

## Meiko Network Japan

4668 Tokyo Stock Exchange  
 First Section

1-Feb.-17

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 and disclaimers appear  
 at the end of this document.

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### ■ Sales and profits increased in Q1, with the newly consolidated subsidiaries contributing to the higher profits

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

In the FY8/17 Q1 (September to November 2016) consolidated results announced on January 11, the Company made a smooth start to the fiscal year, with net sales increasing 8.9% year-on-year (YoY) to ¥4,476mn and operating income rising 43.4% to ¥544mn, for the first increase in sales and profits on a quarterly basis in four fiscal periods. The main factor was the contribution to results of Kokusai Jinzai Kaihatsu Co., Ltd. and Kotoh Jimusho Co., Ltd., which were newly added to the scope of consolidation from the previous Q4, and approximately 70% of the higher profits were from the contributions of these newly consolidated subsidiaries. The decline in the number of students continued in the Meiko Gijuku business (directly operated and franchised operations), and its net sales fell, but operating income still increased slightly YoY.

The Company is forecasting increases in sales and profits in FY8/17, with net sales expected to rise 7.3% YoY to ¥20,041mn and operating income to climb 17.7% to ¥2,560mn. In the Meiko Gijuku business, it is aiming to recover student numbers from Q3, which is the student acquisition season. In the other businesses also, student numbers are steadily increasing, including in the Japanese language schools for overseas students, the Meiko Kids Schools, and Waseda Academy Kobetsu Schools, and they are expected to contribute to the higher profits.

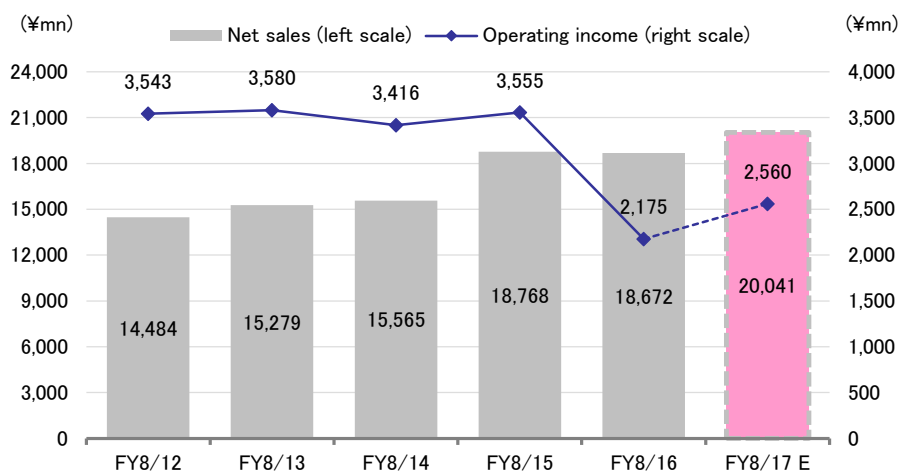
From March 2017, the Company’s share will be included in the constituent shares of the JPX-Nikkei Mid and Small Cap Index jointly calculated by the Tokyo Stock Exchange, Inc. and Nikkei Inc., and it will be the only company in the cram school industry to be included. This index is comprised of 200 shares based on the concept of “mid and small cap stocks that are highly appealing to investors.” The calculation criteria include the level of ROE in the most recent three years and operating income, while the constituent shares are also selected taking into consideration qualitative factors, such as the corporate governance system and the stance toward information disclosure, including whether financial statements are disclosed in English. If in the future the JPX-Nikkei Mid and Small Cap Index becomes incorporated into investment trusts as a benchmark, a certain level of buying demand for the Company’s share can be expected to occur.

The Company’s policy on returns to shareholders is to continue its current proactive stance. For dividends, it intends to continue the consecutive increases in dividends that it has maintained since its listing. In FY8/17, it is planning a dividend per share of an increase of ¥2.0 to ¥40.0 (dividend payout ratio of 70.3%). Moreover, under the shareholder benefit program, the Company will give QUO cards worth ¥1,000 to ¥5,000 to shareholders as of the end of August, according to the number of shares held and the length of time held. The gross investment yield per share unit including the shareholder benefit program, is at the 4% to 6% level at the current share price (¥1,208 as of January 19).

