

Meiko Network Japan
 4668 Tokyo Stock Exchange First
 Section

13-Nov.-15

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FISCO Ltd. Analyst
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■ Posting Record Net Sales, Ordinary Income, and Net Income on Contributions from Consolidations of MAXIS and Waseda EDU

On October 9, Meiko Network Japan Co., Ltd., announced its consolidated results for the fiscal year ended August 2015. Consolidated net sales increased 20.6% year on year (YOY) to ¥18,768mn. Ordinary income rose 7.5% YOY to ¥3,803mn. Both figures were record highs. Key contributors to sales growth were the consolidations of MAXIS Education (hereinafter MAXIS) and Waseda EDU. With these factors excluded, underlying sales growth was 1.4%. In the core Meiko Gijuku business, the number of schools was unchanged at the end of FY8/15, at 2,137. At the same time, the number of students increased for the first time in two years, by 0.9% YOY to 136,890, while the average number of students per school increased for the first time in five years. Such progress toward rekindling growth is significant. Contributing factors to the recovery in student number include sharing best practices for entry counseling, opening the Meiko Support Center to enhance customer satisfaction, and integrating the Meiko Gijuku Directly Operated Business Division and the Meiko Gijuku Franchised Business Division to reinforce collaboration and encourage the sharing of expertise.

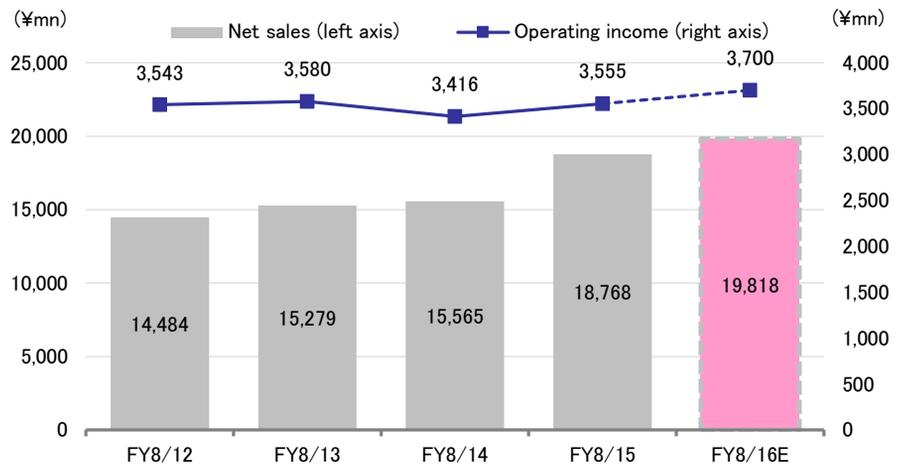
For FY8/16, the company expects net sales to increase 5.6% YOY to ¥19,818mn and ordinary income to rise 2.1% YOY to ¥3,881mn. Management seeks to boost sales from the Meiko Gijuku business (directly operated and franchised operations) by 3.5% YOY by expanding the number of schools and students and sales per student. It also anticipates double-digit growth in other businesses led by Waseda Academy Kobetsu Schools and Meiko Kids Schools.

In announcing its consolidated financial results, the company presented changes to its dividend policy and shareholder benefit program and its share buyback policy (through which it is acquiring up to 1,150,000 treasury shares for ¥1.5 billion by January 29, 2016). While the previous dividend policy was to gradually lift the payout ratio to 50%, management raised the target to around 80%. It plans to raise dividends per share in FY8/16 by ¥4 YOY to ¥38 (for a 42.4% dividend payout ratio) and continue boosting dividends thereafter. Also, the company reviewed its shareholder benefit program so it could attract more medium-to long-term shareholders. Previously, a holder as of the end of August of a year could receive a ¥3,000 QUO gift card. Now, shareholders can receive QUO gift cards worth ¥1,000 to ¥5,000 according to the number of shares held and ownership length. This new program applies to shareholders as of the end of August 2016.

