

MEIKO NETWORK JAPAN CO., LTD.

4668

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

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Summary

Posted sales and profits exceeding the initial plan in 1H FY8/17 on higher profit in the Meiko Gijuku business and M&A additions

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.

1. Posted sales and profits exceeding the initial plan in 1H FY8/17

Meiko Network reported 1H FY8/17 consolidated results (Sep 2016 to Feb 2017) on April 12 with net sales increasing 7.7% year on year (YoY) to ¥10,145mn and operating income rising 31.4% to ¥2,039mn. Both values exceeded period-start targets (¥9,891mn in net sales and ¥1,349mn in operating income). Primary drivers were relatively stable student volume in the mainstay Meiko Gijuku business and successful containment of SG&A expenses within the plan range. Furthermore, other business made a notable difference as a source of higher sales and profits due to income contributions from the additions of Kokusai Jinzai Kaihatsu Co., Ltd. and Kotoh Jimusho Co., Ltd. since 4Q FY8/16. Student volume in the Meiko Gijuku business (including directly operated business and franchised operations business) continued to weaken with a 3.8% YoY decline at the end of February 2017. However, because of the switch to an increase in newcomer student volume from November 2016, a shrinking margin was narrowed. While the Company’s inability to conduct sufficient recruitment activities during the spring season for acquiring new student led to a decline in student volume in FY8/16, recruitment efforts have been relatively upbeat in the current season and we expect a rebound to positive growth (vs. the previous year) during FY8/17.

2. Making steady progress toward realization of FY8/17 plan targets

The Company retained period-start targets for FY8/17 of ¥20,041mn in net sales (up 7.3% YoY) and ¥2,560mn in operating income (up 17.7%) (though raised the target for net income attributable to owners of the parent on profit from selling real estate). This stance reflects the Company’s consideration to monitor trends because earnings in the Meiko Gijuku business depend on student acquisition results in Mar-Apr and Jun-Jul, the recruitment season for new entrants, as well as its plans to make investments in renewed growth. Nevertheless, recent recruitment for Meiko Gijuku has been gradually improving, and we expect earnings to exceed targets if student volume switches to a YoY increase during FY8/17. The Company expects other business to boost profits because of healthy growth in student volumes at Japanese language schools for overseas students, Waseda Academy Kobetsu Schools, Meiko Kids, and other schools.

3. Medium-term management plan: Aiming for ¥22.5bn in net sales and ¥3.6bn in operating income in the final fiscal year (FY8/20)

The medium-term management plan sets goals of ¥22,541mn in net sales and ¥3,620mn in operating income in FY8/20. The Meiko Gijuku business is pursuing renewed growth through differentiation with rivals, including the start of rolling out a new study guidance method that achieves student-centric learning and the full-fledged launch of a studying program that utilizes smart devices from spring 2018, and aims to expand student volume from 130,000 students at the end of FY8/16 to 150,000 students. Additionally, the Company has a policy of promoting initiatives to expand student volumes in the various other educational service businesses that it operates.

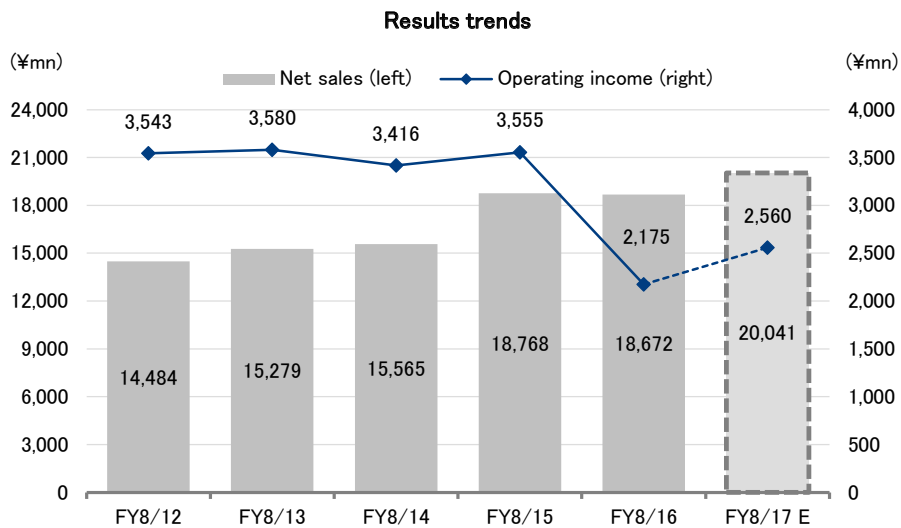
Summary

4. Plans to continue consecutive dividend hikes as proactive shareholder return

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 YoY to ¥40.0. 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 5% level at the current share price (¥1,437 as of April 27).

Key Points

- Posted sales and profits exceeding the initial plan in 1H FY8/17 on higher profit in the Meiko Gijuku business and M&A additions
- Aiming for ¥3.6bn in operating income in FY8/20 through renewed growth in the Meiko Gijuku business and cultivation of new businesses
- Plans to raise the dividend for a 19th straight period and proactively give shareholder returns (including shareholder gifts)



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

■ Business overview

Aiming to become a top company in human development through expanding the mainstay Meiko Gijuku business and 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 School, a soccer school for children; Waseda Academy Kobetsu Schools, which provide tutorial instruction to junior high school and high school students seeking entry into prestigious high schools and universities; and Meiko Kids Schools, which provide nursery care for preschool children and after-school care for elementary school children. Additionally its subsidiaries operate Tokyo Ishin Gakuin, a preparatory school that specializes in the medical university field, and Waseda EDU Japanese Language School and JCLI Japanese Language School as schools that cater to overseas students learning Japanese. Other businesses include subsidiary Kotoh Jimusho, which manages university exam and university education businesses, subsidiary Youdec Co., Ltd., which publishes an exam information magazine, produces model examination questions, sells educational materials, and offers private instruction to students at their schools, and Youdec's subsidiary Koyo Shobo Co., Ltd., is involved in the academic publishing business.

