

Riso Kyoiku Co., Ltd.

4714

Tokyo Stock Exchange Prime Market

10-Jul.-2023

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FISCO Ltd.

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

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Summary

Aims for double-digit profit growth in FY2/24 by focus on strengthening profitability

Riso Kyoiku Co., Ltd. <4714> (hereinafter, “the Company”) is an educational service company that has established a unique high value-added 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. The Company thus provides a diverse range of educational services for all age groups from early childhood to adults.

1. Overview of FY2/23 results

In the FY2/23 consolidated results, net sales increased 4.9% year on year (YoY) to ¥31,488mn and operating profit fell by 20.8% YoY to ¥2,401mn, with sales increasing but profit decreasing. Net sales were a record high two years in a row due to sales growth in the educational instruction school, in-school one-on-one instruction school, and character-building training camp education businesses. For profit, increases in personnel expenses and recruitment advertising costs to hire talented people and higher utility bills resulted in a profit decrease. Breaking down trends by segment, the operating profit of the young child education business fell 40.1% YoY, accounting for over 70% of the profit decline, mainly due to the profitable Shingakai recording a double-digit fall in the number of students. The Group’s total number of students fell 1.1% YoY to 27,127. Although the number of elementary school students attending TOMAS and Meimonkai trended up, the number of senior high school students turned down due to the increase in AO (stands for “admissions office”; a style of entrance exam where candidates who best match a university’s admissions policy are selected) and exams for recommended candidates selected by schools.

2. FY2/24 forecasts

For the FY2/24 consolidated results, the Company forecasts a turn to double-digit profit growth, with net sales of ¥34,000mn (up 8.0% YoY) and operating profit of ¥3,000mn (up 24.9% YoY). The Company raised prices of TOMAS, Meimonkai, and School TOMAS by 5–7% to absorb the increase in personnel expenses as well. It also looks for a small increase in the Group’s total number of students by strengthening activities to attract students. For profit, the Company plans to improve profit margins by consolidation of unprofitable Meimonkai and Shingakai schools and reviewing expenses (including over ¥100mn advertising cost reduction) in addition to the price hike effect. It plans to keep school openings to a smaller number than usual given the increase in construction costs, instead prioritizing profitability improvement at existing schools.

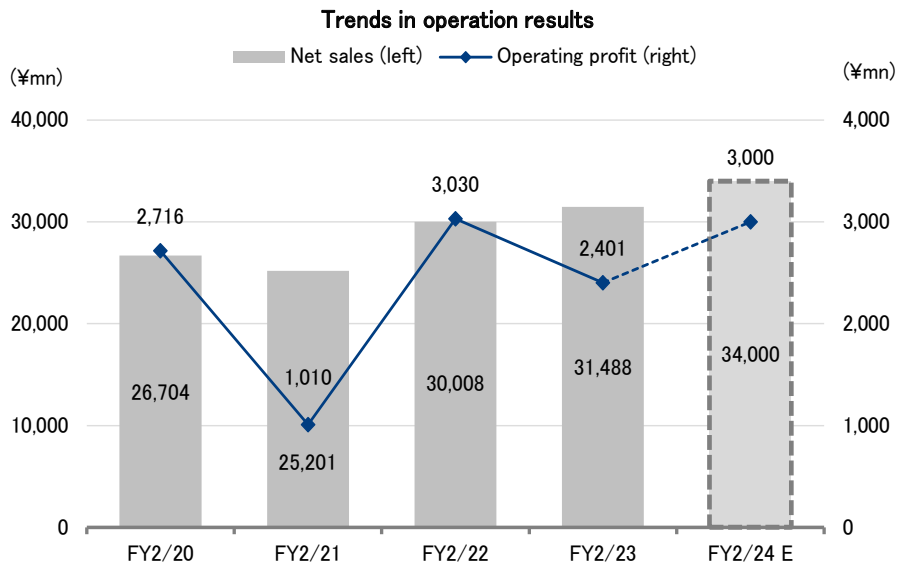
Summary

3. Medium-term management plan

In April 2023, the Company announced a three-year medium-term management plan. Targets for FY2/26, the final year of the plan, are net sales of ¥39,500mn and operating profit of ¥4,000mn. The compound annual growth rate (CAGR) over three years is 7.8% for net sales and 18.5% for operating profit. In the three years ending in FY2/26, the Company is focused on strengthening profitability by consolidating unprofitable Meimonkai and Shingakai schools and reviewing expenses for streamlining in addition to the price hike effect. It plans to raise the operating margin from 7.6% in FY2/23 to 10.1% in FY2/26. In the educational building Kodomo Department Stores initiative in collaboration with Hulic Co., Ltd. <3003> and Konami Sports Co., Ltd., 6 projects are underway in the Tokyo metropolitan area, of which 2 projects are scheduled to open in spring 2025 and one project is due for completion of construction in 2026. The strategy is to offer multiple educational services within the same building to retain customers, boost customer lifetime value (LTV), and maximize the Group’s synergies. The Company plans to increase the number of buildings to 20 within the Tokyo metropolitan area by 2029. It believes that demand for high-quality educational services will not decline despite the steady shrinking of the youth population, and seeks to capture this demand by offering multiple educational services to achieve sustained growth. For shareholder returns, the Company’s basic policy is a dividend payout ratio of over 50%, and has set dividend per share at ¥10.0 (corresponding to a payout ratio of 74.9%) in FY2/24.

Key Points

- Record-high net sales in FY2/23, although profit down on increased cost, mainly personnel expenses
- Turn to double-digit profit growth expected in FY2/24 thanks to price hike effect and expense cuts
- Plan to open Kodomo Department Store in spring 2025; formulated medium-term management plan targeting net sales of ¥39.5bn and operating profit of ¥4bn in FY2/26



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 Nihon Kodomo Pia, a business in which he was part of the management team. He used the opportunity to establish Nihon Kyoiku Kosha K.K. in 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 as its basic style. In 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 Co., Ltd., 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 between its subsidiary, School TOMAS, and KDDI Matomete Office Corporation, 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 Inc. <7084> and Kids Smile Project Inc. Subsequently, Hulic has been incrementally acquiring the Company's shares, and at the end of February 2023, its share-holding ratio was 20.62%, 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.

Riso Kyoiku Co., Ltd.
4714 Tokyo Stock Exchange Prime Market

10-Jul.-2023

<https://www.riso-kyoikugroup.com/en/ir/>

Company profile

Company history

Date	History
July 1985	Established Nihon Kyoiku Kosha K.K. to accommodate the acquisition of 14 classrooms from Nihon Kodomo Pia with the purpose of providing high-quality one-on-one educational instruction services and started opening classrooms under the name of Riso Kyoiku Kenkyusho.
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. (99.99% 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 Inc. <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
March 2023	Formed a capital and business alliance with Kids Smile Holdings Inc.

