COMPANY RESEARCH AND ANALYSIS REPORT

MEIKO NETWORK JAPAN CO., LTD.

4668

Tokyo Stock Exchange First Section

14-Aug.-2017

FISCO Ltd. Analyst

Yuzuru Sato

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary

Introduced “review classes” and “Meiko e-Po,” which will be the keys for the regrowth of the Meiko Gijuku business, into directly operated schools from July 2017

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 increased in the FY8/17 Q3 cumulative results

In the FY8/17 Q3 cumulative (September 2016 to May 2017) consolidated results announced on July 11, 2017, sales and profits increased, with net sales rising 7.3% year-on-year (YoY) to ¥14,028mn and operating income growing 76.2% to ¥1,743mn. In the mainstay Meiko Gijuku business (including the franchise operations business), student numbers continued to decline and net sales fell 1.9%, but segment income still increased 25.2% due to the reduction in sales promotion costs. A factor behind the higher sales and profits was also the contributions of Kokusai Jinzai Kaihatsu Co., Ltd., and Kotoh Jimusho Co., Ltd., which entered the scope of consolidation from Q4 in the previous fiscal year.

2. Fully-fledged starts of “review classes” and “Meiko e-Po” in directly operated schools from July 2017

As it measures toward realizing the regrowth of the Meiko Gijuku business, from July 2017 the Company began introducing “review classes,” which are a new learning guidance service, and “Meiko e-Po,” which is an e-portfolio system using smart devices. The main point for the “review classes” is to nurture the students’ “proactive learning” by having them act independently in a cycle of “learning” and “review.” The Company developed “Meiko e-Po” as a platform system to support this nurturing of students. In this system, the students themselves can sense their own growth by the accumulation of learning records and making their progress visible. In addition, parents and guardians can use their smartphones to check on their children’s learning status, and the system is expected to result not only in improvements in the children’s academic abilities, but also in customer satisfaction. The plan is to first introduce them into the directly operated schools and then sequentially into the franchised schools also. In the government’s revisions to the Guidelines for the Course of Study scheduled for 2020, the emphasis will be placed on “proactive learning” to foster “problem-solving ability.” So the Company is aiming to differentiate itself from its industry peers and thereby increase student numbers by implementing measures in accordance with this change of learning method.

3. FY8/17 consolidated results are for the first increase in sales and profits in 2 fiscal years

The forecasts for the FY8/17 consolidated results are for the first increase in sales and profits in 2 fiscal years, with net sales to rise 7.3% YoY to ¥20,041mn, and operating income to grow 17.7% to ¥2,560mn. Although the number of Meiko Gijuku students is trending slightly below the forecast, looking at the progress made up to Q3, at FISCO we think the Company is highly likely to achieve its forecasts on an operating income basis. Also, the management targets in the medium-term management plan are net sales of ¥22,541mn and operating income of ¥3,620mn in FY8/20. The key to achieving these targets will be the performance of the mainstay Meiko Gijuku business, so we shall be focusing on whether student numbers once again start to increase from the introduction of the “review classes” and “Meiko e-Po.” In the medium-term management plan, the target is to increase the student numbers from 130,000 at the end of FY8/16 to 150,000.

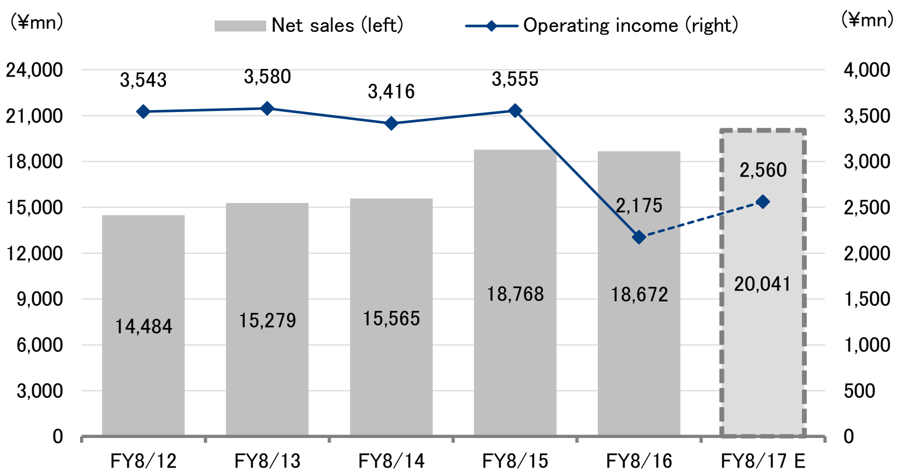
4. Plans to continue consecutive dividend hikes as proactive shareholder return

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 3% to 4% level at the current share price (¥1,574 as of July 31).