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 FY8/17 1H, the mainstay Meiko Gijuku business (directly operated and franchised operations) is clearly the primary source of Meiko Network Japan's income at 78% of net sales and at 90% of profits. The Company's policy, as its medium-term strategy, is to aim for growth in the entire Group and be Japan's top company in human development through maintaining the growth of the Meiko Gijuku business while developing its other educational-services businesses.

Business performance

Posted sales and profits exceeding the initial plan in 1H FY8/17 on higher profit in the Meiko Gijuku business and M&A additions

1. Overview of 1H FY8/17 results

The Company posted 1H FY8/17 consolidated results with ¥10,145mn in net sales (up 7.7% YoY), ¥2,039mn in operating income (up 31.4%), ¥2,164mn in ordinary income (up 37.1%), and ¥1,713mn in net income attributable to owners of the parent (up 216.7%). These values exceeded the initial plan.

Sales increased in 1H, despite a slight decline in the Meiko Gijuku directly operated business, due to a substantial rise in other business sales, including contributions from new consolidation from 4Q FY8/16 of Kokusai Jinzai Kaihatsu and Kotoh Jimusho (plus ¥779mn). Operating income rose in all business segments on contributions from new consolidated subsidiaries and progress with cost cutbacks in the various businesses. Furthermore, net income attributable to owners of the parent climbed sharply due to booking ¥544mn in gain on sales of non-current asset with the sale of investment real estate. It was also substantially higher because of tutors' salary adjustment costs booked as an extraordinary loss in the previous year.

Review of consolidated 1H FY8/17 results

	FY8/16 1H		Plan	FY8/17 1H		YoY	% of plan
	Results	% of sales		Results	% of sales		
Net sales	9,419	-	9,891	10,145	-	7.7%	2.6%
Cost of sales	5,983	63.5%	6,469	6,206	61.2%	3.7%	-4.1%
SG&A expenses	1,884	20.0%	2,072	1,900	18.7%	0.8%	-8.3%
Operating income	1,551	16.5%	1,349	2,039	20.1%	31.4%	51.1%
Ordinary income	1,578	16.8%	1,406	2,164	21.3%	37.1%	53.9%
Extraordinary income (loss)	-485	-5.2%	0	544	5.4%	-	-
Net income attributable to owners of the parent	540	5.7%	754	1,713	16.9%	216.7%	126.9%
Number of students enrolled at Meiko Gijuku schools, number of schools, total system-wide sales (directly operated and franchised operations)							
Number of schools (end of February)	2,126		2,105		-1.0%		
Number of students (end of February)	138,250		133,018		-3.8%		
Total system-wide sales	24,764		23,465		-5.2%		

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.

Source: Prepared by FISCO from the Company's results briefing materials

In the Meiko Gijuku business (overall), the number of schools was down by 21 schools YoY to 2,105 schools and students dropped 3.8% to 133,018 students at the end of 2Q. This was the fifth straight quarter of decline. For student volume, the Company was unable to sufficiently engage in recruitment activities in Feb-Apr, the most important months of the year for acquiring new students, due to addressing issues with labor management of part-time tutors during 2016. However, signs of improvement can be seen in fewer service suspensions and departures (YoY) since September 2016 and recovery to increases in new entrant volume from November. The student decline rate has been narrowing. Average student volume per school, a key business indicator, is falling at a slower pace too. We think negative impact triggered by issues related to part-time tutor management has been fading.

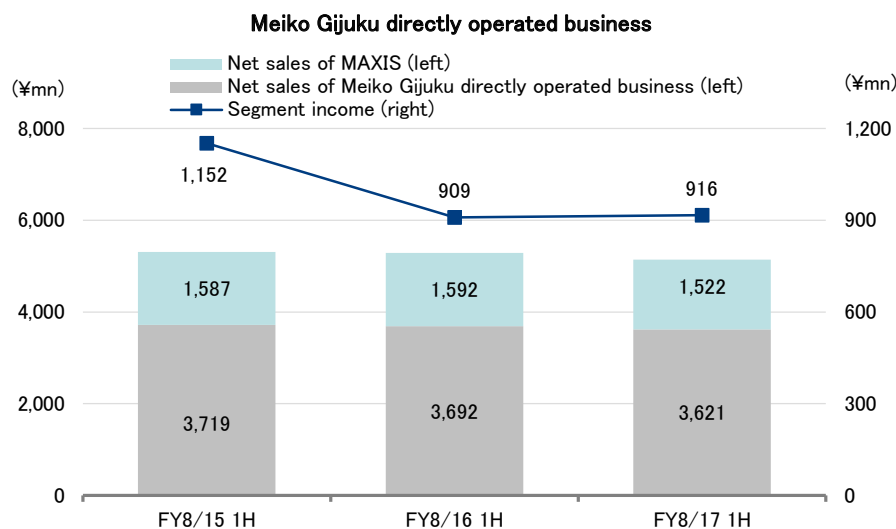
Student volume decline rate at Meiko Gijuku bottoming out, upbeat trends at Waseda Academy Kobetsu Schools and Japanese language schools for overseas students