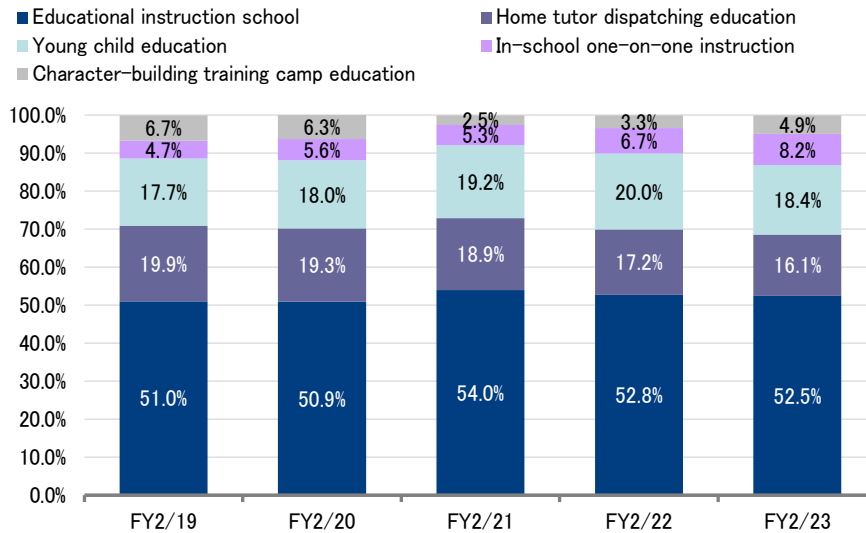
Source: Prepared by FISCO from the Company's securities report and press releases

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 FY2/19 to FY2/23, the net sales share of the home tutor dispatching education business contracted from 19.9% in FY2/19 to 16.1% in FY2/23 whereas the share of the in-school one-on-one instruction school business expanded from 4.7% to 8.2% over the same period. The home tutor dispatching education business operates nationwide and is likely being impacted by the decline of the youth population in the regions. Sales growth of the in-school one-on-one instruction school business on the other hand has been fueled by continued growth of the number of contracted schools and grades.

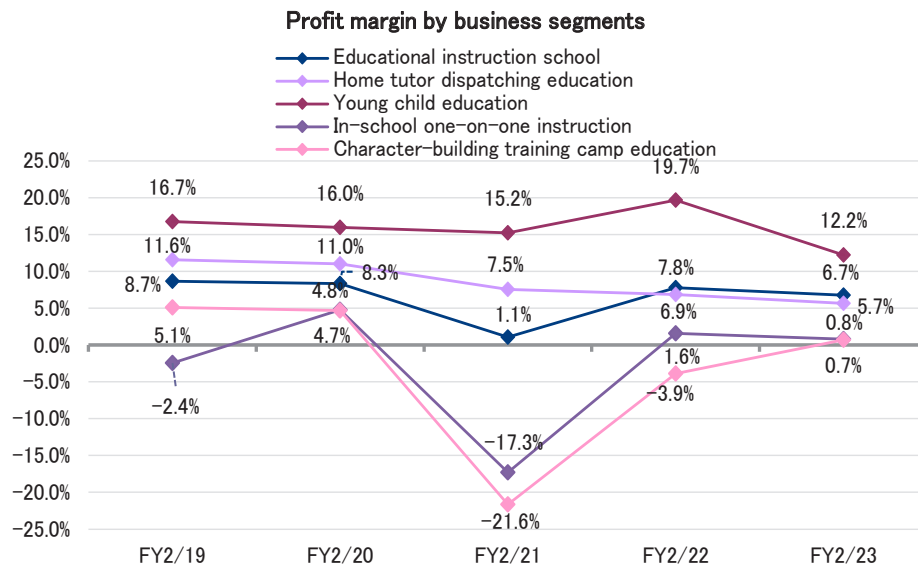
Breakdown by business segments



Note: Ratios are calculated on external net sales, excluding "other"
Source: Prepared by FISCO from the Company's financial results briefing materials

Company profile

Looking at the trends in the profit margin by business segments for the most recent five years from FY2/19 to FY2/23, the highest is the young child education business at 12% to 20%. It is considered that the background to this is the fact that Shingakai, which has a track record established about 70 years as a pioneer for entrance exams for well-known kindergartens and elementary schools, has established overwhelming strong brand power. The educational instruction school business has recorded stable, upper-single-digit growth with the exception of FY2/21 (which suffered the worst of the impact from the COVID-19 pandemic). The home tutor dispatching education business maintained growth rates of over 10% through FY2/20, but its profitability has declined in the past 3 years due to opening new schools in a period of sluggish sales growth. 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 beyond a certain level, it can be expected to be profitable if it can maintain a profit margin of at least 10%.



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

(1) Educational instruction school business

The educational instruction school business consists of 93 entirely one-on-one instruction TOMAS schools, which is its mainstay business, in the Tokyo metropolitan area (as of the end of February 2023, same below), 12 English conversation Inter TOMAS schools, and 4 one-on-one instruction MEDIC TOMAS schools for medical school exam preparation. It operates 1 Spec. TOMAS (a school located in Jiyugaoka), a provider of one-on-one instruction that specializes in entrance exams for the most difficult schools, 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.

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Company profile

(2) Home tutor dispatching education business

In the home tutor dispatching education business, Meimonkai operates 37 Meimonkai 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 candidates accepted for the most difficult schools each year, including particularly high acceptance results to medical schools, and in 2022, opened 2 MEDIC Meimonkai schools specializing in medical school entrance exam preparation in Osaka and Kobe as part of a new initiative. It also operates 12 TOMEIKAI schools as individualized instruction schools with service areas outside of the Tokyo metropolitan area (6 schools in the Kyushu area, 3 schools in the Tokai area, 2 schools in the Koshinetsu area and 1 school in the Kinki area).

(3) Young child education business

In young child education business, Shingakai, which possesses top-class acceptance results as a pioneer in well-known kindergarten and elementary school entrance tests, operates 24 Shingakai schools mainly in the Tokyo metropolitan area (21 schools in the Tokyo metropolitan area and 3 schools in the Keihanshin area). Furthermore, as after-school care and childcare services in the Tokyo metropolitan area, the company operates the Shinga's Club brand (19 after-school care sites*, 8 childcare sites) in 27 locations. Childcare sites feature the operation of extended-length childcare with activities related to entrance exam that utilize the Shingakai educational method, while after-school care sites are characterized by extended-length operation that includes learning instruction for school advancement, incorporating an original learning curriculum. 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.

| * Includes one Konami Sports Shinga's Academy school |

(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 expanding services, such as 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 expanding 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. There were 86 contracted schools (82 schools as of end of August 2022) at the end of February 2023. As a rule, the Company provides the service to one grade only in the first year of a contract with a school and increases the number of grades each year.