### ■ Check Point

- Sales and profits increased in Q1 for the first time in four fiscal periods
- Renewed growth in the mainstay Meiko Gijuku business and strengthened profitability and sustained growth in the other businesses, including from the utilization of M&A
- Financial position is sound and it is the only company in the industry whose share was selected to be a constituent of the JPX-Nikkei Mid and Small Cap Index

Trends in net sales and operating income



## ■ Business Overview

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

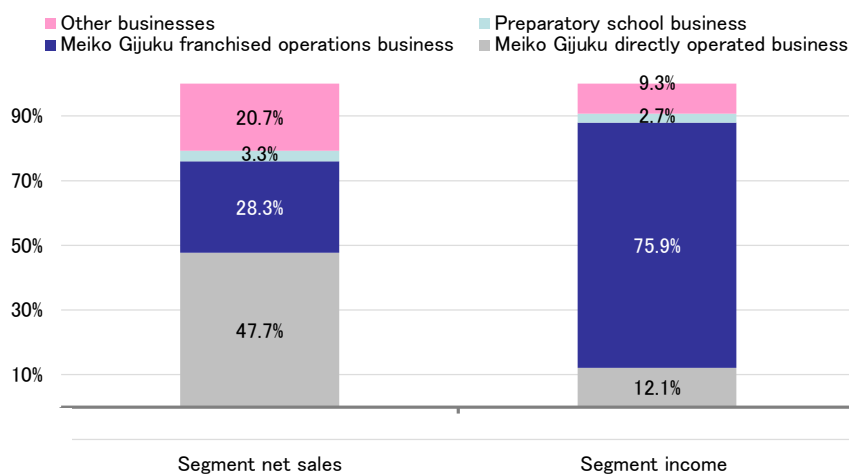
The main revenue pillars are the Meiko Gijuku directly operated business and the franchised operations business, which lead the private tutorial schools industry. Based on its educational philosophy of developing human resources through independent learning, it is also actively developing educational-services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

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

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

In percentages by business segment for FY8/16 Q1, the mainstay Meiko Gijuku business (directly operated and franchised operations) is clearly the primary source of Meiko Network Japan's income at 76% of net sales and 88% of profits. The Company's policy, as its medium-term strategy, is to aim for growth in the entire Group and be Japan's top company in human development through maintaining the growth of the Meiko Gijuku business while developing its other educational-services businesses.

### Percentage distributions by business segment (FY8/17 Q1)



Note: Totals are after removal of in-group transactions

## ■ Business performance

### Sales and profits increased in Q1 for the first time in four fiscal periods

#### (1) Overview of FY8/17 Q1 results

In the FY8/17 Q1 consolidated results, net sales increased 8.9% YoY to ¥4,476mn, operating income rose 43.4% to ¥544mn, ordinary income climbed 62.0% to ¥599mn, and net income attributable to owners of the parent was ¥326mn (compared to a loss of ¥94mn in the same period in the previous fiscal year), for the first increase in sales and profits on a quarterly basis in four fiscal periods.

#### FY8/16 Q1 results (consolidated)

	FY8/16 Q1		FY8/17 Q1		YOY
	results	% of sales	results	% of sales	
Net sales	4,111	-	4,476	-	8.9%
Cost of sales	2,949	71.8%	3,021	67.5%	2.4%
SG&A expenses	781	19.0%	911	20.4%	16.6%
Operating income	379	9.2%	544	12.2%	43.4%
Ordinary income	369	9.0%	599	13.4%	62.0%
Extraordinary income (loss)	-403	-	-	-	-
Net income	-94	-2.3%	326	7.3%	-

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

	FY8/16 Q1	FY8/17 Q1	YOY
Number of schools (end of November)	2,130	2,101	-1.4%
Number of students (end of November)	144,178	137,071	-4.9%
Total system-wide sales	11,160	10,529	-5.7%

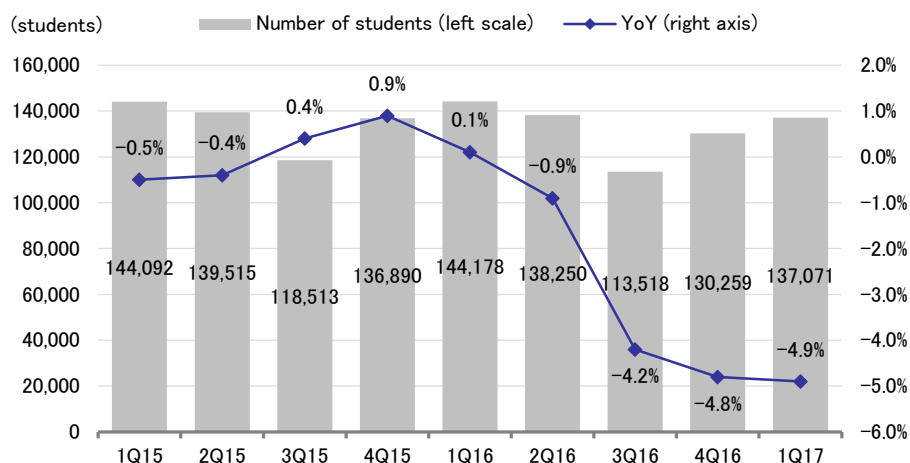
Note: Total system-wide sales = the sum of 1) total sales of directly operated schools, including admission fees, lesson fees, fees for educational materials, and test fees, and 2) total sales of franchised operations including admission fees and lesson fees.

