

Meiko Network Japan
 4668 Tokyo Stock Exchange First
 Section

12-May-16

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 and disclaimers appear
 at the end of this document.

FISCO Ltd. Analyst
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■ Operates Meiko Gijuku and its strength is its expertise in franchised operations

Meiko Network Japan (hereafter, also “the Company”) offers a variety of educational services centered on the directly operated and franchised operations business for the Meiko Gijuku private tutorial schools, but that also include soccer schools, medical-related preparatory schools, after-school care, and Japanese language schools for overseas students. Its strengths include its expertise in franchised operations and its features are that its business is highly profitable and it has a strong financial position.

In the consolidated results for FY8/16 1H (September 2015 to February 2016), net sales increased 0.5% YOY to ¥9,419mn, but operating income decreased 26.7% to ¥1,551mn. The main factors behind these results were that net sales in the mainstay Meiko Gijuku business, including directly operated and franchised operations, fell 2.5%, and also because of the Company’s active spending in sales promotions in order to improve the brand power and strengthen student acquisition. Other factors behind the sluggish sales were that it invested resources into resolving a problem relating to the work of part-time tutors and that it was unable to sufficiently focus on sales activities, including for winter classes and to attract students.

The forecasts for the FY8/16 results are for net sales to increase 4.6% YOY to ¥19,639mn and operating income to decline 19.3% to ¥2,870mn. The progress rate for net sales up to Q2 was 48.0%, which is slightly low. However, student numbers are expected to recover from the effects of sales promotion measures, including Internet advertising, while a recovery from the strengthened measures for summer classes is also possible. In addition, with regards to the other businesses such as the preparatory schools business, the Waseda Academy Kobetsu Schools, and Meiko Kids Schools, student numbers are steadily increasing and the forecast is for their sales-growth trends to continue. But a decline in profits is still forecast, as the Company will continue to actively invest in sales promotions in 2H also.

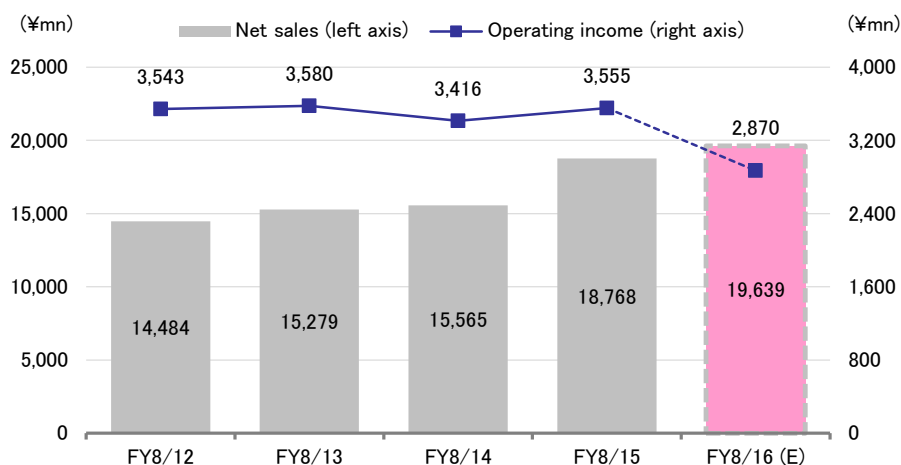
In March 2016, the Company acquired all shares in Kotoh Jimsho Co., Ltd. and Kokusai Jinzai Kaihatsu Co., Ltd. and they newly became subsidiaries. Kotoh Jimsho has built a reputation for its business for university entrance exams and university education, while Kokusai Jinzai Kaihatsu operates the JCLI Japanese Language Schools. Together with the schools of Waseda EDU Co., Ltd., which was made into a subsidiary in the previous fiscal period, domestically the Group is now a leading operator of Japanese language schools. The two companies that were recently made into subsidiaries both have annual net sales in excess of ¥400mn, which will be reflected in the consolidated results from Q4. Also, in April 2016, the Company opened its first school in Taiwan, where it is developing a private tutorial schools business through a joint venture with a local company.

The Company’s policy on returns to shareholders is to continue its current proactive stance. For dividends, it still has the same basic policy of increasing the dividend payout ratio in stages to around 80%, continuing the consecutive increases in dividends that it has maintained since its listing. For FY8/16, it is forecasting a dividend per share of an increase of ¥4.0 to ¥38.0 (dividend payout ratio of 70.6%). Moreover, under the shareholder benefit program, the Company will give QUO cards worth ¥1,000 to ¥5,000 to shareholders as of the end of August, according to the number of shares held and the length of time held. The gross investment yield per share unit, including the shareholder benefit program, is at the 3% - 5% level at the current share price (¥1,228 as of April 21, 2016).

