COMPANY RESEARCH AND ANALYSIS REPORT

MEIKO NETWORK JAPAN CO., LTD.

4668

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Summary

The outlook for the spring of 2018 and onwards is for student numbers and earnings to turn to a recovery phase from the fully fledged deployment of the New Meiko Gijuku and the renewal of the brand

MEIKO NETWORK JAPAN CO., LTD. <4668> (hereafter, also "the Company") offers a variety of educational services centered on the directly operated and franchised operations business for the Meiko Gijuku private tutorial schools, but that also include soccer schools, medical-related preparatory schools, after-school care, and Japanese language schools for overseas students. Its strengths include its expertise in franchised operations and its features are that its business is highly profitable and it has a strong financial position.

1. Higher sales and profits in FY8/17 from the effects of M&A and a reduction in sales promotion costs

In the FY8/17 consolidated results announced on Oct. 12, net sales increased 3.8% year on year (YoY) to ¥19,383mn and operating income rose 20.2% to ¥2,615mn, achieving higher sales and profits for the first time in 2 fiscal years. Despite the fall in sales in the mainstay Meiko Gijuku business (including the franchise operations business) due to a decline in student numbers, net sales increased from the full-year contributions to sales of Kokusai Jinzai Kaihatsu Co., Ltd. and Kotoh Jimusho Co., Ltd., which became consolidated subsidiaries in FY8/16 Q4. Profits also increased, as the additional sales promotions costs of ¥547mn that were recorded in the previous fiscal year in relation to the Meiko Gijuku business were eliminated, and the profitability of the other businesses improved.

2. Sales to increase and profits to decrease in FY8/18, but profits will also increase from 2H

The forecasts for the FY8/18 consolidated earnings are for net sales to increase 5.3% YoY to ¥20,415mn and operating income to decrease 23.1% to ¥2,011mn. The Company has positioned FY8/18 as a year in which it will aim to revive and evolve Meiko Gijuku, while responding to the educational reforms set for 2020. It is sequentially introducing "review classes," which are a new learning guidance service, and "Meiko e-Po," which is an e-portfolio system. It is aiming to differentiate itself in the private tutorial schools industry, in which competition is continuing to intensify, by working to recover student numbers through aiming to evolve its "Meiko Style - Independent Learning." It is also enhancing learning contents utilizing ICT and expects to recover the unit price per student. The Company will spend approximately ¥600mn in 1H on advertising costs to renew its brand, so operating income will temporarily fall, down 54.7%. But the outlook is for student numbers to recover from the spring of 2018 onwards and for both sales and profits to increase from 2H.

3. Progressing the development of new educational services

In the other businesses, student numbers are steadily increasing in Waseda Academy Kobetsu Schools, Meiko Kids schools, and the Japanese language schools for overseas students, and the outlook for FY8/18 is for the increase in sales to continue. Also, the Company's policy is to work to develop new educational services, such as new forms of schools that use ICT, programming schools, and high-end English language schools, while also looking to utilize M&A. It is aiming to achieve its management targets for FY8/20, which is the final year of its medium-term management plan, of net sales of ¥22,541mn and operating income of ¥3,620mn, through adding the recovery in the Meiko Gijuku business to the contributions to profits of these other educational services.

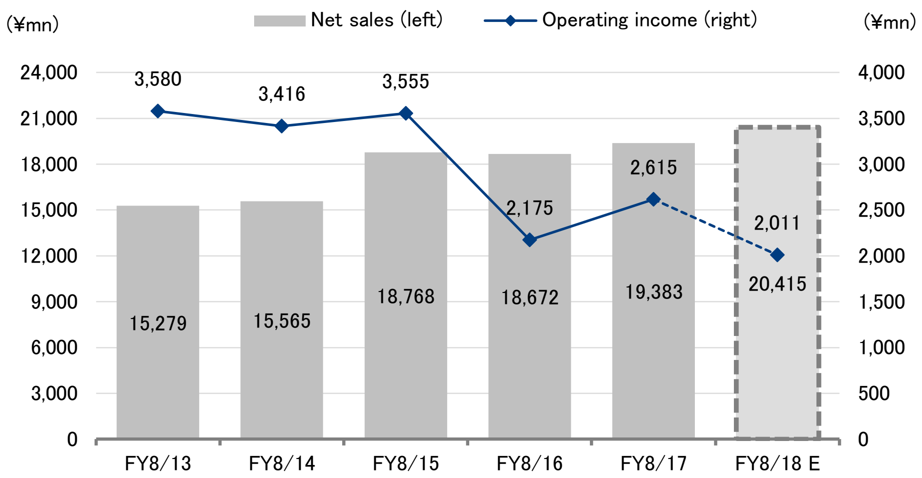
4. Plans to continue consecutive dividend hikes as proactive shareholder return

The Company's policy on returns to shareholders is to continue its current proactive stance. For dividends, it intends to continue the consecutive increases in dividends that it has maintained since its listing. In FY8/18, it is planning a dividend per share of an increase of ¥2.0 YoY to ¥42.0 even while forecasting reduced profits. 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 4% to 5% level at the current share price (¥1,303 as of Nov. 2).