■ Check Point

- MAXIS, the biggest franchise operator, became a consolidated subsidiary
- For FY8/16, management looks to boost revenues and earnings to new highs
- The company has raised the dividend payout ratio target to around 80% and looks to keep increasing dividends

Trends in net sales and operating income



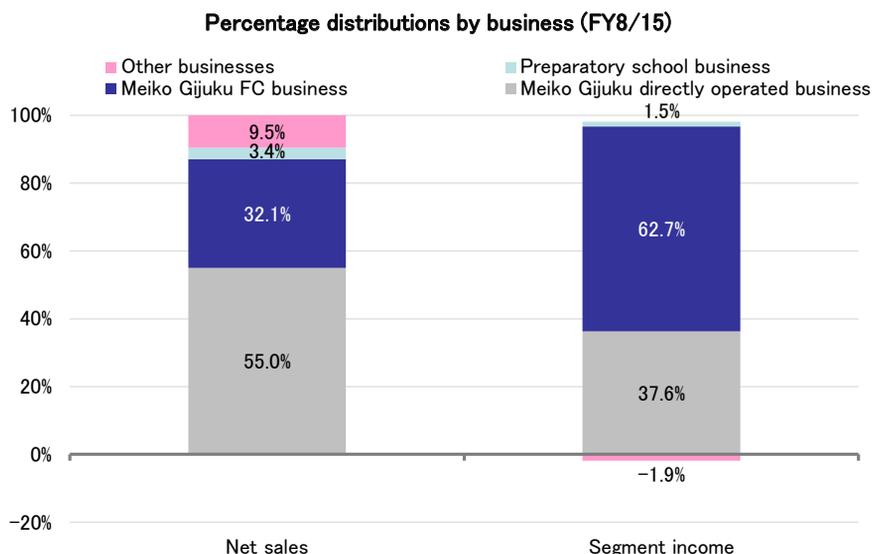
■ Description of Businesses

The Meiko Gijuku business is a leader in the private tutorial school field and a prime source of sales and profits

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

Among its other businesses outside tutorial and supplemental education are Meiko Soccer Schools for children. There is also Waseda Academy Kobetsu Schools, which provides tutorial instruction to junior high school and high school students seeking entry into prestigious high schools and universities. Meiko Kids Schools provides nursery care for preschool children and after-school care for elementary school children. Waseda EDU, which serves overseas students, is a subsidiary acquired in October 2014. The company's subsidiary YouDEC Co. publishes a magazine featuring information about the content of entrance examinations for junior high schools and high schools, produces model examination questions, sells educational materials to students of private schools, and offers private instruction to students at their schools. In addition, YouDEC's subsidiary, Koyo Shobo Co., is involved in the academic publishing business.

As detailed in the bar chart below, in FY8/15 the Meiko Gijuku business (directly operated and franchised operations) is the core source of the majority of Meiko Network Japan's total consolidated sales and profits. The company's policy described in its medium-term strategy calls for extending the growth of the Meiko Gijuku business while developing other educational businesses.



■ Business Trends

Posting record net sales, ordinary income, and net income in FY8/15

(1) Overview of FY8/15

On October 9, 2015, the company announced its consolidated operating results for FY8/15 (September 2014 to August 2015). Consolidated net sales rose 20.6% YOY to ¥18,768mn, operating income increased by 4.1% to ¥3,555mn, ordinary income was up by 7.5% to ¥3,803mn, and net income rose by 7.7% to ¥2,369mn. Net sales, ordinary income, and net income were record highs.

FY8/15 results (consolidated)

(unit: ¥mn)

	FY8/14		Plan	FY8/15			
	Actual	vs. Sales		Actual	vs. Sales	YOY	vs plan
Net sales	15,565	-	19,420	18,768	-	20.6%	-3.4%
Cost of sales	9,399	60.4%	12,323	11,792	62.8%	25.5%	-4.3%
SGA expenses	2,750	17.7%	3,596	3,420	18.2%	24.3%	-4.9%
Operating income	3,416	21.9%	3,500	3,555	18.9%	4.1%	1.6%
Ordinary income	3,537	22.7%	3,620	3,803	20.3%	7.5%	5.1%
Net income	2,199	14.1%	2,260	2,369	12.6%	7.7%	4.9%

A significant sales contributor was that MAXIS and Waseda EDU became consolidated subsidiaries. For existing businesses, however, the sales growth YOY was 1.4%. The ratio of the cost of sales to sales was up 2.4 percentage points YOY to 62.8%, the principal cause being higher personnel and other expenses after MAXIS and Waseda EU became consolidated subsidiaries. The SGA expenses ratio was 18.2%, up 0.5 percentage point YOY, mainly because of higher SGA expenses and increased goodwill amortization costs (an additional ¥178mn), reflecting the consolidations. As a result, the operating margin fell 3.0 percentage points YOY to 18.9%. Still, the company expanded revenues for the first time in two years, reflecting MAXIS' contribution to earnings, growth in the Meiko Gijuku directly operated and preparatory school businesses, and other factors.

