15,279	16,470	7.8%

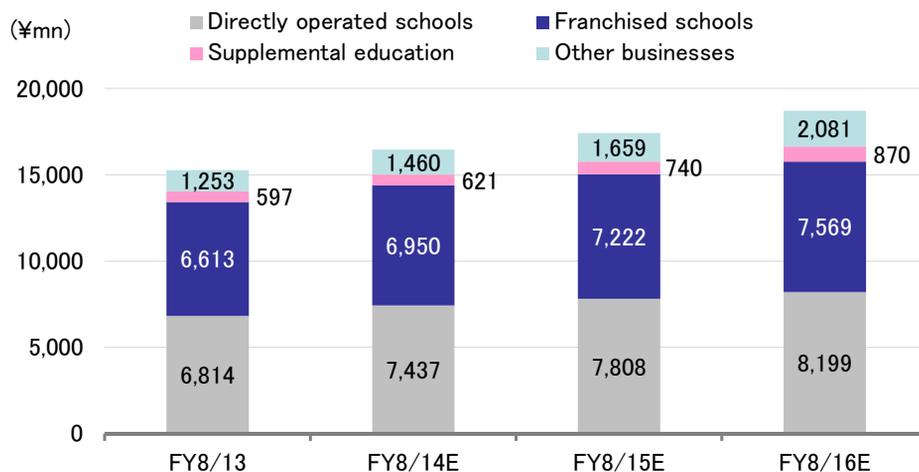
## ■ Medium-term Management Plan

### Other businesses in aggregate expected to turn profitable

Meiko Network Japan has released the following vision statement for 2020: “Striving for further growth with educational and cultural activities as the core, we aim to become the top human resources development company.” The company’s medium-term plan for FY8/14 – FY8/16 is intended to achieve this goal. It targets consolidated sales of ¥18,720mn, recurring profit of ¥4,500mn, net profit of ¥2,840mn, and 2,300 Meiko Gijuku schools in operation for FY8/16. In other words, it assumes about 7% compound growth per year in sales and recurring profit and about 3% compound growth per year in the number of Meiko Gijuku schools, or about 60 – 70 new schools per year.

The bar chart below shows the company’s sales targets for its businesses for FY8/14 – FY8/16, relative to sales in FY8/13. Over the three fiscal years, sales in the Meiko Gijuku school business are seen growing at a compound average rate of 5%, sales in the supplemental education business are projected to grow at a compound average rate of 13%, and those in other businesses, at a compound average rate of 18%. Thus, Meiko Gijuku schools will remain the prime business, but the Meiko Soccer Schools, Waseda Academy Kobetsu Schools, and Meiko Kids Schools are expected to grow strongly. Because of heavy initial investments, these businesses will probably contribute little to profit in FY8/14 – FY8/15, but by FY8/16, they should earn enough profit to make the other businesses division profitable.

### Company Forecasts of Division Sales



## Strategy for Meiko Gijuku School business

### (1) Aim to develop a new model for Meiko Gijuku schools

For its Meiko Gijuku School business, the company has three objectives for FY8/14 – FY8/16: to strengthen central control, to increase the numbers of schools, students, and classes, and to develop a new model for these schools. The proposed means of achieving these objectives are summarized in the table below.

#### Objectives for Medium-term Management Plan

##### 3-dimensional growth

Increase number of schools	Expand within limited geographical areas, aggressively recruit franchise owners
Increase number of students	Recruit through many channels: TV ads, fliers, the internet, etc.
Increase number of classes	Thoroughly counsel students and parents

##### Strengthen central control

Conduct more trainings for employees	Offer regular trainings in such topics as counseling prospective students and their parents, counseling currently enrolled students and their parents, and teacher
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Convene regional meetings, promote interaction between schools

##### Develop a new model

Develop a new model for Meiko Gijuku school

The company believes that it can open more Meiko Gijuku schools in many areas of large cities and regional cities. In large cities, where competition is fierce, these areas may be small, but the main office can identify them, then propose that current franchise owners open satellite schools in these areas. Because satellite schools are small, they do not require much investment, and they can attract students currently at competing schools, thereby lifting the market share of Meiko Gijuku schools.

To increase the number of students at Meiko Gijuku schools, the company plans to effectively use TV commercials, fliers, the web, and other channels and to provide counseling for school entry at all of its schools, thereby raising the proportion of students inquiring about the schools that actually enroll. Over the past few years, students have become more detailed in selecting schools. They may demand test classes, and they often study the word-of-mouth evaluations of schools available on the internet. Thus, entry counseling has become more important.

To increase the number of classes, the company is providing counseling to currently enrolled students and their parents and offering optimal learning programs to improve academic achievement.

The company is developing a next-generation model for Meiko Gijuku schools in response to social and educational change. The broad image of this model is as a tool for students to independently achieve growth or as a tool in which students and teachers communicate through information and communications technology, such as tablet devices. To nurture young adults with a global perspective, the company is also considering the introduction of a new learning process through which the students make decisions based on their independent thought.

## Increase number of schools and students including Meiko Soccer Schools and Meiko Kids Schools

(2) The company's goals for its other businesses and proposed means of achieving these goals are summarized in the table below.

