

Riso Kyoiku Co., Ltd.

4714

Tokyo Stock Exchange Prime Market

5-Jul.-2022

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

■ Index

■ Summary	01
1. Overview of FY2/22 results	01
2. FY2/23 forecasts	01
3. Medium-term management plan	02
■ Company profile	03
1. Company history	03
2. Business overview	04
3. Characteristics and strengths	08
■ Results trends	11
1. Overview of FY2/22 results	11
2. Trends by business segment	14
3. Financial condition	16
■ Outlook	18
1. FY2/23 forecasts	18
2. Medium-term management plan	19
■ Shareholder returns	24

Summary

Started the Kodomo Department Store concept in 2022. The results outlook is for annual growth to continue in the 10% range

Riso Kyoiku Co., Ltd. <4714> (hereinafter, “the Company”) is an educational service company that has established a unique business model by combining entirely one-on-one instruction and academic advancement and is steadily broadening its scope. The Company’s subsidiaries include Shingakai Co., Ltd., which provides entrance exam preparation for kindergartens and elementary schools; Meimonkai Co., Ltd., which dispatches professional home tutors; School TOMAS Co., Ltd., which provides in-school one-on-one instruction; and Plus One Kyoiku Co., Ltd., which plans tour-style experiences and runs gymnastics classes.

1. Overview of FY2/22 results

In the FY2/22 consolidated results, net sales increased 19.1% year on year (YoY) to ¥30,008mn and operating profit rose 199.8% to ¥3,030mn, and sales and profits both increased for the first time in two fiscal periods and moreover set new record highs. This was mainly because, amid the ongoing COVID-19 pandemic, the Company has been highly evaluated for conducting thorough infection-prevention measures to establish safe learning environments, as well as for providing high quality “authentic” educational services, so student numbers in each of the Group’s businesses grew. Also, TOMAS and Shingakai contributed to the higher earnings through the fee revisions implemented in April 2021. At the end of February 2022, the Group’s student numbers had risen 4.1% on the end of the previous period to 27,327 students, a new record high.

2. FY2/23 forecasts

For the FY2/23 consolidated results, the Company is forecasting that the higher sales and profits will continue, with net sales to increase 10.0% YoY to ¥33,000mn and operating profit to rise 19.1% to ¥3,610mn. This is because although the effects of the fee revisions will end, sales and profits will rise due to the increase in student numbers. In the young child education business, through the collaboration with Konami Sports Co., Ltd., Konami Sports Shinga’s Academy (Shinagawa school) was opened in April 2022 and appears to have made an excellent start, including already reaching full student capacity. Also, for the educational building Kodomo Department Store, which is a joint project with Konami Sports and Hulic <3003>, the plan is to start phase one during 2022. For School TOMAS, which are in-school one-on-one instruction schools, at the end of February 2022, the number of contracting schools had increased significantly on the end of the previous period by 37 schools to 107 schools, and moreover at the already contracted schools, the academic years introducing the service are expanding, so high growth is expected.

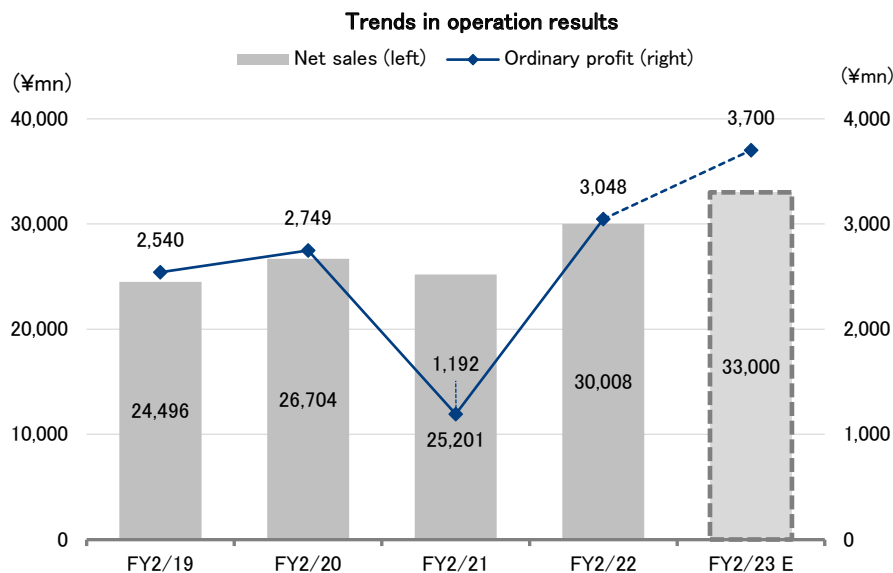
Summary

3. Medium-term management plan

In January 2022, the Company announced its three-year medium-term management plan. The plan's numerical results targets for FY2/25 are net sales of ¥40,000mn and operating profit of ¥4,510mn, and the three-year compound annual growth rates (CAGR) are 10.1% for net sales and 14.2% for operating profit. For the TOMAS main business, it plans to increase schools at a pace of 5 to 10 school openings a year and thereby capture needs for individualized instruction for academic advancement. For Meimonkai and TOMEIKAI as well, its policy is to increase the number of schools while playing close attention to demand. It has also set out the Kodomo Department Store concept, in which it plans to increase the number of such schools to 20 schools by 2029, and it is progressing a customer "retention strategy" by providing its main services within this building, including TOMAS, Shingakai, and Shinga's Club. In March 2022, the Company announced a business collaboration with Kids Smile Holdings <7084> for the management of kindergartens and other schools. This collaboration aims to secure excellent personnel through establishing a system to recruit and train childcare workers, and thereby strengthen content and brand power, and customer-attraction capabilities. In addition, by introducing Shingakai, TOMAS, and Meimonkai services to the approximately 4,000 members of the Kids Smile Project, the Company aims to progress its "retention strategy" on a nationwide scale. The effects of this business collaboration have not been incorporated into the medium-term results targets, so they may be a factor behind results exceeding the targets.

Key Points

- Due to the effects of the increase in student numbers and price revisions, the FY2/22 results set new record highs for the first time in two fiscal periods
- The FY2/23 outlook is for student numbers to grow in every business and for sales and profits to increase by double digits
- The high growth is continuing in the young child education business and the in-school one-on-one instruction school business, and the targets are net sales of ¥40bn and operating profit of ¥4.5bn in FY2/25



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

■ Company profile

Established in 1985 for the purpose of delivering high-quality educational services

1. Company history

Mitsugu Iwasa, currently a director and chairman, took over 14 classrooms from Kodomo Pia, a business in which he was part of the management team. When this business switched to an emphasis on selling educational equipment, he used the opportunity to establish Nihon Kyoiku Kosha K.K. in July 1985 for the purpose of delivering high-quality one-on-one educational services.

The Company initially started with a group learning format of classrooms under the name of Riso Kyoiku Kenkyusho (Risoken) that consisted of six students per class, with classes organized by academic capabilities and 100% fulltime teachers. In March 1990, the Company developed and began providing a unique “entirely one-on-one individual instruction system” and changed the service name to Tokyo Man-to-man School. The Company subsequently changed the service name to TOMAS (initially adopted as a nickname in 1997 and then as the official name in 2000), which has continued since then.

The Company has actively diversified educational services as well. It opened the Meimonkai home tutor center and entered the home tutoring market in 1989 (in 2003, it spun off the business, operating it as Meimonkai). In 2000, it established Nihon Edunet Co., Ltd. (now, School TOMAS Co., Ltd.) which offers entirely one-on-one instruction in a real-time, interactive format utilizing internet teleconferencing, and School Tour Ship Co., Ltd. (now, Plus One Kyoiku Co., Ltd.), which provides character-building training camp education, in 2002. It also acquired shares of Shingakai, which offers entrance exam preparation for well-known kindergartens and elementary schools, making it into a subsidiary in 2003. In addition, the Company concluded a capital and business alliance with Surugadai Gakuen Educational Institute in 2019 and established Sundai TOMAS, a joint venture (with the Company owning a 51% stake), in an aim to further develop Spec. TOMAS, an individualized instruction school with focus on entrance exams for the most difficult schools.

Recently, the Company has also been actively progressing an alliance strategy. In September 2020, it announced a business collaboration with Hulic and Konami Sports for the joint development of the Kodomo Department Store, an educational building for children. Also, in June 2021, it announced a business collaboration with KDDI Matomete Office Co., Ltd., in which they will jointly establish ICT environments for schools and introduce learning-support systems in schools. In addition, in March 2022, toward the further growth of the young child education business and other businesses, the Company announced a four-company business collaboration with Shingakai, Kids Smile Holdings and Kids Smile Project. Subsequently, Hulic has been incrementally acquiring the Company's shares, and at the end of February 2022, its share-holding ratio was 20.66%, making it the Company's largest shareholder.

In the stock market, the Company registered its stock as an over-the-counter security with the Japan Securities Dealers Association in 1998, moved to the Second Section of the Tokyo Stock Exchange (TSE) in 2001, and then switched to TSE's First Section in June 2002. It moved to the Prime Market as a result of the market reclassification in April 2022.