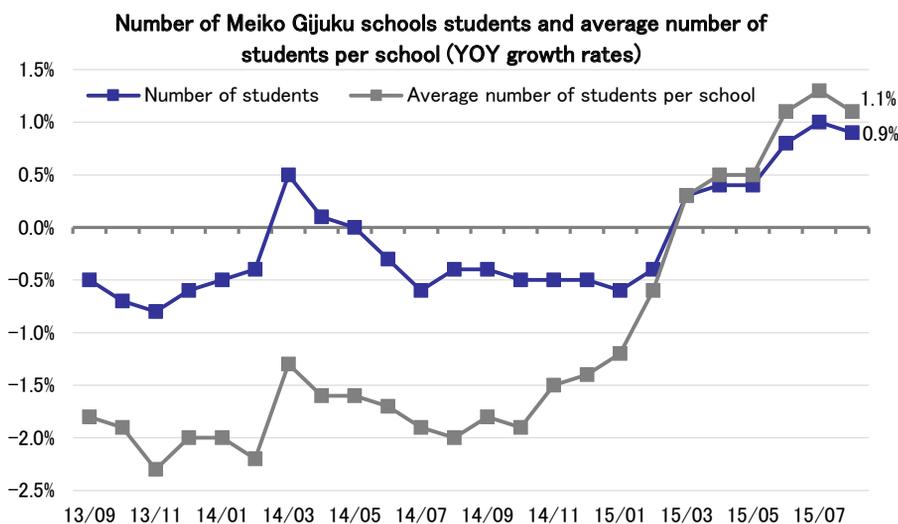
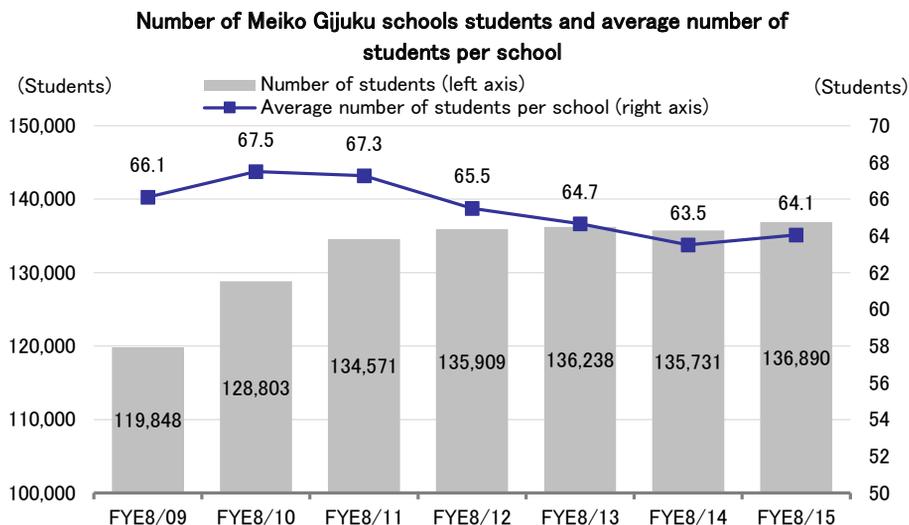
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Among core operations, the Meiko Gijuku business (directly operated and franchised operations) maintained the number of schools at 2,137. At the same time, the number of students rose 0.9% YOY to 136,890. The average number of students per school was up 1.1% YOY to 64.1. Both rises were the first in two and five years, respectively. The growth was the fruit of measures to revitalize growth for the Meiko Gijuku business over the past one or two years. The company's specific measures include sharing best practices for entry counseling, improving communications with students and parents to enhance customer satisfaction (through the establishment of Meiko Support Center), and the integration of the Meiko Gijuku Directly Operated Business Division and Meiko Gijuku Franchised Business Division to reinforce collaboration and encourage the sharing of expertise. The number of students and the average number of students per school has increased YOY on a monthly basis since March 2015.

An ongoing decline in student numbers per school over the past few years discouraged franchise owners from opening new school, resulting in stagnant growth in school and student numbers. Pickups in these figures could indicate that company is poised to return to a growth path.





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MAXIS, the biggest franchise operator, became a consolidated subsidiary