(5) Character-building training camp education business

The character-building training camp education business consists of 6 schools for soccer, 2 Ballschule classes and 10 schools for 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.

Company profile

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 and MEDIC Meimonkai that dispatches home tutors and TOMEIKAI one-on-one instruction schools in regional areas (outside of the Tokyo metropolitan area)	Meimonkai nationwide TOMEIKAI offers services outside of the Tokyo metropolitan area MEDIC Meimonkai schools operate in the Kansai area (expansion to other areas planned)
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 Shinga's Club after-school care school runs Konami Sports Shinga's Academy in collaboration with Konami Sports	Shingakai has schools in the Tokyo metropolitan area and Keihanshin Shinga's Club has locations in the Tokyo metropolitan area Konami Sports Shinga's Academy schools operate in the Tokyo and Kansai areas
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

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

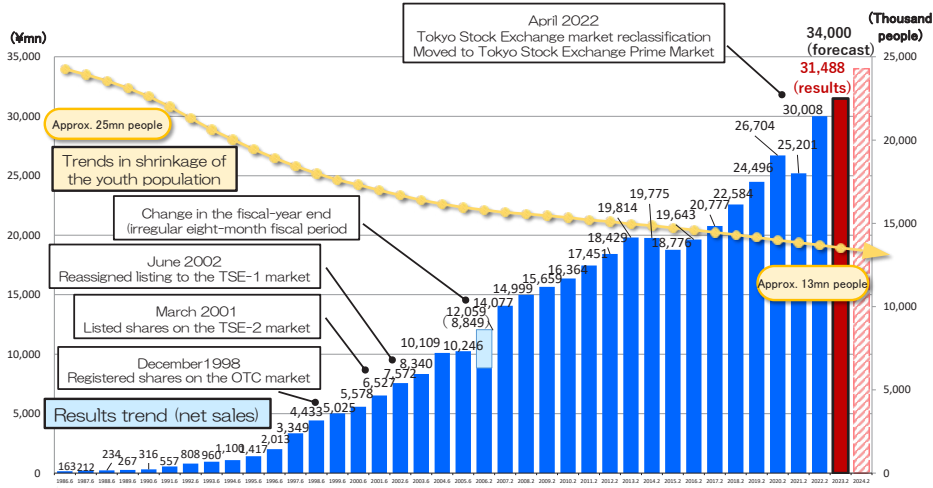
3. Characteristics and strengths

While the Company has a variety of characteristics and strengths, at FISCO, we think the following two are particularly important features: 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 in mid-2013 and sales decline in FY2/21 due to the impact of the COVID-19 pandemic.

Company profile

Trends in net sales since the Company's foundation

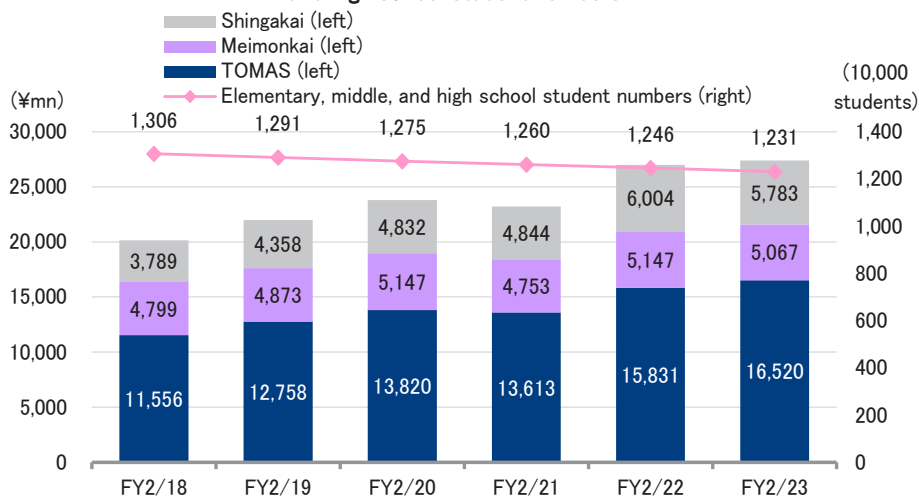


Source: From the Company's results briefing materials

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 (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 1.2% per year, from 13.06mn students in FY2017 to 12.31mn students* in FY2022, but during the same period, net sales of the three main businesses grew by 6.3% per year. It is considered that the main factor behind this is the Company responding to change and skillfully meeting the needs for exam preparation amid an increase in students taking exams for private schools and increased spending on education per child leading to sustainable growth in a situation in which the future is increasingly uncertain.

* 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.

Trends in the main businesses' net sales and elementary, middle, and high school student numbers



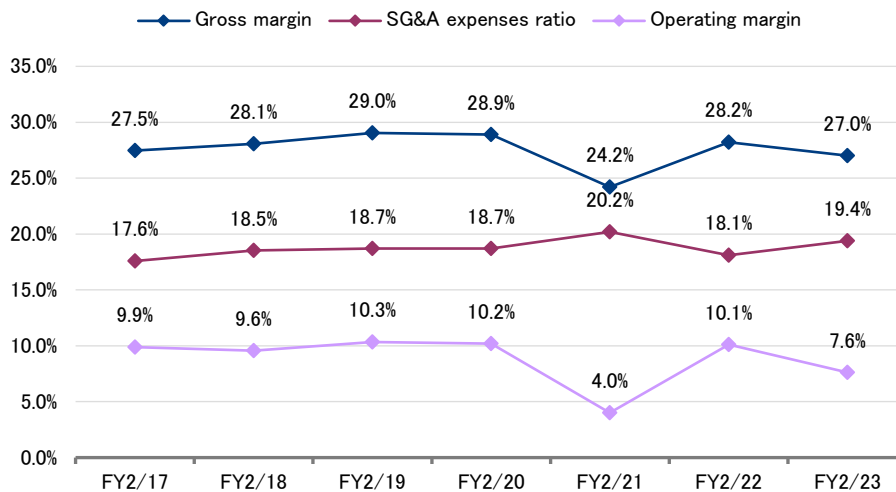
Source: Prepared by FISCO from the Company's financial results and the School Basic Survey by the Ministry of Education, Culture, Sports, Science and Technology

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Company profile

In operating margin, despite temporary decline in FY2/21 because of COVID-19 impact and in FY2/23 as a result of a one-time slump for Shingakai and growth fell into single digits, the level has been stable at about 10% since FY2/17. 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.