Company profile

Company history

Date	History
July 1985	Established Nihon Kyoiku Kosha K.K. to accommodate the acquisition of 14 classrooms from Kodomo Pia with the purpose of providing high-quality one-on-one educational instruction services and started opening classrooms under the Riso Kyoiku Kenkyusho name
May 1989	Established the Meimonkai home tutor center and entered the home tutor market, began individual instruction with a professional tutor group that differs from student tutors
March 1990	Developed the unique "one-on-one individual instruction system (each equipped with a whiteboard)" and changed the service name to "Tokyo Man-to-man School."
October 1998	Renamed from Nihon Kyoiku Kosha K.K. to Riso Kyoiku Co., Ltd.
December 1998	Conducted OTC registration of shares with the Japanese Securities Dealers Association
July 2000	Established Nihon Edunet Co., Ltd. with the aim of conducting genuine one-on-one instruction in an interactive environment utilizing Internet video conferencing
March 2001	Listed shares on the Tokyo Stock Exchange Second Section (TSE-2)
June 2002	Reassigned to the Tokyo Stock Exchange First Section (TSE-1)
December 2002	Established School Tour Ship Co., Ltd. with the aim of conducting character-building training camp education
January 2003	Established Meimonkai Co., Ltd. as a spin-off of the home tutor dispatching business, acquired Shingakai Co., Ltd., which provides kindergarten and elementary school entrance exam preparation, as a wholly owned subsidiary
July 2005	Transferred the student recruitment business division to School Tour Ship Co., Ltd. and renamed it as Riso Kyoiku Kikaku Co., Ltd.
October 2013	Established Inter TOMAS Co., Ltd. as a spin-off of the English school division, established Plus One Kyoiku Co., Ltd. as a spin-off of the character-building training camp education business, renamed Nihon Edunet Co., Ltd. as School TOMAS Co., Ltd., renamed Riso Kyoiku Kikaku Co., Ltd. as TOMAS Kikaku Co., Ltd.
November 2016	Established TOMAS ENGLISH TRAINING CENTER, INC. (99.9% owned by School TOMAS), an online English conversation business for school operators, in Cebu IT Park
September 2019	Established joint-venture company Sundai TOMAS (owns a 51% stake) based on a capital and business alliance with Surugadai Gakuen Educational Institute
February 2020	Opened the first school for Spec. TOMAS, a new brand, in Jiyugaoka under Sundai TOMAS. Absorbed Inter TOMAS Co., Ltd. and TOMAS Kikaku Co., Ltd.
August 2020	Established Cocokara Teachers Co., Ltd. as a firm specializing in hiring, training and placing teachers to Group companies
September 2020	Formed a capital and business alliance with Hulic Co., Ltd. and is involved in a business alliance with Hulic and Konami Sports.
April 2021	Shingakai Co., Ltd., and Konami Sports Co., Ltd., announced a business collaboration aiming for the joint development of Konami Sports Shinga's Academies
June 2021	School TOMAS Co., Ltd., and KDDI Matomete Office Co., Ltd., announced a business collaboration to jointly advance the establishment of ICT environments for schools and introductions of an in-school learning-support system
March 2022	Announced a business collaboration with Kids Smile Holdings <7084> and Kids Smile Project Inc., including in order to strengthen the mutual provision of each other's services
April 2022	Changed its listing to the TSE Prime Market

Source: Prepared by FISCO from the Company's securities report and press releases

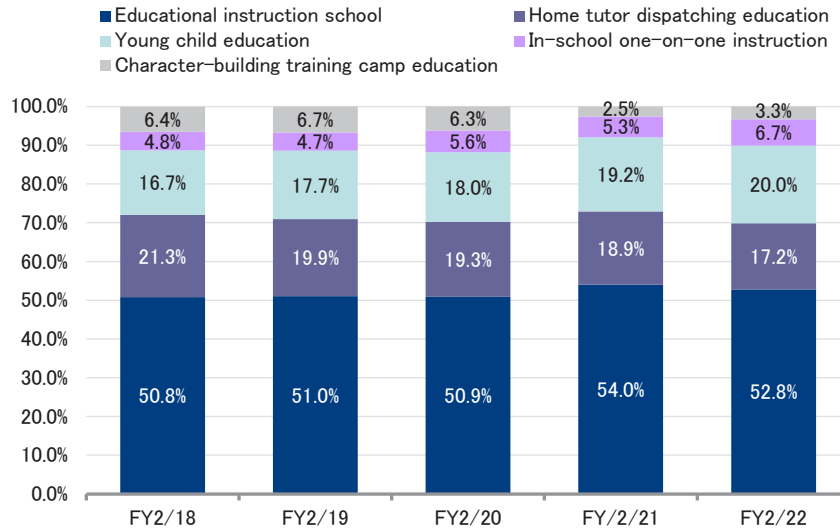
Building educational service businesses mainly through TOMAS, Meimonkai, and Shingakai

2. Business overview

The Company and its five major subsidiaries are developing educational services mainly focused on educational instruction schools. In terms of business segments, it discloses information on the educational instruction school business, home tutor dispatching education business, young child education business, in-school one-on-one instruction school business, and character-building training camp education business. For the percentages of total net sales by business segments in the most recent five years, the educational instruction school business provided more than 50% of net sales, while the three main businesses of the educational instruction school business, home tutor dispatching educational business and young child education business provided roughly 90% of total net sales. Also, looking at how the percentages changed from FY2/18 to FY2/22, the percentage of the home tutor dispatching education business declined, but the percentages of the young child education business, the educational instruction school business, and the in-school one-on-one instruction business all increased.

Company profile

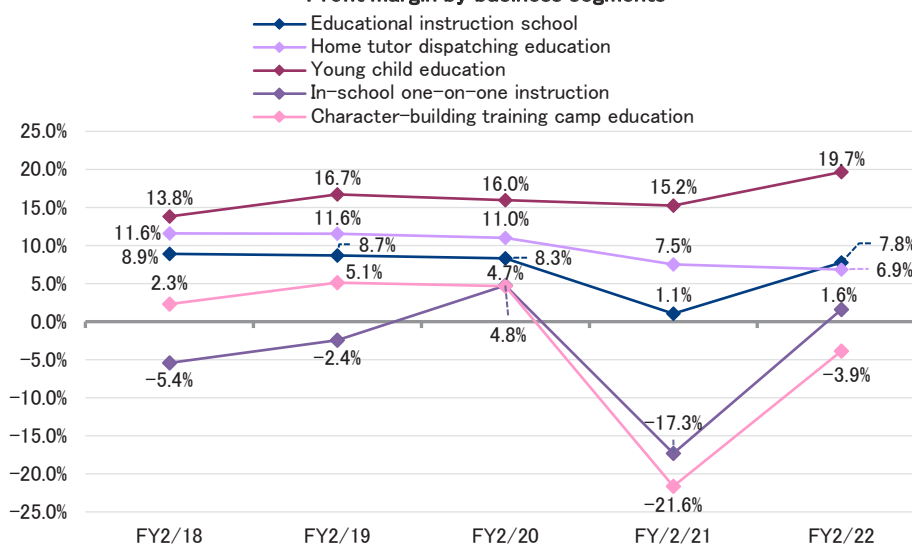
Breakdown by business segments



Note: Ratios are calculated excluding "other"
 Source: Prepared by FISCO from the Company's financial results

Also, looking at the profit margin by business segments, the highest is the young child education business at 15% to 20%. It is considered that the background to this is the fact that Shingakai, which has a track record established over 66 years as a pioneer for entrance exams for well-known kindergartens and elementary schools, has established overwhelming strong brand power. The profit margins of the educational instruction school business and the home tutor dispatching education business trend at around the 10% level. Sales in the in-school one-on-one instruction school business are still small scale and it is still at the upfront investment stage, so its profitability is comparatively low and profit fluctuations are large. But at FISCO, we think that if its sales scale grows, it can maintain a profit margin of at least 10%.

Profit margin by business segments



Note: Calculations include internal sales
 Source: Prepared by FISCO from the Company's financial results

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

Company profile

(1) Educational instruction school business

The educational instruction school business consists of 88 entirely one-on-one instruction TOMAS schools, which is its mainstay business, in the Tokyo metropolitan area (as of the end of February 2022, same below), 10 English conversation Inter TOMAS schools, and 4 one-on-one instruction MEDIC TOMAS schools for medical school exam preparation. Additionally, it opened Spec. TOMAS (a school located in Jiyugaoka), a provider of one-on-one instruction that specializes in entrance exams for the most difficult schools, in February 2020 under subsidiary Sundai TOMAS.

TOMAS, an entirely one-on-one instruction school for elementary students to high school students, has been the most successful at getting students accepted to the most difficult schools as an individual instruction school thanks to preparation and provision of a curriculum that works out a path to passing exams for individuals tailored to the skills of each student, according to the Company. With university student and adult part-time instructors as the majority of teaching staff, and full-time employees in charge of academic consultation and support, the Company is capable of delivering trusted, reliable service with a high level of customer satisfaction. The student numbers consist of 45% elementary students, 25% junior high students, and 30% high school students. Additionally, Spec. TOMAS schools implement an entrance exam and refer students who fail the exam to nearby TOMAS schools. The Jiyugaoka school focuses on 1st–6th grade elementary students with the aim of preparing them to pass exams for the toughest middle schools and hires teachers as full-time employees to support them.