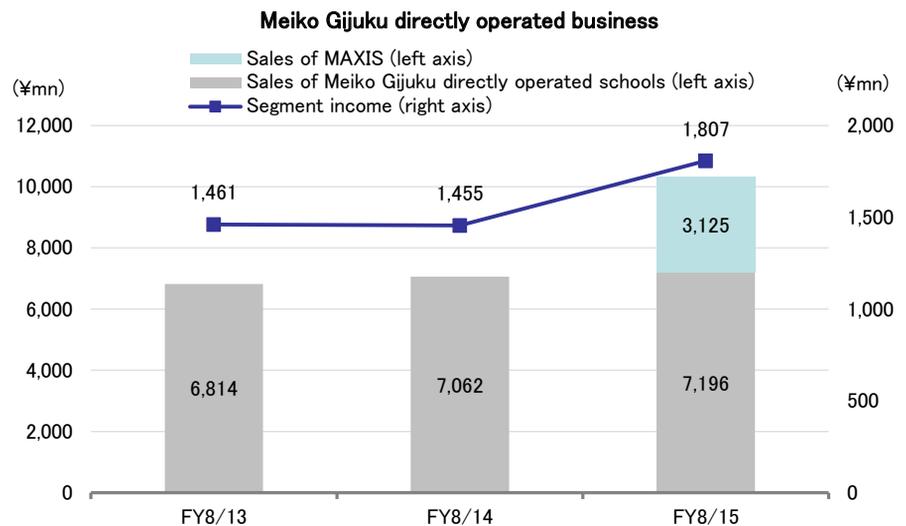
(2) Business segment trends

○ Meiko Gijuku directly operated business

Sales in the Meiko Gijuku directly operated business segment increased by 46.2% YOY to ¥10,321mn, and segment income (operating income) increased by 24.2% YOY to ¥1,807mn. The MAXIS contributions were ¥3,125mn in sales, ¥410mn in operating income, and ¥143mn in amortization of goodwill. Even without these contributions, net sales would have risen 1.9% YOY to ¥7,196mn, with segment income gaining 5.9% YOY to ¥1,541mn.

The number of directly operated schools as of the end of August (excluding MAXIS) increased 5 YOY to 225, reflecting openings and transfers from franchisees. The number of students rose 4.7% YOY to 18,173. The average number of students per school was up for the first time in two years by 1.9 YOY to 81.9. Despite a decline of ¥1thousand YOY in sales per student to ¥414thousands, the increase in number of students drove sales growth. Operating income grew as a result of progress in cost reduction efforts, offsetting higher personnel expenses resulting from a greater number of schools.

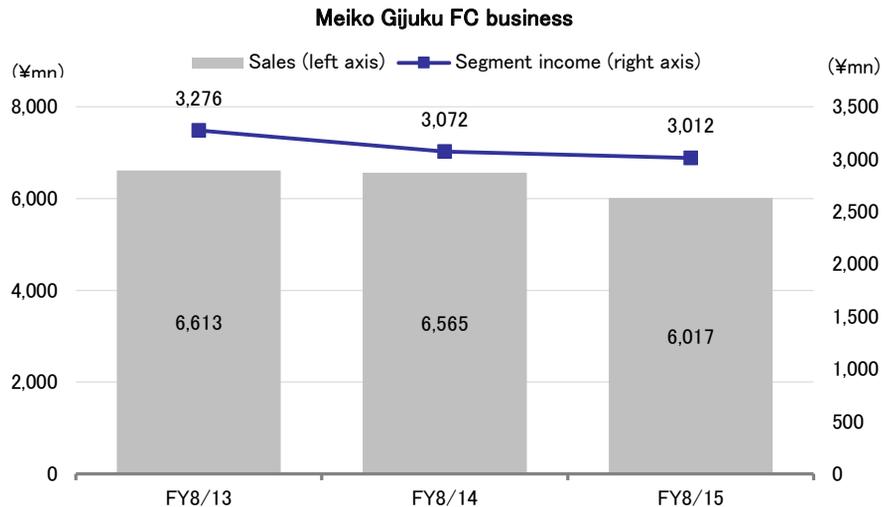
By contrast, MAXIS is the biggest franchise operator in Meiko Gijuku, with 91 schools and 7,323 students. The average number of students per school is 80.5, significantly higher than the average of 62 at other franchise schools. MAXIS also features higher sales per student, at ¥445thousands, than directly operated schools, so the MAXIS business is solid. While the operating margin of 13.1% is lower than the 21.4% of directly operated schools, it is comparable to that of directly operated schools when considering that figure is after deducting a roughly 10% royalty charge.



○ Meiko Gijuku FC business

Sales in the Meiko Gijuku FC business segment decreased 8.3% YOY to ¥6,017mn. Segment income declined 1.9% YOY to ¥3,012mn. One factor in the sales decline was the elimination of ¥441mn in royalty sales from MAXIS after it became a consolidated subsidiary. With this royalty sales included, the sales would have decreased 1.6% YOY to ¥6,458mn (no impact on segment income).