■ Check Point

- Sales to rise from Q3 due to student-acquisition measures
- Continuing to recruit new owners and to open schools in areas currently without a school
- Interest-bearing debt ratio is 0.7% and it is essentially debt free

Trends in net sales and operating income



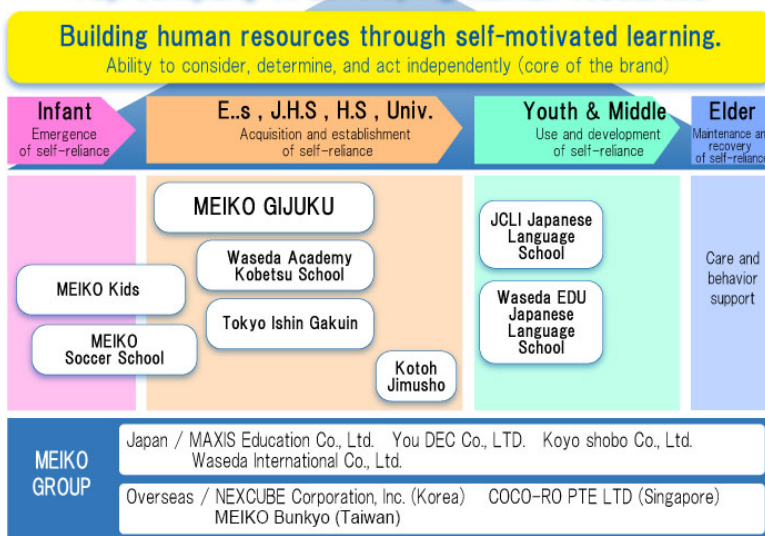
■ Description of Businesses

Leads the private tutorial schools industry and is actively developing its educational-services businesses

The main revenue pillars are the Meiko Gijuku directly operated business and the franchised operations business, which lead the private tutorial schools industry. Based on its educational philosophy of developing human resources through independent learning, it is also actively developing educational-services businesses other than Meiko Gijuku.

Specifically, it operates Meiko Soccer Schools for children; Waseda Academy Kobetsu Schools, which provide tutorial instruction to junior high school and high school students seeking entry into prestigious high schools and universities; and Meiko Kids Schools, which provide nursery care for preschool children and after-school care for elementary school children. The Company also operates medical-related preparatory schools and Japanese language schools for overseas students through its subsidiaries. The Company's subsidiary Youdec Co., Ltd. publishes a magazine featuring information about the content of entrance examinations for junior high schools and high schools, produces model examination questions, sells educational materials to students of private schools and offers private instruction to students at their schools. In addition, Youdec's subsidiary, Koyo Shobo Co., Ltd., is involved in the academic publishing business.

Top company in developing human resources



Source: the Company's website

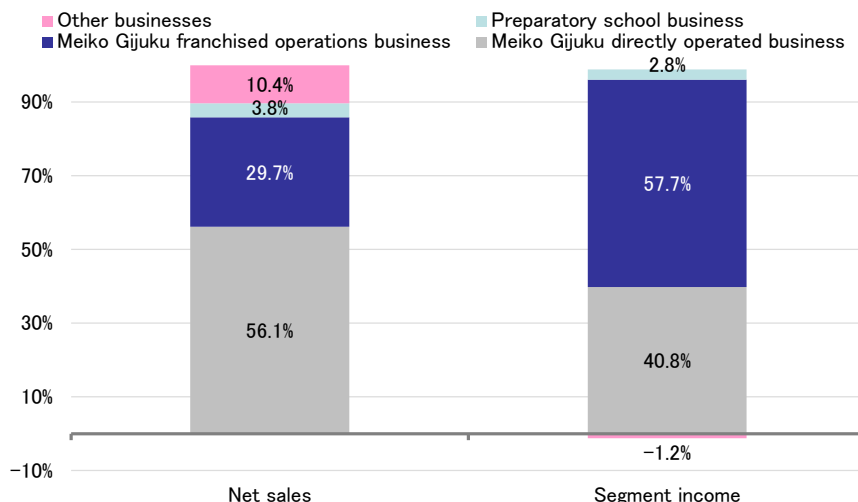
As detailed in the bar chart below showing percentages according to business segment, in 1H FY8/16 the mainstay Meiko Gijuku business (directly operated and franchised operations) was the source of the majority of Meiko Network Japan's total consolidated sales and profits. The Company's policy, as described in its medium-term strategy, is to aim for growth in the entire Group through maintaining the growth of the Meiko Gijuku business while developing other educational-services businesses.

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Percentage distributions by businesses (1H FY8/16)



■ Business Trends

In FY8/16 1H, net sales were ¥9,419mn, and operating income was ¥1,551mn

(1) Overview of 1H FY8/16

In consolidated operating results for 1H FY8/16, net sales rose 0.5% YOY to ¥9,419mn, operating income declined 26.7% to ¥1,551mn, ordinary income declined 31.4% to ¥1,578mn, and net income attributable to the owners of the parent declined 64.0% to ¥540mn.