Long-term trends in gross margin, SG&A expenses ratio, and operating margin



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

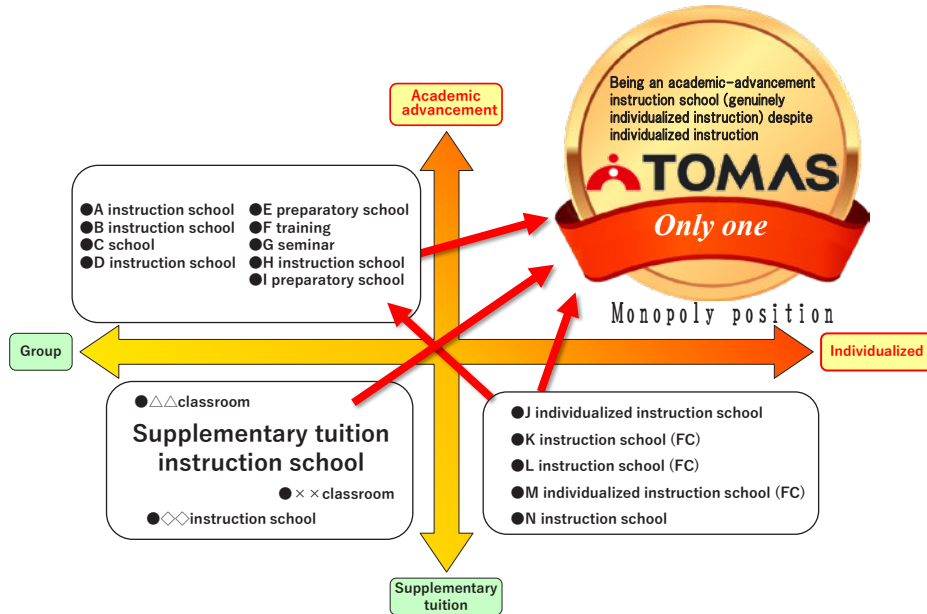
Our understanding is that the same source drives the Company's strengths of stable sales growth and high profitability. When founding the Company, current director and chairman Iwasa perceived two major implications from China's one-child policy, which include the prospect of a shrinking youth population 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 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 for the most difficult schools 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.

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Company profile

The Company's position in the market



Source: From the Company's results briefing materials

While the Company's founding purpose was high-quality individualized instruction, it initially started with a small 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.

Company profile

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

Record-high net sales in FY2/23, although profit down on increased costs, mainly personnel expenses

1. Overview of FY2/23 results

In the FY2/23 consolidated results, net sales increased 4.9% YoY to ¥31,488mn, operating profit decreased 20.8% to ¥2,401mn, ordinary profit decreased 19.9% to ¥2,442mn, and profit attributable to owners of parent decreased 38.6% to ¥1,492mn, with sales increasing but profit decreasing.

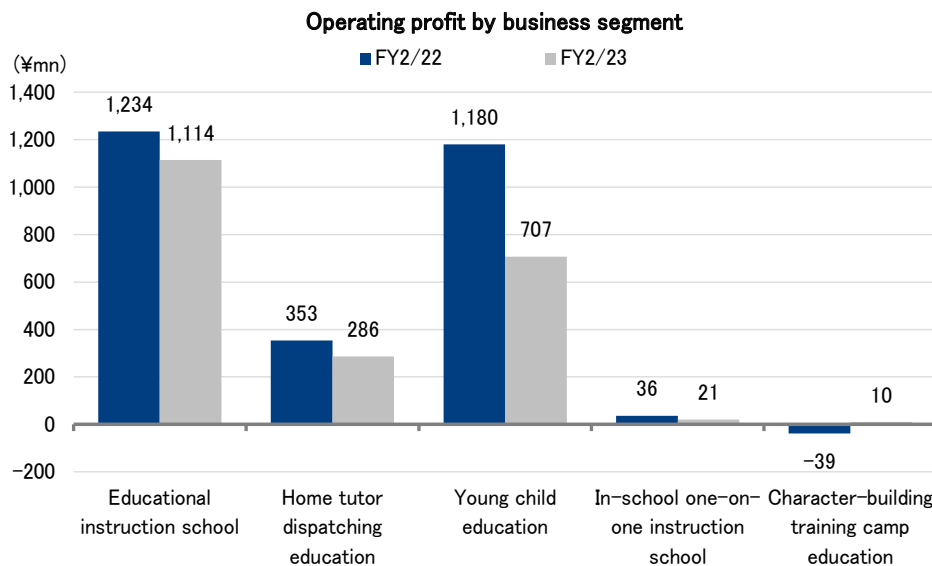
FY2/23 consolidated results

	FY2/22		Company's target*	FY2/23			
	Results	Ratio to sales		Results	Ratio to sales	YoY	Ratio to target
Net sales	30,008	-	31,500	31,488	-	4.9%	-0.0%
Cost of sales	21,549	71.8%	-	22,980	73.0%	6.6%	-
SG&A expenses	5,428	18.1%	-	6,106	19.4%	12.5%	-
Operating profit	3,030	10.1%	2,600	2,401	7.6%	-20.8%	-7.6%
Ordinary profit	3,048	10.2%	2,600	2,442	7.8%	-19.9%	-6.1%
Extraordinary income and loss	59	-	-	-113	-	-	-
Profit attributable to owners of parent	2,431	8.1%	1,600	1,492	4.7%	-38.6%	-6.7%

*The Company's targets are the values announced in January 2023
 Source: Prepared by FISCO from the Company's financial results

Results trends

In FY2/23, net sales reached a record high for the second year in a row, driven by growth of the educational instruction school, in-school one-on-one instruction school, and character-building training camp education businesses. However, profit declined due to a ¥600–700mn increase in personnel expenses, because the Company raised salaries of employees and teaching staff to retain talented personnel and added to its work force. As well, advertising expenses (including recruitment ads) were up ¥100mn and utility expenses rose ¥100–200mn due to higher electricity prices. Breaking down operating profit by segment, profit declined YoY across the board except in the character-building training camp education business, which posted a small profit. Operating profit was down ¥472mn in the young child education business, accounting for over 70% of the profit decline. The Group’s total number of students fell 1.1% YoY to 27,127. Although student numbers had maintained a positive YoY trend through 3Q FY2/23 (up 0.1% YoY at the end of 3Q), in 4Q many senior high school students left TOMAS, Meimonkai, and TOMEIKAI early amid the increase in AO and university entrance exams for recommended candidates selected by schools.



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

Young child education business aims to strengthen structure to improve customer satisfaction

2. Trends by business segment

(1) Educational instruction school business

In the educational instruction school business, net sales increased 4.4% YoY to ¥16,520mn, marking a record high for the second consecutive year. However, operating profit decreased 9.7% YoY to ¥1,114mn due to an increase in personnel and other expenses. Student numbers at the end of FY2/23 turned down slightly, down 0.7% YoY, although they were up 2.0% YoY at the end of 2Q. The core group of elementary school students recorded a steady increase, but numbers were flat for junior high school students and declined for senior high school students. A reason for the drop in senior high school student numbers is students leaving educational instruction schools earlier to take AO and university exams for recommended candidates selected by schools. The average number of students was up slightly, and a rise in unit value per student stemming from an increase in the number of courses taken contributed to net sales growth.

Results trends

In terms of new schools, the Company opened three new TOMAS schools in March 2022 and one each in January and February 2023, as well as increasing floor space and renovating seven schools. It also opened an Inter TOMAS school in May 2022, bringing the total number of educational instruction schools (TOMAS, MEDIC TOMAS, and Spec.TOMAS) to 98, up by 5 from the end of FY2/22, and the number of English language schools (Inter TOMAS) to 12 (up one). The number of Spec.TOMAS students is likely to increase, because the school's first seven students' university entrance exams results were released, and they were excellent.

(2) Home tutor dispatching education business

Net sales of the home tutor dispatching education business turned down for the first time in two years, declining 1.5% YoY to ¥5,067mn, while operating profit fell for the third year in a row, down 19.0% YoY to ¥286mn. Activities to attract students stalled at Meimonkai and TOMEIKAI, due in part to the shrinking youth population in the regions and the Company concentrating its resources on attracting students to the newly launched MEDIC Meimonkai. Accordingly, the number of students at the end of FY2/23 dropped 9.5% YoY (down 6.0% YoY at the end of 2Q), contributing to the net sales downturn.

Upfront expenses for MEDIC Meimonkai were the main negative factor for profit. MEDIC Meimonkai is a preparatory school providing entirely one-on-one instruction for students taking entrance examinations for medical schools. As well as all-round study support, the school offers a dormitory and staff providing lifestyle management and mental health support, and ongoing help for those struggling with motivation. It is a total package with a full back-up system that helps prepare students to pass entrance examinations to the schools of their choice. The school has made a solid start, attracting the expected number of students.

Meimonkai opened one new school in October 2022 as well as renovating two schools. Two MEDIC Meimonkai schools opened in 2022—the Osaka main school in March and Kobe school in April. At the end of FY2/23, the number of schools was up by 2 YoY for Meimonkai at 37, was flat for TOMEIKAI at 12, and totaled 2 for MEDIC Meimonkai.

(3) Young child education business

Net sales of the young child education business fell 3.7% YoY to ¥5,783mn and operating profit was down 40.1% YoY to ¥707mn. At the end of FY2/23, Shingakai recorded an 11.9% drop in students, whereas Shinga's Club after-school care school performed strongly, with student numbers up 16.9% and Shinga's Club childcare site recorded a solid 0.7% increase.

Shingakai student numbers and sales grew in 2021, because parents appreciated its operational structure that put rigorous measures into action to prevent COVID-19 infections. However, the quality of service declined, because the Company's efforts to strengthen its personnel structure could not keep up with the increase in student numbers, which resulted in a downturn in numbers in FY2/23. A drop in student numbers at profitable Shingakai and cost of strengthening the personnel structure to improve the quality of service were negative factors for profit. The Company has now established a structure capable of providing a certain quality of service and a new president has taken over the leadership of Shingakai Co., Ltd. It therefore expects earnings to recover in FY2/24.

Shinga's Club after-school care school was opened in April 2022 (Konami Sports Shinga's Academy Shinagawa School) and another in August (Harumi Triton School). It also opened one Shinga's Club childcare site in August 2022 (Harumi Triton School). As of the end of FY2/23, the number of Shingakai schools stood unchanged YoY at 24, the number of Shinga's Club after-school care schools increased by 2 to 19, and the number of Shinga's Club childcare sites increased by 1 to 8.

Results trends

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

Net sales of the in-school one-on-one instruction business grew 17.7% YoY to a record-high ¥2,699mn, but operating profit fell 39.9% YoY to ¥21mn due to an increase in personnel expenses to strengthen staffing. Student numbers recorded a steady increase on expansion of contracted schools and grades (86 contracted schools).

(5) Character-building training camp education business

Net sales of the character-building training camp education business grew 53.0% YoY to ¥1,565mn, recovering close to the pre-pandemic level. Operating profit went into the black for the first time in three years, recovering from a ¥39mn loss in FY2/22 to a ¥10mn profit. An increase in the number of tour-style experiences held and the number of participants of character-building training contributed to net sales growth. The Company opened 2 new TOMAS Gymnastics Schools, bringing the total number to 10. There were no new openings of TOMAS Soccer Schools, which still numbers 6.

Abundant cash on hand from debt-free management, financial condition is sound

3. Financial condition

Looking at the Company's financial condition at the end of FY2/23, total assets had decreased ¥793mn on the end of the previous fiscal period to ¥18,252mn. The main change factors were that in current assets, cash and deposits decreased ¥702mn due to dividends paid, etc., and trade accounts receivable decreased ¥657mn. In non-current assets, there were increases of ¥207mn in property, plant and equipment due to new school openings and other factors and ¥166mn in leasehold and guarantee deposits, as well as ¥104mn in deferred tax assets.

Total liabilities were up ¥368mn on the end of the previous fiscal period to ¥8,900mn. In current liabilities, income taxes payable decreased ¥373mn, but contract liabilities (advances received at the end of the previous fiscal period) increased by ¥452mn. In non-current liabilities, retirement benefit liabilities increased ¥407mn. Net assets declined ¥1,162mn to ¥9,351mn. The Company recorded profit attributable to owners of parent of ¥1,492mn, but due to the dividend payout of ¥2,469mn retained earnings decreased.

Looking at cash flow conditions, net cash provided by operating activities was ¥2,779mn, a decrease compared to ¥3,607mn in the same period of the previous fiscal year. Net cash used in investing activities was ¥1,016mn due to the purchase of property, plant and equipment for new school openings, and net cash used in financing activities was ¥2,465mn due to dividend payment and other factors. As a result, cash and cash equivalents at the end of the period decreased ¥702mn on the end of the previous period to ¥7,308mn.

Looking at management indicators, the equity ratio declined from 54.8% at the end of the previous period to 50.7%, which was the prime factor in a decrease in retained earnings. However, 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 ¥7.0bn. Operating margin, ROE, and ROA were down YoY and represent management priorities for FY2/24 onward. Its policy for the accumulated cash is to allocate it to capital investment, including for new school openings, and to M&A, while it also continues to actively return profits to shareholders.

Results trends

Consolidated balance sheet

	(¥mn)					
	FY2/19	FY2/20	FY2/21	FY2/22	FY2/23	Change
Current assets	6,318	6,644	7,018	10,997	9,660	-1,336
(Cash and deposits)	4,716	4,837	3,963	8,011	7,308	-702
Non-current assets	6,138	6,531	6,922	8,048	8,591	543
Total assets	12,510	13,214	13,940	19,045	18,252	-793
Current liabilities	3,861	4,498	4,600	5,446	5,366	-79
Non-current liabilities	2,385	2,557	2,764	3,085	3,533	448
Total liabilities	6,247	7,056	7,365	8,531	8,900	368
(Interest-bearing debt)	-	-	-	-	-	-
Net assets	6,263	6,157	6,575	10,513	9,351	-1,162
[Management indicators]						
Equity ratio	49.9%	45.9%	46.7%	54.8%	50.7%	-4.1pt
Operating margin	10.3%	10.2%	4.0%	10.1%	7.6%	-2.5pt
ROE	25.2%	31.7%	8.8%	28.7%	15.2%	-13.5pt
ROA	21.0%	21.4%	8.8%	18.5%	13.1%	-5.4pt

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

Cash flow statements

	(¥mn)				
	FY2/19	FY2/20	FY2/21	FY2/22	FY2/23
Cash flows from operating activities	2,707	2,911	-36	3,607	2,779
Cash flow from investing activities	-731	-652	-655	-1,011	-1,016
Cash flow from financing activities	-1,433	-2,138	-182	1,450	-2,465
Cash and cash equivalents at end of period	4,716	4,837	3,963	8,011	7,308

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

■ Outlook

Aiming for double-digit profit growth in FY2/24 on price hike effect and expense reduction

1. FY2/24 forecasts

For the FY2/24 consolidated results, the Company forecasts sales and profit growth. It looks for increases of 8.0% YoY in net sales to ¥34,000mn, 24.9% in operating profit to ¥3,000mn, 22.8% in ordinary profit to ¥3,000mn, and 38.0% in profit attributable to owners of parent to ¥2,060mn. Amid a shrinking youth population and increasing costs due to the labor shortage putting pressure on management, the educational instruction school business will likely undergo reorganization and consolidation as the earnings gap widens between strong performers and their struggling competitors. The Company plans to improve its profit margins by harnessing existing strengths to promote business strategies to adapt to changing market conditions and enhance its earning capabilities.

Outlook

FY2/24 consolidated forecasts

	FY2/23		FY2/24		YoY
	Results	Ratio to sales	Company's target	Ratio to sales	
Net sales	31,488	-	34,000	-	8.0%
Operating profit	2,401	7.6%	3,000	8.8%	24.9%
Ordinary profit	2,442	7.8%	3,000	8.8%	22.8%
Profit attributable to owners of parent	1,492	4.7%	2,060	6.1%	38.0%
Earnings per share (¥)	9.67		13.35		

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

The Company raised prices of TOMAS, Meimonkai, and School TOMAS by 5–7% from March 2023 as a profit improvement measure. The price hike will absorb the increase in personnel expenses. It also plans to consolidate unprofitable Meimonkai and Shingakai schools and review and reduce expenses (mainly advertising expenses). The Company plans to cut just over ¥100mn in advertising expenses compared to the previous fiscal year by reviewing its media mix such as stepping down as a sponsor of radio and other programs in March 2023 and reallocating its budget from newspaper insert ads (which have become less effective) to online ads.

The Company expects the Group's total student numbers to be up marginally YoY. It is taking a cautious approach to opening schools, because the cost of building a new school has increased by around 50% due to the rising cost of materials. Instead, the Company will prioritize making existing schools more profitable by acquiring more students. As of April 2023, the price increase had no negative impact on student numbers. The Company aims for a recovery in student numbers from 2Q onward by making sure it attracts demand for summer courses.

(1) Educational instruction school business

The Company forecasts a net sales increase of 8% YoY and operating profit growth of 22% in the educational instruction school business, assuming a 2–3% rise in student numbers. A new TOMAS school (Nakameguro school) opened in April 2023 and three schools were renovated and gained additional floor space through May 2023. The Company plans to open 3–5 new schools in FY2/24 versus 5 in FY2/23 and is focused on increasing student numbers by stepping up its sales activities.

(2) Home tutor dispatching education business

Growth in net sales of 7% YoY and 29% in operating profit are forecast for FY2/24. The Company expects student numbers to be flat YoY despite consolidation of unprofitable schools, which means the price hike will contribute to sales. A new Meimonkai school (Kyoto Ekimae No. 2 school) opened in April 2023 and the Hiroshima Ekimae school was extended and renovated, and integrated with Nishihiroshima Ekimae school.

(3) Young child education business

In the young child education business, the Company forecasts increases of 5% YoY in net sales and 12% in operating profit, assuming a 2–3% rise in student numbers. Although Shingakai student numbers remain weak, the Company is preparing to attract students in the 2Q* peak season. The Company expects earnings recovery in 2Q onward, because it strengthened its operating structure through FY2/23 and restored the quality of service to its previous standard. It is also making progress with consolidation of schools in the Kansai area, which has been unprofitable. Solid growth is forecast for Shinga's Club (including clubs run in collaboration with Konami Sports) amid robust demand for after-school care.

* Kindergarten entrance exams are held in October and November, so the enrollment season is in 4Q (December-February). Shingakai enrollments generally peak in 4Q and 2Q (the period immediately before final preparation for entrance exams).

Outlook

The Company reopened one new Shingakai school (Futakotamagawa school) after renovations in March 2023, opened one new Shinga's Club after-school care school (Futakotamagawa school), one Konami Sports Shinga's Academy (Nishinomiya school), and renovated and extended one Konami Sports Shinga's Academy (Shinagawa school) in April. It also plans to open two Konami Sports Shinga's Academy schools in the Kansai area. Demand was so strong that the Shinagawa School reached capacity shortly after it opened, which led to the Company almost doubling its capacity. Enrollments have also been brisk at the Nishinomiya school.