Key Points

- Outlook for FY8/18 is for profits to increase from 2H from the fully fledged deployment of the New Meiko Gijuku
- Pursuing a differentiation strategy from the introduction of "review classes" and "Meiko e-Po" and aiming for regrowth by enhancing learning contents
- Aiming for ¥3.6bn in operating income in FY8/20 through renewed growth in the Meiko Gijuku business and cultivation of new businesses

Results trends



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

Business overview

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

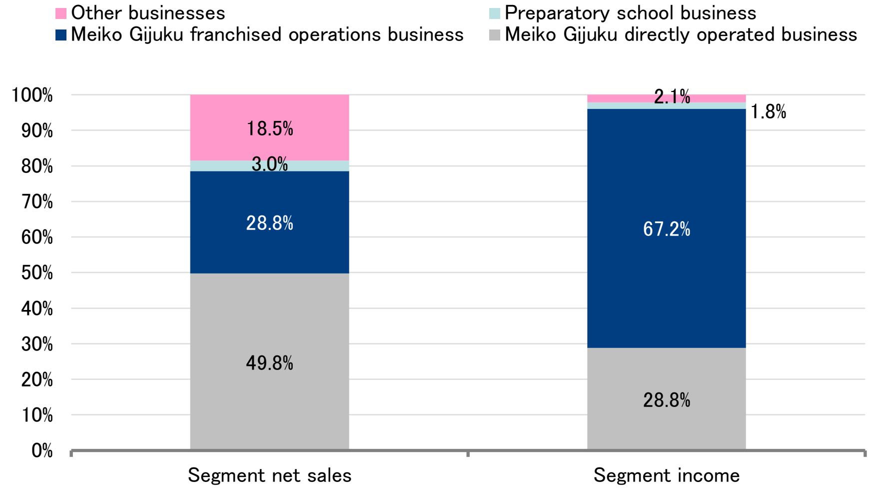
The main revenue pillars are the Meiko Gijuku directly operated business and the franchised operations business, which lead the private tutorial schools industry. Based on its educational philosophy of developing human resources through independent learning, it is also actively developing educational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

Specifically, it operates Meiko Soccer School, a soccer school for children; Waseda Academy Kobetsu Schools, which provide tutorial instruction to junior high school and high school students seeking entry into prestigious high schools and universities; and Meiko Kids Schools, which provide nursery care for preschool children and after-school care for elementary school children. Additionally its subsidiaries operate Tokyo Ishin Gakuin, a preparatory school that specializes in the medical university field, and Waseda EDU Japanese Language School and JCLI Japanese Language School as schools that cater to overseas students learning Japanese. Other businesses include subsidiary Kotoh Jimusho, which operates businesses related to university exam and university education, subsidiary Youdec Co., Ltd., which publishes an exam information magazine, produces model examination questions, sells educational materials, and offers private instruction to students at their schools, and Youdec's subsidiary Koyo Shobo Co., Ltd. is involved in the academic publishing business.

As overseas businesses, the Company operates a nursery school for Japanese residents in Singapore (non-consolidated subsidiary COCO-RO PTE LTD) and has invested in NEXCUBE CORP, INC. (equity-method affiliate; 23.7% stake), which operates private tutorial schools in South Korea, and Taiwan-based Meiko Bunkyo (affiliated company not accounted for by the equity method; 25% stake), a joint venture with a local firm that operates Meiko Gijuku business in Taiwan.

In percentages by business segment for FY8/17, the mainstay Meiko Gijuku business (directly operated and franchised operations) is clearly the primary source of the Company's income at 78.6% of net sales and at 96.0% of profits. The Company's policy, as its medium-term strategy, is to aim for growth in the entire Group and be Japan's top company in human development through maintaining the growth of the Meiko Gijuku business while developing its other educational services businesses.

Percentage distributions by business segment (FY8/17)



*Segment income is before the deduction of corporate expenses
Source: Prepared by FISCO from the Company's financial results

Business performance

Sales and profits rose in FY8/17 for the first time in 2 fiscal years from the effects of M&A and the reduction in sales promotion cost

1. Overview of FY8/17 results

The Company posted FY8/17 consolidated results with ¥19,383mn in net sales (up 3.8% YoY), ¥2,615mn in operating income (up 20.2%), ¥2,806mn in ordinary income (up 20.7%), and ¥2,042mn in net income attributable to owners of the parent (up 116.4%), posting increases in both sales and profits for the first time in two fiscal years.

Despite the declines in sales from the Meiko Gijuku directly operated and franchise operations businesses and the preparatory schools business, net sales increased YoY due to the full fiscal year contributions of Kokusai Jinzai Kaihatsu and Kotoh Jimusho, which were newly consolidated in Q4 of the previous fiscal year, and from the higher sales from other educational services businesses. Operating income also rose, because in addition to the contributions of the newly consolidated subsidiaries, in the Meiko Gijuku business, the additional sales promotion costs (¥547mn) recorded in the previous fiscal year were eliminated. Also, a gain on the sale of non-current assets of ¥539mn was recorded as extraordinary income, and net income attributable to owners of the parent greatly increased. Compared to the Company forecasts announced in April 2017, net sales were 3.3% below forecast, as student numbers in the Meiko Gijuku business and the preparatory schools business were less than expected, but operating income was 2.2% above forecast as a result of efforts to keep down costs.

In the Meiko Gijuku business, the number of schools at the end of the period, as the total of both directly operated and franchised operations schools, was down 1.3% on the end of the previous fiscal year to 2,074 schools, while student numbers also declined 3.9% to 125,219, both of which were the second consecutive fiscal year of declines. Total system-wide net sales were down 5.1%, including due to the fall in net sales per student, for the fifth consecutive fiscal year of decline. The background to this is the tough conditions in the private tutorial schools industry, in which competition to acquire students is intensifying in the context of the continuing decline in the birthrate.