Key Points

- Posted sales profit increases in FY8/17 cumulative Q3 on higher profit in the Meiko Gijuku business and M&A additions
- Introduced “review classes” and “Meiko e-Po,” which will be the keys to the regrowth of the Meiko Gijuku business
- Aiming for ¥3.6bn in operating income in FY8/20 through renewed growth in the Meiko Gijuku business and cultivation of new businesses

Results trends



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

Business overview

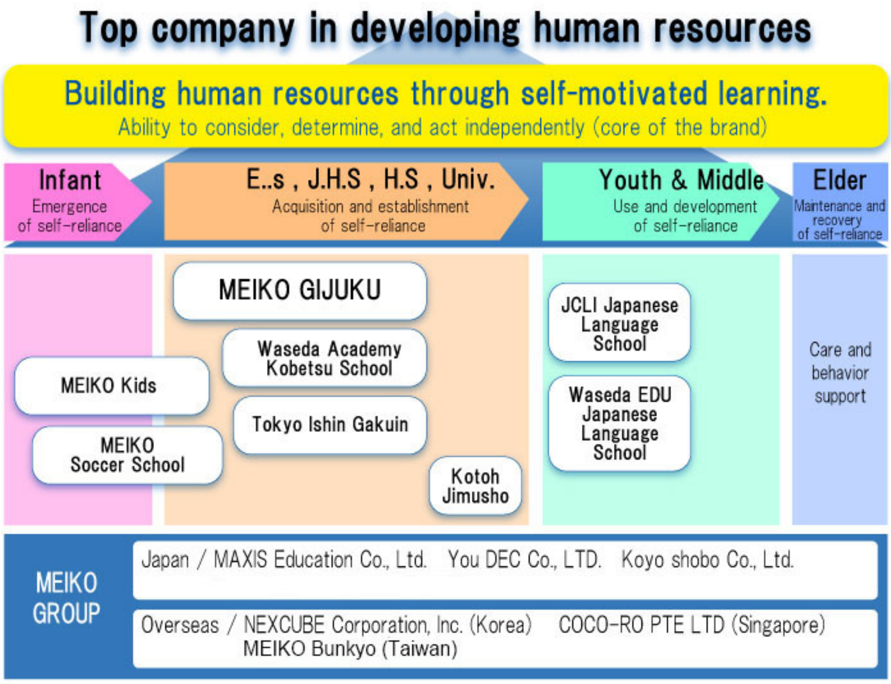
Aiming to become a top company in human development through expanding the mainstay Meiko Gijuku business and its other educational services

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 (affiliated company not accounted for by the equity method; 25% stake), a joint venture with a local firm that operates Meiko Gijuku business in Taiwan.

In percentages by business segment for FY8/17 cumulative Q3, 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 93% 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.



Source: Company materials

Business performance

Posted sales and profit increases in FY8/17 cumulative Q3 on higher profit in the Meiko Gijuku business and M&A additions

1. Overview of FY8/17 cumulative Q3 results

The Company posted FY8/17 cumulative Q3 consolidated results with ¥14,028mn in net sales (up 7.3% YoY), ¥1,743mn in operating income (up 76.2%), ¥1,897mn in ordinary income (up 87.6%), and ¥1,458mn in net income attributable to owners of the parent (up 884.5%).

Net sales increased, as despite the declines in sales in the Meiko Gijuku directly operated business and the preparatory school business, sales in the other businesses grew significantly, including from the contributions of Kokusai Jinzai Kaihatsu and Kotoh Jimusho that were newly consolidated in the previous Q4. Operating income increased by double digits, as in addition to the contributions of the newly consolidated subsidiaries, in the Meiko Gijuku business, the additional sales promotions costs that were incurred in the previous fiscal year were not incurred in this fiscal year. Net income attributable to the owners of the parent greatly increased, including from the recording in Q2 of extraordinary income of ¥544mn from a gain on the sale of a non-current asset.

Review of consolidated FY8/17 cumulative Q3 results

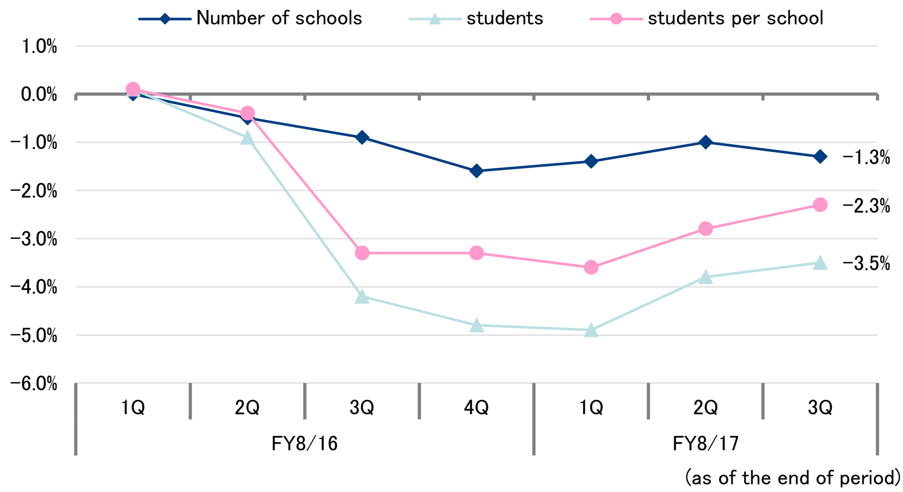
(¥mn)