2. Segment trends

(1) Meiko Gijuku directly operated business

Sales from Meiko Gijuku directly operated business dropped 2.7% YoY to ¥5,143mn, while segment income rose 0.8% to ¥916mn. Parent segment sales fell 1.9% to ¥3,621mn and operating income slipped 4.4% to ¥812mn. Sales at subsidiary MAXIS Education Co., Ltd. (hereafter, MAXIS) declined 4.4% to ¥1,522mn, though operating income expanded 196.6% to ¥175mn. The profit improvement at MAXIS fueled the increase in segment profit. MAXIS rebounded from temporary profit decline in the previous year when it faced higher personnel expenses and miscellaneous costs to deal with labor management issues. MAXIS goodwill depreciation costs amount to ¥71mn.

The number of schools (including MAXIS) at the end of February 2017 increased by 13 schools (YoY) to 325 schools with help from schools acquired from franchise owners, but student volume declined 1.5% to 24,684 students due to lower student volume per school. Sales per student fell modestly in the Meiko Gijuku directly operated business, though increased some at MAXIS. Average student volume per school during the period dropped by about five students (YoY) in both Meiko Gijuku directly operated business and MAXIS. However, this decline was less than initially anticipated and segment sales hence exceeded guidance by ¥141mn.



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

Number of directly operated schools, number of students, sales per student

	Directly operated by the Company			Directly operated by the MAXIS		
	FY8/16 1H	FY8/17 1H	Change	FY8/16 1H	FY8/17 1H	Change
Number of schools (end of February)	220	231	+11	92	94	+2
Average number of students	18,316	17,997	-319	7,391	7,025	-366
Average number of students per school	83.0	78.0	-5.0	80.6	75.3	-5.4
Sales per student (¥1,000)	201.6	201.2	-0.4	215.5	216.7	1.2

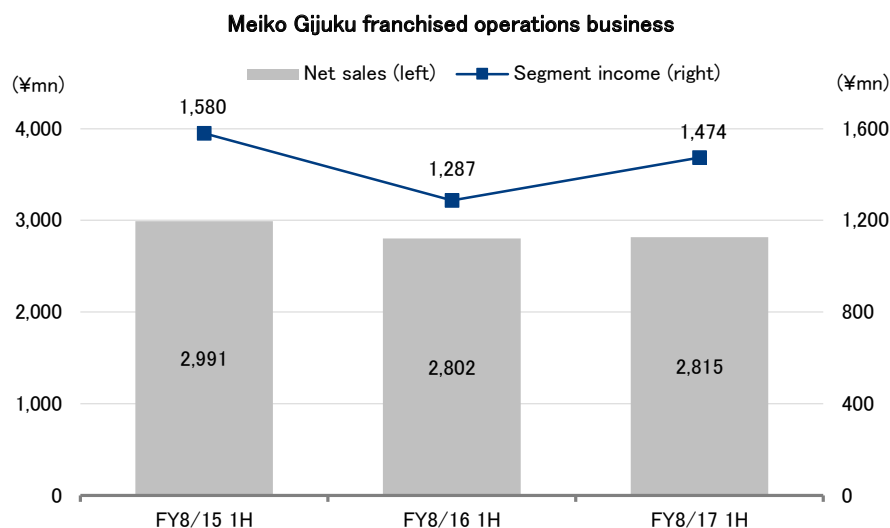
Source: Prepared by FISCO from the Company's results briefing materials

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Business performance

(2) Meiko Gijuku franchised operations business

Meiko Gijuku franchised operation business booked gains of 0.5% YoY in sales to ¥2,815mn and 14.5% in segment income to ¥1,474mn. The number of schools declined by 34 schools to 1,780 schools (excluding MAXIS directly operated schools) and student volume contracted 4.3% to 108,334 students as of the end of February 2017. Both school and student volumes continued to decline amid scrap-and-build initiatives, including closures of unprofitable schools, and royalty sales were down by 5.3% YoY to ¥1,876mn. However, sales and profit improved due to a rise in advertising income from franchise owners on restoration of a normal format (franchise owners incur the sales promotion costs) after the franchise headquarters covered extra promotional costs to recruit students (¥210mn) in the previous fiscal year. The pace of decline in student volume is slowing for franchise schools too. We think this change reflects gradual manifestation of benefits from elaborately sharing information at the local level through sharing success cases among franchise owners and joint meetings of franchise schools and directly operated schools. The Company is placing emphasis on adding new franchise owners as well, with an increase of 12 members (YoY) to 51 members during 1H.