(2) Home tutor dispatching education business

In the home tutor dispatching education business, Meimonkai operates 35 schools in major cities nationwide. Professional adult teachers provide service as home tutors, and the Company asserts that it is the only home tutor center capable of disclosing advancement results. It has many accepted candidates each year, including particularly high acceptance results to medical schools. It also operates 11 TOMEIKAI schools as individualized instruction schools with service areas outside of the Tokyo metropolitan area (5 schools in the Kyushu area, 3 schools in the Tokai area, 2 schools in the Koshinetsu area and 1 school in the Kinki area). TOMEIKAI schools hire university student teachers and thus seek locations near medical universities or other universities that have many talented students nearby.

(3) Young child education business

In young child education business, Shingakai (which is now in its 66th year since being established), which possesses top-class acceptance results as a pioneer in well-known kindergarten and elementary school entrance tests, operates 24 schools mainly in the Tokyo metropolitan area (Tokyo metropolitan 21 schools, Keihanshin 3 schools). Furthermore, as after-school care and childcare services with robust demand, this business has 24 locations under the Shinga's Club brand (17 after-school care sites, 7 childcare sites) in the Tokyo metropolitan area. Childcare sites feature the operation of extended-length childcare with activities related to entrance exam that utilize the Shingakai educational method, while after-school childcare sites are characterized by extended-length operation that includes learning instruction for school advancement. These sites receive strong support from working mothers who want to successfully manage work and child-rearing duties and remain highly popular with all available spots filling up once schools open.

Company profile

(4) In-school one-on-one instruction school business

In the in-school one-on-one instruction school business, School TOMAS provides individual instruction service at contracted schools after normal class hours with teachers that it dispatches to the schools. Also, since 2020, it has been offering one-on-one instruction services in combination with the atama+ AI learning assistance system and “Sundai Satellite Network 21” video teaching material system. It has been steadily increasing the number of contracted schools, particularly at private schools that cover middle and high school years faced with the management challenges of recruiting sufficient student numbers and long working hours for instructors. The Company was agreement 107 schools at the end of February 2022.

(5) Character-building training camp education business

The character-building training camp education business consists of eight schools each for soccer and gymnastics run by Plus One Kyoiku and planning and provision of School Tour Ship, an experience-type educational program using weekend days, summer vacation and other extended holidays. This program aims to cultivate action-taking and decision-making capabilities and develop intellectual curiosity through participation in various experiences provided by School Tour Ship. The Company does not emphasize profits in this business because of its positioning as an added-value service for students at TOMAS and other main businesses.

Overview of business segments and main companies

Business segments	Company name	Business description	Service regions
Educational instruction school business	Riso Kyoiku	Educational instruction school business. Mainly operates TOMAS entirely one-on-one instruction schools as well as MEDIC TOMAS medical department entrance exam individualized instruction schools and Inter TOMAS English conversation schools	Tokyo metropolitan area
	Sundai TOMAS	Operates Spec. TOMAS one-on-one instruction schools that specialize in entrance exams for the most difficult schools	Tokyo metropolitan area (likely to expand in the future)
Home tutor dispatching education business	Meimonkai	Operates Meimonkai that dispatches home tutors and TOMEIKAI one-on-one instruction schools in regional areas (outside of Tokyo and the three surrounding prefectures)	Dispatches home tutors nationwide TOMEIKAI offers services outside of the Tokyo metropolitan area
Young child education business	Shingakai	Operates Shingakai, a school that handles entrance exam instruction for top kindergartens and elementary schools, and Shinga's Club, a childcare and after-school care business	Shingakai has schools in the Tokyo metropolitan area and Keihanshin Shinga's Club has locations in the Tokyo metropolitan area
In-school one-on-one instruction business	School TOMAS	Offers in-school one-on-one instruction	Nationwide
Character-building training camp education business	Plus One Kyoiku	Operates a school business with a soccer school and gymnastics school and a tour business that cultivates action-taking and decision-making capabilities through various experiences	-

Source: Prepared by FISCO from the Company's securities report and results briefing materials and others

Company profile

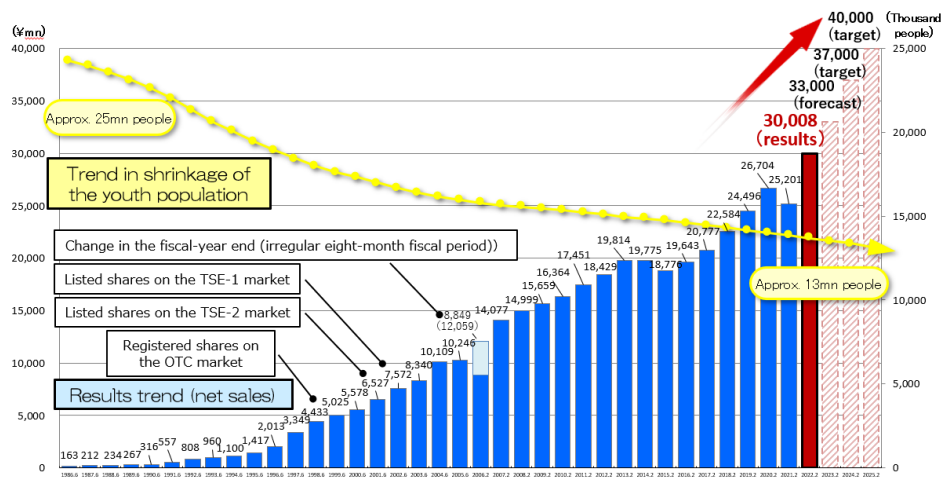
Continuing to develop high-quality education service that utilizes an approach of entirely individual instruction as a differentiation strategy

3. Characteristics and strengths

While the Company has a variety of characteristics and strengths, at FISCO, we think the following two are particularly important: 1) consistently increasing income over the long term and 2) realizing high profitability. We think the advantageous business model built by the Company is the source of these two characteristics, and comprehending them is likely to improve understanding and certainty of the medium- to long-term growth scenario.

The Company recorded ¥163mn in net sales in FY6/86, its founding year, and sustained steady sales growth through FY2/13 (although sales dropped in FY2/06 with its abnormal 8-month period due to the fiscal year change, they were higher on an actual basis that converts sales to a 12-month format). Since then, the Company has sustained a growth trend over the long term, excluding temporary sluggishness when it revamped internal management operations on discovery of improper accounting issues and sales decline in FY2/21 due to the impact of the COVID-19 pandemic.

Trends in net sales since the Company's foundation

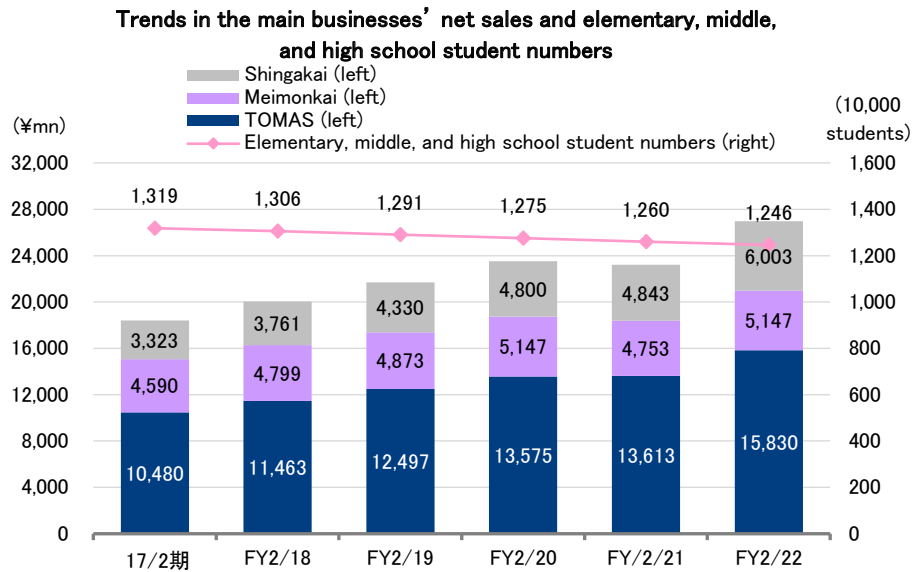


Source: From the Company's results briefing materials

What is important here is that even in a situation in which competition to acquire students is intensifying due to the shrinkage of Japan's youth population and the increase in companies entering the market, student numbers have still been increasing in all of the main businesses of TOMAS, Meimonkai, and Shingakai, and they have continued to grow. The number of elementary, middle, and high school students, who are the Company's main targets, trended downward by 1.1% per year from 13.32mn students in FY2015 to 12.46mn students* in FY2021. But in contrast, during the same period, net sales of the three main businesses grew by 8.0% per year. It is considered that the main factors behind this are the increase in spending on education per child in a situation in which the future is uncertain, and also that the Company is skillfully meeting needs for exam preparation, such as for students taking exams for private elementary and middle schools.