The number of franchised schools as the end of August (including MAXIS) declined 5 YOY to 1,915. At the same time, the number of students was up for the first time in three years, by 0.3% YOY to 118,717. The average number of students per school rose for the first time in five years, by 0.3 YOY to 62.0. Royalty sales per school declined 1% YOY to ¥2,139thousands because the average number of students per school was still down by 0.3 halfway through the year. The number of students as of the end of August in Kyushu dropped 323 YOY to 11,900, reflecting the impact of intensified price competition. At existing schools, however, the number of students recovered, and should grow further.

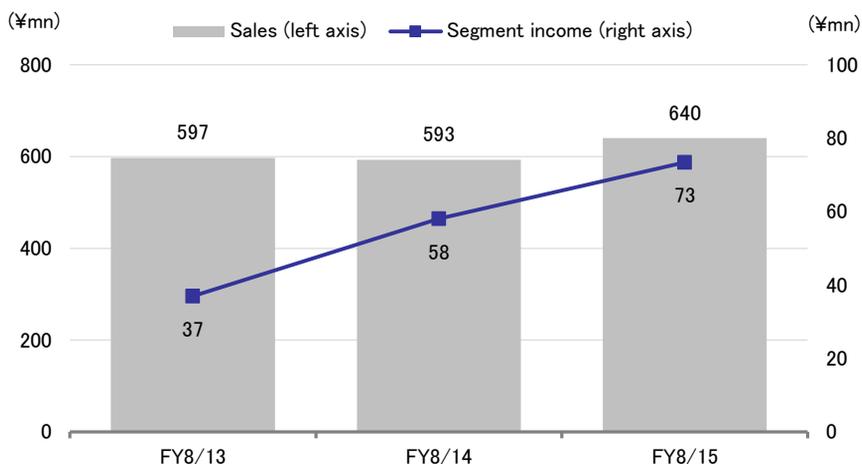


Boosting revenues and earnings on strong operations of preparatory schools specializing in medical university preparations

○ **Preparatory school business**

Sales in the preparatory school business that Tokyo Ishin Gakuin (Tokyo Medical School Preparatory Institute) operates increased 8.0% YOY to ¥640mn. Segment income rose 26.5% YOY to ¥73mn. Although sales continued declining through Q2 FY8/15, there was a payoff from focus, as new admissions surged in spring 2015 to boost sales and earnings. The business took steps to improve passing rates for medical university entrance exams by producing proprietary learning and mock exam materials for medical universities, providing consultations on medical university entries, and organizing concentration camp and other events. It also advertised on websites for medical professionals and in specialist magazines. The number of students at the end of August increased 19 YOY to 153, which is the highest number since Tokyo Ishin Gakuin became a subsidiary in 2009.

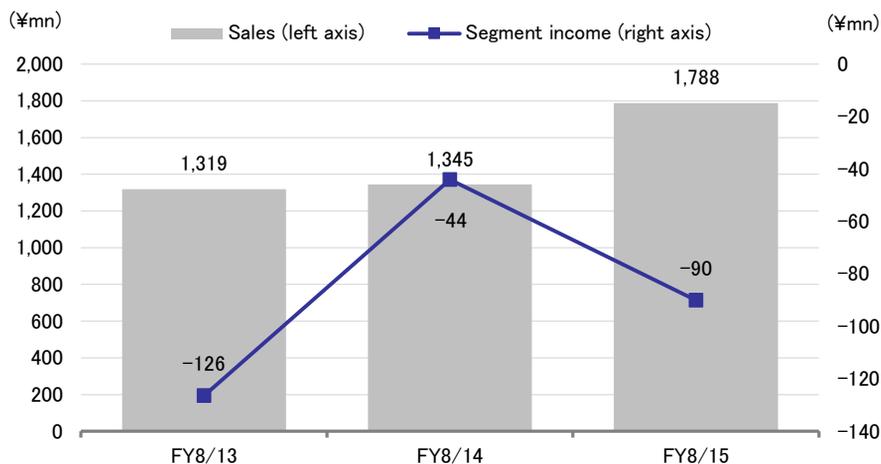
Preparatory school business



○ **Other businesses**

Although segment sales surged 32.9% YOY to ¥1,788mn, the segment loss was larger, at ¥90mn (¥44mn in FY8/14). The main factor in the greater loss was that each educational service business is still in the initial investment phase. That said, all operations are steadily increasing the student numbers and are progressing in building profitability frameworks.

Other businesses



By operation, Meiko Soccer Schools posted sales of ¥140mn (¥131mn in FY8/14) and an operating loss of ¥10mn (¥20mn in FY8/14). Compared with the end of FY8/14, the number of directly operated schools decreased 1 YOY to 14, for a total of 16 schools, including two franchised ones. Still, the number of students as of the end of August was up 113 YOY to 987. Measures to improve school teaching capabilities, such as reinforcing instruction training, and reviewing framework of school operations, and measures to boost brand clout and recognition through trial classes and camps contributed to the student number growth.