\* "The number of schools at the end of the month" refers to the number of schools operational in the final month.

Despite the continued decline in sales in the mainstay Meiko Gijuku business, net sales increased thanks to the contributions of Kokusai Jinzai Kaihatsu and Kotoh Jimusho, which were newly consolidated in the previous Q4. Operating income also increased from the effects of the reduction in costs in the Meiko Gijuku directly operated business and the preparatory schools business, in addition to the contributions of the newly consolidated subsidiaries. Approximately 70% of the increase in profits was from the newly consolidated subsidiaries. In addition, the tutor salary adjustment of ¥449mn that was previously recorded as an extraordinary loss was no longer recorded, which also contributed to the significant increase in quarterly net income.

In the Meiko Gijuku business, the total number of schools at the end of Q1 had decreased by 29 schools YoY to 2,101 schools, while the number of students fell 4.9% to 137,071 students, both of which were the fourth consecutive period of decreases. With regards to student numbers, recruitment activities were insufficient in 2016 because the Company was forced to deal with a labor-management problem for part-time tutors in the February to April period, which is the most important period for student recruitment, and the effects of this were still being felt in the current Q1. The downward trend in student numbers may continue up to the current Q2, with a YoY decline of around 4%. But the labor-management problem has basically been dealt with and in February to April 2017 the recruitment activities will return to as normal. Therefore, at FISCO we expect that the rate of change in the number of students to improve from the current Q3 onwards.

Trend in number of students at Meiko Gijuku



## (2) Segment trends

### a) Meiko Gijuku directly operated business

In the Meiko Gijuku directly operated business, net sales decreased 0.7% YoY to ¥2,137mn, while segment income increased 100.6% to ¥105mn. Within these results, net sales in the Company's directly operated business declined 1.5% to ¥1,484mn and operating income fell 13.6% to ¥146mn. In the subsidiary MAXIS Education Co., Ltd. (hereafter, MAXIS), net sales increased 1.4% to ¥653mn and the operating loss was ¥5mn (compared to a loss of ¥81mn in the same period in the previous fiscal year), and MAXIS' improved earnings were a major factor behind the higher segment income in this business. MAXIS' earnings deteriorated in the same period in the previous fiscal year due to the increases in personnel expenses in order to deal with a labor-management problem and in various other expenses, but these expenses declined in the current Q1, resulting in the improved performance. The amortization of goodwill for MAXIS was ¥35m.

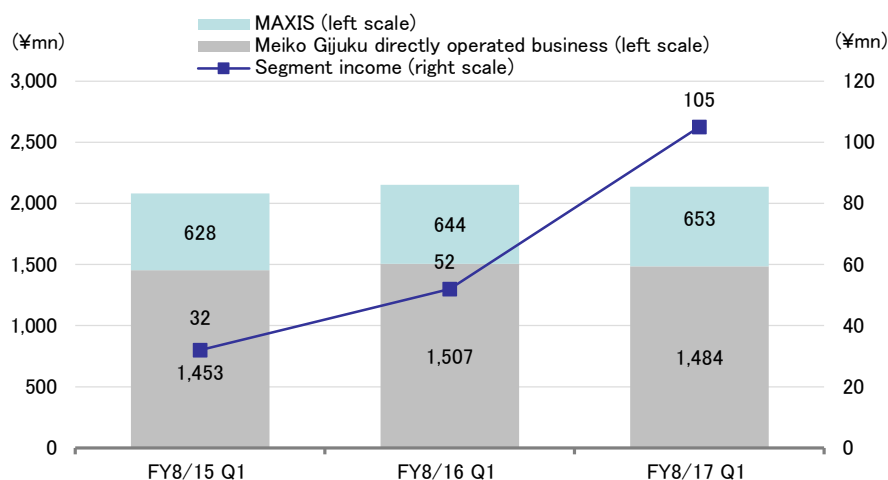
At the end of November, the number of schools (including MAXIS) increased by 11 YoY to 324 schools, including those transferred from the owners of franchise operations schools. But despite this, the number of students decreased 3.2% to 25,128 students. Sales per student rose by more than 2%, but this was mainly due to the progress made in increasing the number of classes attended by enrolled students to compensate for the fall in student numbers. In addition, student numbers for online learning services for science and sociology classes for junior high school students, and video classes for high school students, steadily increased and contributed to sales.