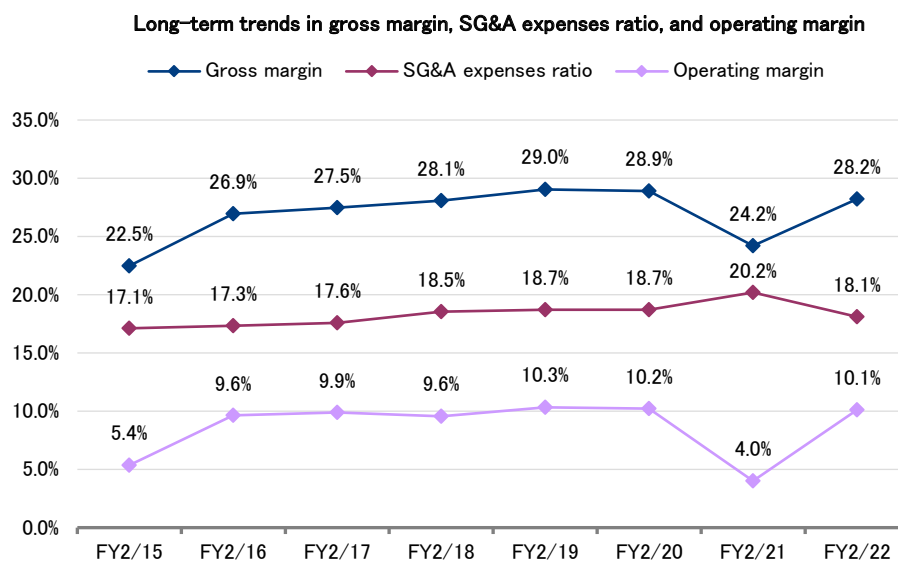
* The total value of the number of students attending elementary, middle and high schools in the School Basic Survey by the Ministry of Education, Culture, Sports, Science and Technology (FY2015, FY2021).

Company profile



Source: Prepared by FISCO from the Company's securities reports and the Ministry of Education, Culture, Sports, Science and Technology's Statistical Abstract 2021 (Education, culture, sports, science and technology)

In operating margin, despite temporary decline in the most recent period of FY2/21 because of COVID-19 impact, the level has been stable at about 10% since FY2/16. The 10% margin level is higher than the industry average for educational advancement and preparatory schools. While multiple listed peers realize higher operating margins than the Company, these firms either use group instruction as the core business model or acquire royalty income through franchise businesses. Very few peers that mainly conduct one-on-one instruction in directly run schools, such as the Company, or utilize a mix of group and individualized instruction have double-digit operating margins.



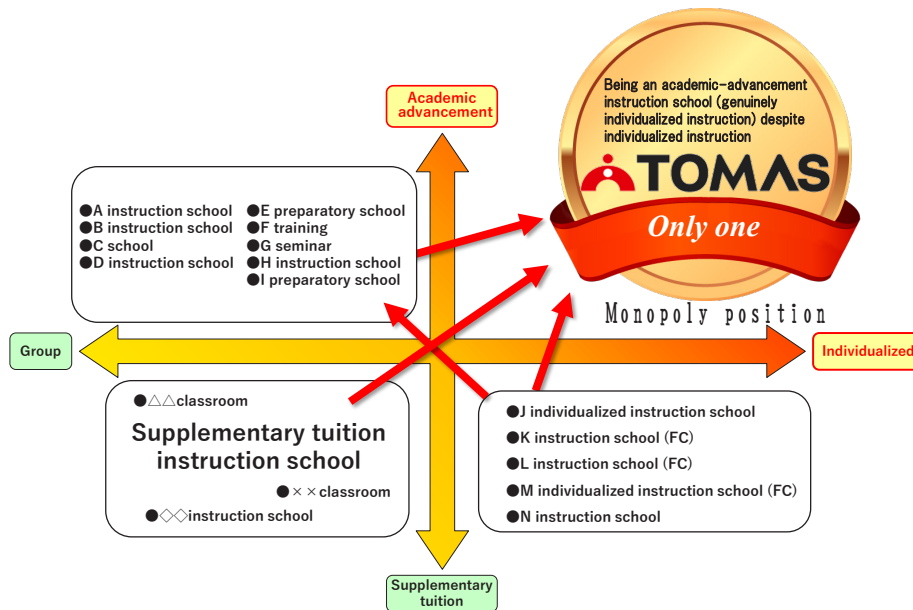
Source: Prepared by FISCO from the Company's financial results

Company profile

Our understanding is that the same source drives the Company's strengths of stable sales growth and high profitability. When founding the Company, current director and chairman Iwasa perceived two major implications from China's one-child policy, which include the prospect of a shrinking youth population and increased spending per child on education costs as a result. Constructing a business model by anticipating the shrinkage of the youth population from the beginning based on this implication has led to its growth up to this point. By forecasting increases in the amount spent per child on education costs as well, the Company has no doubt succeeded in transforming the headwind of a shrinking segment into a tailwind.

Key points in harnessing shrinkage of the youth population as a tailwind are provision of high-quality educational services with genuine individualized instruction using a one-on-one format and focus on advancement instruction as the goal. These two are common aspects of the Company's TOMAS service and other business formats. The Company is currently the only firm actively promoting individual instruction that combines both aspects. The typical model in the individual instruction market at this point is a quasi-approach with a ratio of one teacher to a few students (two to three) for the purpose of supplementing school coursework. We think the major reason why other companies do not adopt this model is clear, which is, to put it simply, high business risk. Since service fees must be higher in order to achieve profitability through entirely one-on-one instruction, supplementing coursework is not enough to justify these fees. The tough reality is that only academic advancement results are capable of justifying high course fees. Almost no newcomers are entering the market with the same business model as the Company for this reason, and this has solidified the Company's strong brand strength and position as a one-on-one educational advancement and preparatory school.

The Company's position in the market



Source: From the Company's results briefing materials

Company profile

While the Company's founding purpose was high-quality individualized instruction, it initially started with a group learning format that consisted of six students per class with classes organized by academic capabilities. It was not until 1990, five years after its founding, that the Company began providing the entirely one-on-one individualized teaching system envisioned by Mr. Iwasa. While it is thought that opinions and policy aims clashed internally during this period, adoption and thorough application of a mentality that the "educational instruction school industry is a service business" ultimately led to realization of genuine individual instruction. Based on this mentality, the Company focused on delivering high customer satisfaction. High customer satisfaction in the educational instruction and preparatory school industry means getting into the desired school. Since its founding and to this day, the Company has always retained the awareness of being a service business and sees pursuit of academic advancement results as its management goal as a service company. It is considered that the business model of "pursuing academic advancement results" is a factor in the Company's strength and supports the two characteristics of stable sales growth and high profitability mentioned above.

An example of the Company's management approach with high awareness as a service company is its style of having full-time employees focus on management. As explained above, the TOMAS business utilizes part-time university students and adults as instructors and has full-time employees assigned to each classroom site serve as coordinators between instructors and children and students and their guardians. Specifically, they engage in the following tasks: 1) identify true aims and goals of students and guardians, 2) develop curriculum with the instructor based on this information, and 3) explain progress updates, subsequent instruction policy, and other details to guardians after lessons begin. Repetition of this cycle maintains a high level of customer satisfaction and contributes to the biggest customer satisfaction of getting into the desired school.

Whether the Company is capable of sustaining stable growth and high profitability in the future depends on the time horizon and scale of investments, but at FISCO, we have high expectations for it to maintain them within a timeframe of 5 to 10 years. Firstly, consistent existence of a certain amount of demand for the Company's business model (high-priced, high-quality service) has been shown even amid steady shrinkage of the youth population. Next is the issue of entry by other companies into this market. As mentioned earlier, risk of excess competition is low. This is because of the significant business risk involved in copying or recreating the business model that the Company has built over many years since its founding. The high barrier to entry for the Company's business model that focuses on advancement results is the third main characteristic and a strength.

Results trends

Due to the effects of the increase in student numbers and the price revisions, the FY2/22 results set new record highs for the first time in two fiscal periods

1. Overview of FY2/22 results

In the FY2/22 consolidated results, net sales increased 19.1% YoY to ¥30,008mn, operating profit increased 199.8% to ¥3,030mn, ordinary profit increased 155.7% to ¥3,048mn, and profit attributable to owners of parent increased 337.9% to ¥2,431mn. Therefore, sales and profits increased for the first time in two fiscal periods and the results were new records highs.