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

Number of FC schools, number of students, royalty sales

	FY8/15 1H	FY8/16 1H	Change
Number of schools (end of February)	1,814	1,780	-34
Average number of students	116,779	110,850	-5,929
Average number of students per school	64.2	62.3	-1.8
Royalty sales (¥mn)	1,981	1,876	-104
Royalty sales per school (¥1,000)	1,088.7	1,055.2	-33.5

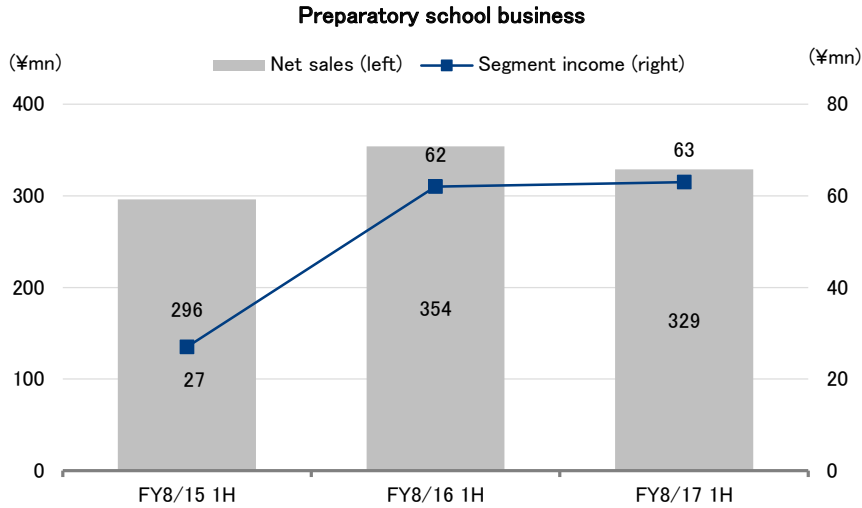
Source: Prepared by FISCO from the Company's results briefing materials

(3) Preparatory school business

Preparatory schools business under consolidated subsidiary Tokyo Ishin Gakuin reported ¥329mn in sales (down 7.0% YoY) and ¥63mn in segment profit (up 1.4%). Student volume was down 11.4% YoY to 132 students at end-February after the Yokohama school closure and restructuring to three schools in March 2016. Nevertheless, sales per student increased because of enhancements to the curriculum and provision of learning camps. Profit expanded on lower fixed costs aided by the Yokohama school closure.

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

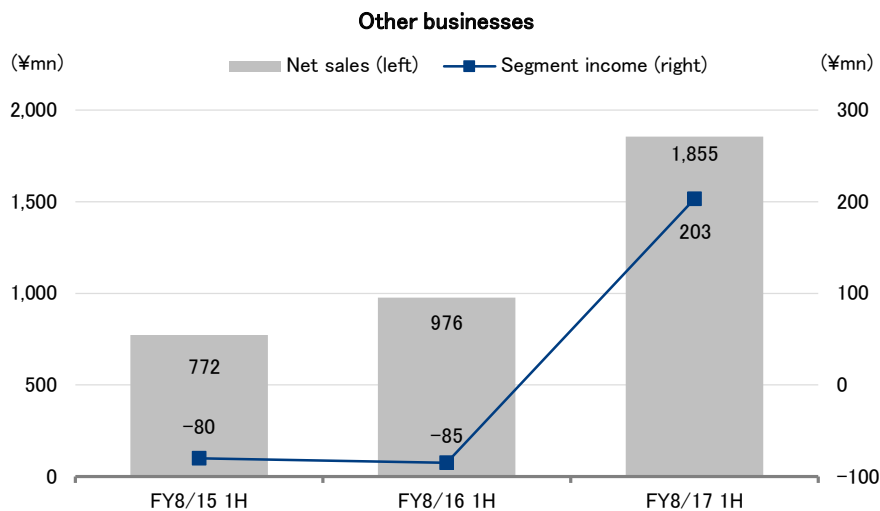
Business performance



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

(4) Other business

In the other businesses, net sales increased 90.0% YoY to ¥1,855mn and segment income was ¥203mn (compared to a loss of ¥85mn 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 1Q and 2Q are its busy season for this.



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

Business performance

Other businesses' net sales

	(¥mn)		
	FY8/16 1H	FY8/17 1H	Value change (YoY)
Waseda Academy Kobetsu Schools	220	258	+38
Meiko Kids	70	88	+18
Meiko Soccer School	70	70	+0
Waseda EDU	149	184	+35
Kokusai Jinzai Kaihatsu	-	394	+394
Kotoh Jimusho	-	385	+385
Youdec	362	361	-1
Koyo Shobo	72	70	-1
MAXIS (other business)	16	19	+3
Other (overseas business etc.)	14	20	+6
Total	976	1,855	+879

Source: Prepared by FISCO from the Company's results briefing materials

Looking at core business trends, Waseda Academy Kobetsu Schools posted ¥258mn in sales (up 17.3% YoY) and ¥18mn in operating income (vs. a ¥29mn loss in the previous year). This was the first profit since beginning the business. The number of schools increased by 1 school (YoY; one decline in Meiko Gijuku directly operated schools and 1 addition each in Waseda Academy directly operated schools and franchise schools) to 31 schools at end-February (6 schools operated by Meiko Gijuku, 4 schools run by MAXIS, 11 schools operated by Waseda Academy, and 10 franchise schools). Student volume grew 13.1% to 2,164 students, and average students per school increased at a healthy pace from 63.8 students a year earlier to 69.8 students. We think enhanced recognition as a private tutorial school for competitive school exams, which reflects a large number of passing students in exams for GMARCH* and above schools in spring 2017 exams and increase in passing students for challenging middle-school and high school exams, provided a boost. The Company restricted franchise schools to owners of Meiko Gijuku chains through FY8/16, but began recruitment of general franchise owners this fiscal year and intends to expand franchise school volume.