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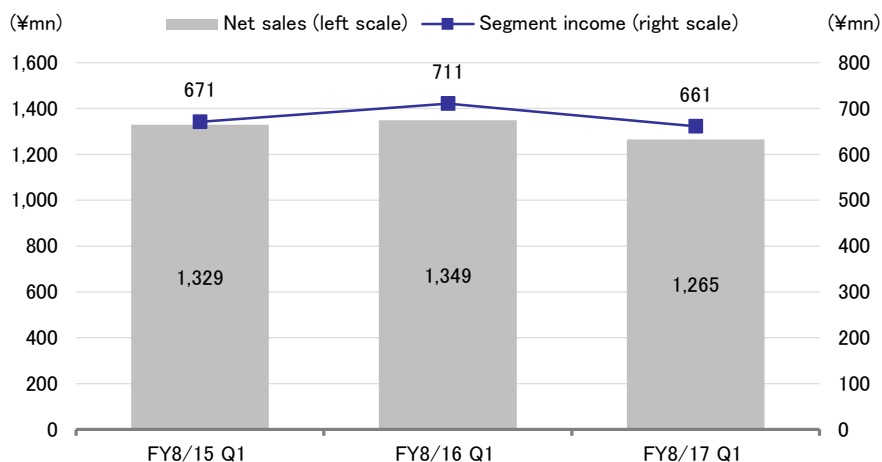
### Meiko Gijuku directly operated business



### b) Meiko Gijuku franchised operations business

In this business, net sales decreased 6.2% YoY to ¥1,265mn and segment income declined 7.0% to ¥661mn. At the end of November, the number of schools had fallen by 40 YoY to 1,777 schools (excluding MAXIS directly operated schools), while the number of students had decreased 5.3% to 111,943 students. The main factors behind the decline in number of students were progress made in scrap-and-build activity, including the closure of unprofitable schools. In addition, the recruitment activities to acquire new students were insufficient, and the decline in the number of students per school was a factor behind the lower sales and profits.

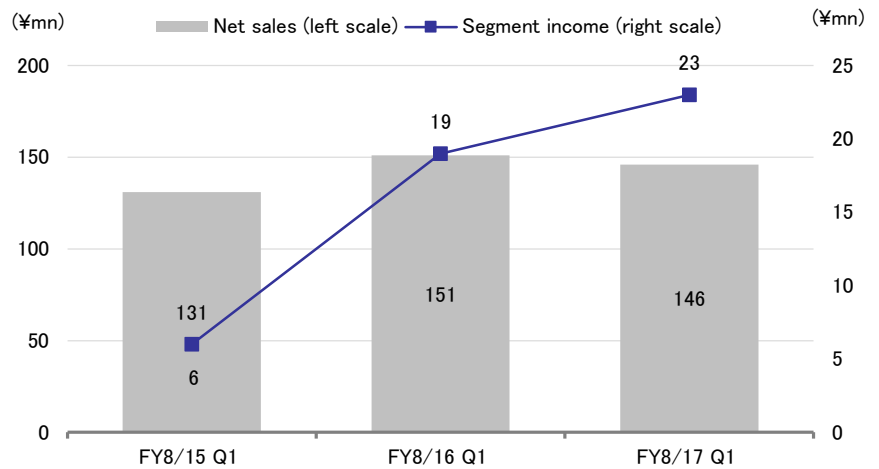
### Meiko Gijuku franchised operations business



### c) Preparatory schools

In this business operated by consolidated subsidiary Tokyo Ishin Gakuin Co., Ltd., net sales decreased 3.8% YoY to ¥146mn, but segment income increased 77.4% to ¥23mn. Following the closure of the Yokohama school in March 2016, at the end of November the number of students was down 9.5% to 143 students. However, segment income increased from the effects of the reduction in fixed costs and also from the increase in sales per student. In addition, in order to open-up demand in regional cities, the Company held briefing sessions and admission consultations in high schools in regional cities and strengthened measures to acquire new students in the spring of 2017, including upgrading the website and improving name recognition through various events.