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

The Company forecasts a 16% YoY increase in net sales and 426% rise in operating profit in the in-school one-on-one instruction business. The increase in contracted grades at contracted schools leading to higher student numbers and price hike effect are positive factors for net sales. A projected small drop in profit margin from 0.8% in FY2/23 is due to the assumption of ongoing upfront investment in newly contracted schools. The Company is also taking steps to improve profitability by terminating contracts with schools that are unprofitable due to weak student numbers.

(5) Character-building training camp education business

Net sales growth of 5% YoY and operating profit growth of 33% are forecast for the character-building training camp education business. The number of experience-oriented tours are expected to increase further from the previous period, which will contribute to net sales.

Opening of the Kodomo Department Store scheduled for spring 2025; formulated medium-term management plan targeting net sales of ¥39.5bn and operating profit of ¥4bn in FY2/26

2. Medium-term management plan

(1) Overview of the medium-term management plan

The Company announced a three-year medium-term management plan starting in FY2/24. Targets for FY2/26, the final year of the plan, are net sales of ¥39,500mn and operating profit and ordinary profit of ¥4,000mn, and profit attributable to owners of parent of ¥2,700mn. The CAGR over three years is 7.8% for net sales and 18.5% for operating profit, aiming for recovery of the operating margin, which contracted in FY2/23, to over 10% in three years. The Company is continuing with its basic strategy of a thorough differentiation strategy through continuously providing high quality "authentic" education services to sustain growth.

In the previous medium-term management plan, results targets for FY2/25 were net sales of ¥40,000mn, operating profit of ¥4,510mn, and three-year CAGR of 10% for net sales. The new plan's CAGR target is more restrained at 7.9% in view of the ongoing and intensifying competition for students in the preparatory school business, risk of slow demand for entrance exam preparation services amid the increase of AO and university exams for recommended candidates selected by schools, and management exploring the possibility of scaling back plans to expand the TOMEIKAI brand beyond major cities. In terms of profit, the Company is focused on strengthening profitability and working toward steady profitability improvement, because the operating margin was eroded by increases in personnel and utility expenses in FY2/23.

Outlook

Medium-term management plan (values announced in April 2023)

	FY2/23 Results	FY2/24 Target	FY2/25 Target	FY2/26 Target	(¥mn) CAGR
Net sales	31,488	34,000	36,500	39,500	7.9%
Operating profit	2,401	3,000	3,500	4,000	18.5%
Operating margin	7.6%	8.8%	9.6%	10.1%	-
Ordinary profit	2,442	3,000	3,500	4,000	17.9%
Profit attributable to owners of parent	1,492	2,060	2,400	2,700	21.9%

Source: Prepared by FISCO from the Company's IR releases

a) Educational instruction school business

In the educational instruction school business, the Company intends to continue promoting a strategy of satellite schools in the Tokyo metropolitan area as the TOMAS school initiative. While it previously deployed schools at terminal train stations with 496–661m² 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 165–198m² of floor space that can accommodate 100–150 students. The number of schools in the Tokyo metropolitan areas has exceeded 90. The Company thinks it can attain a goal of between 150 and 180 schools through opening satellite schools. It also plans to renew existing schools by steadily expanding floor space or relocation and renovation of schools that have become crowded due to rising student numbers. The Company plans to open Inter TOMAS and MEDIC TOMAS schools in areas where it runs TOMAS schools if it estimates that there is sufficient demand. For Spec. TOMAS, it plans to explore opening schools after the existing Jiyugaoka school is on its way to turning profitable. The Company expects net sales of the educational instruction school business to grow at a CAGR of 7–8% over the coming three years.

b) Home tutor dispatching education business

Meimonkai, the home tutor dispatch service, has 37 schools in the Tokyo metropolitan area, Osaka, Nagoya, and other major cities, as well as in major regional cities. The Company plans to focus on steady growth of the business by attracting more students and strengthening profitability. One way of strengthening profitability is to centralize resources for attracting and soliciting students at the Company to make these activities more efficient. In the next 3 years, the Company plans to open 10 or more MEDIC Meimonkai (preparatory school for medical school candidates) schools, because the 2 schools opened so far are performing well. The Company plans a gradual scaling back of TOMEIKAI, which has struggled to attract students amid the shrinking youth population in the regions and suffers from operational inefficiencies, by closing 2 or 3 unprofitable schools per year. The Company expects net sales of the home tutor dispatching education business to grow at a CAGR of 7–8% despite TOMEIKAI's decline, driven by expansion of Meimonkai and MEDIC Meimonkai.

c) Young child education business

The Company targets CAGR of 5% in net sales of the young child education business by moving ahead with its alliance strategy. In March 2022 the Company concluded a business and capital alliance with Shingakai and Kids Smile Project Inc. to mutually assign a director and support each other's services, as well as rolling out KID'S PREP. PROGRAM, a jointly developed, original education program, at daycare centers and certified early childhood education centers. The Company also aims to attract talented personnel by establishing a recruitment and training program designed to hire childcare workers and strengthen its content, brand power and customer attraction capabilities. As well, it is working to retain students by referring around 5,000 members of daycare centers and other services run by Kids Smile Project to Group services such as Shingakai, TOMAS, and Meimonkai. These initiatives are beginning to show results, such as Kids Smile Project members joining Shingakai in 2022. The Company expects to see further benefits from the alliance.

Outlook

For Shinga’s Club after-school care schools, the Company plans to open around 20 Konami Sports Shinga’s Academy schools in collaboration with Konami Sports within facilities operated by Konami Sports. The collaboration offers significant advantages to the Company, because many parents and caregivers like to foster both academic and physical development in their children and the student acquisition cost is minimal.

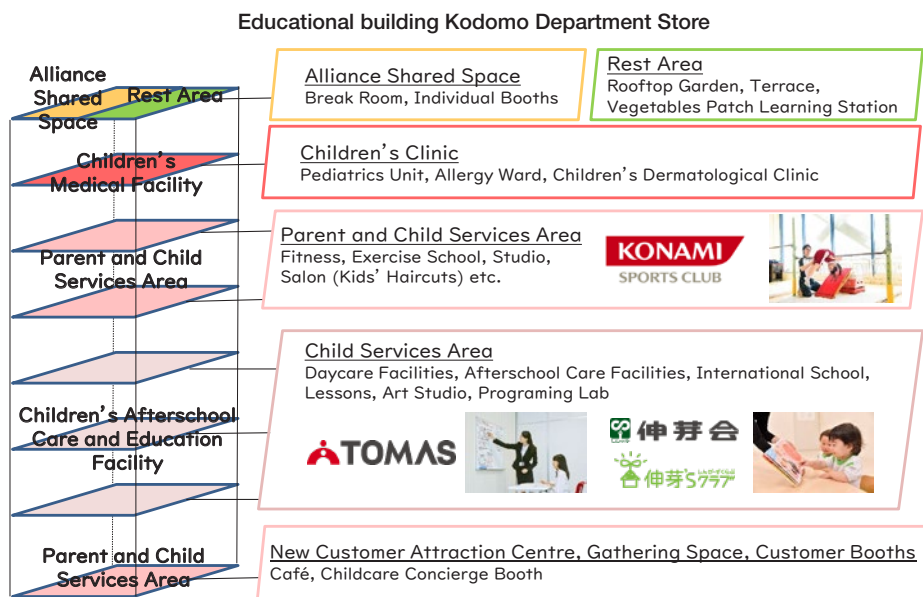
d) In-school one-on-one instruction business