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

In the kids business, sales grew 25.7% YoY to ¥88mn, thanks to healthy expansion of student volume amid robust demand for after-school care for young children, and the operating loss narrowed. This business had 15 schools (7 directly operated, 1 kids club, and 7 consigned operations) with 848 students (compared to 547 students in the previous year) at the end of February 2017. The new kids club received designation as a private after-school care assistance business from Nerima Ward (Tokyo). While the Company is still running losses because a majority of the seven directly operated schools only recently opened, the first school is already generating a profit and the second school, which was opened in 2014, has been steadily reducing its losses and is close to a profit. For consigned operations, the Company provides a learning program at four Buddy Sports Kindergarden Sports Clubs and handles kindergarten extracurricular classes and after-school programs at private elementary schools. It intends to continue delivering services in formats that meet actual needs.

Business performance

The Meiko Soccer business posted ¥70mn in sales (flat YoY) and a ¥5mn operating loss (vs. a ¥500,000 profit in the previous year). The number of schools at the end of February 2017 was unchanged at 16 schools (1 franchise school), and student volume was roughly flat at a decline of 50 students to 1,004 students. Soccer school business has been stalled over the past few years due to difficulty opening new schools because of the need to arrange soccer courts ahead of time and considerable time required to build the income base of existing schools. The Company is pursuing prompt realization of a profit as a top priority by bolstering profitability at existing schools. It aims to expand student volume per school and build stable profitability by improving coach and staff training and guidance for better school operations and boosting customer satisfaction through provision of regular counseling for school students.

The Japanese language schools for overseas students business includes the Waseda EDU Japanese Language School (one school) run by consolidated subsidiary Waseda EDU and the JCLI Japanese Language Schools (three schools) operated by Kokusai Jinzai Kaihatsu, which became a consolidated subsidiary in 4Q FY8/16. Demand is vibrant and student volume has been steadily growing amid the rise in overseas students studying in Japan from China, Southeast Asia, and other countries in recent years. Waseda EDU Japanese Language School had 562 students at the end of February 2017 (up 17.6% YoY; the school can accommodate up to 600 students) and booked ¥184mn in sales (up 23.5%) and ¥26mn in operating income (up 36.8%) (an amortization of goodwill at ¥22mn). It plans to open a branch school and expand capacity in the near term because the current facility is likely to reach full capacity in 2017. JCLI Japanese language schools, meanwhile, had 1,092 students (capacity of 1,380 students) at end-February 2017 and reported ¥394mn in sales and ¥41mn in operating income (an amortization of goodwill at ¥61mn). Both schools generate profits after goodwill charges and are contributing to higher earnings in the other business segment.

Japanese language schools

	FY8/16 1H	FY8/17 1H	Change
Net sales (¥mn)	149	578	+429
Operating income (¥mn)	19	68	+48
Number of schools (end of February)	1	4	+3
Number of students (end of February)	478	1,654	+1,176
Capacity of students (end of February)	520	1,980	+1,460

Source: Prepared by FISCO from the Company's results briefing materials

Consolidated subsidiary Kotoh Jimusho recorded ¥385mn in sales. The main university entrance exam solutions business performed well with support from concentration of the busy season during 1-2Q. Annual sales, which amount to just over ¥400mn, primarily come through 2Q in this business structure. Kotoh Jimusho incurs losses in 2H from fixed costs. The amortization of goodwill is ¥37mn.

In overseas operations, the Taiwanese joint venture has reached seven directly operated private tutorial schools and is beginning to recruit franchise members.

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

3. Financial position and management indicators

We review financial conditions as of the end of 1H FY8/17. Total assets were up ¥2,207mn from the end of the previous fiscal year to ¥19,177mn. Current assets increased ¥3,096mn to ¥9,961mn, mainly due to a ¥3,104mn rise in cash and deposits, including ¥1,300mn in proceeds from selling real estate for investment. Non-current assets declined by ¥889mn to ¥9,216mn because of a drop of ¥721mn from selling investment real estate and a decline of ¥127mn in long-term time deposits.

Total liabilities increased by ¥824mn from the end of the previous fiscal year to ¥4,584mn. Current liabilities were up by ¥855mn to ¥3,915mn, primarily because of an ¥832mn rise in income taxes payable related to increase in taxable income. Non-current liabilities dropped by ¥31mn to ¥669mn. Net assets value grew by ¥1,382mn from the previous fiscal year-end to ¥14,592mn, mainly on the addition of ¥1,208mn to retained earnings.

Looking at business indicators, the equity ratio slightly declined from 77.4% at the end of the previous fiscal year to 75.7% because of additional liabilities, but remains at a high level. The Company maintains effectively debt-free operations with the interest-bearing debt ratio at 0.5%. We think financial standing continues to be healthy.

Consolidated balance sheet and business indicators

	(¥mn)				
	FY8/14	FY8/15	FY8/16	FY8/17 Q2	Change
Current assets	9,707	9,828	6,865	9,961	+3,096
(cash and deposits)	7,363	7,345	4,633	7,738	+3,104
Non-current assets	6,860	8,852	10,105	9,216	-889
Total assets	16,568	18,680	16,970	19,177	+2,207
Current liabilities	2,774	3,357	3,059	3,915	+855
Non-current liabilities	602	694	701	669	-31
(interest-bearing debts)	70	96	82	70	-12
Total liabilities	3,377	4,052	3,760	4,584	+824
Net assets	13,191	14,628	13,209	14,592	+1,382
Management indicators					
Shareholders' equity ratio	79.4%	78.0%	77.4%	75.7%	
Interest-bearing debt ratio	0.5%	0.7%	0.6%	0.5%	
(profitability)					
ROE	17.6%	17.1%	6.8%	-	
Ratio of operating income to net sales	21.9%	18.9%	11.7%	-	

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

Business outlook

Steady progress toward reaching FY8/17 targets

1. FY8/17 result outlook

The Company expects for higher sales and profits for the first time in two years in FY8/17 with consolidated targets of ¥20,041mn in net sales (up 7.3% YoY), ¥2,560mn in operating income (up 17.7%), ¥2,650mn in ordinary income (up 13.9%), and ¥1,886mn in net income attributable to owners of the parent (up 99.9%). It retained period-start targets for net sales, operating income, and ordinary income and only raised net income attributable to owners of the parent from the initial view (¥1,510mn).