Review of consolidated FY8/17 results

(¥mn)

	FY8/16		FY8/17				
	Results	% of sales	Forecast	Results	% of sales	YoY	vs. forecast
Net sales	18,672	-	20,041	19,383	-	3.8%	-3.3%
Meiko Gijuku directly operated business	10,123	54.2%	9,975	9,647	49.8%	-4.7%	-3.3%
Meiko Gijuku franchised operations business	5,597	30.0%	5,696	5,586	28.8%	-0.2%	-1.9%
Preparatory school business	689	3.7%	704	573	3.0%	-16.9%	-18.7%
Other businesses	2,260	12.1%	3,664	3,576	18.5%	58.2%	-2.4%
Cost of sales	12,165	65.2%	13,235	12,696	65.5%	4.4%	-4.1%
SG&A expenses	4,331	23.2%	4,245	4,070	21.0%	-6.0%	-4.1%
Operating income	2,175	11.7%	2,560	2,615	13.5%	20.2%	2.2%
Ordinary income	2,325	12.5%	2,650	2,806	14.5%	20.7%	5.9%
Extraordinary income (loss)	-508	-2.7%	-	533	2.8%	-	-
Net income attributable to owners of the parent	944	5.1%	1,886	2,042	10.5%	116.4%	8.3%
Number of students enrolled at Meiko Gijuku schools, number of schools, total system-wide sales (directly operated and franchised operations)							
Number of schools (end of August)	2,102			2,074		-1.3%	
Number of students (end of August)	130,259			125,219		-3.9%	
Total system-wide sales	46,122			43,778		-5.1%	

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

Profits increased in the Meiko Gijuku business from the reduction in sales promotion costs, and the other businesses become profitable from the effects of M&A

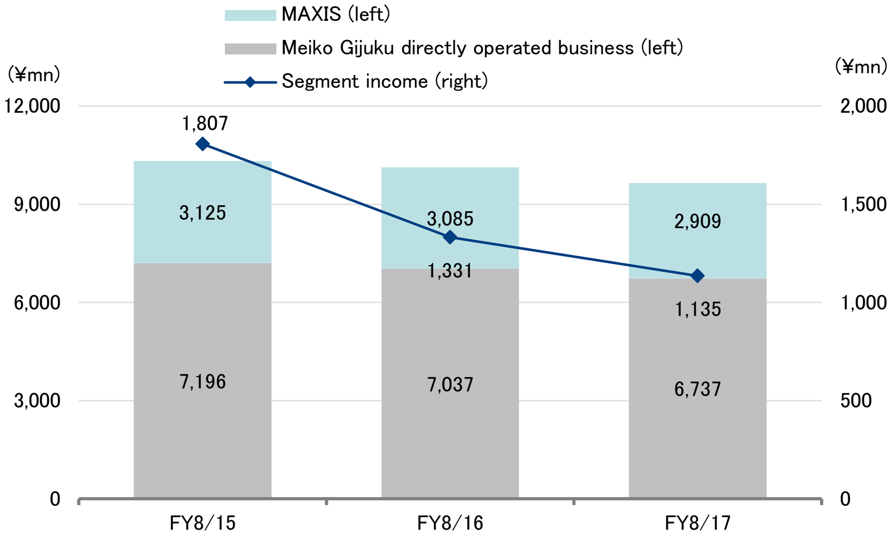
2. Segment trends

(1) Meiko Gijuku directly operated business

Sales from Meiko Gijuku directly operated business dropped 4.7% YoY to ¥9,647mn, while segment income declined 14.8% to ¥1,135mn. Within these results, net sales in the Company's directly operated business fell 4.3% to ¥6,737mn and operating income declined 12.0% to ¥1,043mn. Sales at subsidiary MAXIS Education Co., Ltd. (hereafter, MAXIS) declined 5.7% to ¥2,909mn, and operating income dropped 18.7% to ¥235mn. The amortization of goodwill for MAXIS was ¥143mn.

Student numbers at the end of the period were 17,112 in the Company's directly operated schools, down 4.7% on the end of the previous fiscal year, and 6,662 in MAXIS, down 2.6%. The number of schools at the end of the period was 233 schools directly operated by the Company, which is an increase of 3, and 95 MAXIS schools, an increase of 2. The average number of students per school during the period declined 5.4% in the Company's directly operated schools and decreased 5.8% in MAXIS schools. Net sales per student also fell, down 1.9% in the Company's directly operated schools and down 2.0% in MAXIS schools. These were the main reasons for the declines in sales and profits in this business segment.

Meiko Gijuku directly operated business



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

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

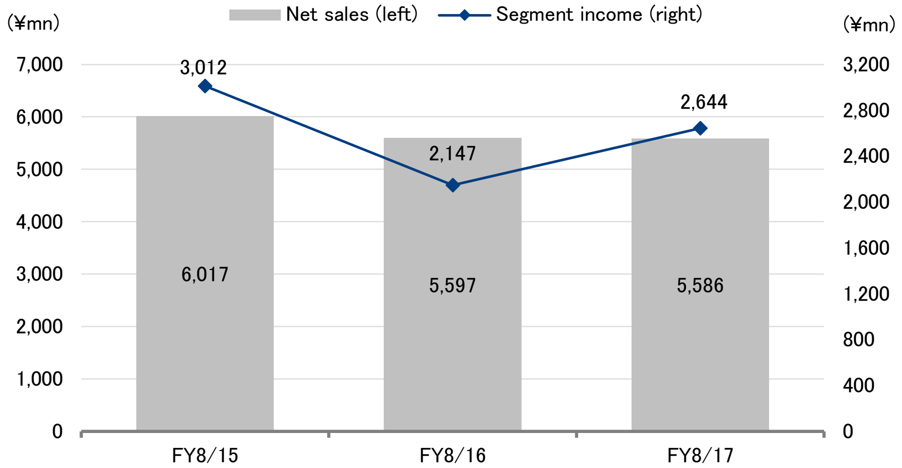
	Directly operated by the Company			Directly operated by MAXIS		
	FY8/16	FY8/17	Change	FY8/16	FY8/17	Change
Number of schools (end of August)	230	233	1.3%	93	95	2.2%
Average number of students	17,440.5	17,023.0	-2.4%	6,962.9	6,700.0	-3.8%
Average number of students per school	77.7	73.5	-5.4%	75.5	71.1	-5.8%
Sales per student (¥1,000)	403.5	395.8	-1.9%	443.2	434.3	-2.0%