The Company targets CAGR of 15–20% in net sales of the in-school one-on-one instruction business. We see large potential demand for its services, because many private schools are struggling to attract students and reduce teachers’ workloads amid the decline in the youth population. In April 2023, the Tokyo metropolitan government launched an in-school preparatory school project at 15 designated public senior high schools in Tokyo to improve the basic academic performance of students. The Company is not taking part in the project, because the content of the service they required is different from the services it provides. Instead, it will continue to target and expand its services for private schools.

(2) Opening of the Kodomo Department Store series, an educational building

In September 2020, the Company announced that it had formed business alliance with Hulic and Konami Sports to operate the Kodomo Department Store series of educational buildings that Hulic plans to develop in the Tokyo metropolitan area in the future. Kodomo Department Store will provide the Group’s Shinga’s Club after-school care schools and childcare sites, Shingakai, TOMAS, and Inter TOMAS as well as Konami Sports’ Undojuku* and other services, offering educational services for all age groups from preschool to senior high school under one roof. There is a strong need that many parents and caregivers like to raise their children with a good balance between study and exercise, Kodomo Department Store can capture these needs by delivering a range of services in a prime location. It is a promising initiative for the Company to maximize LTV and harness group synergies, because it offers potential to retain customers from early childhood onward.

* Exercise schools for children with 140 locations nationwide.



Source: From the Company's results briefing materials

Outlook

Six Kodomo Department Store projects have been confirmed so far. Of these, 2 (Nakano-ku and Tama Plaza, Yokohama) are scheduled to open in spring 2025. They will all be newly built. The Nakano-ku building is 9 stories and the Yokohama building 3 stories high. TOMAS, Shinga's Club after-school care school, and Spec.TOMAS will open in the Nakano-ku property. The existing TOMAS school in the same area will be relocated and reopen with more floor space. In the Tama Plaza property, Shingakai will open (targeting students of the nearby Keio Yokohama Elementary School) as well as Shinga's Club after-school care school and TOMAS.

The Company has confirmed that a Kodomo Department Store will open in MITAKE Link Park*, a multi-use commercial building in Shibuya scheduled for completion in 2026 by Hulic. It will offer Shinga's Club (childcare and after-school care), Shingakai, and TOMAS (existing Shingakai and TOMAS schools in the same area will relocate and reopen with increased floor space). The Company's plan is to open up to 20 Kodomo Department Stores near major rail stations in the Tokyo metropolitan area, which means 4–5 new facilities per year from 2026 onward until 2029. Advantages include not having to search independently for properties in convenient locations near rail stations, capacity to open multiple education services in the same building, and the advantages derived from customers using multiple services, and these efforts are attracting attention for their potential to make a large contribution to earnings growth in FY2/26 and beyond.

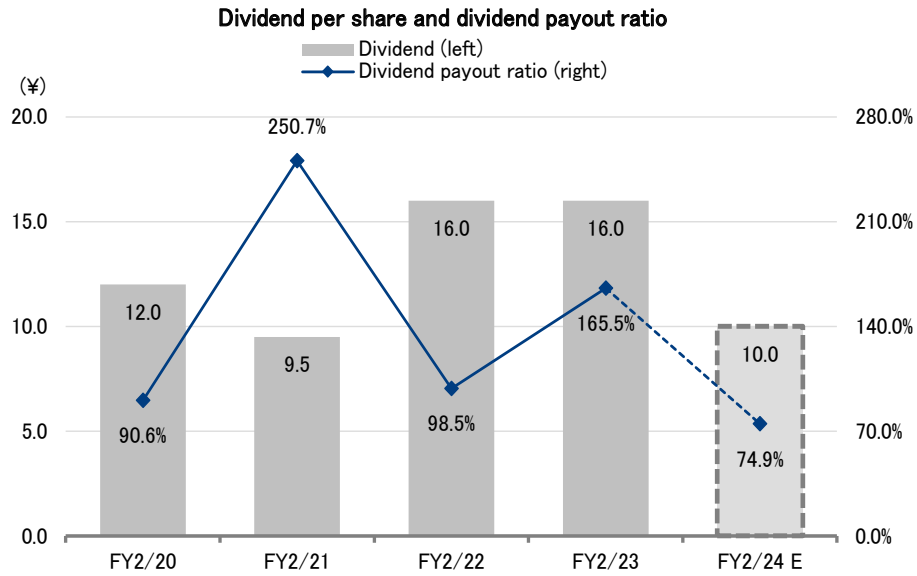
* Hulic was selected as the development company for the Urban Renewal Step-up Project (Shibuya Area), Shibuya 1-Chome Area Joint Development Project implemented by Tokyo and Shibuya Ward, and it is progressing the development of a multi-purpose building with 2 underground floors and 14 above-ground floors. 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.

Shareholder returns

Change in policy to targeting consolidated dividend payout ratio of 50% or more

The Company considers returning profits to shareholders to be one of its most important management issues. In FY2/23, dividend per share was ¥16.0 (flat YoY) for a dividend payout ratio of 165.5%. Dividend per share is forecast to drop by ¥6.0 to ¥10.0 in FY2/24 due to a change in dividend policy for a dividend payout ratio of 74.9%. Its previous dividend policy was based on a consolidated dividend payout ratio of 100%, because its earnings results have been strong and its financial condition remained solid since FY2/17. From FY2/24, however, the Company will change to considering and implementing a dividend policy based on a consolidated dividend payout ratio of 50% or higher to reflect the opinion that it should maintain a certain level of retained earnings for sustained growth of the Company to create corporate value. This means that a dividend increase is likely if the Company were to maintain earnings growth and the consolidated dividend ratio drops below 50%. Other than the payment of dividends, the Company plans to use retained earnings for capital investment as part of its alliance strategy and IT investment to move forward with management DX, as well as reserves to prepare for a spike in expenses to respond to an unexpected event like the COVID-19 pandemic.

Shareholder returns



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



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