Riso Kyoiku Co., Ltd. | 5-Jul.-2022
 4714 Tokyo Stock Exchange Prime Market | <https://www.riso-kyoikugroup.com/en/ir/>

Results trends

FY2/22 results

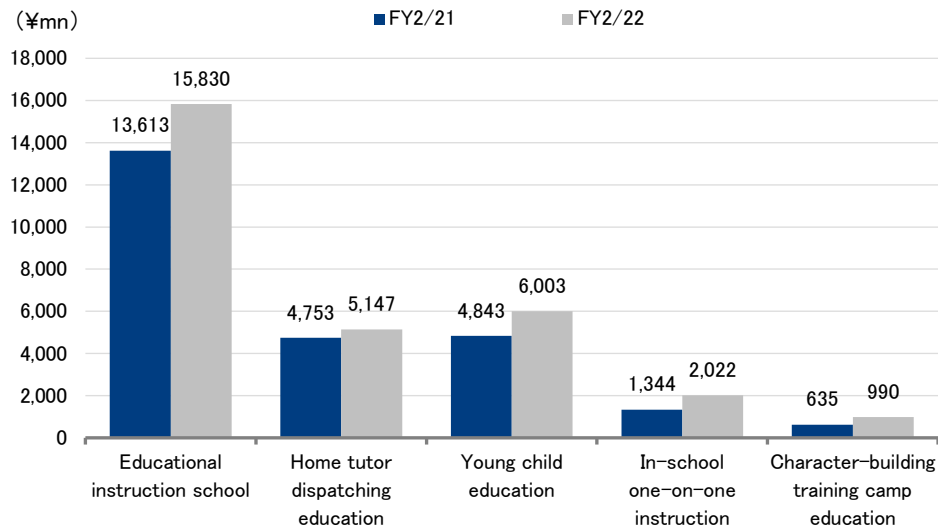
	FY2/21		Company's target*	FY2/22			
	Results	Ratio to sales		Results	Ratio to sales	YoY	Ratio to target
Net sales	25,201	-	30,000	30,008	-	19.1%	0.0%
Cost of sales	19,096	75.8%	-	21,549	71.8%	12.8%	-
SG&A expenses	5,094	20.2%	-	5,428	18.1%	6.6%	-
Operating profit	1,010	4.0%	3,010	3,030	10.1%	199.8%	0.7%
Ordinary profit	1,192	4.7%	3,000	3,048	10.2%	155.7%	1.6%
Extraordinary income and loss	-35	-	-	59	-	-	-
Profit attributable to owners of parent	555	2.2%	2,100	2,431	8.1%	337.9%	15.8%

* The Company's targets are the values announced in October 2021
 Source: Prepared by FISCO from the Company's financial results

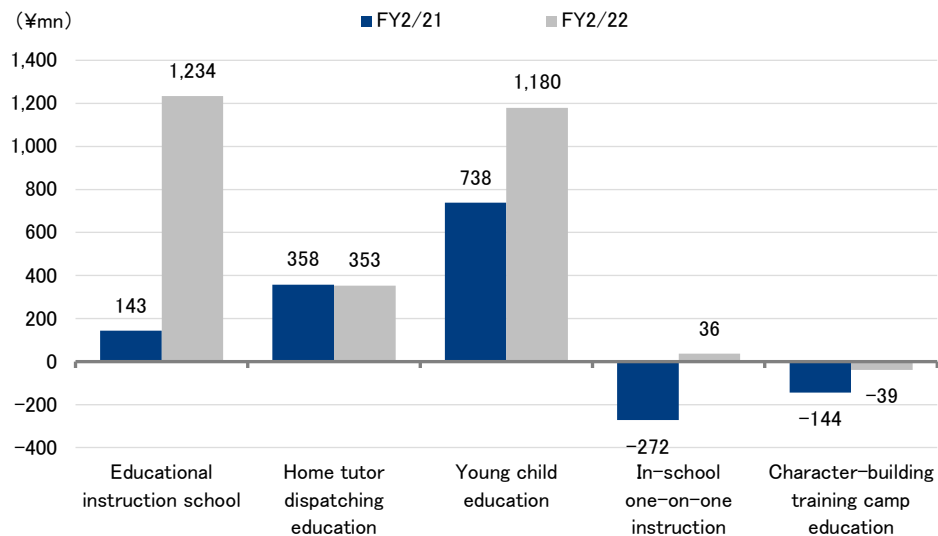
The COVID-19 pandemic is continuing, and in this situation, the Company has been highly evaluated for its efforts to prepare environments that enable safe one-on-one lessons, such as by implementing thorough infection prevention measures of a kind not implemented by other companies, working on a COVID-19 vaccination program, and continuing to provide high-quality education services for students aiming to pass the entrance exams for their school of choice. Therefore, student numbers in every Group company steadily increased, which was the main reason for the higher sales. Sales also increased because from April 2021, TOMAS and Shingakai raised their fees by approximately 5%. This was to reflect in fees the increases in costs due to the infection-prevention measures (including the teachers' special allowance), but these higher fees seem to have had no effect on student numbers. The main reason why the increase rate of profit attributable to owners of parent was significantly higher than both the previous fiscal year and the Company's target was the decline of the effective tax rate following an increase in deferred tax assets due to the results recovery.

Looking by business segment, sales increased in every business segment and operating profit increased significantly in the educational instruction school business and the young child education business, while the in-school one-on-one instruction school returned to profitability. At the end of February 2022, student numbers had increased by 4.0% on the end of the previous period in TOMAS, by 4.2% in Meimonkai, by 0.7% in Shingakai, and by 4.1% in the Group as a whole.

Results trends

Net sales by business segment


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

Operating profit (loss) by business segment


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

Student numbers by business

	End of February 2022	Compared to the end of February 2021	Compared to the end of February 2020
TOMAS	15,263	4.0%	6.1%
Meimonkai (including TOMEIKAI)	3,951	4.2%	4.0%
Shingakai (including Shinga's Club)	4,022	0.7%	13.1%
Group total	27,327	4.1%	6.5%

(students)

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

Profits increased significantly in TOMAS and Shingakai, while School TOMAS also returned to profitability

2. Trends by business segment

(1) Educational instruction school business

In the educational instruction school business, net sales increased 16.3% YoY to ¥15,830mn for the seventh consecutive period of higher sales, while operating profit rose 759.1% to ¥1,234mn, its first increase in two fiscal periods, and the results set new record highs. The factors behind the higher sales were the increases in student numbers in the newly opened schools and existing schools, and also the increase in the sales unit price per student, mainly because fees were raised by around 5% in April 2021. Profits increased significantly, with the effects of the higher sales absorbing the increase in costs for the newly opened schools and to expand capacity.

The number of newly opened schools in FY2/22 was 7 in total, consisting of 4 TOMAS schools (1 school in March and May, respectively, and 2 schools in July), 2 MEDIC TOMAS schools (in April), and 1 Inter TOMAS school (in March). In addition, capacity was expanded at 4 existing TOMAS schools (implemented at 1 school per month in March, April, June, and July). At the end of February 2022, there were 103 schools in total (93 educational instruction schools and 10 English conversation schools), while the student numbers in the schools had increased 4.0% from the end of the previous period to 15,263 students. Student-acquisition conditions at the newly opened schools appear to be trending favorably, and it is considered that the Company's approach of preparing safe and securing learning environments by thoroughly implementing infection-prevention measures and providing high quality educational services through one-on-one tuition is supported by many students as well as their parents and guardians.

(2) Home tutor dispatching education business

In the home tutor dispatching education business, net sales increased 8.3% YoY to ¥5,147mn, rising for the first time in two fiscal periods, but operating profit declined 1.4% to ¥353mn, falling for the second consecutive period. Sales rose mainly because of the increase in student numbers, primarily due to the newly opened schools. Conversely, although profits increased in 1H, in 2H they declined slightly as they were affected by the slowdown in the growth of student numbers. The main reasons for this decline in profits were that in the 4Q, regional cities were affected by COVID-19 and also that school opening preparation costs were recorded for MEDIC Meimonkai, which was newly opened in March 2022.

MEDIC Meimonkai is an entirely one-on-one instruction school for high school graduates to prepare them to take medical school entrance exams. Its features are that it provides support for study as a whole through curriculum supporters and support for practice exams conducted by teaching assistants and current medical students, and also that it provides services that are thoroughly backed up by a full-support system for students to pass the entrance exams of their school of choice, including lifestyle management and mental health support through a concierge in a fully equipped student dormitory, and a motivation follow-up service. Previously, high school graduates attended Meimonkai, but the Company is aiming to increase student numbers by clearly appealing to the benefits of its concierge service and other services.

Results trends

The newly opened schools in FY2/22 were 2 Meimonkai schools (in July) and 2 TOMEIKAI schools (1 school in April and June, respectively), while capacity was expanded at 1 Meimonkai school (in May) and 1 TOMEIKAI school (in March). In terms of the numbers of schools at end of February 2022, there were 35 Meimonkai schools and 12 TOMEIKAI schools, while the total number of students had increased by 4.2% on the end of the previous period to 3,951 students. Also, to respond to the learning needs of students who are anxious about going outside so cannot attend schools and of students living in regional areas or overseas, in February 2021, the Company launched online, individualized instruction services (student numbers are more than 100 students) and newly established the Shimokitazawa Online Center (Tokyo) as a base for teacher activities.

(3) Young child education business

In the young child education business, net sales increased 24.0% YoY to ¥6,003mn and operating profit rose 59.9% to ¥1,180mn, its first increase in two fiscal periods, and the results set new record highs. Net sales rose in conjunction with an increase in student numbers following the new school openings, and a rebound increase from the closure of all schools for a period of around one month from April to May 2020, and an increase in fees by approximately 5% from April 2021. Profits increased due to the effects of the higher sales that absorbed the increase in costs, including for new school openings. For Shingakai, kindergarten entrance exams are held in October and November, so students change from December onwards. However, in FY2/22, this period overlapped with a resurgence of COVID-19 infections, so the number of enrolling students in 4Q (December 2021 to February 2022) was sluggish. In addition, preparation costs for the school opening of the Konami Sports Shinga's Academy, which was opened in April 2022, were recorded in 4Q, so if looking only at 2H, sales increased but profits decreased. However, the slowdown in the growth of student numbers is only temporary and the Company expects student numbers to increase from April onwards.