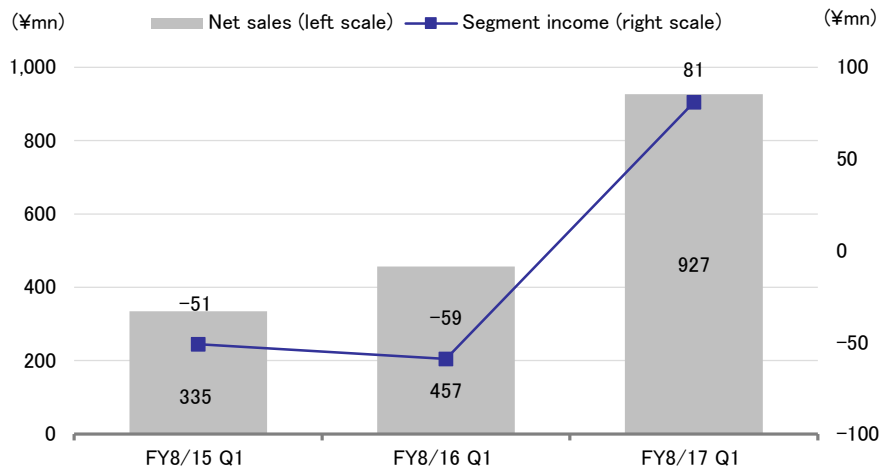
**Preparatory school business**



**d) Other businesses**

In the other businesses, net sales increased 102.8% YoY to ¥927mn and segment income was ¥81mn (compared to a loss of ¥59mn in the same period in the previous fiscal year). The majority of this increase in sales and profits was from the contributions of the newly consolidated subsidiaries, of Kokusai Jinzai Kaihatsu and Kotoh Jimusho, and Kotoh Jimusho's contribution to profits was particularly significant. This is because Kotoh Jimusho's main business is solutions for university entrance exams and the current Q1 and Q2 are its busy season for this.

**Other businesses**



Looking at the trends according to mainstay business, the Waseda Academy Kobetsu Schools' sales and income increased with net sales increasing 11.5% to ¥116mn and posting operating income of ¥1mn (a loss of ¥19mn in the same period in the previous fiscal year). At the end of November, the number of schools had increased by 2 (up 1 Company directly operated school, up 1 franchised operations school) to 31 schools (7 Company directly operated schools, 4 MAXIS directly operated schools, 10 Waseda Academy directly operated schools, and 10 franchised operations schools) and the number of students enrolled in all schools increased 14.8% to 2,548 students. The average number of students per school also steadily increased from 76.6 students in the same period in the previous fiscal year to 82.2 students. The Company ranked first within the private tutorial schools in terms of the number of students passing entrance exams in the spring of 2016 for GMARCH\*. Thanks to the rise in passing students in challenging middle-school and high school exams, number of students is trending upward on greater awareness of the schools' track recording in achieving pass results for its students to enter prestigious schools, and this is also a factor behind the higher sales. In terms of franchised operations schools, from this fiscal year the Company began general recruitment of owners of franchise operations schools which it had limited to owners of Meiko Gijuku chain members until the end of the previous fiscal year and aims to expand the business going forward.

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

In the Kids Schools business, the number of students is steadily increasing in the context of the high demand for after-school care for young children. At the end of November, there were 13 schools (7 directly operated schools and 6 consignment operations schools), which is unchanged YoY. But student numbers in the directly operated schools increased from 195 to 234 students from regular members, and the rise in net sales is continuing. In terms of profits, it continues to record a loss as the majority of the schools have only just been opened, but 1 school is already profitable, while the 2 schools opened in 2014 have reached a level where profitability can be expected and the extent of the loss is shrinking. With regards the consignment operations schools, the Company provides a learning program at 4 schools in the Buddy Sports Kindergartens chain, and it is also developing kindergarten extracurricular classes and after-school consignment operations for private elementary schools, and its policy going forward is to provide services in forms that reflect customer needs.

In Meiko Soccer Schools, net sales increased ¥1mn YoY to ¥33mn and the operating loss was ¥3mn (compared to a loss of ¥2mn in the same period in the previous fiscal year). At the end of November, the number of schools was unchanged YoY at 16 schools (of which, 1 is a franchise operations school), while the number of students was also basically unchanged at 1,010, down by 3 students. This business has been slumping in the last few years, but a top priority for the Company is for it to become profitable at an early stage by strengthening the profitability of the existing schools. Toward this, its policy is to increase the number of students per school by improving leadership and guidance capabilities, including by strengthening training for coaches and staff and reviewing the management system, while also aiming to improve customer satisfaction by providing regular counselling for the schools' students.

In the Waseda EDU Japanese Language School (1 school) operated by consolidated subsidiary Waseda EDU, following an increase in overseas students, including from China and Southeast Asia, at the end of November the number of students had risen 21.4% YoY to 584 students, meaning it was very close to full capacity (a capacity of 600 students). Net sales also trended positively, increasing by double digits alongside the rise in student numbers, while operating income also remained in profit after the deduction of ¥11mn for the amortization of goodwill. As the demand for admissions has been very strong recently, the Company plans to expand its admissions capacity by opening a branch school or relocating the school.

On the other hand, in the JCLI Japanese Language Schools (3 schools) operated by Kokusai Jinzai Kaihatsu, which entered the scope of consolidated in the previous Q4, at the end of November there were 1,044 students (a capacity of 1,380 students), which was an increase of 125 students YoY. Net sales were slightly less than ¥200mn, while it seems that operating income remained just in profit after the deduction of ¥30mn for the amortization of goodwill.

In Kotoh Jimusho, both net sales and operating income trended steadily. Kotoh Jimusho's earning structure is weighted heavily on H1, with the majority of the annual net sales being recorded in this fiscal half (FY3/15 net sales were ¥405mn). It also seems that operating income remained in profit after the deduction of ¥18mn for the amortization of goodwill.

## ■ Outlook

### Outlook is for higher sales and profits for the first time in two fiscal years

#### (1) Outlook for FY8/17 results

The Company has left unchanged its initial forecasts for the FY8/17 H1 and the full fiscal year consolidated results. The forecasts for the full fiscal year are for net sales to increase 7.3% YoY to ¥20,041mn, operating income to rise 17.7% to ¥2,560mn, ordinary income to climb 13.9% to ¥2,650mn, and net income attributable to owners of the parent to increase 59.9% to ¥1,510mn, for the first increase in both sales and profits in two fiscal years. The Company made a smooth start to the fiscal year in Q1, with both sales and profits increasing from the contributions of the newly consolidated subsidiaries. But within the fiscal year, together with Q3, Q1 tends to be the slack period and the number of students is continuing to decline in the mainstay Meiko Gijuku business. Therefore, the Company decided to leave its forecasts unchanged for H1 and the full fiscal year.

In particular, in order to achieve the full fiscal year results forecasts, an important key will be converting the decline in student numbers in the Meiko Gijuku business to an increasing trend from Q3 onwards. This is because, as described above, the number of students that can be acquired during the student recruitment period of February to April will affect the subsequent level of student numbers. In the context of the continuing decline in the birthrate, the competition to acquire students in the private tutorial school industry is growing increasingly fierce. But this year, the Company has in place a system to conduct student recruitment activities as normal, it is strengthening its promotions activities using the Internet, and it has improved the skills of employees for admissions counselling at each of its schools in the last few years. Therefore, at FISCO we think that it is possible that student numbers will switch to a rising trend and that earnings from the Meiko Gijuku business will change to increases in sales and profits from Q3 onwards.

**FY8/17 results outlook (consolidated)**

	FY8/16		FY8/17				
	results	% of sales	H1 plan	YOY	Full-year plan	% of sales	YOY
Net sales	18,672	-	9,891	5.0%	20,041	-	7.3%
Meiko Gijuku directly operated business	10,123	54.2%	5,002	-5.4%	9,975	49.8%	-1.5%
Meiko Gijuku franchised operations business	5,597	30.0%	2,759	-1.5%	5,696	28.4%	1.8%
Preparatory school business	689	3.7%	326	-7.9%	704	3.5%	2.2%
Other businesses	2,260	12.1%	1,803	84.7%	3,664	18.3%	62.1%
Cost of sales	12,165	65.2%	6,469	8.1%	13,235	66.0%	8.8%
SG&A expenses	4,331	23.2%	2,072	10.0%	4,245	21.2%	-2.0%
Operating income	2,175	11.7%	1,349	-13.0%	2,560	12.8%	17.7%
Ordinary income	2,325	12.5%	1,406	-10.9%	2,650	13.2%	13.9%
Extraordinary income (loss)	-508	-	0	-	0	-	-
Net income	944	5.1%	754	39.5%	1,510	7.5%	59.9%

Looking at segment sales targets, the Company expects a 1.5% YOY decline to ¥9,975mn for the Meiko Gijuku directly operated business and a 1.8% increase to ¥5,696mn in franchised operations.. In regard to number of schools, the Company plans to continue with scrap-and-build initiatives and launch about 20 new schools, on par with FY8/16. Looking on a fiscal half year basis, the decline in the number of students in H1 will be the major factor behind the fall in sales in both businesses, but in 2H, sales are forecast to increase in each business from the rise in student numbers and in sales per student. For school openings, while considering aspects like changes to the number of targeted students in the future within the areas, the Company's policy is to promote school openings in areas without schools that can be expected to be profitable, and bolster efforts to lift the student coverage ratio in within each area.

The outlook for the preparatory schools business is for net sales to increase 2.2% YoY to ¥704mn. The downward trend in student numbers will continue up to H1, but the Company expects increased sales from H2 from acquiring new students through reinforcement of student recruitment activities.

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

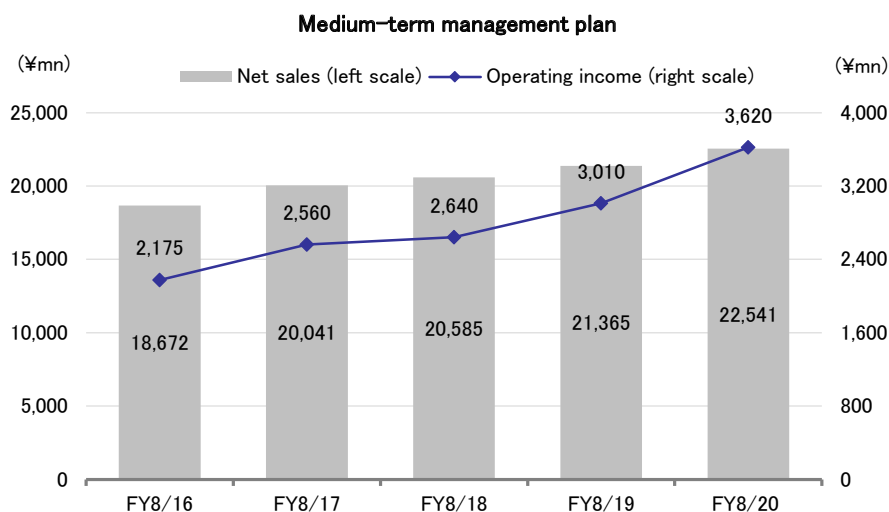
## Renewed growth in the mainstay Meiko Gijuku business and strengthened profitability and sustained growth in the other businesses, including from the utilization of M&A