FY8/16 1H results (consolidated)

	FY8/15 1H totals		FY8/16 1H totals				
	Results	% of sales	Company targets	Results	% of sales	YOY	% of target
Net sales	9,368	-	9,782	9,419	-	+0.5%	-3.7%
Cost of sales	5,672	60.5%	6,036	5,983	63.5%	+5.5%	-0.9%
SG&A expenses	1,578	16.8%	2,140	1,884	20.0%	+19.4%	-11.9%
Operating income	2,117	22.6%	1,605	1,551	16.5%	-26.7%	-3.3%
Ordinary income	2,298	24.5%	1,656	1,578	16.8%	-31.4%	-4.7%
Net extraordinary income	90	1.0%	-403	-485	-	-	-
Net income	1,504	16.1%	665	540	5.7%	-64.0%	-18.7%

Number of students enrolled at Meiko Gijuku schools, number of schools, total system-wide sales (directly operated and franchised operations)

	FY8/15	FY8/16	YOY
Number of schools (end of February)	2,137	2,126	-0.5%
Number of students (end of February)	139,515	138,250	-0.9%
Total system-wide sales	25,063	24,764	-1.2%

Note: Total system-wide sales = the sum of 1) total sales of directly operated schools, including admission fees, lesson fees, fees for educational materials, and fees for test materials, and 2) sales from admission fees.



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Net sales declined in the mainstay Meiko Gijuku business, but this was covered by the year-on-year growth in sales in the preparatory schools business and the other businesses, for an overall slight increase in net sales. The main reason for the decline in operating income was the impact of the decline in sales from the highly profitable Meiko Gijuku business. Upon looking at individual cost items, we see it was also due to the higher personnel expenses (+¥211mn YOY) in cost of sales, the higher sales promotions expenses (+¥210mn), and the higher general and administrative expenses (+¥133mn), particularly M&A-related expenses. Both sales and profits were slightly below the Company targets, with the main downside factors being the decline in student numbers and the fall in the unit price per student in the Meiko Gijuku business.

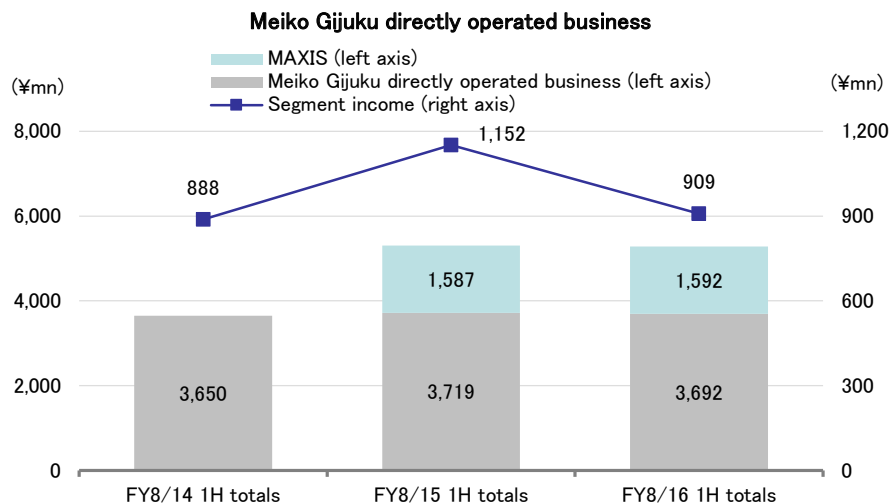
The rate of decline in net income increased, but this was because the Company recorded extraordinary loss of ¥449mn as an adjustment for tutors' salary and ¥50mn as a valuation loss for shares held in affiliates. The adjustment for tutors' salary resulted from the discovery of certain inappropriate points relating to the management of working hours and the payment of wages for part-time tutors. The Company made one-time payments in Q1 to tutors for whom the adjustment was deemed necessary. It has increased training and guidance on personnel administration to ensure thorough and appropriate management and implementation of working hours for part-time tutors, and is working to strengthen compliance in the chain as a whole and to establish a rewarding working environment. Despite concerns that personnel expenses for part-time tutors per school may increase, we consider that the Company will be able to absorb this increase through its initiatives to increase the number of students per school and the unit price per student.

(2) Business segment trends

○Meiko Gijuku directly operated business

Net sales in the Meiko Gijuku directly operated business decreased 0.4% YOY to ¥5,285mn, and segment income declined 21.1% to ¥909mn. Within these amounts, net sales from the Company's directly operated business fell 0.7% to ¥3,692mn, while operating income decreased 11.7% to ¥849mn. Net sales from the subsidiary MAXIS Education Co., Ltd (hereafter, MAXIS) increased 0.3% to ¥1,592mn, while operating income after the amortization of goodwill (¥71mn) fell 69% to ¥59mn.

As of the end of February 2016, the number of schools had increased by 3 YOY to 312 schools, while the average number of students during the fiscal period also steadily increased by 2.9% to 25,707 students. It is thought that student numbers grew thanks to various measures, including to improve customer satisfaction through strengthening counselling to students and their parents, and also to establish an environment through creating schools that are safer and easier for students to attend. The fact that sales declined despite these efforts was because sales per student fell by approximately 3% YOY, and sales ended up being sluggish as they were adversely affected by the measures to establish a working environment as a priority issue, including optimizing the management of the working hours of part-time tutors, and the fact that sales activities for winter classes were weaker than in a typical year.





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

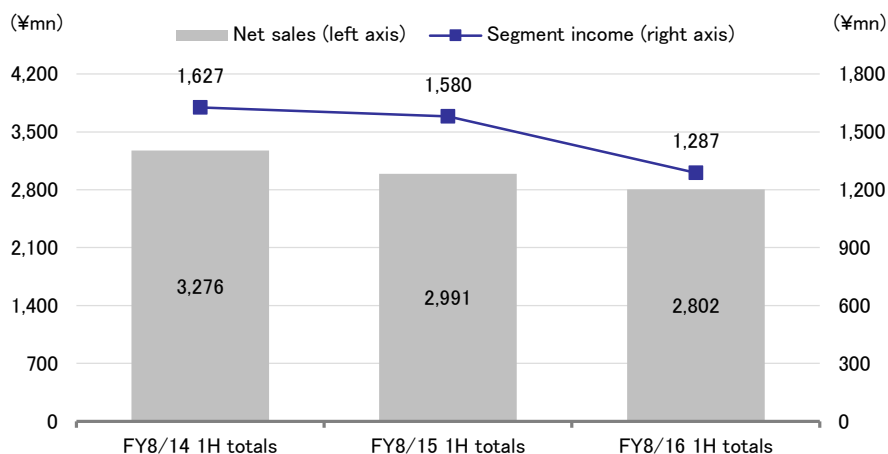
	The Company's directly operated schools			MAXIS directly operated schools		
	FY8/15 1H totals	FY8/16 1H totals	Change	FY8/15 1H totals	FY8/16 1H totals	Change
Number of schools (end of February)	220	220	0	89	92	+3
Number of students (period average)	17,842	18,316	+474	7,143	7,391	+248
Average number of students per school (period average)	81.2	83.0	+1.8	80.9	80.6	-0.2
Sales per student (¥1,000)	208.5	201.6	-6.8	222.3	215.5	-6.8

○Meiko Gijuku franchise business

In the Meiko Gijuku franchise business, net sales were down 6.3% YOY to ¥2,802mn, and segment income decreased 18.6% to ¥1,287mn. At the end of February, the number of schools had fallen by 14 YOY to 1,814 schools, while the average number of students during the period also fell by 0.7% to 116,779 students. The average number of students per school was 64.2 students, which basically maintains the same level as the same period in the previous fiscal year. For the fifth consecutive quarter, the year-on-year downward trend continued in the number of franchised operations schools, but this is against the backdrop of the Company's efforts to strengthen the profitability of existing schools as a priority measure within the strategic progress it is making in the scrap & build of schools.

Breaking down the net sales, sales from royalties declined, although only slightly, down 0.8% YOY to ¥1,981mn, and most of the decline in sales was accounted for by the fall in sales for school equipment and advertising revenue alongside the reduction in the number of newly opened schools. In addition to the fall in net sales, the main reason for the lower operating income was that sales promotions expenses increased ¥210mn.

Meiko Gijuku franchised operations business



Number of franchised operations schools, number of students, sales from royalties

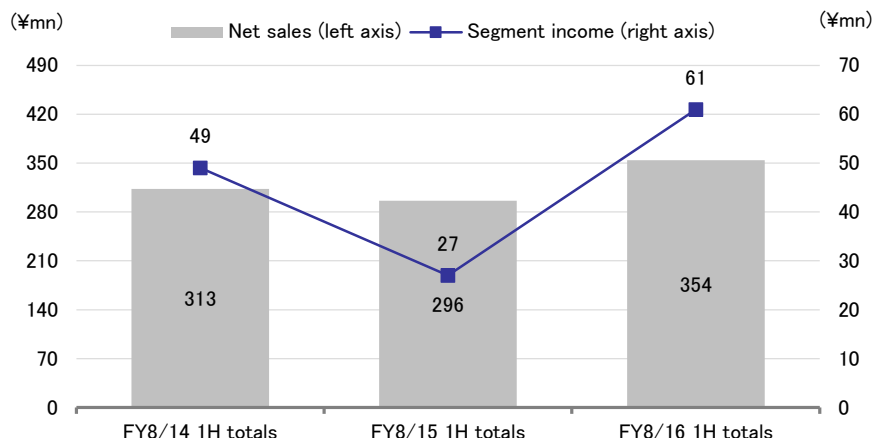
	FY8/15 1H totals	FY8/16 1H totals	Change
Number of schools (end of February)	1,828	1,814	-14
Number of students (period average)	117,627	116,779	-848
Average number of students per school (period average)	64.4	64.2	-0.2
Sales from royalties (¥mn)	1,996	1,981	-14
Average sales from royalties per school (¥1,000)	1,092	1,088	-4

○Preparatory schools business

In the preparatory schools business operated by consolidated subsidiary Tokyo Ishin Gakuin Co., Ltd., net sales increased 19.5% YOY to ¥354mn and segment income rose 127.8% to ¥61mn, for the best results in two years on a half-year basis. In terms of the factors behind the higher sales and profits, in addition to an increase in student numbers through student-attraction activities targeting specific students, for example strengthening visits to high schools with a track records of students continuing on to medical universities, sales per student also increased thanks to the holding of special classes and enhancements to the curriculum, while it succeeded in keeping personnel expenses and other costs to around the same level as the previous year.

Moreover, through measures like the detailed analysis of the results of model exams, students are provided with accurate guidance to increase the pass rate, and the number of pass results in the spring of 2016 exceeded the number in the previous year. At the end of February, student numbers had also continued to increase YOY, by 13 to 149 students.

Preparatory schools business

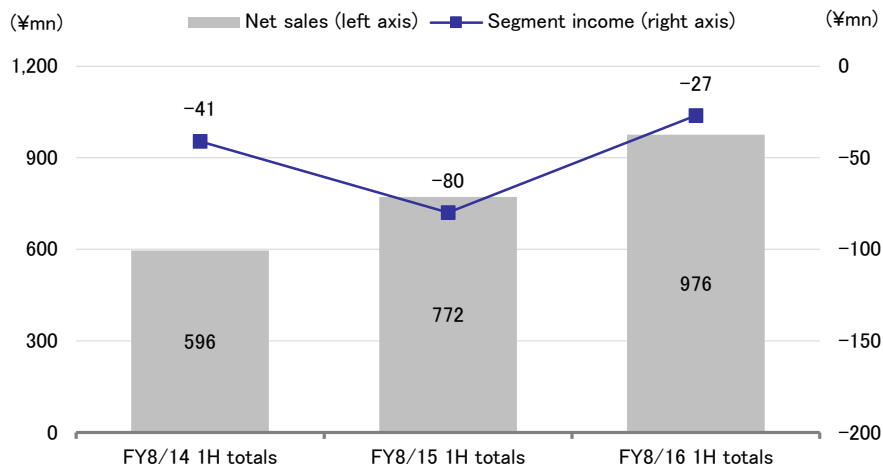


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○Other businesses

In other businesses, net sales increased 26.4% YOY to ¥976mn, while it recorded a segment loss of ¥27mn (compared to a loss of ¥80mn in the same period in the previous fiscal year). If excluding the amortization of goodwill of ¥33mn for Waseda EDU and Youdec, the segment would have been in profit.

Other businesses



Looking at the trends according to business, the Waseda Academy Kobetsu Schools' net sales increased ¥39mn YOY to ¥220mn, and it recorded an operating loss of ¥29mn (compared to a loss of ¥8mn in the same period in the previous fiscal year). At the end of February, the number of schools had increased by 3 YOY (up 3 Company directly operated schools, up 2 MAXIS directly operated schools, up 1 Waseda Academy directly operated school, and down 3 franchised operations schools) to 30 schools (7 Company directly operated schools, 4 MAXIS directly operated schools, 10 Waseda Academy directly operated schools, and 9 franchised operations schools), and the number of students enrolled in all schools increased 22.5% YOY to 1,913 students. The average number of students per school also increased from 57.9 students in the same period in the previous fiscal year to 63.8 students. Student numbers are trending upward alongside the greater awareness of the schools' track recording in achieving pass results for its students to enter prestigious schools, which is a factor behind the higher sales. The operating loss grew slightly because of the impact of higher expenses from the increase in the number of Company directly operated schools.

Meiko Soccer Schools' net sales increased ¥3mn YOY to ¥70mn, while operating income was ¥0.5mn (compared to a loss of ¥7mn in the same period in the previous fiscal year). The number of schools at the end of February had declined by 1 YOY to 16 schools (of which, 2 were franchised operations schools), while student numbers rose by 43 to 1,054 students. The Company is working to improve the schools' name recognition, including by implementing lessons at elementary schools by coaches who hold a FIFA (Fédération Internationale de Football Association) certified coaching license, which has resulted in the increase in student numbers.

In the Kids Schools business, net sales rose ¥27mn YOY to ¥70mn, which is an increase of around 60%. The number of schools increased by 4 to 7 schools (of which, 1 school was opened in April 2016), and regular student numbers rose significantly, by 82 to 184 students. While sales are steadily increasing, in terms of profits this business recorded a loss because it is still at the stage of upfront investment.

The Japanese language schools operated by consolidated subsidiary Waseda EDU entered the scope of consolidation from Q2 of the previous fiscal year, and their net sales increased ¥81mn to ¥149mn. Student numbers at the end of February had increased by 73 to 478 students, which is drawing close to full capacity (520 students), and therefore during 2016 the plan is to raise the capacity to 600 students. Operating income was slightly in profit even after taking to account the amortization of goodwill of ¥22mn.

Elsewhere, results trended steadily for consolidated subsidiary Youdec, mainly from sales of model entrance exams, particularly to major cram schools. Private instruction within the preparatory schools also performed strongly and as a result, net sales rose ¥38mn YOY to ¥420mn. In addition, sales from Koyo Shobo's academic publishing business were solid, increasing ¥8mn to ¥72mn.

Other businesses' net sales

	(¥mn)		
	FY8/15 1H totals	FY8/16 1H totals	Change
Waseda Academy Kobetsu Schools	143	177	+33
Meiko Soccer Schools	67	70	+3
Meiko Kids Schools	43	70	+27
Waseda EDU	67	149	+81
Youdec	381	420	+38
Koyo Shobo	63	72	+8
MAXIS (other than the Meiko Gijuku business)	51	73	+22
Other businesses	4	14	+10
Total	823	1,048	+225

Note: amounts include in-Group transactions

■ Outlook

Sales to rise from Q3 due to student-acquisition measures, etc.

(1) Outlook for FY8/16

The Company has left unchanged its targets for the FY8/16 consolidated results, with net sales to rise 4.6% YOY to ¥19,639mn, operating income to decline 19.3% to ¥2,870mn, ordinary income to fall 21.4% to ¥2,990mn, and net income to decrease 39.1% to ¥1,442mn. The rates of progress toward achieving the full-year targets in the results up to Q2 were 48.0% of net sales and 54.0% of operating income, both of which are slightly below the average for the last three years (50.2% of net sales and 58.7% of operating income). The principal reason for this is that the progress made by the mainstay Meiko Gijuku business was below target. But from Q3 onwards, we expect there to be a recovery in students numbers from the Company's measures to acquire students (active investment in Internet advertising and TV commercials), and in addition, a recovery seems possible from an increase in sales per student from the strengthened sales activities for summer classes.

Outlook for FY8/16 results (consolidated)

(¥mn)

	FY8/15		FY8/16			
	Results	% of sales	Company targets	% of sales	YOY	Q2 progress rate
Net sales	18,768	-	19,639	-	4.6%	48.0%
Meiko Gijuku directly operated schools	10,321	55.0%	10,803	55.0%	4.7%	48.9%
Meiko Gijuku franchised operations schools	6,017	32.1%	5,934	30.2%	-1.4%	47.2%
Preparatory schools	640	3.4%	700	3.6%	9.3%	50.6%
Other businesses	1,788	9.5%	2,201	11.2%	23.1%	44.4%
Cost of sales	11,792	62.8%	12,307	62.7%	4.4%	48.6%
SG&A expenses	3,420	18.2%	4,462	22.7%	30.5%	42.2%
Operating income	3,555	18.9%	2,870	14.6%	-19.3%	54.0%
Ordinary income	3,803	20.3%	2,990	15.2%	-21.4%	52.8%
Net extraordinary income	95	0.5%	-403	-	-	-
Net income	2,369	12.6%	1,442	7.3%	-39.1%	37.5%

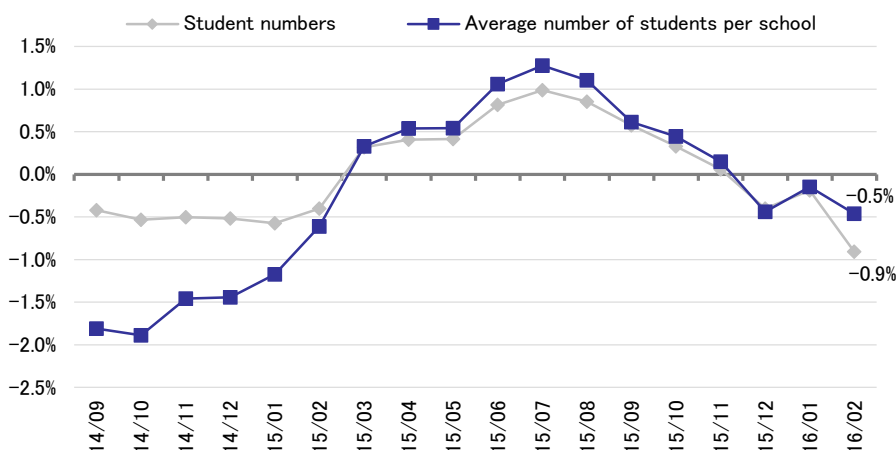
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The Company's policy from Q3 onwards is to continue with measures to improve the brand power and to acquire students, such as through Internet advertising and TV commercials, and it intends to as soon as possible revert to a growth track the year-on-year decreases in students numbers and the average number of students per school since FY12/15. The number of schools also trended downward up to Q2, but in the future it intends to open satellite schools and take other steps to improve its share of student numbers in each region, and it is thought to want to increase the number of schools over the full year to around the same level as the previous fiscal year (2,137 schools).

Meiko Gijuku student numbers, average number of students per school (YOY)



Results from the preparatory schools business and other businesses are expected to continue to grow steadily in 2H. As the number of students entering the preparatory schools in the new academic year was at a pace exceeding that of the previous year, it is highly likely that this business will achieve record highs for its full-year results. In the other businesses also, student numbers continue to rise in each respective businesses and steady growth is expected.

Continuing to recruit new owners and to open schools in areas currently without a school

(2) M&As as a priority issue

The five measures the Company will implement as priorities from 2H onwards are as follows.

○Thoroughly manage working hours and establish a rewarding work environment

Personnel expenses are expected to increase in the future in the context of the thorough management of working hours for part-time tutors. But the Company is controlling personnel expenses by improving operations and efficiency, and in addition its policy is to strengthen profitability by increasing the number of students per school and the unit price per student.

It is also conducting training on personnel administration for the owners of franchised operations schools and is aiming to strengthen compliance by pursuing measures for thorough compliance throughout the entire Group. At the same time, it is bolstering efforts to attract tutors by appealing to the rewarding nature of the work (distribution of a documentary on students who pass exams on video sites and in TV commercials) and also by increasing its dissemination of information, such as via tutor recruitment websites.

○Strengthening the competitiveness of the Meiko Gijuku business

In order to put the Meiko franchised operations business back on a growth track, the Company intends to strengthen the profitability of existing schools through a scrap & build program, and it is expanding the number of schools by recruiting new owners and opening schools in re-organized areas and areas that do not currently have a school. In terms of the measures to acquire students and increase student numbers, it is aiming to improve customer satisfaction through enhancing communication with the students and their parents, and its policy is also to continue with measures to improve the brand power using TV commercials, Internet advertising, and a smartphone app.

The Company is also working to build the foundations for a renewed Meiko Gijuku business with an eye toward medium- to long-term growth. Through “Meiko style□Independent Learning,” it will pursue its educational philosophy of nurturing independence, autonomy, and creativity in children to differentiate itself from other companies. In addition, it is taking steps to meet its students diverse learning needs by advancing the introduction of ICT and online content, and by strengthening its five course instruction program. Looking at student numbers at the end of the current Q2, we see that the number of high school students increased 2.8% YOY, and one of the reasons for this is the higher number of students taking the MEIKO MUSE video lessons course intended for high school students, and the outcomes of measures such as this are starting to be realized.

○Responding to the reforms in the university entrance exams

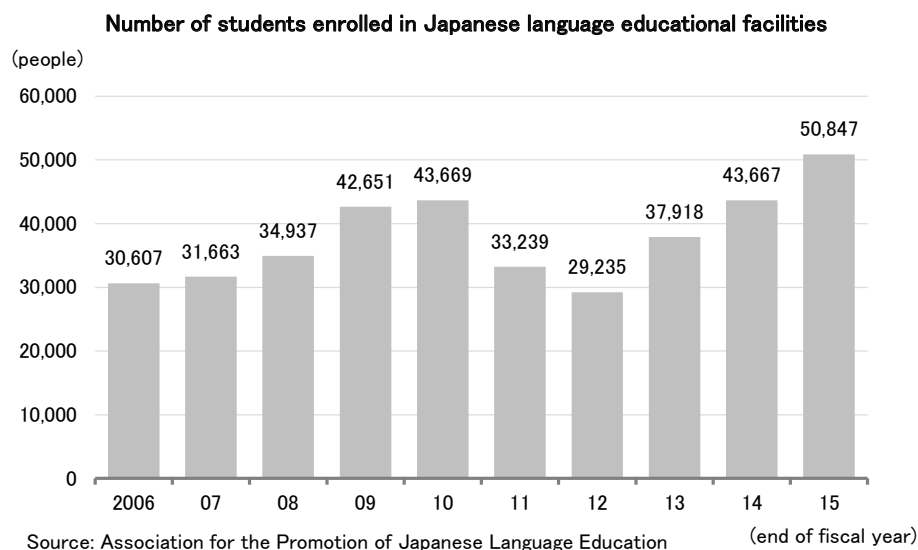
In order to respond to the reforms in the university entrance exams scheduled for 2020 onwards, in March 2016 the Company acquired all the shares of Kotoh Jimsho for ¥800mn and made it a subsidiary (the deemed acquisition date is the end of May). Kotoh Jimsho was established in 1984 and started in business developing educational materials for high school students and planning and editing education-related publications. It recorded net sales of ¥405mn in FY3/15.

By making Kotoh Jimsho a subsidiary, the Company hopes not only to improve the level of quality of its teaching materials, but also that it will contribute to an improvement in the level of quality of the educational operations of the entire Group. The amount of goodwill and the amortization period have not yet been decided, but they will be incorporated into the consolidated results from Q4.

○Strengthening the Japanese language schools

The Company has positioned its Japanese language schools as a core business that it expects to grow in the future. Continuing on from Waseda EDU Japanese Language Schools that it acquired in the previous year, in March 2016 it acquired all the shares in Kokusai Jinzai Kaihatsu, which operates the JCLI Japanese Language Schools, for ¥1,250mn and made it a subsidiary (the deemed acquisition date is the end of May). JCLI Japanese Language Schools was established in 1980 and it operates 2 Japanese language schools in Shinjuku Ward, Tokyo. Its FY3/15 net sales were ¥415mn and its student capacity at its 2 schools was 706 students, although it plans to open a new school during 2016 that would raise this to a total of 1,380 students. When combined with Waseda EDU, the capacity becomes approximately 1,900 students, which ranks among the highest for Japanese language schools.

The number of students enrolled in Japanese language educational facilities is increasing by double digits on an annualized rate taking fiscal 2012 as the base year, and in fiscal 2015 it reached 50,847 students, its highest number in 5 years. In the future, alongside the increase in overseas visitors to Japan, demand for Japanese language schools is also expected to grow, and it is thought that the Company wants to develop its Japanese language schools to be one of its core businesses. By making JCLI Japanese Language Schools part of the Group, it hopes to achieve synergies through sharing expertise with Waseda EDU and utilizing scale merits, and expects it to achieve high growth in the future. The amount of goodwill and the amortization period have not yet been decided, but they will be incorporated into the consolidated results from Q4.



○ **Measures for the overseas business**

In November 2015, in order to develop the Meiko Gijuku directly operated and franchised operations schools business in Taiwan, the Company established Meiko Bunkyo as a joint venture company with a local educational services-related company, and then opened the first school in April 2016. The intention is to first of all use this first school to ascertain the demand trends, then develop the business through opening multiple schools.

■ **Financial position**

Interest-bearing debt ratio is 0.7% and it is essentially debt free

The financial position at the end of February 2016 was that total assets decreased ¥1,719mn compared to the end of the previous fiscal period to ¥16,961mn. Breaking down the main increases and decreases, in current assets, cash and deposits fell ¥716mn due to the acquisition of treasury stock, while in non-current assets, goodwill and investment securities declined ¥104mn and ¥230mn respectively.

Total liabilities decreased ¥276mn compared to the end of the previous fiscal period to ¥3,775mn, mainly due to a decline in advances received of ¥215mn. In addition, net assets fell ¥1,442mn to ¥13,186mn, because while net income of ¥540mn was recorded, this was exceeded by the decreases, of the acquisition of treasury stock of ¥1,499mn and dividend payments of ¥468mn.

Although the equity ratio fell from 78.0% at the end of the previous fiscal year to 77.3% due to the decrease in net assets, it continued to maintain its previous high level. Moreover, the interest-bearing debt ratio is 0.7% and the Company is essentially debt free and its finances can be judged to continue to be in good condition.

Consolidated balance sheet and financial indicators

	FY8/15	FY8/16 Q2	Change	Change factors
				(¥mn)
Current assets	9,828	8,690	-1,138	
(cash and deposits)	7,345	6,628	-716	Decrease from the acquisition of treasury stock, etc.
Non-current assets	8,852	8,271	-580	Goodwill (-¥104mn), Investment securities (-¥230mn)
Total assets	18,680	16,961	-1,719	
Current liabilities	3,357	3,091	-266	Advances received (-¥215mn)
Non-current liabilities	694	683	-10	
(interest bearing debt)	96	88	-7	
Total liabilities	4,052	3,775	-276	
Net liabilities	14,628	13,186	-1,442	Acquisition of treasury stock (-¥1,499mn)
(financial indicators)				
Equity ratio	78.0%	77.3%		
Interest-bearing debt ratio	0.7%	0.7%		

■ Dividend and capital policies

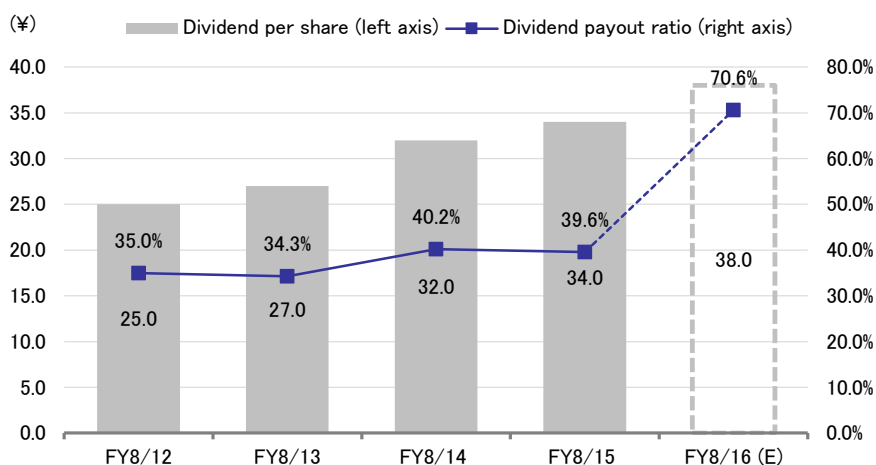
Policy of raising the dividend payout ratio to around 80%

The Company is considered to have taken an active stance on returning profits to shareholders since it listed on JASDAQ in April 1997. It has continued to consecutively increase dividends since its listing, and has also introduced a shareholder benefit program. The Company's basic policy on dividends is to continue increasing dividends in the future and to increase the dividend payout ratio in stages to around 80%. Although it has forecast a decrease in profits for FY8/16, the forecast for dividend per share remains unchanged from the initial plan, with an increase of ¥4.0 YOY to ¥38.0 (dividend payout ratio of 70.6%), for the 18th consecutive fiscal period of higher dividends.

Moreover, under the shareholder benefit program, the Company gives QUO cards worth ¥1,000 to ¥5,000 to shareholders as of the end of August, according to the number of shares they hold and the length of time they have held them. Those holding 100 shares for less than three years will receive a ¥1,000 QUO card, while those holding the same number of shares continuously for three years will receive cards with a value of ¥3,000.

The Company's capital policy is to strengthen its equity and to flexibility acquire treasury stock when possible, taking into account the share price and financial position. It has already acquired treasury stock in FY8/16, of 1,040,000 shares for ¥1,499mn.

Dividend per share and payout ratio



Shareholder benefit program

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

Note: The program will apply to shareholders as of the end of August 2016

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