The numbers of newly opened schools in FY2/22 were 1 Shingakai school (in May), 2 Shinga's Club after-school care schools (in April and September) and 1 Shinga's Club childcare school (in April). Also, for Shingakai, capacity was expanded at 1 school (in March). For the numbers of schools at the end of February 2022, there were 24 Shingakai schools, 17 Shinga's Club after-school care schools, and 7 Shinga's Club childcare schools. Also, the total number of students had increased by 0.7% on the end of the previous period to 4,022 students.

(4) In-school one-on-one instruction business

In the in-school one-on-one instruction school business, net sales increased 50.4% YoY to ¥2,022mn, increasing for the first time in two fiscal periods, while operating profit was ¥36mn, returning to profitability (a loss of ¥272mn in the previous period). Earnings deteriorated in the previous period mainly because School TOMAS schools were closed during the period of school closures from March to May 2020. However, sales were higher in FY2/22 mainly because schools returned to their normal operations, the number of contracting schools increased, and the number of grades using services also increased in schools that were already contracted. In the first contracting year, services typically start for the first academic year and then expand to other grades based on observation of conditions. Profits increased due to the effects of the higher sales and also from the effects of the reduction in fixed costs (around ¥100mn a year) following the online English conservation business being entirely outsourced.

Results trends

The number of contracting schools steadily increased, rising from 70 schools at the end of the previous period to 107 schools at the end of February 2022. In June 2021, the Company began a business collaboration with KDDI Matomete Office for mutual introductions of customers and has started initiatives to increase the number of contracting schools. It seems that the effects of this collaboration were linked to the number of contracting schools in 2H. KDDI Matomete Office has introduced ICT education solutions that combine ICT devices, such as tablets and communication network devices, with intangible services such as online educational services, into approximately 250 schools nationwide, and is moving forward with proposals to introduce School TOMAS as one such educational service. In the case of School TOMAS, its ability to provide AI-based teaching materials such as “atama+” in combination with internet-based teaching materials serves as a strength for completely one-on-one individualized instruction services within schools, and inquiries from private schools are increasing.

(5) Character-building training camp education business

In the character-building training camp education business, net sales increased 55.9% YoY to ¥990mn and operating loss was ¥39mn (a loss of ¥144mn in the previous period). In the previous period, due to COVID-19 this business voluntarily refrained from providing experiential tours for character building for a certain period of time. Additionally, the TOMAS Gymnastics Schools and TOMAS Soccer Schools were all closed from April to May 2020, which significantly decreased earnings. But in FY2/22, sales increased as the number of experience tours held recovered. However, when considering that in FY2/20 before COVID-19, net sales were ¥1,669mn and operating profit was ¥79mn, this recovery can be said to be only limited.

There was one new school opening in FY2/22, a TOMAS Gymnastics School (in September), and at the end of February 2022, the total number of schools for both TOMAS Gymnastics Schools and TOMAS Soccer Schools was eight schools.

Implemented a disposal of treasury shares through a third-party allocation in November 2021 and strengthened its financial foundation

3. Financial condition

Looking at the Company's financial condition at the end of FY2/22, total assets had increased ¥5,105mn on the end of the previous fiscal period to ¥19,045mn. The main change factors were that in current assets, cash and deposits increased ¥4,047mn, but trade accounts receivable decreased ¥125mn. In non-current assets, there were increases of ¥553mn in property, plant and equipment due to new school openings and other factors and ¥395mn in deferred tax assets.

Total liabilities were up ¥1,166mn on the end of the previous period to ¥8,531mn. In current liabilities, income taxes payable increased ¥314mn, and advances received, which lead to sales in the future, rose ¥260mn. In non-current liabilities, retirement benefit liabilities increased ¥231mn. Net assets increased ¥3,938mn on the end of the previous period to ¥10,513mn. Retained earnings increased ¥1,056mn due to the recording of profit attributable to owners of parent and dividend payments. Also, due to a disposal of treasury shares through a third-party allocation (6.5mn shares, ¥2,879mn) in November 2021, the capital surplus increased ¥1,511mn and treasury shares decreased ¥1,338mn (an increase factor). The shares were allocated to Hulic as the third party.

Results trends

Looking at cash flow conditions, net cash provided by operating activities was ¥3,607mn due to an increase in earnings, and net cash used in investing activities was ¥1,011mn, mainly due to the openings of new schools. Net cash provided by financing activities was ¥1,450mn due to dividend paid of ¥1,399mn, which was partly offset by proceeds from disposal of treasury shares of ¥2,836mn. As a result, cash and cash equivalents at the end of the period increased ¥4,047mn on the end of the previous period to ¥8,011mn.

Looking at the management indicators, due to the increase in net assets, the equity ratio rose significantly from 46.7% at the end of the previous period to 54.8%, exceeding the 50% level for the first time in four periods. The indicators of profitability also recovered to their pre- COVID-19 levels, including that the operating margin recovered to the 10% range. The Company's financial condition can be judged to be highly sound as it practices debt-free management and has cash on hand of more than ¥8bn, and also it is building a business model centered on the mainstay TOMAS business that enables it to stably acquire cash. Its policy for the accumulated cash is to allocate it to capital investment, including for new school openings, and to M&A, while it will also continue to actively return profits to shareholders.

Consolidated balance sheet

	(¥mn)					
	FY2/18	FY2/19	FY2/20	FY2/21	FY2/22	Change amounts
Current assets	6,052	6,318	6,644	7,018	10,997	3,978
(Cash and deposits)	4,171	4,716	4,837	3,963	8,011	4,047
Non-current assets	5,602	6,138	6,531	6,922	8,048	1,126
Total assets	11,724	12,510	13,214	13,940	19,045	5,105
Current liabilities	3,430	3,861	4,498	4,600	5,446	845
Non-current liabilities	2,019	2,385	2,557	2,764	3,085	320
Total liabilities	5,450	6,247	7,056	7,365	8,531	1,166
(Interest-bearing debt)		-	-	-	-	-
Net assets	6,273	6,263	6,157	6,575	10,513	3,938
[Management indicators]						
Equity ratio	53.5%	49.9%	45.9%	46.7%	54.8%	8.1pt
Operating margin	9.6%	10.3%	10.2%	4.0%	10.1%	6.1pt
ROE	22.0%	25.2%	31.7%	8.8%	28.7%	19.9pt
ROA	18.6%	21.0%	21.4%	8.8%	18.5%	9.7pt

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

Cash flow statements

	(¥mn)				
	FY2/18	FY2/19	FY2/20	FY2/21	FY2/22
Cash flows from operating activities	2,278	2,707	2,911	-36	3,607
Cash flow from investing activities	-593	-731	-652	-655	-1,011
Cash flow from financing activities	-1,377	-1,433	-2,138	-182	1,450
Cash and cash equivalents at end of period	4,171	4,716	4,837	3,963	8,011

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

■ Outlook

The outlook for FY2/23 is for student numbers to grow in every business and sales and profit to increase by double digits

1. FY2/23 forecasts

For the FY2/23 consolidated results, the Company is forecasting that sales and profits will continue to increase, with net sales to rise 10.0% YoY to ¥33,000mn, operating profit to grow 19.1% to ¥3,610mn, ordinary profit to climb 21.4% to ¥3,700mn, and profit attributable to owners of parent to increase 2.8% to ¥2,500mn. Student numbers and sales and profits are forecast to increase in every business. The increase rate for profit attributable to owners of parent will only be a single digit because the recording of deferred tax assets is not expected, and the effective tax rate will rise.

FY2/23 consolidated forecasts

	FY2/22		FY2/23		
	Results	Ratio to sales	Company's target	Ratio to sales	
				Ratio to sales	YoY
Net sales	30,008	-	33,000	-	10.0%
Operating profit	3,030	10.1%	3,610	10.9%	19.1%
Ordinary profit	3,048	10.2%	3,700	11.2%	21.4%
Extraordinary income and loss	59		-		-
Profit attributable to owners of parent	2,431	8.1%	2,500	7.6%	2.8%
Earnings per share (¥)	16.25		16.20		

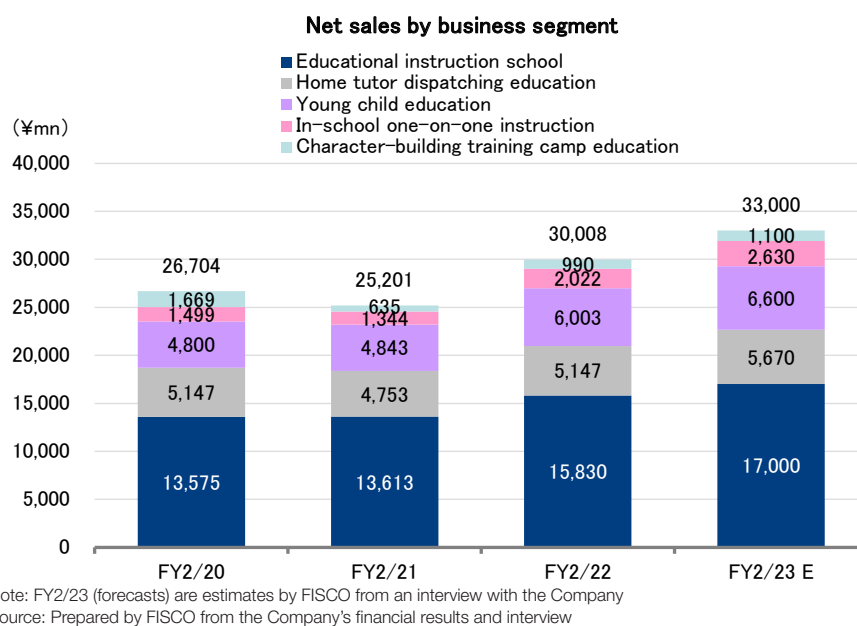
Source: Prepared by FISCO from the Company's financial results