### (2) New medium-term management plan

In the four-year medium-term management plan up to FY8/20, the business goals for the plan's final fiscal year are net sales of ¥22,541mn and operating income of ¥3,620mn, and the Company is aiming to achieve a record high for operating income for the first time in seven fiscal years (the FY8/13 operating income was ¥3,580mn).

In the mainstay Meiko Gijuku business, the Company intends to increase the number of schools to 2,180 schools (from 2,102 schools at end of previous fiscal year), and the number of students to 150,000 students (130,000 students) and is implementing measures to achieve renewed growth. In addition, it is strengthening the profitability of the other businesses and expanding their business area toward sustainable growth, including by utilizing M&A.





**a) Renewed growth in the Meiko Gijuku business**

Toward renewed growth in the Meiko Gijuku business, the Company plans to roll out a new learning guidance style in order to strengthen the Meiko Gijuku business and differentiate itself from rivals. There are two key points for this. The first point is the adoption of a learning guidance method that realizes student-centric education. While the Company already implemented guidance that taught students how to study through “Meiko Style – Independent Learning,” the new proposal goes even further.

The second point is incremental deployment of a next-generation school operation system that increases visibility by digitalizing learning progress and records and using this information in guidance and marketing activities. The Company intends to integrate all information, including data from student entry to departure and records of contact with guardians, by connecting and unifying data from the educational site and its backbone network system. It believes that use of the accumulated data can help in making effective proposals for increasing lesson volume and extending time at the school and in devising detailed measures by region and academic year. Meiko Network hopes to incrementally develop these systems by 2020.

**b) Strengthen profitability in all business**

The Company intends to increase school and number of students and improve profitability in its other businesses, besides Meiko Gijuku business. It plans to double the number of schools for Waseda Academy Kobetsu Schools from 30 schools at the end of FY8/16 to 60 schools in FY8/20, and in the current period, the Company has begun general recruitment of owners of franchise operations schools. Securing teachers will be an issue as its private tutorial schools are intended for students seeking entry into prestigious high schools and universities; but the target is at an achievable level if this issue can be overcome.

In the same way, the Company plans to increase the number of Meiko Kids Schools from 13 schools at the end of the previous fiscal year (including consignment operations schools) to 25 schools. In addition, it is aiming to increase the number of students in its Japanese language schools from 1,380 students at the end of the previous fiscal period to 2,000 students, and in the Meiko Soccer Schools from 971 students to 1,300 students. Demand for after-school care for young children remains high in the Meiko Kids Schools business, while students from the Asia region are continuing to enter schools in the Japanese language schools business, so it seems highly likely that it will achieve its respective targets for these businesses.

The Company intends to share knowhow within the group and integrate administrative divisions and bolster group-wide profitability. It hopes to realize profitability in the other businesses segment by FY8/20.

**c) Broaden business scope to support sustainable growth**

The plan is to continue developing businesses in educational and cultural fields based on the vision for the Group, and to steadily bolster Meiko Gijuku and to expand its business area, including by conducting M&A and investment if there are suitable candidates for one of its businesses. For overseas business, it is seeking opportunities to enter Asian countries in addition to South Korea and Taiwan.

## ■ Financial position

### Its financial position is sound and it is the only company in the industry whose share has been selected to be a constituent of the JPX-Nikkei Mid and Small Cap Index

The Company's financial position at the end of November 2016 was that total assets were up ¥213mn on the end of the previous fiscal period to ¥17,184mn. Within this amount, current assets increased ¥248mn to ¥7,113mn, which was mainly due to an increase in cash and deposits of ¥138mn following the transfer of long-term deposits of ¥188mn. In addition, non-current assets were down ¥34mn to ¥10,070mn. Although investment securities increased ¥369mn, goodwill and long-term deposits decreased ¥101mn and ¥188mn respectively.

Total liabilities were up ¥303mn at the end of the previous fiscal year to ¥4,064mn, within which, current liabilities rose ¥315mn to ¥3,375mn from increases in deposits of ¥108mn and allowance for bonuses of ¥174mn. Non-current liabilities were down ¥12mn to ¥688mn.

Net assets were down ¥89mn at the end of the previous fiscal year to ¥13,120mn. While the valuation difference on available-for-sale securities increased ¥92mn, retained earnings decreased ¥178mn, mainly due to the payment of dividends.

Next, we review business indicators. Although the equity ratio fell slightly from 77.4% at the end of the previous fiscal year to 75.9% due to the decrease in net assets, it continued to maintain its previous high level. Moreover, the interest-bearing debt ratio is 0.4% and the Company is essentially debt free, and its financial position can be judged to continue to be in good condition.

#### Consolidated balance sheet and business indicators

	(¥mn)				
	FY8/14	FY8/15	FY8/16	FY8/17 Q1	Change
Current assets	9,707	9,828	6,865	7,113	+248
(cash and deposits)	7,363	7,345	4,633	4,772	+138
Non-current assets	6,860	8,852	10,105	10,070	-34
Total assets	16,568	18,680	16,970	17,184	+213
Current liabilities	2,774	3,357	3,059	3,375	+315
Non-current liabilities	602	694	701	688	-12
(interest-bearing debts)	70	96	82	70	-12
Total liabilities	3,377	4,052	3,760	4,064	+303
Net assets	13,191	14,628	13,209	13,120	-89
Management indicators					
Shareholders' equity ratio	79.4%	78.0%	77.4%	75.9%	
Interest-bearing debt ratio	0.4%	0.5%	0.5%	0.4%	
(profitability)					
ROE	17.6%	17.1%	6.8%	-	
Ratio of operating income to net sales	21.9%	18.9%	11.7%	-	

#### ○ Inclusion in the JPX-Nikkei Mid and Small Cap Index

From March 2017, the Company will be included in the shares constituting the JPX-Nikkei Mid and Small Cap Index jointly calculated by the Tokyo Stock Exchange, Inc. and Nikkei Inc., and it will be the only company in the cram school industry to be included. This index is comprised of 200 shares based on the concept of "mid and small cap stocks that are highly appealing to investors."

After excluding the large-cap stocks in the top 20% of the capitalization rankings of listed companies on the date of record (June 30), the calculation criteria are applied to the top 500 stocks that are considered candidates based on trading value and market capitalization, and a ranking score is given to these candidates according to their average ROE in the most recent three years and accumulated operated income. They are also given scores for qualitative factors, such as whether they have a corporate governance system (two or more independent outside directors), whether they have adopted the IFRS international accounting standards, and whether they disclose English language financial statements, and from the rankings from these scores, 200 stocks are selected.

Following the start of the calculation of the JPX-Nikkei Mid and Small Cap Index, if this index becomes set as benchmark for the management of investment trusts, a certain level of buying demand for the Company's share can be expected to occur in the future.

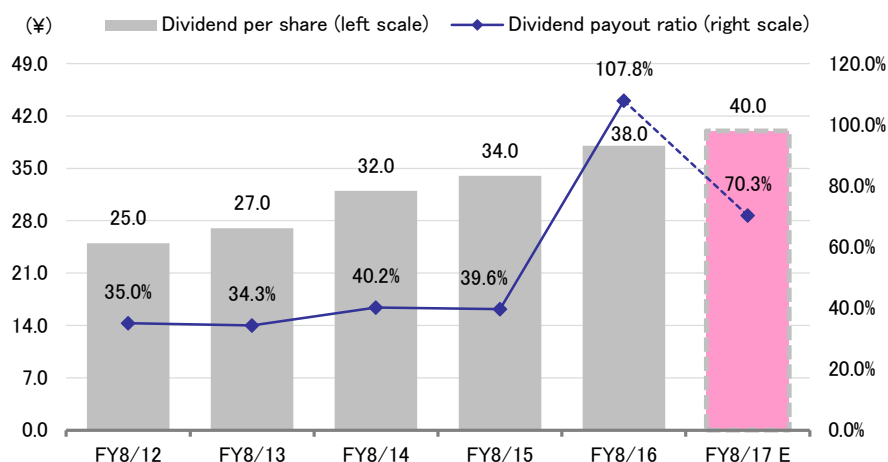
## ■ Dividends and capital policies

### Plans to increase the dividend for the 19th consecutive fiscal period and also has a shareholder benefit program, and is actively returning profits to shareholders

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

Moreover, under the shareholder benefit program, the Company gives QUO cards worth ¥1,000 to 5,000 to shareholders as of the end of August, according to the number of shares they hold and the length of time that they have held them. Those holding 100 shares for less than three years will receive a ¥1,000 QUO card, while those holding the same number of shares continuously for three years will receive cards with a value of ¥3,000. The Company's capital policy is to strengthen its equity and to flexibly consider acquiring treasury stock when possible, taking into account the share price and financial position.

Dividend per share and payout ratio



Shareholder benefit program

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

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

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