FY8/17 results outlook (consolidated)

	FY8/16		FY8/17		FY8/17			(¥mn)
	Results	% of sales	1H results	YoY	Full-year plan	% of sales	YoY	
Net sales	18,672	-	10,145	7.7%	20,041	-	7.3%	
Meiko Gijuku directly operated business	10,123	54.2%	5,143	-2.7%	9,975	49.8%	-1.5%	
Meiko Gijuku franchised operations business	5,597	30.0%	2,815	0.5%	5,696	28.4%	1.8%	
Preparatory school business	689	3.7%	329	-7.0%	704	3.5%	2.2%	
Other businesses	2,260	12.1%	1,855	90.0%	3,664	18.3%	62.1%	
Cost of sales	12,165	65.2%	6,206	3.7%	13,235	66.0%	8.8%	
SG&A expenses	4,331	23.2%	1,900	0.8%	4,245	21.2%	-2.0%	
Operating income	2,175	11.7%	2,039	31.4%	2,560	12.8%	17.7%	
Ordinary income	2,325	12.5%	2,164	37.1%	2,650	13.2%	13.9%	
Extraordinary income (loss)	-508	-	544	-	544	-	-	
Net income attributable to owners of the parent	944	5.1%	1,713	216.7%	1,886	9.4%	99.9%	

Source: Prepared by FISCO from the Company's results briefing materials

This stance toward FY8/17 results reflects the Company's consideration to monitor trends because earnings in the Meiko Gijuku business depend on student acquisition results in Mar-Apr and Jun-Jul, the recruitment season for new entrants, as well as its plans to make investments in renewed growth. The Company factors in restoration of a YoY increase in students during 2H for the Meiko Gijuku business. We think it is likely to regain positive YoY growth in student volume during 2H because new entrant volume held above the year-ago level through March 2017. Recovery to an increase in student volume should lift earnings above guidance. However, the Company might increase sales promotion costs and other spending if it appears that the number of students continues to trend lower. While it booked ¥547mn in extra sales promotion costs in FY8/16, this year's plan does not include any additional spending on sales promotions. It is also necessary to take into account the profit decline impact HoH from Kotoh Jimusho's earnings in 2H. Although Kotoh Jimusho's earnings overshot in 1H because of accelerated booking of ordered projected during 1H, the Company maintained its initial guidance for FY8/17 earnings.

Meiko Gijuku business likely to restore positive YoY growth in student volume during FY8/17

2. Outlooks by individual business segments

(1) Meiko Gijuku business

The Company projects a 1.5% YoY decline in FY8/17 sales for the Meiko Gijuku directly operated business to ¥9,975mn, though a roughly flat result (down 0.1% YoY) in 2H. In franchised operations business, meanwhile, it targets a 1.8% gain to ¥5,696mn for FY8/17, with a 3.1% increase in 2H. Realization of these results in both cases depends on how many new students can be acquired in the spring and summer recruitment seasons. The Company plans to continue its scrap-and-build activities, potentially reducing the number of schools again in 2H. However, it should still increase student volume thanks to recovery in the number of students per school.

The Company will implement measures to strength the competitiveness of Meiko Gijuku business - further enhancement of customer satisfaction, improved student recruitment, and better regional strategies. In further enhancement of customer satisfaction, it intends to raise class quality to boost the learning effect, improve the quality of communications with students and guardians, and promote upgrades to classroom environments. In improved student recruitment, it is conducting more effective marketing through data analysis (the Company created a marketing division in FY8/17), reinforcing student experience feature content on the website, and taking steps to raise awareness utilizing the LINE official account and TV commercials. In better regional strategies, it will promote opening new schools in areas that have not been developed yet with income potential by dividing the country into eight blocks and implementing specific measures tailored to characteristics of each regions and reorganizing areas to reflect changes in student volume within the region.

(2) Preparatory schools business

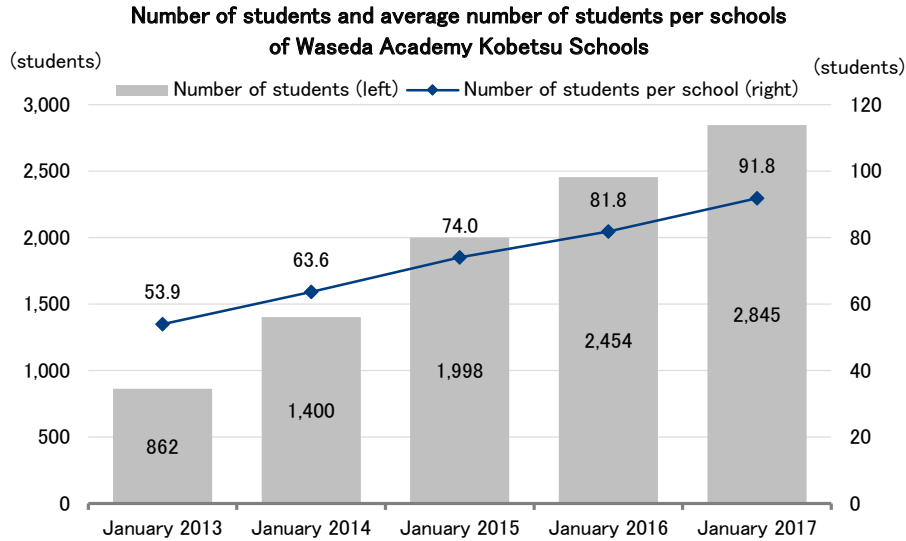
The Company expects a 2.2% YoY increase in preparatory school sales to ¥704mn. However, the number of students entering in the new school year appears to be slightly below the previous year and it is hence important to raise sales per student via curriculum enhancement and hold summer courses in order to realize targets.

(3) Other businesses

In other business, the Company forecasts a 62.1% gain in sales to ¥3,664mn. It expects to continue sales and profit growth momentum with full-year contributions from Kokusai Jinzai Kaihatsu and Kotoh Jimusho and rising student volumes in Waseda EDU, Waseda Academy Kobetsu Schools, and Meiko Kids businesses.

In the Japanese language schools business, the Company plans to increase student volumes by broadening its ability to accept students from other countries and creating an environment in which overseas students can focus on their studies. Waseda Academy Kobetsu Schools aims to expand income student volume per school by steadily accumulating a track record of passing results and ramping up recruitment of new franchise members and increasing franchise schools. In the kids business, it intends to pursue profitability by expanding the number of students at directly operated schools and strengthen the income foundation by also focusing on consigned business from local government entities, such as after-school care for young children.

Business outlook



Source: Prepared by FISCO from interviews

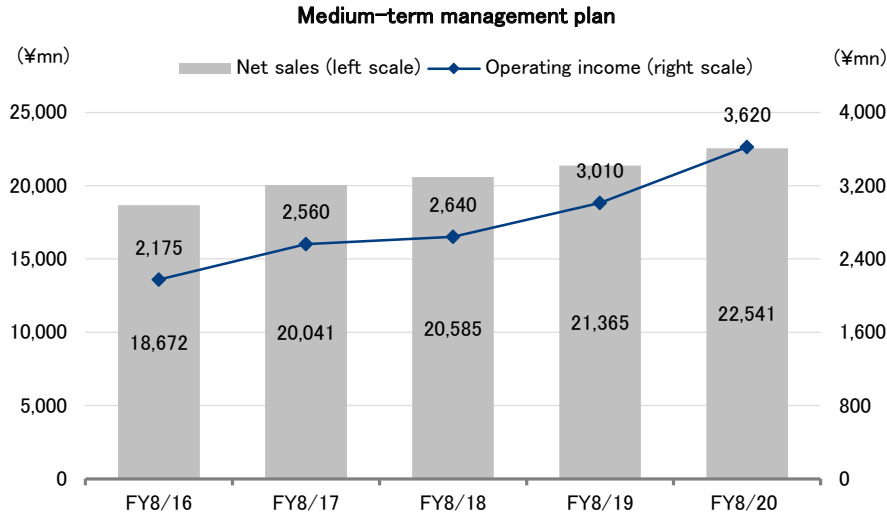
■ Medium-term management plan

Aiming for ¥3.6bn in FY8/20 operating income on renewed growth in the Meiko Gijuku business and cultivation of new businesses

The Company announced a medium-term management plan covering four years through FY8/20 at the start of the fiscal year. Business goals for the final fiscal year are ¥22,541mn in net sales and ¥3,620mn in operating income.

According to the plan, it aims to restore growth in the mainstay Meiko Gijuku business by increasing the number of schools to 2,180 schools (vs. 2,102 schools at the end of FY8/16) and student volume to 150,000 students (vs. 130,000 students). In other businesses, it intends to strengthen profitability and build a foundation for sustainable growth. The Company will also continue to look at M&A deals as horizontal initiatives in educational and cultural fields.

Medium-term management plan



Source: Prepared by FISCO from the Company website and interviews

1. Measures towards promoting the renewed growth of the Meiko Gijuku business

Efforts to restore growth in the Meiko Gijuku business include measures to improve competitiveness explained above and a differentiation strategy that adopts a new learning guidance style. Key points are introduction of a new Meiko Gijuku study guidance method and deployment of an ICT platform.

(1) Introduction of a new Meiko Gijuku study guidance method

The FY2020 university entrance exam reforms and updated ministry’s curriculum guideline call for students to take a primary role in thinking about things and solving issues. While Meiko Gijuku already provided guidance that taught studying methods to students through “Meiko Style - Independent Learning,” the initiative goes further in development of these methods and introducing a study guidance format that teaches students how to take a primary role in learning. Specifically, students prepare their studying schedule, assess their understanding of the lesson, and utilize what they learned for the next lesson. This approach seeks to cultivate in students the ability to think on their own by having them take the lead in tasks previously handled by tutors. The Company has already deployed the new class method at directly operated schools, and the method appears to be making a difference. The plan calls for introducing the new method at franchise schools too from fall 2017.

(2) Deployment of an ICT platform

Utilization of smart devices at cram schools has picked up over the past few years amid growing use of tablets and smartphones. The Company is currently development an ICT platform to leverage smart devices and plans to launch operations in spring 2018.

The platform provides visualization by digitalizing learning progress and results and supports lessons using digital learning tools. It is currently being developed to offer film lessons to high school students and science and sociology online courses to junior high school students, and future plans call for provision of English language for elementary students and English listening lessons. Digital technology also reduces the tutor workload by digitalizing learning records and other information previously input manually.

Medium-term management plan

Additionally, the Company intends to integrate all information, including data from student entry to departure and records of contact with guardians, by connecting and unifying data from the educational site and its backbone network system in the years ahead. 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 plans to incrementally develop these systems by 2020.

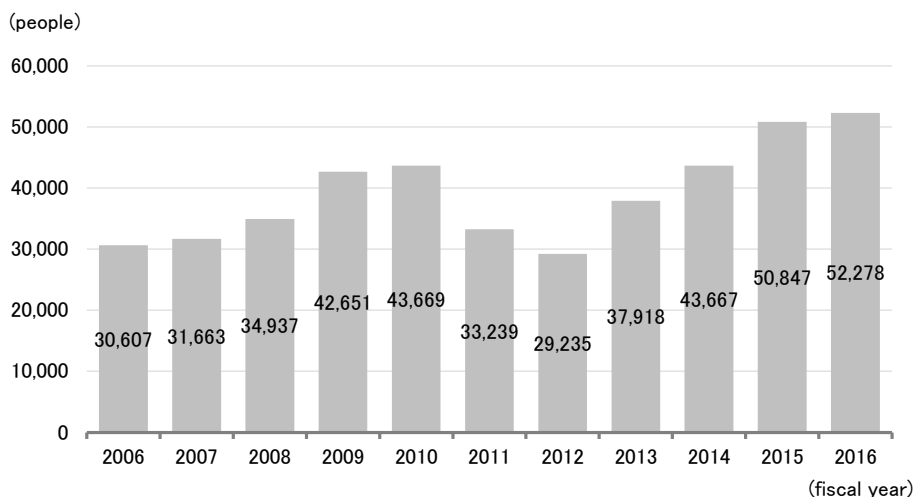
2. Strengthen profitability in all business

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 31 schools at the end of FY8/17 2Q to 60 schools in FY8/20. 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 15 schools at the end of FY8/17 2Q (including 8 consignment operations schools) to 25 schools. In addition, it is aiming to increase the number of students in its Japanese language schools from 1,654 students at the end of FY8/17 2Q to 2,000 students, and in the Meiko Soccer Schools from 1,004 students to 1,300 students. We think it should be possible to realize the targets for Meiko Kids Schools if the Company makes progress hiring necessary human resources because of robust demand for after-school care for children in Tokyo. The Japanese language school business should also be capable of attaining the goals, absent major changes in the economic environment and forex situation (yen appreciation), given ongoing inflow of human resources from the Asian region and the upward trend in the number of students at Japanese language educational entities (reaching an all-time high of 52,278 people in FY2016).

The Company intends to share its management knowhow and to integrate administrative divisions within the Group and bolster Group-wide profitability. It hopes to realize profitability in all business segments by FY2020.

Number of students enrolled in Japanese language educational facilities



Note: As of July 1 of each fiscal year

Source: Prepared by FISCO from Association for the Promotion of Japanese Language Education

Medium-term management plan

3. Broaden business scope to support sustainable growth

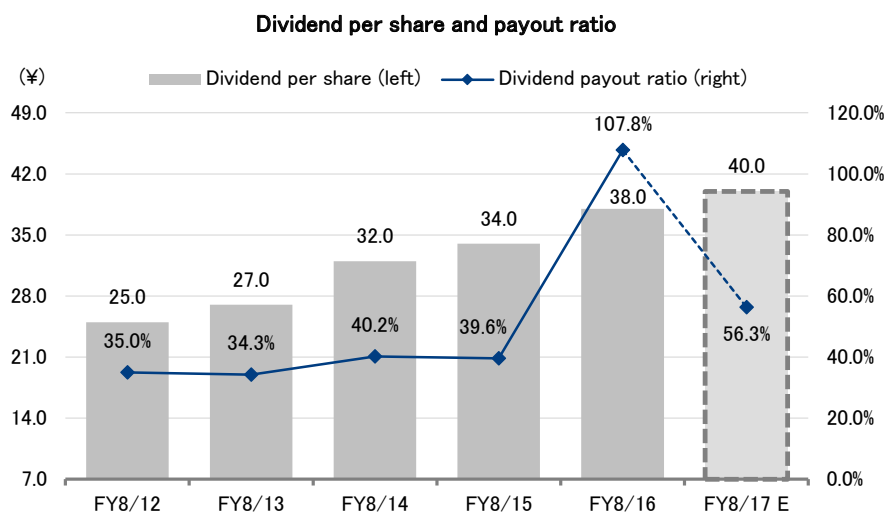
The plan is to continue developing businesses in educational and cultural fields based on the vision for the Group, and to steadily bolster Meiko Gijuku and to expand its business area, including by conducting M&A and investment if there are suitable candidates for one of its businesses. For overseas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

Shareholder return policy

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, 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.



Source: Prepared by FISCO from the Company's results briefing materials

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

Shareholder return policy

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
 Source: Prepared by FISCO from the Company website



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