	Q3 FY8/16 cumulative totals		Q3 FY8/17 cumulative totals		
	Results	% of sales	Results	% of sales	YoY
Net sales	13,073	-	14,028	-	7.3%
Cost of sales	9,032	69.1%	9,331	66.5%	3.3%
SG&A expenses	3,050	23.3%	2,953	21.1%	-3.2%
Operating income	989	7.6%	1,743	12.4%	76.2%
Ordinary income	1,011	7.7%	1,897	13.5%	87.6%
Extraordinary income (loss)	-466	-3.6%	544	3.9%	-
Net income attributable to owners of the parent	148	1.1%	1,458	10.4%	884.5%
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 May)	2,102		2,075		-1.3%
Number of schools (end of May)	113,518		109,525		-3.5%
Total system-wide sales	33,013		31,338		-5.1%

Note: "The number of schools at the end of the month" refers to the number of schools operational in the final month.
Total system-wide sales = the sum of 1) total sales of directly operated schools, including admission fees, lesson fees, fees for educational materials, and test fees, and 2) total sales of franchised operations including admission fees and lesson fees.
Source: Prepared by FISCO from the Company's financial results

In the Meiko Gijuku business, the total number of schools at the end of Q3 had fallen by 1.3% YoY to 2,075 schools, while the number of students had fallen 3.5% to 109,525, which was the sixth consecutive quarter of decline. Within the intensifying competition to acquire students in the tutorial school industry, the rates of decrease in both the number of students and the number of students per school bottomed-out in FY8/17 Q1 and the extents of the declines are contracting, so it seems that the Company has gotten through the worst period.

Number of schools, students, students per school (YoY)



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

Profits increased in the Meiko Gijuku business from the reduction in sales promotion costs, and they also steadily expanded in the Waseda Academy Kobetsu Schools, Japanese language schools for overseas students, and the Meiko Kids businesses.

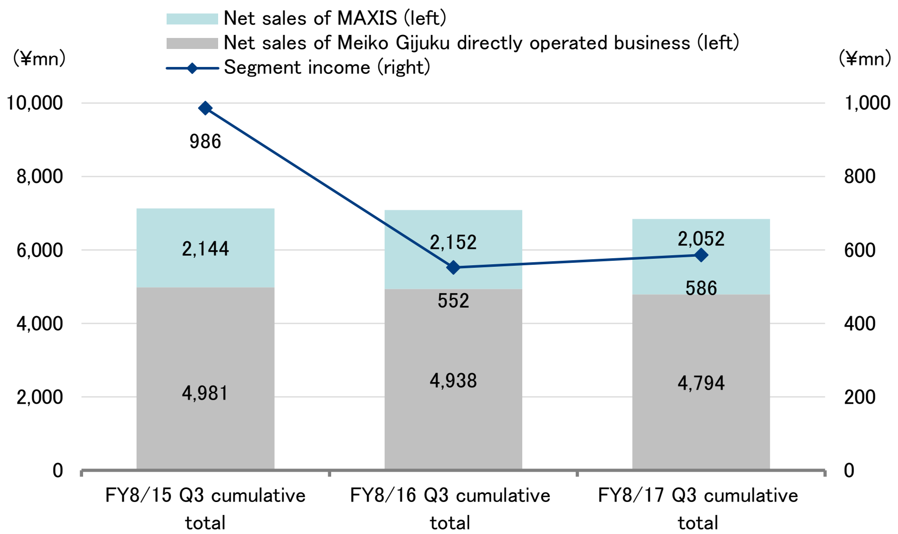
2. Segment trends

(1) Meiko Gijuku directly operated business

Sales from Meiko Gijuku directly operated business dropped 3.5% YoY to ¥6,846mn, while segment income rose 6.3% to ¥586mn. Parent segment sales fell 2.9% to ¥4,794mn and operating income rose 0.6% to ¥629mn. Sales at subsidiary MAXIS Education Co., Ltd. (hereafter, MAXIS) declined 4.6% to ¥2,052mn, though operating income expanded 91.2% to ¥65mn. MAXIS goodwill depreciation costs amount to ¥107mn.

In Q3, the Company conducted demonstration experiments toward the fully fledged operations of the "review classes" and "Meiko e-Po," and as this required time for training, it was unable to sufficiently carry out student recruitment activities. Therefore, at the end of FY8/17 Q3, the number of students trended at low levels in both the Company's directly operated schools, down 3.7% YoY, and in MAXIS, down 4.1%. As of the end of May 2017, there were 328 schools (including MAXIS), an increase of 5, including those acquired from franchise owners, while the average number of students per school had declined slightly. Net sales were down due to the fall in student numbers, but despite this profits increased, mainly because of the reduction in personnel expenses and other expenses relating to the resolution of the labor-management issue in both the Company's directly operated business and in MAXIS.

Meiko Gijuku directly operated business



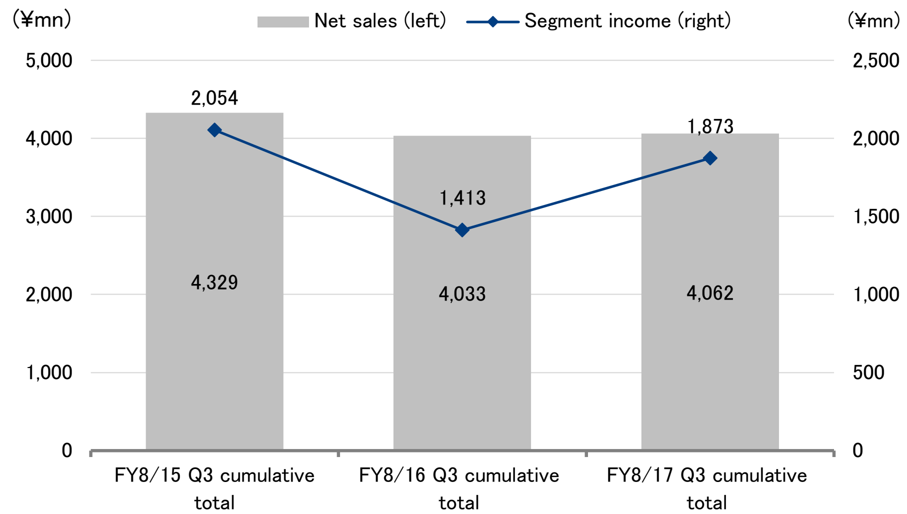
Source: Prepared by FISCO from the Company's financial results

(2) Meiko Gijuku franchised operations business

In the Meiko Gijuku franchise business, net sales increased 0.7% YoY to ¥4,062mn and segment income rose 32.6% to ¥1,873mn. At the end of May 2017, the number of schools had fallen 1.8% to 1,747 (not including MAXIS and directly operated schools), while the number of students had decreased 3.4% to 88,838. Within the progress being made in the scrap & build initiatives, including to close unprofitable schools, the numbers of students and schools both continued to decline and royalty sales were down, but net sales still increased, mainly from the rise in advertising revenue from franchise owners. The franchise operations headquarters incurred additional sales promotions costs in the same period in the previous fiscal year for student recruitment, but in FY8/17, the system returned to as normal (in which franchise owners are responsible for the sales promotion costs = increase in advertising revenue), which was a factor behind the higher sales and profits.

In the franchised schools also, while the average number of students per school continues to trend downward, the YoY decrease at the end of Q3 was 1.7%, meaning that the rate of decrease had contracted compared to in Q2 when it was 2.5%. It is considered that this indicates that the effects of the precise sharing of information, including the sharing of success stories between the franchise owners and at the joint meetings held in each respective region between the franchised schools and directly operated schools, are gradually appearing.

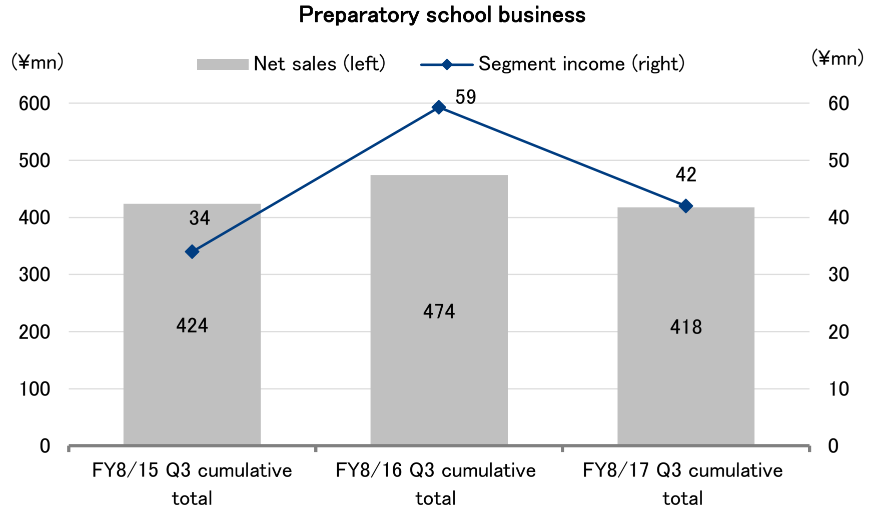
Meiko Gijuku franchised operations business



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

(3) Preparatory school business

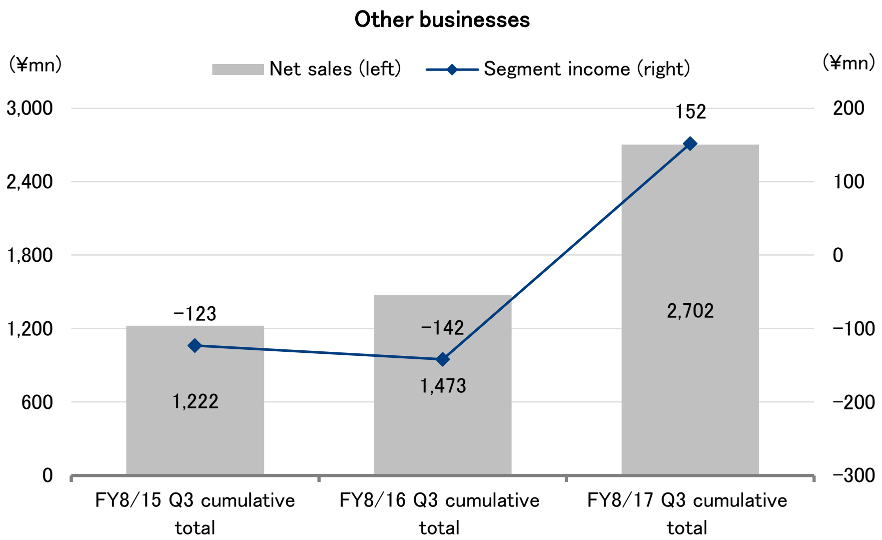
In the preparatory school business conducted by the consolidated subsidiary Tokyo Ishin Gakuin, net sales declined 11.8% YoY to ¥418mn and segment income fell 28.2% to ¥42mn. For medical universities, the tendency among students of wanting to pass the entrance exams in their last year of high school is increasing, and as an effect of this, this spring, the number of students newly enrolling on the course for those who have already graduated from high school was sluggish. At the end of May, student numbers had decreased 24.6% to 104 and is forecast to trend at a low level in Q4 also.



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

(4) Other businesses

In the other businesses, net sales increased 83.3% YoY to ¥2,702mn and segment income was ¥152mn (compared to a loss of ¥142mn in the same period in the previous fiscal year). Most of the increases in sales and profits were from the contributions of the newly consolidated Kokusai Jinzai Kaihatsu and Kotoh Jimusho. In addition, sales steadily grew in the Waseda Academy Kobetsu Schools and the Meiko Kids businesses, and the amounts of their losses were reduced.



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

Looking at the trends in the mainstay businesses, in Waseda Academy Kobetsu Schools, net sales increased 14.8% YoY to ¥350mn, and the operating loss was ¥14mn (compared to a loss of ¥66mn in the same period in the previous fiscal year). At the end of May 2017, the number of schools had increased by 2 (down 1 Company directly operated school, up 1 MAXIS school, up 1 Waseda Academy directly operated school, and up 1 franchised school) to 32 schools (6 Company directly operated schools, 5 MAXIS directly operated schools, 11 Waseda Academy directly operated schools, and 10 franchised schools), while the number of students enrolled at all the schools increased 11.5% to 2,051. The average number of students per school also steadily increased YoY, up from 61.3 to 64.1. Among the students who passed the university entrance exams in the spring of 2017, many of the Company's students achieved pass results for GMARCH* universities. In addition, in the junior high school and high school entrance exams, the number of its students passing the exams for difficult-to-enter schools is increasing, which is a factor behind the improvement in the Company's name awareness as a chain of private tutorial schools that prepare students for entrance exams for difficult-to-enter schools.

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

In the Meiko soccer business, net sales increased 2.8% YoY to ¥111mn, while the operating loss was ¥4mn (compared to a loss of ¥5mn in the previous fiscal year). At the end of May 2017, the number of schools decreased by 2 to 14 (of which, 1 is a franchised school), while the number of students decreased by 19 to 965. The Company is aiming to improve profits by consolidating two directly operated schools into a neighboring school. Looking only at FY8/17 Q3, this business achieved profitability for the first time in 5 quarters, if only slightly. The priority issue at the current time is strengthening the profitability of existing schools, and the Company is working to increase student numbers and build a stable profit structure, while also aiming to improve customer satisfaction by enhancing the guidance provided by the coaching staff, including by strengthening training, reviewing the management system, and by regularly providing the schools' students with counseling.

In the Meiko Kids business, sales steadily expanded for both the directly operated and consignment operations schools in the context of the robust demand for after-school care for young children. As a result, net sales increased by double digits YoY and the extent of the operating loss continued to contract. At the end of May 2017, there were 15 schools (7 directly operated and 8 consignment operations), and 846 students (compared to 518 in the same period in the previous fiscal year). From FY8/17 Q2, consignment operations were newly launched for a private after-school care assistance business in Nerima Ward, Tokyo, which contributed to earnings, if only slightly. The Company worked on various measures, including to promote attendance of the learning program, to improve management and operational efficiency, and to strengthen the training of school staff. It also carried out event planning, such as of summer camps and social tours, and worked to improve the levels of satisfaction of the school students, and these measures are leading to an increase in the number of students. In profits, within the 7 directly operated schools, although the majority of these recently opened schools continue to record losses, 1 school is already profitable, while alongside the increases in the number of students, 2 schools opened in 2014 have reached a level where profitability is in sight. 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. Going forward, it intends to continue to deliver services that meet actual needs.

The Japanese language schools for overseas students business consists of 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 Q4 in the previous fiscal year. Demand is strong 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. As a result, students numbers are increasing, and Waseda EDU Japanese Language School had 519 students at the end of May, an increase of 42.2% YoY (it can accommodate 600 students). Also, it seems that sales and profits rose by double digits, with net sales of more than ¥200mn and operating income of tens of millions of yen. Student numbers also trended stably in "JCLI Japanese language schools," with 937 students at the end of May (it can accommodate 1,380 students). Its net sales are in excess of ¥500mn and its operating income is also tens of millions of yen, and it is contributing to the earnings of the other businesses.

The consolidated subsidiary Kotoh Jimusho operates a highly seasonal business and it earns the majority of its annual sales by the end of Q2, and its Q3 cumulative net sales seemed to be approximately ¥400mn. Sales in the main university entrance exam solutions business trended stably, including from the acquisition of new orders. Business opportunities are expected to increase in the near future as the reform of the university entrance exam system in 2020 draws closer.

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

3. Financial position and management indicators

Looking at the financial condition at the end of FY8/17 Q3, total assets were up ¥1,087mn on the end of the previous fiscal year to ¥18,057mn. Breaking down the main increases and decreases, in current assets, accounts receivable decreased ¥300mn, but cash and deposits increased ¥2,026mn following the sale of the Meiko Building (sale price, ¥1,300mn). In non-current assets, investment securities increased ¥325mn, mainly due to the rise in stock prices, but investment real estate decreased ¥721mn following the sale of the Meiko Building.

Total liabilities were up ¥455mn on the end of the previous fiscal year to ¥4,215mn, which was mainly due to the rise in income taxes payable of ¥436mn in current liabilities. Net assets grew ¥632mn to ¥13,841mn because of the increases in retained earnings of ¥422mn and in unrealized gain on other securities of ¥194mn.

Looking at business indicators, the equity ratio slightly declined from 77.4% at the end of the previous fiscal year to 76.2% 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 cumulative Q3	Change
Current assets	9,707	9,828	6,865	8,608	1,743
(cash and deposits)	7,363	7,345	4,633	6,660	2,026
Non-current assets	6,860	8,852	10,105	9,448	-656
Total assets	16,568	18,680	16,970	18,057	1,087
Current liabilities	2,774	3,357	3,059	3,532	472
Non-current liabilities	602	694	701	683	-17
(interest-bearing debts)	70	96	82	70	-12
Total liabilities	3,377	4,052	3,760	4,215	455
Net assets	13,191	14,628	13,209	13,841	632
Management indicators					
Shareholders' equity ratio	79.4%	78.0%	77.4%	76.2%	
Interest-bearing debt ratio	0.5%	0.7%	0.6%	0.5%	

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

Business outlook

The forecasts are for higher sales and profits in the FY8/17 consolidated results and the forecasts may be exceeded on a profits basis

1. FY8/17 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 in April.

FY8/17 outlook (consolidated)

(¥mn)

	FY8/16		FY8/17				
	Results	% of sales	3Q cumulative results	Progress rate	Full-year forecast	% of sales	YoY
Net sales	18,672	-	14,028	70.0%	20,041	-	7.3%
Meiko Gijuku directly operated business	10,123	54.2%	6,846	68.6%	9,975	49.8%	-1.5%
Meiko Gijuku franchised operations business	5,597	30.0%	4,062	71.3%	5,696	28.4%	1.8%
Preparatory school business	689	3.7%	418	59.4%	704	3.5%	2.2%
Other businesses	2,260	12.1%	2,702	73.7%	3,664	18.3%	62.1%
Cost of sales	12,165	65.2%	9,331	70.5%	13,235	66.0%	8.8%
SG&A expenses	4,331	23.2%	2,953	69.6%	4,245	21.2%	-2.0%
Operating income	2,175	11.7%	1,743	68.1%	2,560	12.8%	17.7%
Ordinary income	2,325	12.5%	1,897	71.6%	2,650	13.2%	13.9%
Extraordinary income (loss)	-508	-	544	-	544	-	-
Net income attributable to owners of the parent	944	5.1%	1,458	77.3%	1,886	9.4%	99.9%