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

(2) Meiko Gijuku franchised operations business

In the Meiko Gijuku franchised operations business, net sales decreased 0.2% YoY to ¥5,586mn and segment income increased 23.1% to ¥2,644mn. At the end of the period, the number of schools decreased by 33 on the end of the previous fiscal year to 1,746 schools (excluding MAXIS and directly operated schools), while the number of students at the end of the period fell 3.8% to 101,445 students, and the average number of students during the period was down 2.3%. On the one hand, the Company is reorganizing student recruitment areas and opening schools in areas without schools, and on the other hand, it is closing unprofitable schools, which is the reason why the number of schools and students declined. Therefore, royalty sales, which are linked to franchised operations schools sales, decreased 4.5% to ¥3,520mn. But sales increased for advertising and other products sold for franchise operations, and as a result, net sales declined only slightly in the segment as a whole. Profits increased for the first time in five fiscal years, as the additional sales promotion costs that were recorded in the previous fiscal year were eliminated.

Meiko Gijuku franchised operations business



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

Number of franchised operations schools, number of students, royalty sales

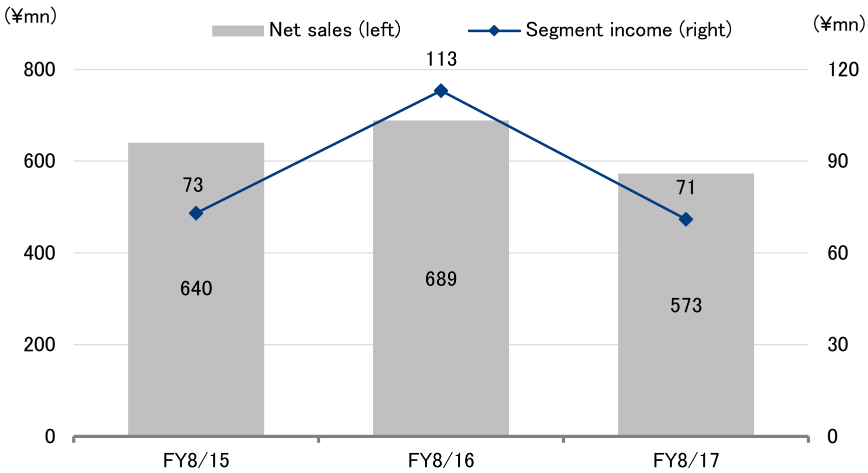
	FY8/16	FY8/17	Change
Number of schools (end of August)	1,779	1,746	-1.9%
Average number of students	107,685	102,852	-4.5%
Average number of students per school	59.7	58.3	-2.3%
Royalty sales (¥mn)	3,686	3,520	-4.5%
Royalty sales per school (¥1,000)	2,043.4	1,994.2	-2.4%

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

(3) Preparatory school business

In the preparatory schools business, which is conducted by the consolidated subsidiary Tokyo Ishin Gakuin, net sales decreased 16.9% YoY to ¥573mn and segment income declined 40.0% to ¥71mn. For medical universities, the tendency among students of wanting to pass the entrance exams in their last year of high school is increasing, so the number of students who have already graduated from high school who newly enrolled on the course in the spring of 2017 was sluggish. As a result, student numbers at the end of the period had decreased greatly, by 25.2% to 104 students, which was the main factor behind the lower sales and profits.

Preparatory school business

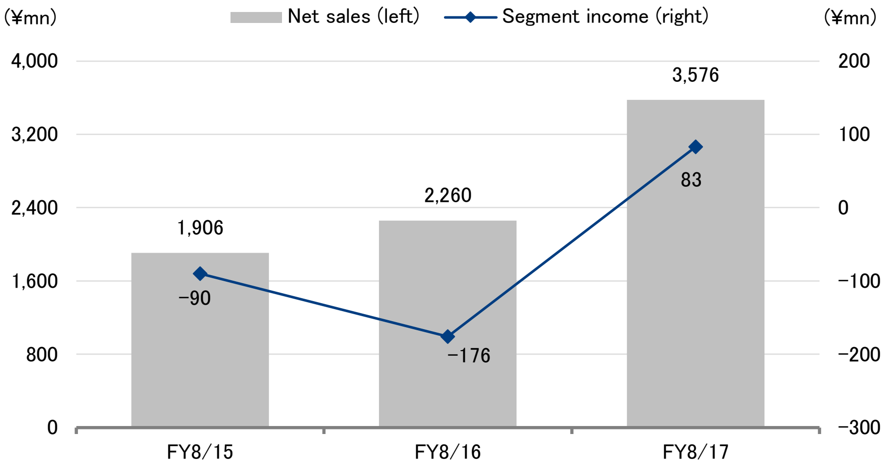


Source: Prepared by FISCO from the Company's financial results

(4) Other businesses

In the other businesses, net sales increased 58.2% YoY to ¥3,576mn and segment income was ¥83mn (compared to a loss of ¥176mn in the same period in the previous fiscal year). Most of the higher sales and profits were from the contributions of the newly consolidated Kokusai Jinzai Kaihatsu and Kotoh Jimusho. But another factor was that in other educational services, the extent of the loss is steadily decreasing and profitability is improving alongside the increase in student numbers.

Other businesses



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

Other businesses' net sales

(¥mn)

	FY8/15	FY8/16	FY8/17	YoY change
Waseda Academy Kobetsu Schools	298	325	347	+22
Meiko Kids	124	179	236	+57
Meiko Soccer School	140	147	151	+4
Waseda EDU	205	294	382	+88
Kokusai Jinzai Kaihatsu	-	172	808	+636
Kotoh Jimusho	-	30	466	+436
Youdec	810	701	679	-22
Koyo Shobo	217	246	285	+39
MAXIS (other business)	103	147	168	+21
Other (overseas business etc.)	4	16	49	+33
Total	1,906	2,260	3,576	+1,315

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

Looking at the trends in the main businesses in this segment, in Waseda Academy Kobetsu Schools, net sales increased ¥22mn YoY to ¥347mn, and the operating loss was ¥11mn (compared to a loss of ¥52mn in the same period in the previous fiscal year). At the end of August 2017, the number of schools had increased by 2 (a decrease of 1 school directly operated by the Company, an increase of 1 MAXIS school, an increase of 1 school directly operated by Waseda Academy, and an increase of 1 franchised school) to 32 schools (6 schools directly operated by the Company, 5 schools directly operated by MAXIS, 11 schools directly operated by Waseda Academy, and 10 franchised schools), while the number of students enrolled at all the schools increased 10.2% to 2,595. The average number of students per school also steadily increased YoY, up from 78.5 to 81.1. Among the students who passed the university entrance exams in the spring of 2017, many of the Company's students achieved pass results for GMARCH* or more prestigious universities. In addition, in the junior high school and high school entrance exams, the number of its students passing the exams for difficult-to-enter schools is increasing, which is a factor behind the improvement in the Company's name recognition as a chain of private tutorial schools that prepare students for entrance exams for difficult-to-enter schools. The Company's policy is to aggressively move forward with franchised schools going forward.

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

In the Meiko Soccer business, net sales increased ¥4mn YoY to ¥151mn and the operating loss was ¥1mn (compared to a loss of ¥6mn in the previous fiscal year). The number of schools at the end of the period had declined by 2 on the end of the previous fiscal year to 14 schools (of which, 1 is a franchised operations school), while student numbers decreased by 45 to 926 students. The Company reduced the loss by consolidating two directly operated schools into a neighboring school. The priority issue for the time being will be strengthening the profitability of existing schools, and it is working to improve customer satisfaction by enhancing the guidance provided by the coaching staff, including through strengthening training and reviewing the management system, and holding events that utilize the characteristics of each school.

In the Meiko Kids business, sales steadily expanded for both the directly operated and consignment operations schools in the context of the robust demand for after-school care for young children. As a result, net sales increased ¥57mn YoY to ¥236mn and the operating loss continued to contract. At the end of the period, the number of schools had increased by 2 on the end of the previous fiscal year to 15 schools (8 directly operated schools and 7 consignment operations schools), while the number of students enrolled in the schools had increased by 15 to 782 students. From Q2, the Company newly launched consignment operations for a private after-school care assistance business in Nerima Ward, Tokyo, while it also acquired consignment operations contracts for after-school care at a private elementary school. In the directly operated schools, it provided various services and programs, including event planning, such as of summer camps and social tours, and it worked to improve the levels of satisfaction among customers while improving management and operations.

The Japanese language schools for overseas students business consists of the Waseda EDU Japanese Language School (one school) run by consolidated subsidiary Waseda EDU and the JCLI Japanese Language Schools (three schools) operated by Kokusai Jinzai Kaihatsu, which became a consolidated subsidiary in Q4 in the previous fiscal year. Demand is strong and student numbers have been steadily growing amid the rise in overseas students studying in Japan from China, Southeast Asia, and other countries in recent years. As a result, Waseda EDU Japanese Language School had 597 students at the end of August, an increase of 29.5% YoY (it can accommodate 600 students). Net sales increased ¥88mn to ¥382mn. Student numbers also trended stably in JCLI Japanese language schools, with 1,118 students at the end of August (it can accommodate 1,380 students). Its net sales increased ¥636mn to ¥808mn.

At the consolidated subsidiary Kotoh Jimusho, net sales increased ¥436mn YoY to ¥466mn.

At the consolidated subsidiary Youdec, the number of students taking its entrance examination model exams was less than expected, and the number of contracts for private instruction at its preparatory schools also slumped. As a result, net sales declined ¥22mn YoY to ¥679mn. But results at Youdec’s subsidiary, Koyo Shobo, were positive, with net sales increasing ¥39mn to ¥285mn, including because the numbers of new publications and resale points were higher than expected.

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

3. Financial position and management indicators

Looking at the financial position at the end of FY8/17, total assets were up ¥2,343mn on the end of the previous fiscal year to ¥19,314mn. Breaking down the main change factors, in current assets, cash and deposits increased ¥3,189mn and securities rose ¥200mn. Also, in non-current assets, goodwill decreased ¥407mn, while investment real estate declined ¥721mn following the sale of the Meiko Building.

Total liabilities were up ¥1,137mn on the end of the previous fiscal year to ¥4,897mn, which was mainly due to the rises in income taxes payable of ¥770mn and in accrued consumption taxes of ¥163mn in current liabilities. Net assets grew ¥1,206mn to ¥14,416mn because of the increases in retained earnings of ¥1,007mn due to recording of net income attributable to owners of the parent and in unrealized gain on other securities of ¥256mn.

Looking at the business indicators, the equity ratio slightly declined from 77.4% at the end of the previous fiscal year to 74.5% because of the increase in liabilities, but it remains at a high level. The Company maintains effectively debt-free operations with an interest-bearing debt ratio of 0.5%, and we think that its financial position continues to be healthy. For the indicators of profitability, both the operating income margin and ROE recovered, from 11.7% in the previous fiscal year to 13.5%, and from 6.8% to 14.8%, respectively. As previously stated, the operating income margin was greatly affected by the elimination of the additional sales promotion costs, while the main factor for ROE was the recording of a gain on the sale of non-current assets. Although their levels are still low compared to before FY8/15 and there is room for them to improve in the future, both are at levels of above 10%, so the Company is continuing to maintain a high level of profitability.

Consolidated balance sheet and management indicators

(¥mn)

	FY8/14	FY8/15	FY8/16	FY8/17	Change
Current assets	9,707	9,828	6,865	10,431	+3,566
(Cash and deposits)	7,363	7,345	4,633	7,822	+3,189
Non-current assets	6,860	8,852	10,105	8,883	-1,222
Total assets	16,568	18,680	16,970	19,314	+2,343
Current liabilities	2,774	3,357	3,059	4,168	+1,109
Non-current liabilities	602	694	701	729	+27
Total liabilities	3,377	4,052	3,760	4,897	+1,137
(Interest-bearing debt)	70	96	82	70	-12
Net assets	13,191	14,628	13,209	14,416	+1,206
Management indicators					
(Stability)					
Equity ratio	79.4%	78.0%	77.4%	74.5%	
Current ratio	349.8%	292.7%	224.4%	250.2%	
Interest-bearing debt ratio	0.5%	0.7%	0.6%	0.5%	
(Profitability)					
ROE	17.6%	17.1%	6.8%	14.8%	
Operating income margin	21.9%	18.9%	11.7%	13.5%	

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

Business outlook

The outlook for FY8/18 is for profits to increase from 2H from the fully fledged deployment of the New Meiko Gijuku

1. FY8/18 outlook

The forecasts for the FY8/18 consolidated earnings are for net sales to increase 5.3% YoY to ¥20,415mn, operating income to decrease 23.1% to ¥2,011mn, ordinary income to fall 25.2% to ¥2,100mn, and net income attributable to owners of the parent to decline 41.7% to ¥1,191mn, for higher sales but lower profits. On a fiscal half year basis, sales and profits are expected to decline in 1H, with net sales falling 0.9% to ¥10,054mn and operating income decreasing 54.7% to ¥924mn. But the outlook for 2H is for double-digit increases in sales and profits, with net sales to rise 12.2% to ¥10,360mn and operating income to grow 88.4% to ¥1,087mn.

As the measures to achieve regrowth in the Meiko Gijuku business, the Company plans to sequentially introduce the new services of "review classes" and "Meiko e-Po," and in 1H, it will spend approximately ¥600mn on advertising costs to renew the brand for contents that strongly appeal to these advanced learning methods. This spending will be the main reason for the decline in profits. In 2H, student numbers are expected to recover from the effects of the branding strategy and the deployment of the new services, and so the outlook is for sales and profits to increase in this half. In the preparatory schools business also, profits are expected to recover from 2H onwards from the measures to strengthen the acquisition of students in the last year of high school. In the other businesses, the forecasts are for student numbers to steadily increase, including in Waseda Academy Kobetsu Schools, Meiko Kids schools, and Japanese language schools for overseas students, and for net sales to continue to grow by double digits, up 13.2% YoY.

FY8/18 outlook (consolidated)

(¥mn)

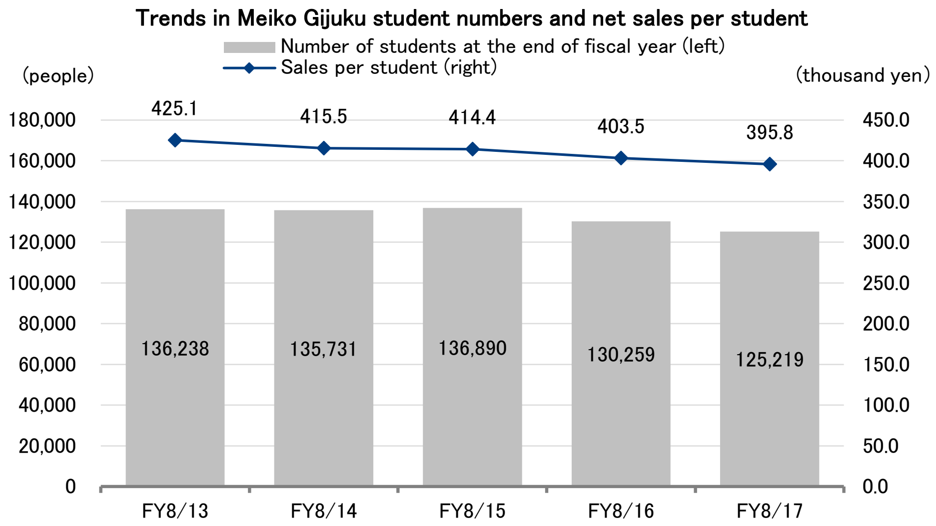
	FY8/17		FY8/18					
	Full-year results	YoY	1H forecast	YoY	2H forecast	YoY	Full-year forecast	YoY
Net sales	19,383	3.8%	10,054	-0.9%	10,360	12.2%	20,415	5.3%
Meiko Gijuku directly operated business	9,647	-4.7%	5,073	-1.4%	5,033	11.8%	10,107	4.8%
Meiko Gijuku franchised operations business	5,586	-0.2%	2,709	-3.8%	2,971	7.2%	5,680	1.7%
Preparatory school business	573	-16.9%	234	-29.0%	344	41.7%	578	1.0%
Other businesses	3,576	58.2%	2,037	9.8%	2,011	16.9%	4,049	13.2%
Cost of sales	12,696	4.4%	6,611	6.5%	6,971	7.4%	13,582	7.0%
SG&A expenses	4,070	-6.0%	2,518	32.5%	2,302	6.1%	4,821	18.4%
Operating income	2,615	20.2%	924	-54.7%	1,087	88.4%	2,011	-23.1%
Ordinary income	2,806	20.7%	968	-55.2%	1,131	76.1%	2,100	-25.2%
Extraordinary income	533	-	-	-	-	-	-	-
Net income attributable to owners of the parent	2,042	116.4%	525	-69.3%	666	102.0%	1,191	-41.7%

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

Pursuing a differentiation strategy from the introduction of "review classes" and "Meiko e-Po" and aiming for regrowth by enhancing learning contents

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

Toward the regrowth of the Meiko Gijuku business, the Company is working to increase student numbers and net sales per student as the priority measures for FY8/18.



Note: Net sales per student are at directly operated schools.
Source: Prepared by FISCO from the Company's results briefing materials

(1) Measures to increase student numbers

In a situation in which private tutorial schools are desperately trying to acquire students amidst the intensifying competition in the industry, the Company believes the key point is to aim to increase student numbers by pursuing a differentiation strategy from its learning guidance services. Together with the sequential introduction of its "review classes" and "Meiko e-Po," it has created a strategy to return to a growth path by actively investing in advertising from the start of 2018 in order to renew its brand.

The "review classes" entail a cycle of "learning" and "review" and are a learning method that aim for students to learn independently by acquiring various "insights" through reviewing what they have learned, thereby firmly establishing an essential understanding of it. Since the past, based on its guidance policy of "Meiko Style - Independent Learning," the Company has been providing learning guidance in which the students acquire the ability to think for themselves and find the answers by themselves, and today it is placing even greater importance on their independence. Specifically, the students themselves summarize what they have learned on that day while independently expressing their own thoughts in words and writing. These learning records are then incorporated into the "Meiko e-Po" system.

By leaving learning records in "Meiko e-Po," the learning process can be continuously accumulated and reviewed, and the students themselves can obtain a sense of how they are growing, while it also makes it possible for them to acquire the skill of proactive learning. Moreover, in "Meiko e-Po" parents and guardians can check their children's learning records on their smartphones. By utilizing "Meiko e-Po," they can confirm in real time their children's learning records and the extent that their academic abilities have improved, which is expected to lead to higher levels of customer satisfaction.

Approximately three months have passed since their introductions into directly operated schools, which seem to be proceeding smoothly based on the positive evaluations by parents and guardians.

In advance of the spring 2018 season for acquiring students, the Company will spend approximately ¥600mn on advertising costs from the start of 2018 in order to deploy a band strategy that strongly appeals to these advanced learning methods, which is considered will lead to the acquisition of students. It is working to improve admissions rates by selecting media based on data analysis and conducting web advertising that is best suited to each area, and also by accelerating its responses to inquiries from customers by actively utilizing call centers.

Therefore, looking on a fiscal half year basis, in 1H, the decline in sales is forecast to continue from the lingering effects of the fall in student numbers, but in 2H, sales are expected to increase from the recoveries in student numbers in the directly operated and franchised operations businesses. In particular, the effects of the introduction of the "review classes" will be realized faster in the directly operated business than in the franchised operations business, so its sales increase rate in 2H is expected to be up 11.8% YoY, for double-digit sales growth. The forecast is also for student numbers to rise around 2% in FY8/18.

(2) Measures to raise net sales per student

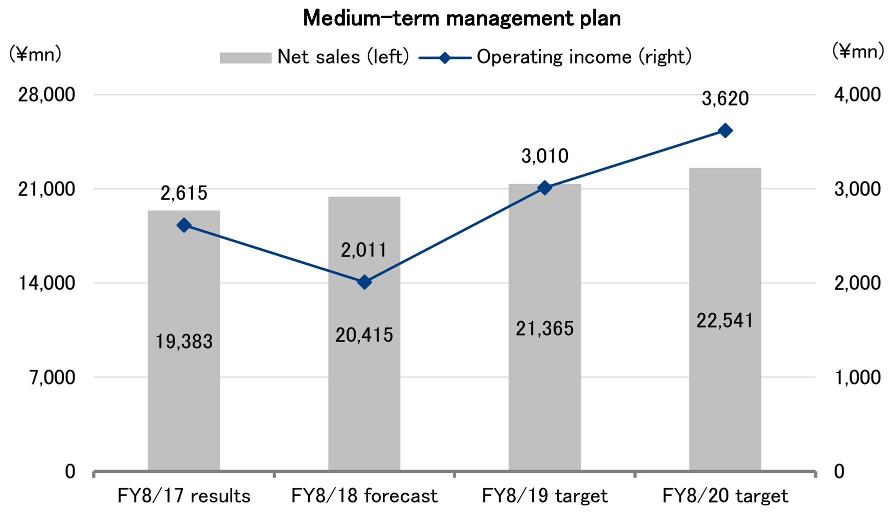
As the measures to raise net sales per student, the Company is working to enhance learning content that utilizes ICT. It is already providing online science and sociology courses for junior high school students and video lesson courses for high schools students. From FY8/18, it will sequentially launch a variety of new courses, including an English-language educational program for elementary school students (to acquire four skills), a video lesson course for junior high school students, English listening materials for junior high school students, online homework contents, and a computer programming learning course.