In the educational instruction school business, in March 2022, 3 TOMAS schools were opened and 1 school was relocated and its capacity was expanded. Also, there has been no change to the Company's policy of opening new schools at a pace of 5 to 10 schools a year, if it finds properties that satisfy its conditions. In the home tutor dispatching education business, in addition to the newly opened Meimonkai and TOMEIKAI schools, the new MEDIC Meimonkai schools designed specifically for high school graduates to take medical school entrance exams will be launched. The main Osaka school was opened in March 2022, and then the Kobe school will be opened in April. Student numbers per school are low at around 10 to 20 students, but the unit price per student is the highest in the Group at ¥5mn to ¥6mn. The plan is to open more than 10 schools over three years. In April 2022, the capacity of 1 Meimonkai school was expanded.

In the young child education business, student numbers are expected to increase for both Shingakai and Shinga's Club. For Shinga's Club, in April 2022 in a joint project with Konami Sports, the Konami Sports Shinga's Academy Shinagawa School was opened within the main building of a Konami Sports Club. It is a new style of after school club with sports instruction by Konami Sports and after-school care intended for middle-school exam preparation by Shingakai, which are both provided within the same facility. The student capacity was expected to be from 100 to 150 students, but as around 1,000 children are enrolled in the Kids School of the Konami Sports main building, it seems it has already reached its capacity and made a smooth start. In the next three years, the Company plans to open 20 Konami Sports Shinga's Academies based in Konami Sports Clubs.

Outlook

In the in-school one-on-one instruction business, the number of School TOMAS contracting schools had increased to 107 schools as of February 2022, while the already contracted schools are expanding their academic years using the service, which were the main reasons for the increase in student numbers. Many of the contracting schools are those that cover middle and high school years, and because introducing the service to every academic year requires around five to six years, student numbers are increasing year by year even only in the already contracted schools. Moreover, the profit margin is expected to rise even higher from the effects of the increase in sales. In the character-building training camp education business, sales are expected to increase YoY, including due to the recovery of the number of tours scheduled to be held. However, the Company does not prioritize profits for this business and its impact on results as a whole is negligible.



High growth is continuing in the young child education business and in-school one-on-one instruction business. Targeting net sales of ¥40bn and operating profit of ¥4.5bn in FY2/25

2. Medium-term management plan

(1) Overview of the medium-term management plan

The Company has announced its three-year medium-term management plan that will start from FY2/23. The results targets for FY2/25, the plan's final fiscal year, are net sales of ¥40,000mn, operating profit of ¥4,510mn, ordinary profit of ¥4,500mn, and profit attributable to owners of parent of ¥3,000mn. Compared to the results targets announced a year earlier, the FY2/22 results were above the initial targets, therefore the Company upwardly revised the previous targets for the FY2/23 and the FY2/24 results. Among the factors causing results to be higher than targeted, the increases in earnings of TOMAS and Shingakai were significant. For the three-year CAGR up to FY2/25, the forecasts are for double-digit growth of 10.1% for net sales and 14.2% for operating profit.

Outlook

Medium-term management plan (values announced in April 2022)

	(¥mn)							
	FY2/22		FY2/23		FY2/24		FY2/25 Target	Compound annual growth rates
	Initial target	Results	Previous target*	Target	Previous target*	Target		
Net sales	29,000	30,008	32,000	33,000	35,500	37,000	40,000	10.1%
Operating profit	2,510	3,030	3,210	3,610	3,710	4,010	4,510	14.2%
Operating margin	8.7%	10.1%	10.0%	10.9%	10.5%	10.8%	11.3%	-
Ordinary profit	2,500	3,048	3,200	3,700	3,700	4,000	4,500	14.0%
Profit attributable to owners of parent	1,700	2,431	2,100	2,500	2,500	2,700	3,000	7.3%

* The previous targets were those announced in April 2021

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

There has been no change to the growth strategy and the Company is continuing with a thorough differentiation strategy through continuously providing high quality "authentic" educational services and actively opening schools with the aim of continuously increasing student numbers even in the situation of the shrinkage of Japan's youth population. It is also targeting annual double-digit increase rates for both sales and profits through the further growth of the existing mainstay businesses of TOMAS, Meimonkai and Shingakai, and by even more actively developing businesses such as School TOMAS and Shinga's Club. It intends to raise the operating margin from 8.7% in FY2/22 to 11.3% in FY2/25. At FISCO, we think that this is an achievable level if net sales grow as planned, and particularly the growth of the highly profitable young child education business and the in-school one-on-one instruction business, which has significant growth potential, are expected to improve profitability overall.

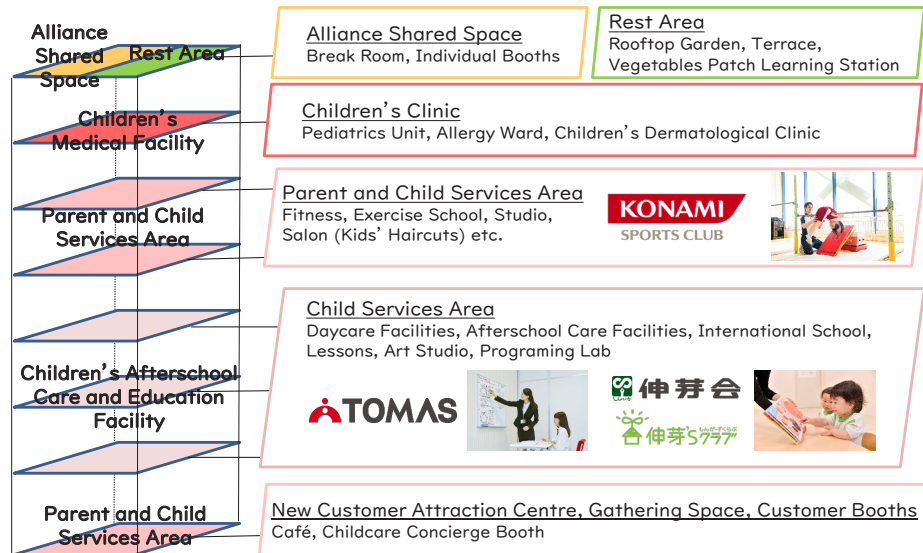
(2) Growth strategy
a) Opening of the Kodomo Department Store, an educational building

In September 2020, the Company entered into a three-company business collaboration with Hulic and Konami Sports, and they have announced the Kodomo Department Store concept, in which they will provide services within the educational building being developed by Hulic in the Tokyo metropolitan area. These services will include the Riso Kyoiku Group's education services, such as Shinga's Club childcare and after-school care, Shingakai, TOMAS, and Inter TOMAS, and also the exercise schools* provided by Konami Sports. Needs are strong for children's education that provides a good balance between study and exercise, and this building will capture these needs by providing various services in a single location. For the Company, it will widen opportunities to provide multiple services to students ranging from infants to high school students, and it is aiming to maximize customer LTV through its "retention strategy."

| * Exercise schools for children with 140 locations nationwide. |

Outlook

Educational building Kodomo Department Store



Source: From the Company's results briefing materials

The Company's Kodomo Department Store concept is to expand to up to 20 buildings by 2029 at locations near to terminal stations, such as in Tokyo and Kanagawa Prefecture. In order to launch phase one operations during 2022, it is currently narrowing down the multiple candidate properties. Also, Hulic plans to make the MITAKE Link Park (provisional name)*, which is a multi-purpose building in Shibuya scheduled to be completed in 2026, into a Kodomo Department Store and the Company has decided to open Shinga's Club childcare and after-school care and Shingakai schools within it, while it also plans to open and operate a creative culture educational facility.

* Hulic was selected as the development company for the Urban Renewal Step-up Project (Shibuya Area), Shibuya 1-Chome Area Joint Development Project implemented by Tokyo and Shibuya Ward, and it is progressing the development of a multi-purpose building with 2 underground floors and 14 above-ground floors. The building has a site area of 9,670m² and it is scheduled to consist of various areas including offices, stores, rental housing, children's educational facilities and a multi-purpose hall.

For Shinga's Club, despite the strong demand, it has been difficult to find properties that satisfy the conditions, and the increase in the number of bases has been sluggish. However, with the opportunity provided by the Kodomo Department Store concept, it is possible that the number will continuously increase. For Shingakai also, the "school entrance exams" for well-known kindergartens and elementary schools are a niche market involving famous teachers who have special expertise, and in many cases, parents want their child to take classes with such teachers. Therefore, since the past the Company has adopted a cautious approach to increasing school numbers, but it seems that it will be possible to develop Shingakai for the Kodomo Department Store business through strengthening the training of teachers. Due to the shrinkage of Japan's youth population, competition to acquire students is expected to intensify in the after-school care and childcare market and the young child education market. But it is considered that the Company can maintain its competitive advantages by providing value-added services, such as for entrance-exam preparation and for academic advancement, so the young child education business is forecast to continue its high growth in the medium term through the realization of the Kodomo Department Store concept.