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

Looking at the rate of progress for the forecasts up to Q3, the Company achieved 70.0% of the net sales forecast and 68.1% of the operating income forecast. The average rates of progress for the last 3 years are 70.2% for net sales and 55.6% for operating income, so net sales are trending within the forecast range and operating income is slightly above forecast. The low rate of progress in achieving the operating income forecast up to Q3 is because Q4 includes the summer courses and so profits grow larger in this quarter to on a par with Q2. As the number of students at the end of May is the basis for summer-course sales, Q4 results are forecast to be somewhat challenging. But as profits trended strongly up to Q3, at FISCO we think the Company can achieve its full fiscal year operating income forecast.

On the other hand, it is possible that net sales will be slightly below forecast. This is mainly because the number of students in the Meiko Gijuku business and the preparatory school business are trending below their respective targets. In the Meiko Gijuku business, the Company is aiming to change the decrease in student numbers to a YoY increase by the end of FY8/17. But looking at the rate of progress up to the end of Q3, it would seem difficult to achieve this. To achieve a YoY increase by the end of the fiscal year, it will need to increase student numbers by more than 20,000 from the end of Q3, but the average for the last 3 years is an increase of 17,600 students. If the same pace is maintained in FY8/17, the number of students at the end of fiscal year will be 127,000, which will be around a 2% decrease YoY. Therefore, it is highly possible that net sales in the Meiko Gijuku business will be slightly below forecast. In the preparatory school business also, sales are expected to fall below the Company forecast, because the number of students enrolling who have already graduated this spring has been lower than expected. So despite the steady expansion of sales in the other businesses, including in Japanese language schools and Waseda Academy Kobetsu Schools, it is possible that total net sales will be slightly below the Company forecast.

Fully fledged introductions of "review classes" "Meiko e-Po," which will be the keys to the regrowth of the Meiko Gijuku business

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

Toward the regrowth of the Meiko Gijuku business, from July 2017 the Company began fully fledged operations of "review classes," its new learning service, and "Meiko e-Po," which is an e-portfolio system. It plans to first introduce them into the directly operated schools and then sequentially into the franchised schools.

The "review classes" entail a cycle of "learning" and "review" and are a learning method aiming for students to learn independently by acquiring various "insights" through reviewing what they have learned, thereby firmly establishing an essential understanding of it. The students themselves progress on the learning program while independently expressing their own thoughts in writing, and they themselves summarize what they have learned on that day for 5 to 10 minutes before the end of the class and prepare a learning plan for the future. These learning records are photographed using an iPad and input into the "Meiko e-Po" system.

By leaving learning records in "Meiko e-Po," the learning process can be continuously accumulated and reviewed, and the students themselves can obtain a sense of how they are growing, while it also makes it possible for them to acquire the skill proactive learning. Moreover, in "Meiko e-Po" parents and guardians can check their children's learning records on their smartphones. Conventionally, parents would confirm what their children are doing at the cram school and whether or not their academic abilities are improving through regular meetings with the tutors, but this still left many points unclear and was one of the reasons for student absences and withdrawals from the school. But by utilizing "Meiko e-Po," they can confirm in real time their children's learning records and the extent that their academic abilities have improved, which is expected to lead to higher levels of customer satisfaction and thereby keep down absences and withdrawals.

"Proactive learning" has been given an important position equivalent to English language education in the government's revisions to the Course of Study Guidelines scheduled for 2020. Since the past, the Company has been involved with "proactive learning" through its "Meiko Style - Independent Learning," and it intends to increase student numbers by providing evolved learning services that newly utilize ICT, as in the current initiatives, and thereby differentiate its services from those of its competitors.