Restructure existing businesses	
○Waseda Academy Kobetsu Schools	Lower the franchise royalty fee from 12% to 10% to encourage the opening of more Franchised schools; open about 10 new directly operated schools per year.
Increase the numbers of schools and students	
○Meiko Soccer Schools	Obtain futsal courts, develop coaches, open 3 – 4 new schools per year
○Meiko Kids Schools	Open 2 – 3 schools per year, provide more services
○Youdec Co.	Improve operation of in-house teaching at schools, develop unified Meiko tests
Develop new businesses, possibly through M&A	

### Waseda Academy Kobetsu Schools

The company is restructuring its Waseda Academy Kobetsu Schools business to improve its growth. The rate of increase in franchised schools has been especially disappointing. Currently, there are 10 owners of franchised Waseda Academy Kobetsu Schools. Most of these owners have only one school. The company hopes to entice these owners to open additional franchised schools. Thus, the company has decided to lower its royalty fee charged to franchises from 12% to 10%, the same as the royalty fee for Meiko Gijuku franchised schools. It will also lower its charge to franchises for flyers. The company is also considering opening more directly operated schools. It aims to have 50 schools in total as soon as possible.

The break-even point for Waseda Academy Kobetsu Schools is slightly higher than the break-even point for Meiko Gijuku Schools because there are only two students per teacher at Waseda Academy Kobetsu Schools, whereas there are three students per teacher, on average at Meiko Gijuku Schools. Furthermore, the Waseda Academy Kobetsu Schools must employ top-grade teachers to maintain their high reputation. If these schools resolve these problems, they should be able to raise the profitability of the franchised schools, improve the desire of franchise owners to invest in new franchised schools, and expedite the opening of new schools.

### Meiko Soccer Schools

The Meiko Soccer Schools in Greater Tokyo have been enhancing their reputation by hiring as coaches or advisors professional male soccer players from the J League and two members of Japan's under-seventeen women's soccer team. In spring 2014, this business opened three new schools, bringing the total number of schools in operation to 18, five each in Tokyo, Chiba Prefecture, and Saitama Prefecture, and three in Kanagawa Prefecture. The business is finding it difficult to obtain enough futsal courts for its practices, but it plans to open 3 – 4 new schools per year.

### Meiko Kids Schools

As mentioned earlier, there is strong demand in Japan for child care services. The second school opened by the Meiko Kids Schools in April 2014 was quickly filled to capacity. While improving its instruction of preschool and elementary school children, the Meiko Kids Schools plans to open 2 – 3 new schools per year.

Furthermore, Meiko Network Japan plans to acquire other educational service companies that would probably offer synergy with its existing businesses. Over the medium-to-long term, it may provide educational services for the elderly and overseas.

## ■ Shareholder Return Policy

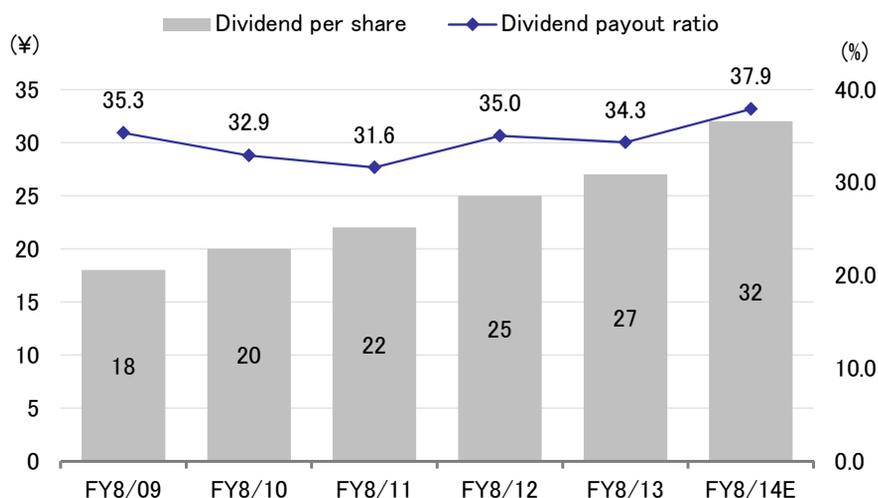
### Company will raise its dividend in FY8/14, gradually lifting its dividend payout ratio to 50%

Meiko Network Japan has increased its dividend per share every year since listing its shares. For FY8/14, the company plans to raise its dividend per share by ¥5 to ¥32. Thus, FY8/14 will be the sixteenth straight year of dividend increases by the company. Meiko Network Japan plans to raise its dividend payout ratio to 50% eventually, from an estimated 37.9% for FY8/14. Thus, if its profits keep growing, it is likely to increase its dividend for many more years.

The company also plans to continue a shareholder award program begun in FY8/12 through which each shareholder of a minimum lot receives a ¥3,000 QUO card. Based on the company's closing share price on April 14, 2014, of ¥1,082, the proposed dividend per share payment of ¥32 and the shareholder award, the total yield to holders of a minimum unit of shares (100 shares) is more than 5%, whereas the average dividend yield for listed Japanese companies is 1 – 2%.

Having established a successful franchise system in Japan's educational services industry, the company is likely to continue to grow over the medium-to-long term and to increase its dividend payment. In FY8/13, the company achieved an ROE of 19.8%, which is higher than the average ROE for listed Japanese companies. Therefore, Meiko Network Japan is likely to remain attractive to investors.

### Dividend Per Share and Dividend Payout Ratio



### Income Statement

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

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