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Sales from Waseda Academy Kobetsu Schools steadily increased to ¥370mn (¥258mn in FY8/14), and the operating loss edged up to ¥32mn (operating income of ¥4mn in FY8/14). This was due to operating system expenses, which had been recorded as corporate expenses, being allocated to business segment expenses from FY8/15. Excluding this factor, the segment saw a slight increase in income. The number of directly operated schools as of the end of August was 8 (up 4 YOY). The number of franchised schools was 10 (down 3 YOY), and the number of Waseda Academy directly managed schools was 10 (up 6 YOY). As a result, the total number of schools became 28. The number of students at the end of August climbed to 2,006 (up 460 YOY). A key factor in the student number growth was the track record the schools have built as many students have passed entrance exams for highly selective junior high and high schools. There was a reduction of three franchised schools. This is because schools operated by MAXIS now count as directly operated.

Sales from Meiko Kids Schools climbed to ¥124mn (¥70mn in FY8/14) against a backdrop of robust after-school care demand. The number of students rose 124 YOY to 479 through the opening of three new schools in spring 2015, raising the total to six. Though the increased initial outlays on opens expanded losses, the school that first launched is already making profits. These operations will likely make progress becoming profitable at existing schools as the number of students grows.

The number of students as of the end of August at the Waseda EDU Japanese Language School, which became a consolidated subsidiary in Q2, reached 435 (the student capacity is 520), generating strong sales of ¥205mn. This school generated some operating income after deducting ¥34mn in amortization of goodwill. The school has four admission months every year (April, July, October and January), and the number of students is on the fast track to reaching full capacity for 2016.

Also, each operation of YouDEC sells mock entrance exam papers and educational materials for private tutoring schools and private tutoring business at ordinary schools. YouDEC grew strongly during the period, posting ¥810mn in sales (from ¥749mn in FY8/14) and ¥45mn in operating income (¥27mn in FY8/14). YouDEC's subsidiary Koyo Shobo recorded sales of ¥220mn (from ¥217mn in FY8/14), receiving solid orders for new books from universities and for textbooks.

Rise in goodwill from consolidation of MAXIS and Waseda EDU boosted total assets

(3) Financial status and management indicators

At the end of August 2015, total assets were ¥18,680mn, up ¥2,112mn YOY. The main factors were a ¥1,836mn rise in goodwill from the consolidation of MAXIS and Waseda EDU. The acquisition of land and building for Tokyo Ishin Gakuin's Mitaka dormitory (¥271mn) increased tangible fixed assets by ¥406mn YOY.

Total liabilities stood at ¥4,052mn, up ¥674mn from the end of FY8/14, due mainly to such current liabilities as accrued expenses and advances received as a result of the consolidations of two subsidiaries. Net assets increased ¥1,437mn YOY to ¥14,628mn, reflecting a rise in retained earnings.

While the equity ratio was down slightly to 78.0%, the interest-bearing debt ratio was 0.5%, so the company was virtually debt free. It also maintains high level of cash and deposits, at more than ¥7,000mn. Thus we consider the company's financial position sound. Profitability was high, with a return on equity of 17.1% and an operating margin of 18.9%, even though these figures were admittedly slightly lower than a year earlier.

Consolidated balance sheet and management indicators

	FYE8/12	FYE8/13	FYE8/14	FYE8/15	Change	(¥mn)
Current assets	7,890	9,297	9,707	9,828	120	
(cash and deposits)	5,931	7,122	7,363	7,345	-17	
Fixed assets	7,304	7,259	6,860	8,852	1,991	
Total assets	15,195	16,557	16,568	18,680	2,112	
Current liabilities	2,713	4,130	2,774	3,357	582	
Fixed liabilities	2,331	613	602	694	92	
(Interest-bearing debt)	1,902	1,670	70	96	26	
Total liabilities	5,045	4,744	3,377	4,052	674	
Net assets	10,149	11,813	13,191	14,628	1,437	
Management Indicators						
Shareholders' equity ratio	66.6%	71.2%	79.4%	78.0%		
Interest-bearing debt ratio (Profitability)	18.8%	14.2%	0.5%	0.7%		
ROE	20.9%	19.8%	17.6%	17.1%		
Operating income margin	24.5%	23.4%	21.9%	18.9%		

■ Financial outlook for FY8/16

Looking to again post record sales and earnings in FY8/16

Meiko Network Japan's forecasts for consolidated financial results for FY8/16 are net sales of ¥19,818mn, up 5.6% YOY, operating income of ¥3,700mn, up 4.1% YOY, ordinary income of ¥3,881mn, up 2.1% YOY, and net income of ¥2,400mn, up 1.3% YOY.

The company anticipates sales gains in all business segments. The rises would be 4.4% YOY for the Meiko Gijuku directly operated business, 2.0% YOY for the Meiko Gijuku FC business, 9.4% YOY for the Preparatory school business, and 22.9% YOY for other businesses. Measures to reach FY8/16 performance targets are as follows.

Sales by segment

	FY8/13	FY8/14	FY8/15	FY8/16 Plan	Growth	(¥mn)
Meiko Gijuku directly operated business	6,814	7,062	10,321	10,779	4.40%	
Meiko Gijuku FC business	6,613	6,565	6,017	6,139	2.00%	
Preparatory school business	597	593	640	700	9.40%	
Other businesses	1,253	1,345	1,788	2,198	22.90%	
Total	15,279	15,565	18,768	19,818	5.60%	

Income by segment

	FY8/13	FY8/14	FY8/15	(¥mn)
Meiko Gijuku directly operated business	1,461	1,455	1,807	
Meiko Gijuku FC business	3,276	3,072	3,012	
Preparatory school business	37	58	73	
Other businesses	-126	-44	-90	
Corporate expenses	-1,068	-1,126	-1,247	
Total	3,580	3,416	3,555	



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Meiko Gijuku business seeking to reinforce competitiveness to rekindle growth

(1) Reinforcing Meiko Gijuku's competitiveness

The company seeks to reinforce the competitiveness of its core Meiko Gijuku business by striving to further enhance customer satisfaction while driving "three-dimensional" growth and cultivating human resources.

○ Striving to further enhance customer satisfaction

The company established the Meiko Support Center in September 2014 to enhance communications with students and parents. The company has since amassed various information that it is sharing at directly managed and franchised schools so it can enhance customer satisfaction and boost student numbers. The company is highlighting "Meiko-style! Self-supported learning" and bolstering its tutorials for students taking junior high school and university exams while expanding training for franchised school instructors and enhancing their responsiveness to students.

○ Driving three-dimensional growth

The basic growth strategies for Meiko Gijuku are to increase the numbers schools, students, and classes. Growth leveled off over the past one or two years as the number of students stagnated and sales per student declined. As mentioned earlier, however, the company put systems in place to rekindle growth, helping the number of students to begin trending upward from the start of 2015. In the current fiscal year, the company is further reinforcing efforts to promote growth.

By integrating directly operated and franchised operations and reorganizing businesses by area, the company aims to share information for each area and is positioned to more effectively deploy schools. In FY8/16, the company plans to solicit more new franchise owners and increase the number of schools by around 20 (four of these being directly operated) YOY. To drive increases in student numbers, the company will continue to share success stories from admissions counseling. It will also endeavor to improve student retention by enhancing customer satisfaction.

The company aims to increase class numbers by boosting weekly numbers while strengthening proposal capabilities to increase participation rates for classes preparing for model exams and term-based classes. In FY8/16, the company is offering MIEKO MUSE video lessons for high school students, and has started providing sciences and social studies e-learning contents for junior high school students (¥3,900 monthly for junior high school students in the first and second years and ¥4,900 monthly for junior high school students in their third years). Students resolve problems by using their tablets. The company aims to roll out these e-learning programs first at directly operated schools and then to franchised ones. Although participation rates for sciences and social studies have been loath to date, the company wants to use e-learning services to increase course and class numbers.

○ Cultivating human resources

The company aims to increase motivation for instructors through its human resources system reforms. It also looks to advance the educational and training contents to enhance class quality while conducting training to boost manager skills.

Seeking to expand educational service businesses in initial investment stages

(2) Cultivating other businesses

In FY8/16, the company is again focusing on efforts to increase school and student numbers in educational service businesses so it can cultivate operations that can complement the Meiko Gijuku business. Waseda Academy Kobetsu Schools is establishing nine new schools (including four to six franchised ones), raising the total of 37, and aiming to lift the number of students from 2,006 to 3,000. Such moves would lift sales of Waseda Academy Kobetsu Schools by 48% to ¥442mn.

Meiko Soccer Schools plans to open four more schools, bringing the total to 20, while raising the number of students from 987 at the end of FY8/15 to 1,400. The sales forecast for Meiko Soccer Schools is for a 14% increase to ¥160mn. Another two Meiko Kids Schools are slated for opening, lifting the total to eight, with the number of its students expected to rise from 479 at the end of FY8/15 to 700 and sales increasing 42% to ¥176mn.

Waseda EDU is soliciting exchange students from around Asia for classes in 2016, and has already received applications exceeding the maximum capacity of 520 students. It is therefore looking into setting up branch campuses, and plans to push ahead with opening new facilities as soon as it finds sites. The sales target for this year is ¥300mn, from ¥205mn in the preceding period, which was nine months.

Educational service businesses are still in the initial investment stage, and have yet to contribute fully to earnings. That said, student numbers and profitability are increasing at existing schools, and the company looks to build a structure to ensure that it can swiftly make these operations profitable.

Focusing on enhancing online learning and cultivating overseas operations

(3) Preparing for the future

The company is building new foundations for the future of the Meiko Gijuku business by evolving its “Meiko-style! Self-supported learning” program as part of efforts to enhance learning services. It is also developing a learning platform that emphasizes student perspectives. In 2014, the company began offering online English conversation classes on an experimental basis. For elementary through high school students, the company plans to migrate these classes online once teaching materials and the curriculum are in place.

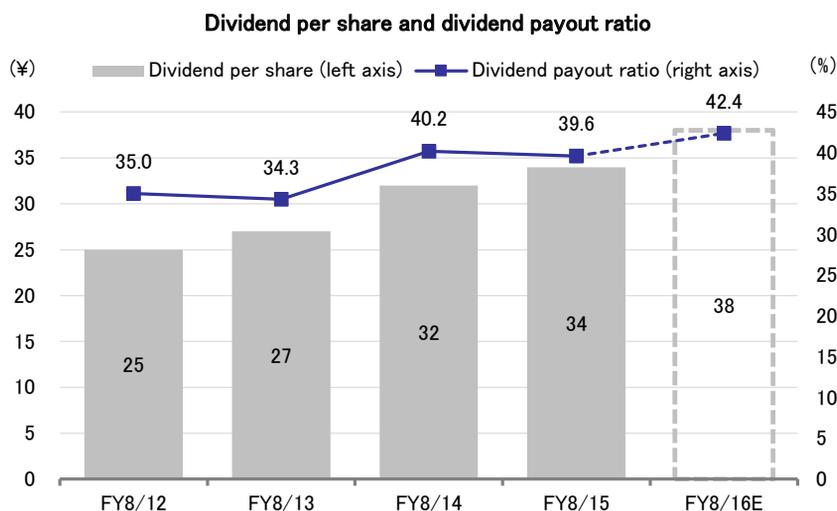
Internationally, the company has three businesses worth noting. First, it plans to establish Meiko Culture and Education Ltd. in Taiwan with local educational firms. The company will hold a stake of 25% in the new entity, which will set up a directly operated school from spring 2016, thereafter building a franchise network. The company is expanding its business as the third overseas development after the private tutorial school business in South Korea through an equity method affiliate and kindergarten operation for Japanese children in Singapore.

The company is also looking to cultivate new businesses in the educational services domain through mergers and acquisitions, and has made no changes to its exploration in this respect.

■ Dividend and capital policies

Planning to lift dividend payout ratio to around 80% and placed to continue increasing dividends

The company's basic dividend policy is to continually increase dividends, and had thus pursued efforts to gradually lift the payout ratio from 35% or so to around 50%. Management has listed that target to about 80%. For FY8/16, it plans to increase dividends by ¥4 per share, to ¥38.0 (for a dividend payout ratio of 42.4%), thereby maintaining a record of continued dividend growth in the 18th year since listing. Dividends should continue to increase if results remain solid.



The company recently announced that it had reviewed its shareholder benefit program. Previously, shareholders as of the end of August would each receive a ¥3,000 QUO gift card. Now, the company looks to increase the number of shareholders holding the stock over the medium and long terms by providing QUO gift cards worth ¥1,000 to ¥5,000 according to the number of shares held and ownership length (this new program will begin applying to shareholders as of the end of August 2016). Those holding 100 shares for less than three years will each receive a ¥1,000 QUO gift card. The gift card value would increase to ¥3,000, the same amount as previously provided, after holding the stock continuously for three years. For those owning more than 500 shares, however and holding the stock for more than three years the gift card values would be higher.

Shareholder benefit program

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

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

To date, the company's basic capital policy has been to acquire treasury stock when possible, factoring in the impacts on stock liquidity and market valuations. Management has augmented that approach by establishing new capital efficiency benchmarks. It looks to maintain the return on equity level of 17.1% posted in FY8/15. The company recently announced a treasury stock acquisition plan that reflects capital efficiency, capital demand, and other factors. Specifically, the company aims to buy back 1,150,000 shares for up to ¥1.5bn from October 15, 2015 through January 29, 2016.

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