Outlook

b) Collaboration with Kids Smile Holdings

In March 2022, the Company and Shingakai concluded a business collaboration with Kids Smile Holdings and its subsidiary Kids Smile Project, which operate certified childcare facilities mainly in Tokyo, Kanagawa Prefecture and Aichi Prefecture. In 2015, Shingakai and Kids Smile Project began a business collaboration with the aim of jointly developing the KID'S PREP. PROGRAM, an original educational program, and the current business collaboration has been expanded to include the parent company with the aim of further strengthening business relations.

In summary of the business collaboration, Shingakai and Kids Smile Project mutually dispatch executives to each other and effectively provide mutual support for the other's services. At the same time, the business scheme constructed in the main business collaboration will be expanded to childcare facilities and certified centers for early childhood education nationwide. This collaboration also aims to strengthen the base for future growth by securing excellent personnel through the establishment of a hiring system and training system intended to recruit childcare workers, and strengthening content and brand power, and customer-attraction capabilities.

In addition, by introducing the Group's services (including Shingakai, TOMAS, and Meimonkai) to the approximately 4,000 members of the childcare facilities operated by the Kids Smile Project and the customers of the above-described business (customers wanting to take entrance exams for elementary and middle schools), the Company will progress its "retention strategy" on a nationwide scale. The scheme involves the payment of a referral fee when obtaining a student via the Kids Smile Project, and attention will be given to it as an initiative that will increase the Group's student numbers in the future.

The companies plan to discuss a capital alliance for the mutual holding of an upper limit of ¥300mn or 5% of the total number of outstanding shares of Kids Smile Holdings within six months of the conclusion of this agreement. Also, the effects of this business collaboration have not been incorporated into the targets in the newly announced medium-term management plan, so it may be a factor behind results exceeding the targets.

c) Educational instruction school business

The educational instruction school business consists of one-on-one instruction school TOMAS, English conversation school Inter TOMAS, and one-on-one instruction focused on medical school exams at MEDIC TOMAS. In February 2020, it launched Spec. TOMAS as a provider of one-on-one instruction that specializes in entrance exams for the most difficult middle schools. From FY2/23 onwards, the Company is targeting annual sales growth of between 6% and 10% through the increases in the numbers of schools and students.

The Company intends to continue promoting a strategy of satellite schools in the Tokyo metropolitan area, which it has been implementing since FY2/18, as the TOMAS school initiative. While it previously deployed schools at terminal train stations with about 495–661m² of floor space that could accommodate 200-400 students, the strategy of satellite schools in the Tokyo metropolitan area deploys schools at mid-sized train stations around terminal train station sites with about 165–198m² of floor space that can accommodate 100-150 students. The Company operated 88 schools in the Tokyo metropolitan areas as of end-FY2/22 and has a goal of between 150 and 180 schools through opening satellite schools at a pace of 5-10 schools a year from FY2/23. It also plans to steadily expand floor space and implement renovation of existing schools that have become crowded due to rising student numbers.

The Company is opening Inter TOMAS and MEDIC TOMAS schools in areas in which a TOMAS school has been opened, if it judges that demand can be expected in these areas. Also, for Spec. TOMAS, which is a newly launched brand, the effects of COVID-19 are still being felt, so for the time being its policy is to work toward the existing school (Jiyugaoka) becoming profitable.

Outlook

d) Home tutor dispatching education business

Within the home tutor dispatching education business, for the Meimonkai service of dispatches of professional home tutors, in addition to the Tokyo metropolitan area, the Company is developing the service for other major cities, such as Osaka and Nagoya, and for the main regional cities, and by the end of February 2022, the number of schools had reached 35 schools. Going forward, its policy is to respond to the increase in student numbers through increasing schools' floor areas and relocation renovations, and also to open new schools in regions where demand is expected. For MEDIC Meimonkai, which was launched in 2022, it is aiming to open at least 10 schools in the next three years.

For TOMEIKAI, the Company is opening new schools at a pace of several schools a year in the main cities other than the Tokyo metropolitan area. Within these areas, its policy is to focus on the Keihanshin area, and the Nagoya, Fukuoka, and North Kanto areas. An issue going forward will be improving the brand power of TOMEIKAI, but the same as it did for TOMAS, the Company intends to improve its brand power by accumulating a track record of excellent acceptance results through providing high-quality educational services.

e) In-school one-on-one instruction business

The Company is focusing on School TOMAS as a business that has the potential to grow in the future. In the situation of the advance of the declining birthrate, a business problem for private schools is acquisitions of students, while at the same time, another problem is teachers working long hours. It seems that the Company is introducing the School TOMAS service as a solution to these problems. The merit for the Company is that real estate costs and advertising costs to recruit students are not required. Therefore, it thinks that theoretically, the School TOMAS operating margin can be maintained at the same high level as that of the young child education business, in a range of 15% to 20%.

At the end of February 2022, the number of contracting schools had increased by approximately three times compared to three years ago to 107 schools. Since the Company concluded a capital and business alliance with Surugadai Gakuen Educational Institute in 2019, the number of contracting schools has smoothly increased by establishing a structure in which the graduates of Sundai Preparatory Schools are recruited as part-time teachers and then dispatched to contracting schools, and these contracting schools are located widely from Hokkaido to Kyushu. In terms of potential demand, it seems that there is room to grow to around 300 schools, centered on private schools, and the high growth is expected to continue in the medium term.

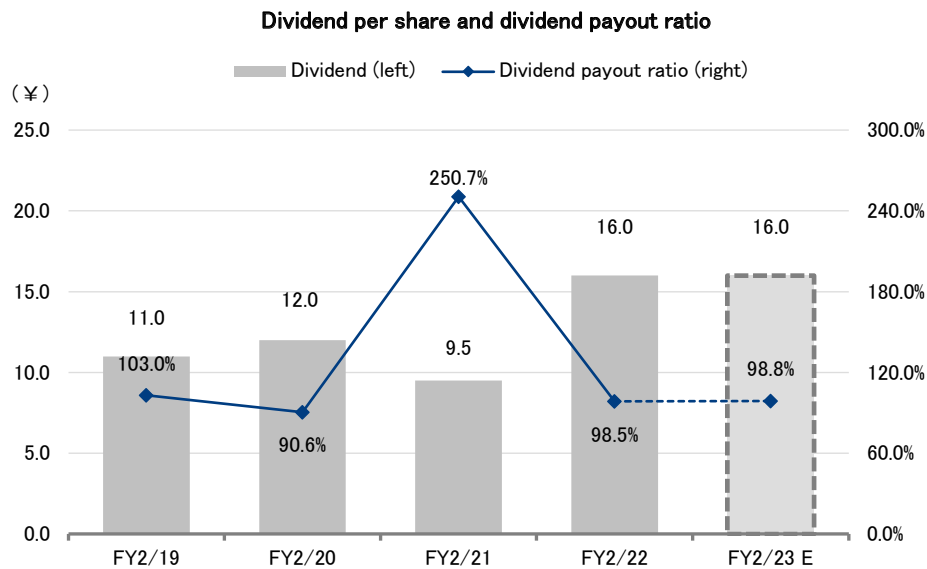
f) Strategy to hire and train teachers

Hiring and training high-quality teachers is a key factor in the ability to expand the number of schools at Group companies. Therefore, in August 2020, the Company established Cocokara Teachers Co., Ltd., as a subsidiary to hire, train, and place teachers in Group companies. This subsidiary conducts all of the hiring and training of teachers and deploys them to the various Group companies depending on their aptitude. TOMAS, meanwhile, also hires teachers independently, and the Company intends to continue hiring on its own in parallel with Cocokara Teachers Co., Ltd. for the time being. Besides improvement in hiring and training cost efficiencies from conducting integrated hiring and training for the overall Group, this initiative might lead to faster growth by the Group. For the hiring of part-time teachers as well, the Group offers favorable conditions within the industry, so it seems it is able to hire them smoothly without too much problem.

Shareholder returns

Continuing the policy of a dividend payout ratio of 100% and actively returning profits to shareholders

The Company considers returning profits to shareholders to be one of its most important management issues and since FY2/17, it has stably paid dividends targeting a consolidated dividend payout ratio of 100%. In FY2/22 alongside the results recovery, it increased the dividend per share by ¥6.5 YoY to ¥16.0 and also plans to pay a dividend of ¥16.0 in FY2/23. As this will give a dividend payout ratio of 98.8%, we can expect it to increase the dividend if results are higher than forecast. Since FY2/21, it has paid a lump sum dividend at the end of the period, but going forward it intends to consider the timing of the dividend payment.



Note: On December 1, 2018, the Company conducted a 3-for-1 share split of ordinary shares. Therefore, the dividend for each of the periods from FY2/19 1Q to 3Q of ¥7.5 have been calculated as ¥2.5.
 Source: Prepared by FISCO from the Company's financial results



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp