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FISCO Ltd. Analyst
Yuzuru Sato

■ New medium-term plan calls for expansion into new business areas, increase in dividend

On October 11, 2013, Meiko Network Japan announced its results for the fiscal year through August 2013, i.e., FY8/13. Its consolidated sales rose 5.5% year-on-year (YOY) to ¥15,279mn, while its operating profit grew 1.1% YOY to ¥3,580mn. These results were slightly below the company's initial forecasts because the growth in the number of Meiko Gijuku schools and students slowed.

For FY8/14, the company projects a 7.8% YoY rise in consolidated sales and a 5.6% increase in operating profit. It intends to achieve these goals by expanding its Meiko Gijuku schools and reaping profit contributions from new businesses, such as Meiko Soccer Schools and Waseda Academy Kobetsu Schools. To increase the number of students at its schools faster, the company hopes to standardize an entry counseling service. Some Meiko Gijuku directly operated schools have found this approach effective, and the company will encourage its Meiko Gijuku franchised schools to adopt it before the new student recruiting season in spring 2014.

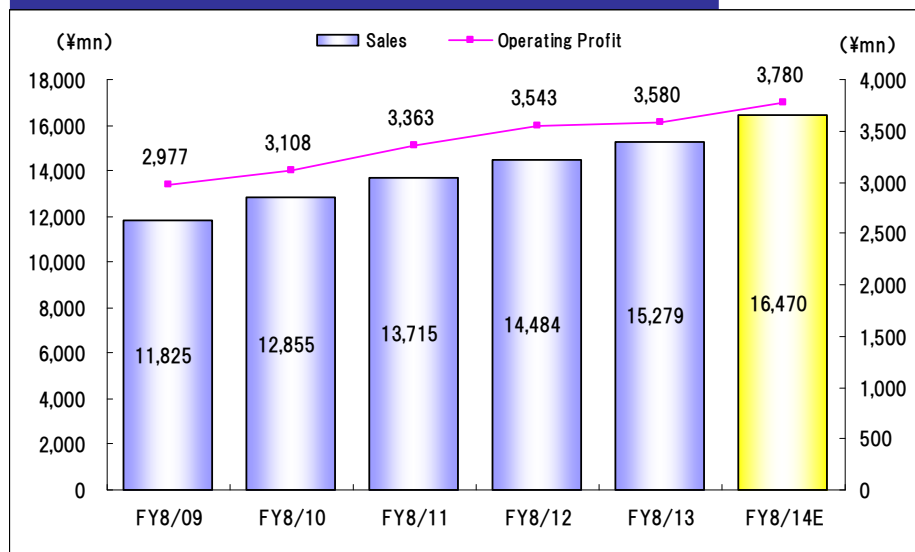
When the company announced its FY8/13 results, it presented a new management plan for the next three fiscal years. This plan targets consolidated sales of ¥18,720mn and recurring profit of ¥4,500mn for FY8/16. To reach these targets, management plans to increase the number of Meiko Gijuku schools, the number of students per school, and sales per student, build a profitable foundation for its new business, and expand into other business areas.

Management will also raise the company's standard dividend payout ratio from 35% to 50% in stages. Thus, it aims to continue stable sales and profit growth by franchising promising businesses and to increase its dividends.

■ Check Points

- In FY8/13, sales and operating profit continued to grow
- Company plans continued growth based primarily on its main education business
- Company will raise its dividend payout ratio to 50% gradually

Consolidated Sales and Operating Profit (¥mn), FY8/09 - FY8/14E



Business Trends

Sales and operating profit continued growth trend

(1) Results in FY8/13

As the company announced on October 11, 2013, in FY8/13, its sales grew by 5.5% YOY to ¥15,279mn, its operating profit increased by 1.1% YOY to ¥3,580mn, its recurring profit dipped by 0.2% YOY to ¥3,718mn, and its net profit rose by 10.2% YOY to ¥2,169mn. Recurring profit weakened because it suffered a loss on its equity in the earnings of non-consolidated affiliates.

The company increased the aggregate number of its Meiko Gijuku directly operated schools and Meiko Gijuku franchised schools by only 32 in FY8/13, bringing the total to 2,107. In previous fiscal years, the company had increased this number by 90-100 per year. Furthermore, these schools increased their aggregate number of students by only 0.2% to 136,238. Because of this slower growth in the number of schools and students, business results were somewhat weaker than the company had originally forecasted.

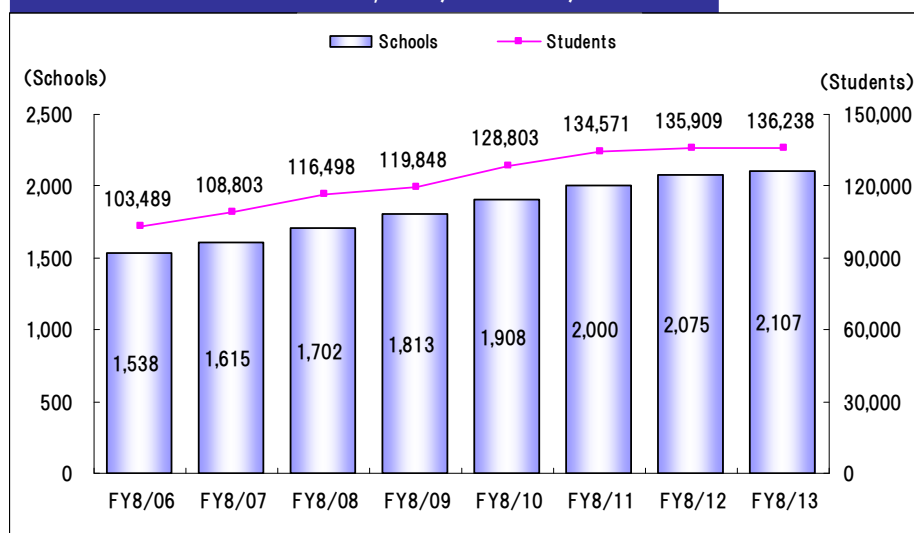
The main contributors to sales growth in FY8/13 were newly consolidated subsidiary Youdec Co. and Youdec subsidiary Koyo Shobo. Youdec Co. publishes the Gakuan magazine, which conveys information about the content of entrance examinations for junior high schools and high schools, sells educational materials to students of private schools, and offers private instruction to students at their schools. It was made a fully consolidated subsidiary at the end of July 2012. Koyo Shobo publishes academic books. The main contributor to operating profit growth was subsidiary Tokyo Ishin Gakuin (Tokyo Medical School Preparatory Institute), which earned an operating profit of ¥37mn, reversing a ¥7mn operating loss in FY8/12.

■ Business Trends

The costs of making Youdec Co. and Koyo Shobo subsidiaries raised the cost of goods sold ratio by 0.9ppt YOY to 58.9% and the SGA cost ratio by 0.2ppt to 17.7%. Therefore, the operating profit margin fell by 1.1ppt in FY8/13 to 23.4%.

The amortization of goodwill acquired with affiliate Life Support Co., which provides care for the aged, resulted in an equity in earnings loss of ¥60mn in FY8/13, whereas the equity in earnings account had recorded a profit of ¥21mn in FY8/12. Thus, the net non-operating profit decreased by ¥46mn YOY and recurring profit declined for the first time in eight years. However, asset impairment losses and other extraordinary losses shrank YOY, and the company's effective tax rate fell to 39.7% from 45.1% in FY8/12. Consequently, net profit grew 10.2%.

Number of Meiko Gijuku Schools and Number of Students at These Schools, FY8/06 - FY8/13



Summary Consolidated Income Statement (¥mn),
FY8/12 & FY8/13, with Main Reasons for Changes

	FY8/12	FY8/13	Reasons for change
Sales	14,484	15,279	Yodec and Koyo Shobo sales of ¥828mn Meiko Gijuku schools sales fell ¥172mn
YOY	5.6	5.5	
Cost of goods sold	8,403	8,995	Increase in purchases accompanying consolidation of Youdec and Koyo Shobo
Cost of goods sold ratio	58.0	58.9	
SGA cost	2,537	2,703	Increase in costs accompanying consolidation of Youdec and Koyo Shobo; ¥48mn increase in cost of Quo cards, etc. due to increase in number of shareholders
SGA cost ratio	17.5	17.7	
Operating profit	3,543	3,580	Tokyo Medical School Preparatory Institute earned an operating profit of ¥37mn, after an operating loss of ¥7mn in FY8/12; Meiko Gijuku directly operated schools lifted profit by ¥18mn; profit from franchised schools fell and new businesses remained unprofitable overall
YOY	5.3	1.1	
Operating profit margin	24.5	23.4	
Recurring profit	3,727	3,718	Equity in earnings of unconsolidated affiliates turned negative by ¥60mn, having been positive by ¥21mn in FY8/12
YOY	7.2	-0.2	
Recurring profit margin	25.7	24.3	
Net extraordinary loss	166	110	Asset impairment losses shrank
Corporate taxes	1,616	1,433	
Effective tax rate	45.1	39.7	
Net profit	1,969	2,169	
YOY	2.4	10.2	
Net profit margin	13.6	14.2	

■ Business Trends

At the end of FY8/13, the company's total assets were ¥16,557mn, up by ¥1,362mn YOY. This increase mainly reflected a ¥1,191mn increase in cash and deposits and a ¥143mn rise in long-term investments in securities. Total liabilities fell by ¥300mn in FY8/13, mainly because of a decline in interest-bearing debt. Total equity grew by ¥1,663mn, due mainly to an increase in retained earnings.

Measures of financial stability improved. The equity ratio rose from 66.6% at the end of FY8/12 to 71.2% at the end of FY8/13, and the ratio of interest-bearing debt to total assets fell from 12.5% in FY8/12 to 10.1% in FY8/13. On the other hand, profitability measures weakened slightly as the ROE and the operating profit margin fell.

Summary Consolidated Balance Sheet (¥mn) at 8/12 & 8/13 and Reasons for Changes

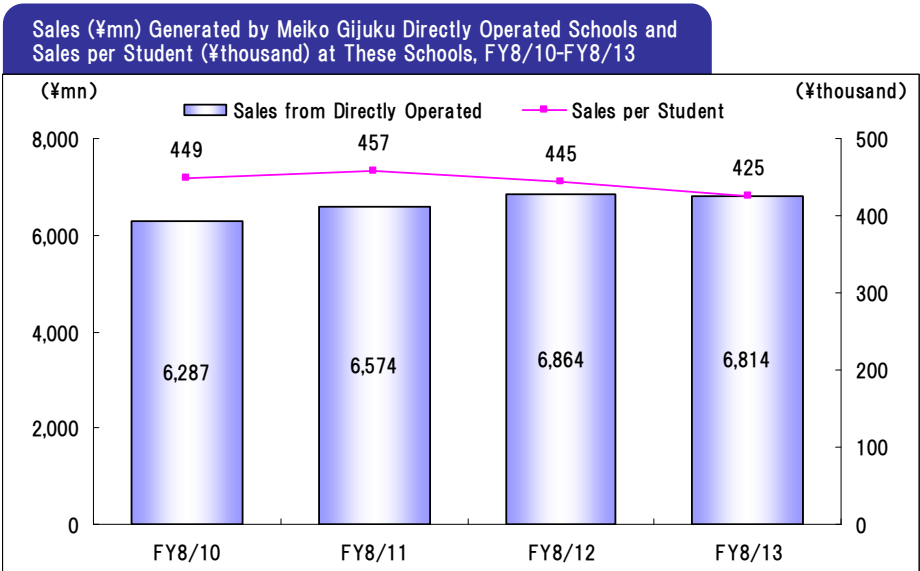
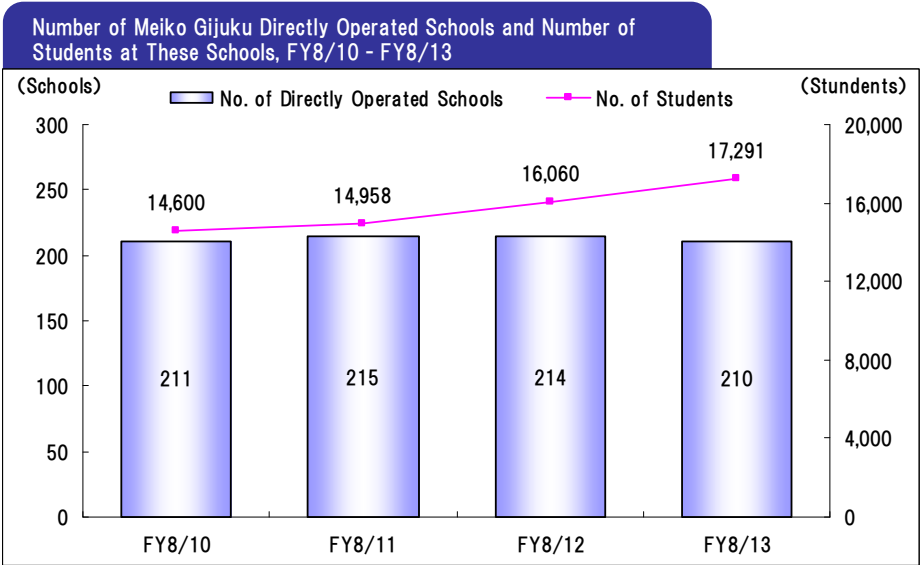
	8/12	8/13	Absolute change YOY	Reason for change
Current assets	7,890	9,297	+1,407	
(Cash and deposits)	5,931	7,122	+1,191	
Fixed assets	7,304	7,259	-44	Goodwill cost of ¥20mn
Total assets	15,195	16,557	+1,362	
Current liabilities	2,713	4,130	+1,416	¥1,600mn of long-term Borrowings became due within one year
Fixed liabilities	2,331	613	-1,717	
(Interest-bearing debt)	1,902	1,670	-232	
Total liabilities	5,045	4,744	-300	
Equity	10,149	11,813	+1,663	Shareholders' equity increased by ¥1,455mn; other comprehensive income grew by ¥209mn
Measures of financial stability				
Equity ratio	66.6%	71.2%		
Current ratio	290.8%	225.1%		
Ratio of interest-bearing debt to total assets	12.5%	10.1%		
Measures of profitability				
ROE	20.9%	19.8%		
Operating profit margin	24.5%	23.4%		

Per-school profitability improved

Business trends by division as follow:

(a) Meiko Gijuku directly operated schools

In FY8/13, sales from Meiko Gijuku directly operated schools decreased by 0.7% YOY to ¥6,814mn, but operating profit rose by 1.3% to ¥1,461mn. Four Meiko Gijuku directly operated schools were converted to franchised schools, so the number of directly operated schools declined by four YOY to 210. However, the number of students enrolled in these schools rose by 1,231 to 17,291. Despite the increase in the number of students, sales fell, primarily because the average sales per student declined slightly. However, the average number of students per school rose to 82.3 in FY8/13 from 75.0 in FY8/12, so the profitability per school improved, contributing to profit growth.



Note: Sales per student = sales ÷ average number of students enrolled during the period



■Business Trends

Introduction of a new management system blunted growth, may accelerate its growth in FY8/14

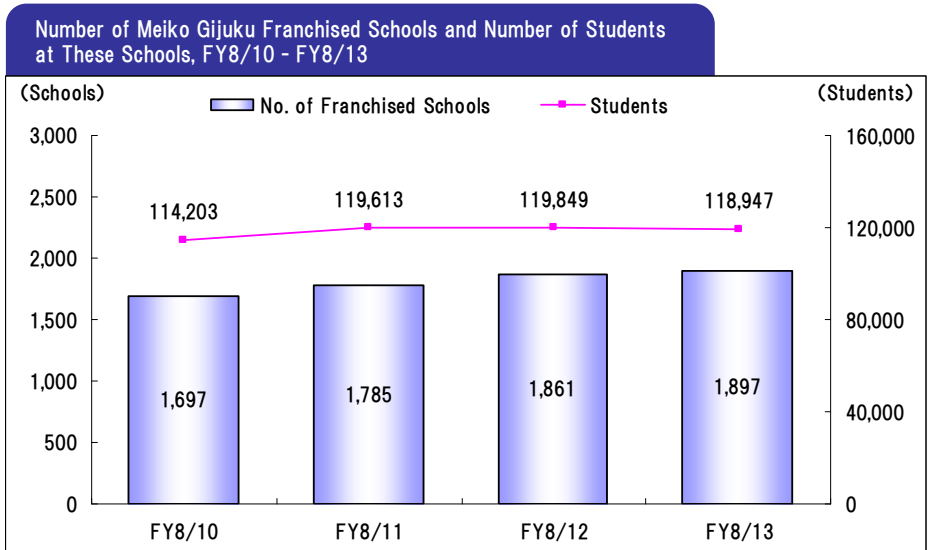
(b) Meiko Gijuku franchised schools

In FY8/13, sales from Meiko Gijuku franchised schools declined by 1.8% YOY to ¥6,613mn and operating profit from these schools fell by 1.1% to ¥3,276mn. The number of Meiko Gijuku franchised schools increased by only 36 YOY to 1,897, less than half of the 76 school increase in FY8/12. Furthermore, the number of students at these schools declined by 902 YOY to 118,947, the first such decline ever recorded. Thus, royalty income from franchised schools, equivalent to about 10% of the sales generated by these schools, decreased, as did sales of educational materials for new franchised schools and sales of goods for advertising and sales promotion.

The franchised school business weakened in FY8/13 for several reasons. Two years ago, the business launched a new school management system. Franchise owners had to spend time mastering this new system, giving them less time to recruit students. Furthermore, competition for students intensified among private schools offering individual instruction. For these reasons, the number of students at Meiko Gijuku franchised schools decreased.

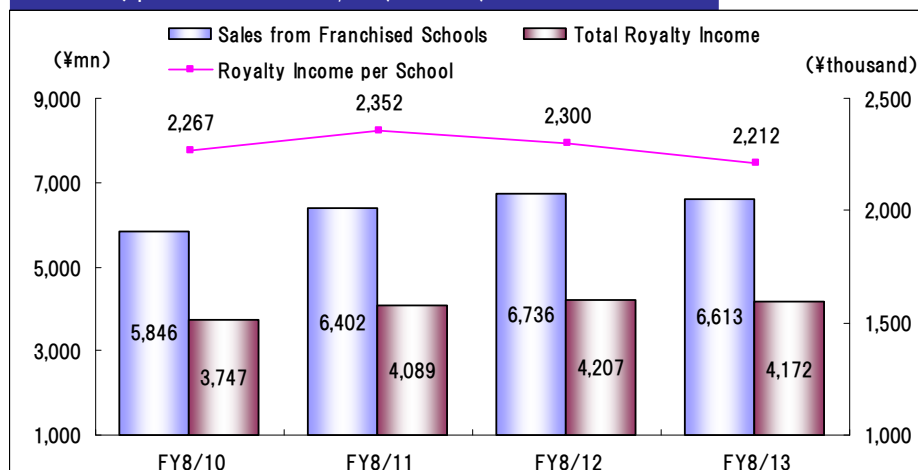
The rate of increase in the number of Meiko Gijuku franchised schools slowed because the number of students at existing schools and sales by these schools decreased, discouraging existing franchise owners from investing in new schools. Normally, existing owners open about 80% of all new schools.

The new school management system will be completely implemented by the end of 2013, so its adverse impact on operations should disappear in 2014.



■ Business Trends

Sales (¥mn) Generated by Meiko Gijuku Franchised Schools, Total Royalty Income from These Schools, and Average Royalty Income (¥ thousand) per Franchised School, FY8/10 - FY8/13

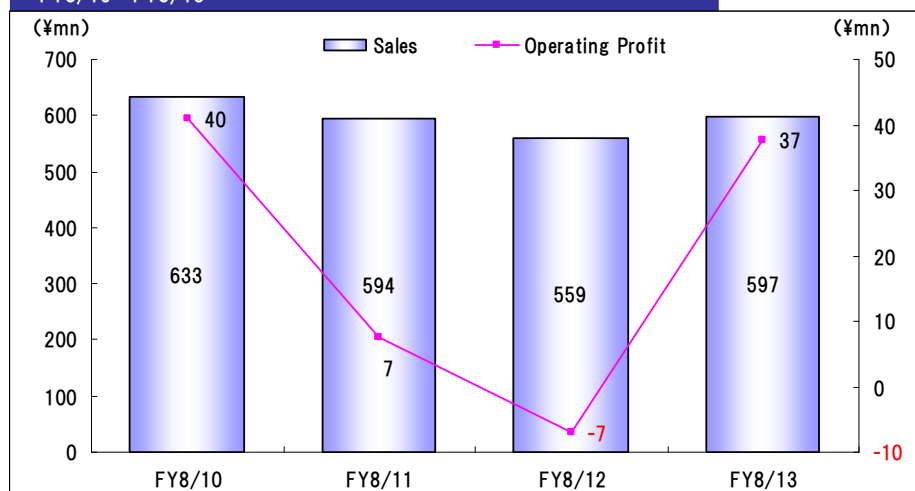


Increased the number of students and returned to profitability

(c) Supplemental education

This division is operated by consolidated subsidiary Tokyo Ishin Gakuin (Tokyo Medical School Preparatory Institute), which prepares students for entry into medical school. In FY8/13, this unit achieved its first sales growth since becoming a subsidiary, of 6.9% YOY to ¥597mn, and the unit earned an operating profit of ¥37mn, compared with an operating loss of ¥7mn in FY8/12. The institute strengthened its special lectures and summer instruction program, established a committee to encourage students to enroll and spent more to advertise and promote enrollment in various media. Thus, it increased its enrollment to 144 students at the end of FY8/13, 24 more than it had at the end of FY8/12. It also reduced its fixed costs by about ¥40mn by closing its residential school in Tamagawa and transferring the faculty and students at this school to its residential school in Mitaka, and transferring the faculty for high school students to head office.

Sales and Operating Profit Generated by Tokyo Ishin Gakuin, FY8/10 - FY8/13



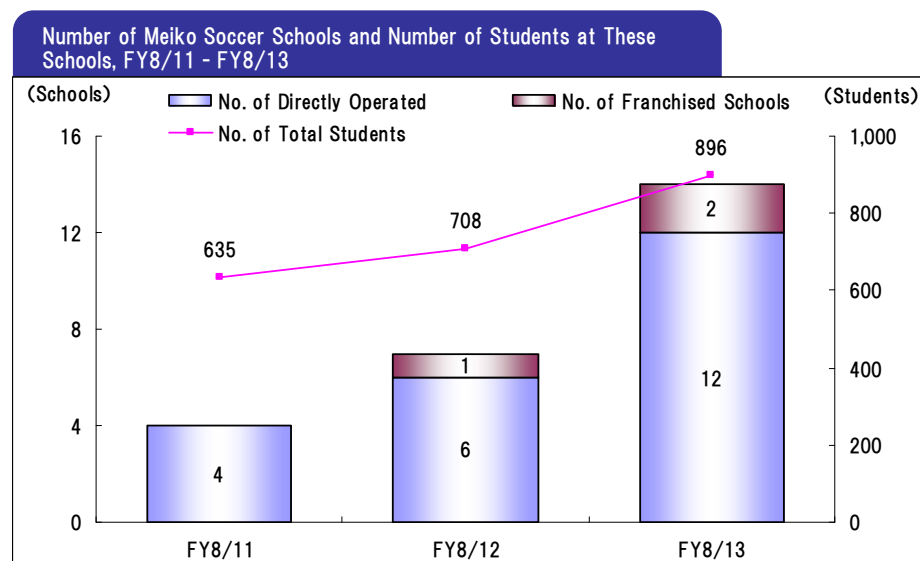
■ Business Trends

Recorded rapid sales growth

(d) Other businesses

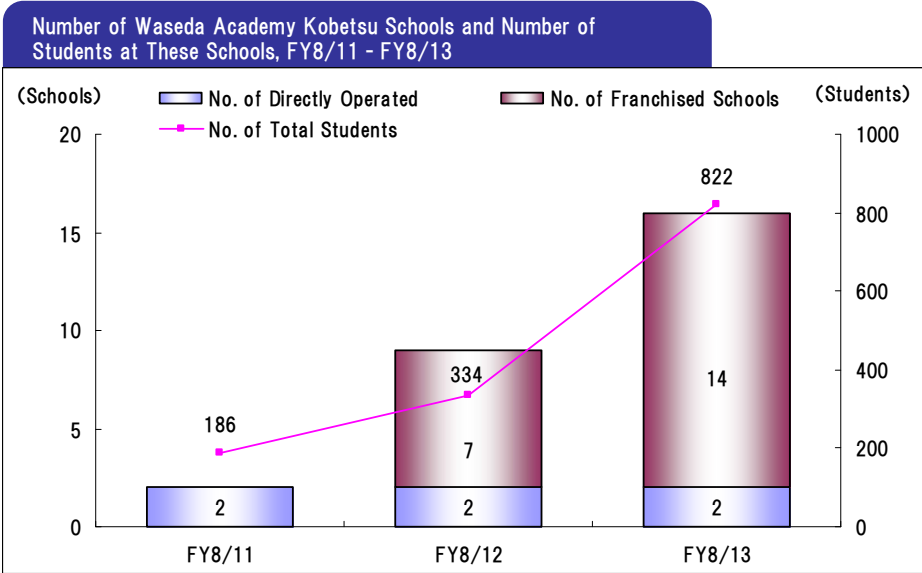
In FY8/13, other businesses raised their aggregate sales by 286.6% YOY to ¥1,253mn but suffered an operating loss of ¥126mn, compared with an operating loss of ¥120mn in FY8/12. The strong sales growth resulted from the initial consolidation of Youdec Co. and Koyo Shobo Co. Youdec increased its sales and profits in FY8/13 by selling more mock tests, mainly to leading private education companies, and by extending more tutorial services to schools. Of the new businesses in the other business division, Meiko Waseda Academy Kobetsu Schools, Meiko Soccer Schools, and Meiko Kids achieved sales growth in FY8/13, but all three remained unprofitable at the operating profit level, as they are still in the stage of initial investment. On an experimental basis, the company has also been operating one Mirai Kids Club school, which was established in April 2012 and subsequently absorbed the Meiko-ALC English Language Studio and Abrakadoodle Art Studios. However, it appears that this school is unlikely to turn profitable, so the company has decided to disband the school at the end of 2013 and to incorporate its services into the Meiko Kids service, while developing Abrakadoodle Art Studios on a spot basis.

The Meiko Soccer School business raised its sales to ¥128mn in FY8/13, but the business suffered an operating loss of ¥13mn. At the end of FY8/13, this business had 12 directly operated schools, two franchised schools, and 896 students. Investment in new directly operated schools caused the business' s operating loss, but all four directly operated schools in operation at the start of FY8/13 were profitable, and the schools opened in FY8/13 are projected to turn profitable in FY8/14 as they are attracting more students. This business intends to operate 100 schools eventually, and it is trying to obtain enough futsal courts to open that many schools.



Business Trends

The Waseda Academy Kobetsu School business concentrated on opening franchised schools in FY8/13. Thus, at the end of this term, it had 14, double the number a year earlier, and two directly operated schools, unchanged YOY. In addition, Waseda Academy operated four schools. At the end of FY8/13, total 822 students enrolled in Waseda Academy Kobetsu Shools, the two directly operated schools had 223 students, and the 14 franchised schools had 599 students. In FY8/13, this business opened fewer new franchised schools than originally planned, mainly because most people who open new franchises already own a Meiko Gijuku school, and these people were somewhat cautious about expanding their commitment. However, the number of students at Waseda Academy Kobetsu Schools continued to grow, so this business is expected to turn profitable at the operating level in FY8/14.



The Meiko Kids service supervises elementary school children after school hours and assists them with their studies. So far, it has operated only one school, in Shakuji -koen, Nerima Ward, Tokyo, to develop a business model. At the end of FY8/13, this service had 101 students and was approaching profitability. Therefore, in FY8/14, this business plans to open three new schools, aiming to have at least 10 schools in operation three years from now.

In expanding its school network, Meiko Kids service will follow a strategy of dominating a geographical area. Thus, its new schools will be close to its current school. This strategy will enable all schools to be served by the same buses and will enable effective advertising and promotion. As this service will have to invest in expansion over the next three years, it will probably not contribute to profits for several years, but it appears capable of becoming a major new business, similar to Meiko Soccer Schools and Waseda Academy Kobetsu Schools.

As mentioned previously, the Mirai Kids Club will be integrated into the Meiko Kids service. In February 2013, the company started a new business, MEIKO PLUS Academy, which provides individual instruction for Koreans living in Japan. This service is now recruiting students, so it contributed little to sales in FY8/13.



■ Business Trends

Main businesses to support sales and profit growth

(2) Company Forecasts for FY8/14

For FY8/14, the company forecasts sales growth of 7.8% YOY to ¥16,470mn, a 5.6% rise in operating profit to ¥3,780mn, a 4.3% increase in recurring profit to ¥3,880mn, and a 7.4% upturn in net profit to ¥2,330mn, as shown in the table below. The company foresees 9.1% sales growth for its Meiko Gijuku directly operated schools and 5.1% sales growth for its Meiko Gijuku franchised schools. It also forecasts a 16.6% rise in sales from new businesses, led by Meiko Soccer Schools and the Waseda Academy Kobetsu Schools. These businesses are also expected to lead profit growth. As mentioned previously, the company has found an entry counseling service effective in increasing the number of students at some Meiko Gijuku directly operated schools, so it is now standardizing this service for all its Meiko Gijuku schools.

Company's Consolidated Results (¥mn) in FY8/13 and Forecasts for FY8/14

	Sales		Operating Profit		Recurring Profit		Net Profit		EPS
		YOY		YOY		YOY		YOY	(¥)
FY8/13	15,279	5.5%	3,580	1.1%	3,718	-0.2%	2,169	10.2%	78.60
FY8/14E	16,470	7.8%	3,780	5.6%	3,880	4%	2,330	7.4%	84.43

■ New Medium-term Management Plan

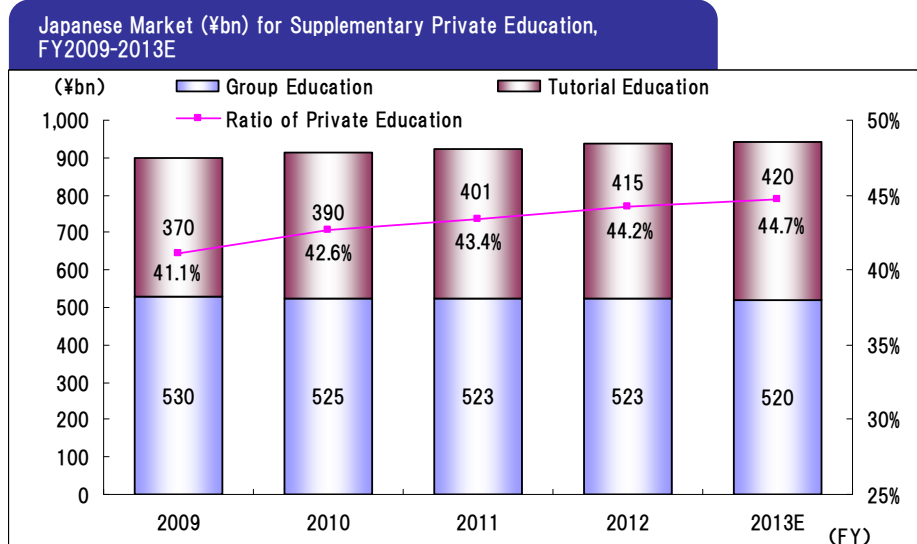
Undertaking research to modify business model in response to social and educational change

In 2010, Meiko Network Japan released the following vision statement for 2020: “Striving for further growth with educational and cultural activities as the core, we aim to become the top human resources development company.” The company's recently announced medium-term plan for FY8/14-FY8/16 is the second such plan intended to achieve this goal. The new plan aims to further the strategies established in the previous plan (increase the number of Meiko Gijuku schools, the number of students per school, and sales per student, build a profitable foundation for its new business, and expand into other business areas) for expanding the Meiko Gijuku school business and building up new businesses.

The new medium-term plan targets consolidate sales of ¥18,720mn, recurring profit of ¥4,500mn, net profit of ¥2,840mn, and 2,300 Meiko Gijuku schools in operation for FY8/16. In other words, it assumes about 7% average growth per year in sales and recurring profit and about 3% average growth per year in the number of Meiko Gijuku schools.

The number of children in Japan continues to decline, but due to Japan's lighter curriculum, parents are therefore likely to increase their spending per child on supplementary private education. Therefore, the Japanese market for such education is likely to grow modestly. Furthermore, the market for tutorial supplementary education is growing, while the market for group classes is not, as shown in the bar chart below.

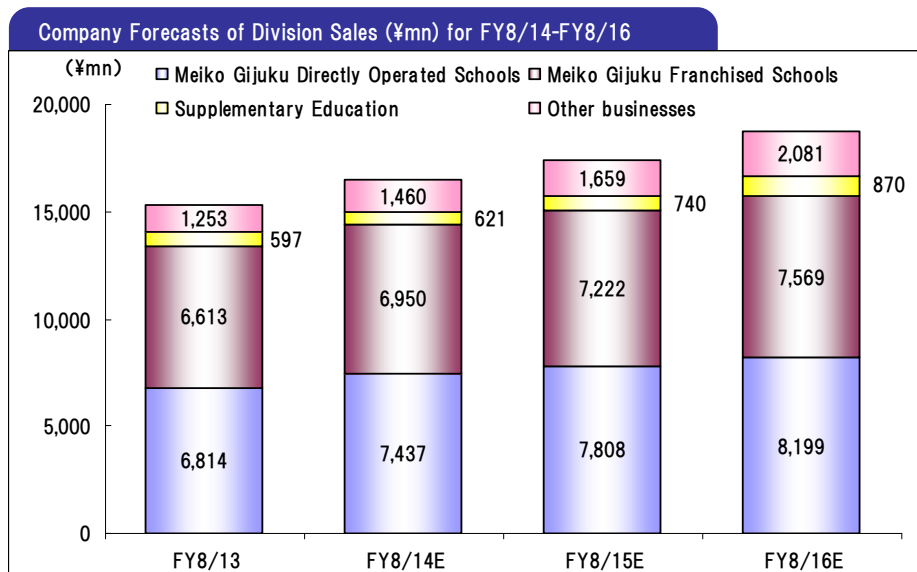
■ New Medium-term
Management Plan



Note: Market size is based on industry sales

Source: Yano Research Institute, Educational Industry White Paper 2013

The bar chart below shows the company's sales targets for its businesses for FY8/14-FY8/16, relative to sales in FY8/13. Over the next three fiscal years, sales in the Meiko Gijuku school business are seen growing at an average annual rate of 5%, sales in the supplemental education business are projected to grow at an average annual rate of 13%, and those in other businesses, at an average annual rate of 18%. As the number of students attempting to enter medical school is increasing, the number of students attending Tokyo Ishin Gakuin (Tokyo Medical School Preparatory Institute) is likely to rise, supporting sales growth. Among other businesses, the Meiko Soccer Schools and the Waseda Academy Kobetsu Schools are expected to deliver average annual sales growth of about 20% each, and this division is projected to be profitable by FY8/16.



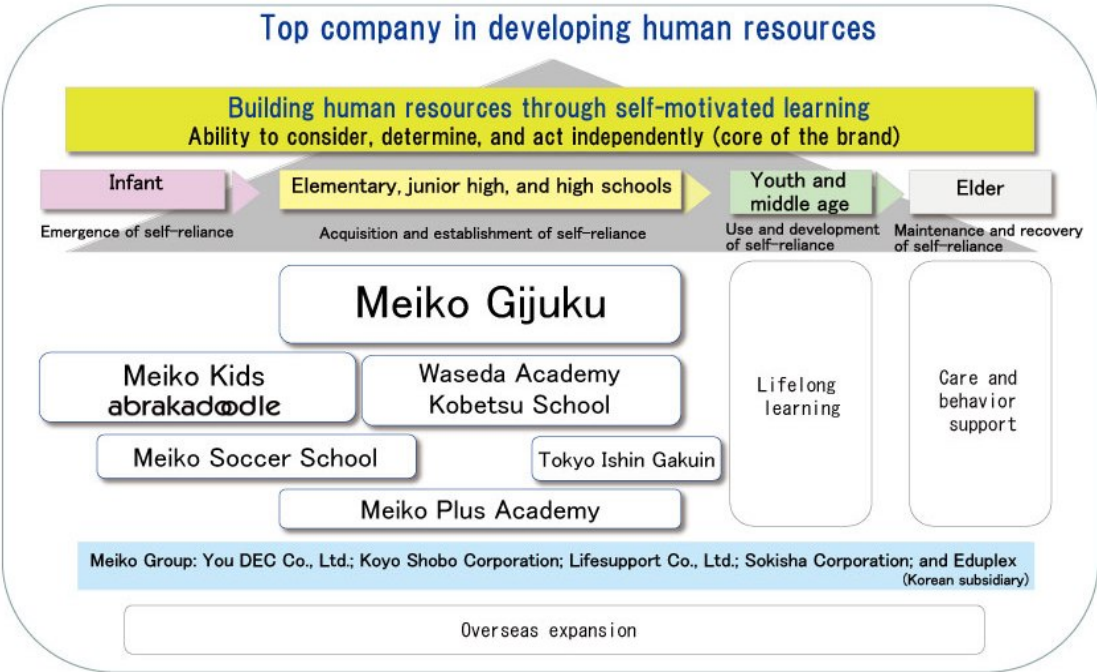
■New Medium-term Management Plan

The company’ s new medium term management plan for the Meiko Gijuku schools are to increase the numbers of schools, students, and classes. To reach these goals, the company plans to strengthen its central control over these schools. As mentioned earlier, to increase the number of students, the company is standardizing an entry counseling service for these schools. As part of its effort to increase the number of schools, management is considering opening satellite schools in areas currently unserved by standard schools. This approach is expected to increase the company’ s local market shares and boost its brand value.

To increase sales per student, the company is expanding the range of courses offered, inducing students to attend the schools more often. To increase the number of students, the Meiko Gijuku directly operated schools are setting up low-cost courses, such as a new course for elementary school students and video instruction for high school students. The company intends to introduce such courses to its Meiko Gijuku franchised schools in this fiscal year, FY8/14.

In FY8/14-FY8/16, the company will also undertake research to modify its model for Meiko Gijuku schools in response to social and educational change. It will also establish a profitable base for its new businesses and expand into new business areas through M&A. The Meiko Network Japan group already offers a range of educational services to people of all ages. Over the next three years, it may expand its offerings to senior citizens in Japan and to overseas markets.

Diagram of Businesses by Customer Category



Source: Company

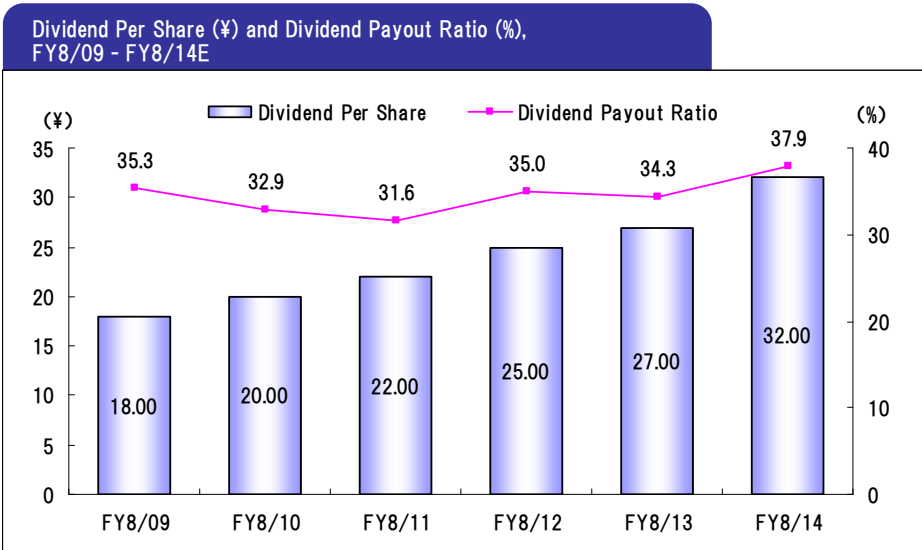


■ Shareholder Return Policy

Aims to raise dividend payout ratio to 50% gradually

Until now, Meiko Network Japan has targeted a dividend payout ratio of 35%, but the company plans to gradually raise this target to 50%. It has increased its dividend per share every year since listing its shares. For FY8/14, the company plans to raise its dividend per share by ¥5 to ¥32. Thus, FY8/14 will be the sixteenth straight year of dividend increases by the company. The company also plans to continue a shareholder award program begun in FY8/12 through which each shareholder of a minimum unit of shares (100 shares) receives a ¥3,000 QUO card. Based on the company’ s closing share price on November 12, 2013, of ¥1,080, the proposed dividend per share payment of ¥32 and the shareholder award, the total yield to holders of a minimum unit of shares (100 shares) is 5.7%.

Having established a successful franchise system in Japan’ s educational services industry, the company is likely to continue to grow over the medium-to-long term and to increase its dividend payment. In FY8/13, the company achieved an ROE of 19.8%, which is higher than the average ROE for listed Japanese companies. Therefore, Meiko Network Japan is likely to remain attractive to investors.



On October 28, 2013, the company announced plans to sell some of its shares currently held by major shareholders in order to expand its shareholder base and improve the liquidity of its shares. Including the over-allotment portion, the company will sell 2.5 million shares, or about 9% of its current shares outstanding. There was some concern that investor demand for the company’ s shares might wane after this announcement, but the company remains attractive as it continues to grow and increase its dividend.



Consolidated Income Statement (¥mn), FY8/09 - FY8/14E

	FY8/10	FY8/11	FY8/12	FY8/13	FY8/14E
Sales	12,855	13,715	14,484	15,279	16,470
YOY growth	8.7	6.7	5.6	5.5	7.8
Cost of goods sold	7,323	7,922	8,403	8,995	-
Cost of goods sold ratio	57.0	57.8	58.0	58.9	-
SGA cost	2,423	2,429	2,537	2,703	-
SGA cost ratio	18.9	17.7	17.5	17.7	-
Operating profit	3,108	3,363	3,543	3,580	3,780
YOY growth	4.4	8.2	5.3	1.1	5.6
Operating profit margin	24.2	24.5	24.5	23.4	23.0
Non-operating income	236	212	238	260	-
Non-operating expenses	102	98	53	123	-
Recurring profit	3,243	3,477	3,727	3,718	3,880
YOY growth	6.0	7.2	7.2	-0.2	4.3
Recurring profit margin	25.2	25.4	25.7	24.3	23.6
Extraordinary profits	47	26	24	0	-
Extraordinary losses	81	169	166	110	-
Pretax profit	3,209	3,334	3,585	3,608	-
YOY growth	9.3	3.9	7.5	0.6	-
Pretax profit ratio	25.0	24.3	24.8	23.6	-
Corporate taxes	1,312	1,411	1,616	1,433	-
Effective tax rate	40.9	42.3	45.1	39.7	-
Net profit	1,897	1,922	1,969	2,169	2,330
YOY growth	11.4	1.4	2.4	10.2	7.4
Net profit ratio	14.8	14.0	13.6	14.2	14.1
Measures of profitability					
Average number of shares outstanding (thousand)	31,190	27,647	27,587	27,599	-
EPS (¥)	60.82	69.55	71.38	78.60	84.43
DPS (¥)	20.00	22.00	25.00	27.00	32.00
BPS (¥)	267.76	316.93	366.72	426.82	-
Dividend payout ratio	32.9	31.6	35.0	34.3	37.9
ROE	25.8	23.9	20.9	19.8	-

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