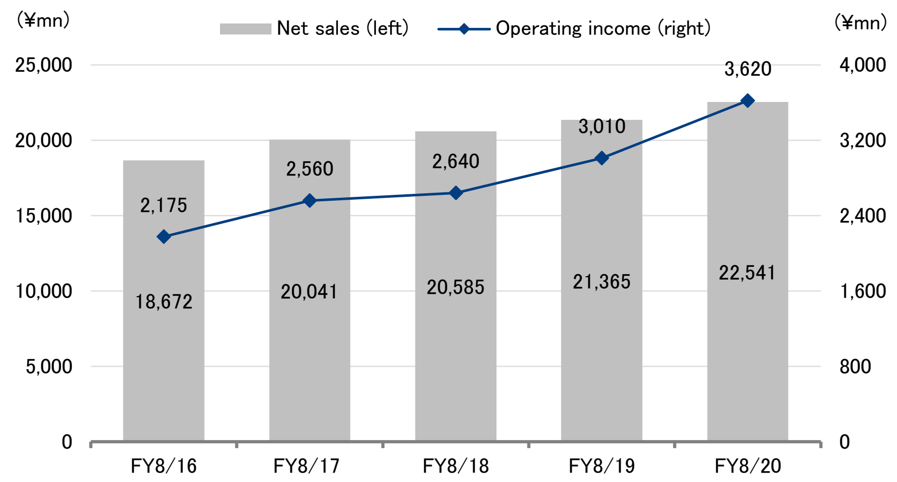
The Company introduced these new services from July in its directly operated schools, but it seems it will required several months in order to verify their effects. The positive effects are expected to be that the students' academic abilities will improve from them acquiring the skill of "proactive learning," and also that the rates of absences and withdrawals will be kept down from the resulting improvement in levels of satisfaction, including among the parents and guardians, and that the number of new students will increase. Moreover, an additional advantage is that the workloads of the tutors are expected to be reduced. This is because previously, the tutors would create the students' learning records and related records after the class was over, but in the "review classes," the students themselves create the records. But conversely, one negative aspect will be that the parents and guardians will be able to more accurately ascertain their children's progress from their learning records, and it is possible that this will result in cases of withdrawals.

Medium-term management plan

Aiming for ¥3.6bn in operating income in FY8/20 through 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. It is implementing five strategies as its basic strategies; "strengthen the Meiko Gijuku business," "strengthen the profitability of all businesses," "expand the business areas to achieve sustainable growth," "train human resources," and "improve corporate value."

Medium-term management plan



Source: Prepared by FISCO from the Company website and interviews

To "strengthen the Meiko Gijuku business", the Company is first aiming to increase the number of students per school through introducing the previously described "review classes" and "Meiko e-Po." It is also working to expand share within regions through strengthening its marketing strategy and regional strategy. The management indicators the Company has set as the targets for FY8/20 are 2,180 schools (2,102 schools at the end of FY8/16) and 150,000 students (130,000 students). If the effects of the introductions of the "review classes" and "Meiko e-Po" are actualized, it seems that the path to regrowth will become visible. It plans to introduce them into the franchised schools from the spring of 2018 onwards, so it is expected that the effects of their introductions will spread to the results as a whole from the second half of 2018.

To "strengthen the profitability of all businesses," the Company intends to strengthen the profitability of the other businesses as well as that of the Meiko Gijuku business, and it is aiming to establish new core businesses. While sharing expertise between each member of the Group and improving management efficiency, it is leveraging synergies to the greatest possible extent to bolster the Group's comprehensive strength.

To “expand the business areas to achieve sustainable growth,” in the education and culture business area, the Company will consider M&A and investment proposals if there are projects that can be expected to strengthen its main businesses and generate synergies with each business within its businesses development based on its management philosophy.

To “train human resources,” the Company is aiming to realize a work-life balance, reform personnel awareness, and improve productivity, and it is working to train the human resources who will drive growth for the Group. Also, within the recent situation of a chronic shortage of labor, there are starting to appear cases in which it finds it difficult to recruit part-time tutors, particularly in the regional cities, and so conducting a review of the salary system and other personnel aspects is an issue to be addressed in the future.

To “improve corporate value” the Company is implementing a capital dividend policy attractive to investors through sustained earnings growth.

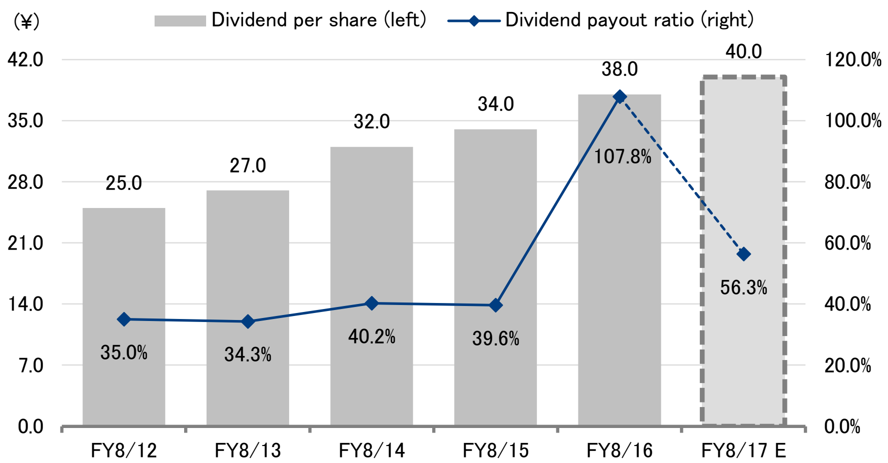
Shareholder return policy

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.

Dividend per share and payout ratio



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

Shareholder benefit program

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

Note: Program applies to shareholders as of the end of August 2016
Source: Prepared by FISCO from the Company's website

FISCO

Disclaimer