In the fiscal 2020 reforms to the education system, English language lessons for elementary school students will be strengthened, and also programming lessons will be introduced. So the Company's strategy is to capture the diverse customer demand by enhancing its learning content that utilizes ICT, particularly for these subjects, and thereby raise net sales per student. It is forecasting that net sales per student will increase around 2% YoY in FY8/18.

Medium-term management plan

Aiming for ¥3.6bn in operating income in FY8/20 through renewed growth in the Meiko Gijuku business and cultivation of new businesses

In October 2016, the Company announced its medium-term management plan for the four years until FY8/20. The management targets in the plan's final year are net sales of ¥22,541mn and operating income of ¥3,620mn. As previously described, in the FY8/17 results, net sales were slightly under their target, but operating income exceeded its target. On the other hand, on looking at FY8/18, the targets in the medium-term management plan are net sales of ¥20,585mn and operating income of ¥2,640mn. But in the latest Company forecasts, while net sales are at about the same level at the target, the operating income forecast is ¥2,011mn, meaning there is a discrepancy of more than ¥600mn. This is because the Company will invest approximately ¥600mn in strategic advertising costs. If in FY8/18 student numbers are as the Company expects and it is able to return to a growth track, in FY8/19, as it will not invest ¥600mn in strategic advertising costs, it is considered that operating income will likely be in the range of around ¥3,000mn, which is the target in the medium-term plan.



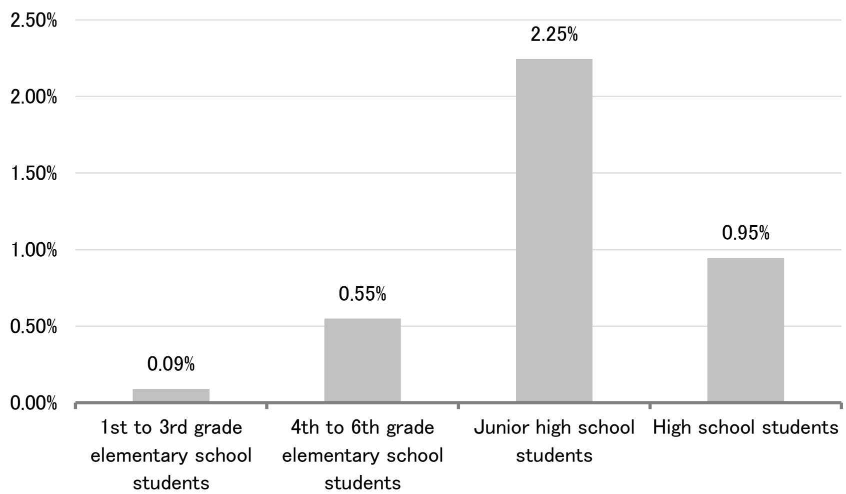
Source: Prepared by FISCO from the Company's results briefing materials

The Company is implementing five strategies as its basic strategies in the medium-term management plan: "Strengthen the Meiko Gijuku business," "strengthen the profitability of all businesses," "expand the business areas to achieve sustainable growth," "train human resources," and "improve corporate value."

To "strengthen the Meiko Gijuku business," the Company is first aiming to increase the number of students and profitability per school through introducing the previously described "review classes" and "Meiko e-Po." After that, its strategy is to once again increase the number of schools. In terms of the management targets for the number of schools and students, in FY8/20, it is targeting 2,180 schools (2,074 schools at the end of FY8/17) and 150,000 students (125,000 students).

Looking at the shares of Meiko Gijuku student numbers as percentages of the student population by grade, junior high school students are the highest percentage at 2.25%, followed by high school students at 0.95%, and then fourth to sixth grade elementary school students at 0.55%. So it can be said that there is still room for it to acquire more high school students and fourth to sixth grade elementary school students, and the Company is forecasting that student numbers will increase while it aims to differentiate itself from the competition through providing the "review classes" and enhancing the learning contents.

Shares of Meiko Gijuku student numbers as percentages of the student population by grade (2017)



Note: The student population by grade are as of May 2017, and the Meiko Gijuku student numbers are as of August 2017
Source: Prepared by FISCO from the "School Basic Survey" by the Ministry of Education, Culture, Sports, Science and Technology and the Company's financial briefing materials

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

In order to "expand the business areas to achieve sustainable growth," in the education and culture business area, the Company will consider M&A and investment proposals if there are projects that can be expected to strengthen its main businesses and generate synergies with each business within its businesses development, based on its management philosophy. It is also working to develop new educational services. Specifically, these include that it is envisaging new forms of schools utilizing ICT, programming schools, next generation soroban (Japanese abacus) schools, and high-end English language schools. For these, it is considering not only conducting development in-house, but also through utilizing business alliances, M&A, and other such methods.

To "train human resources," the Company is aiming to realize a work-life balance, reform personnel awareness, and improve productivity, and it is working to train the human resources who will drive growth for the Group.

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

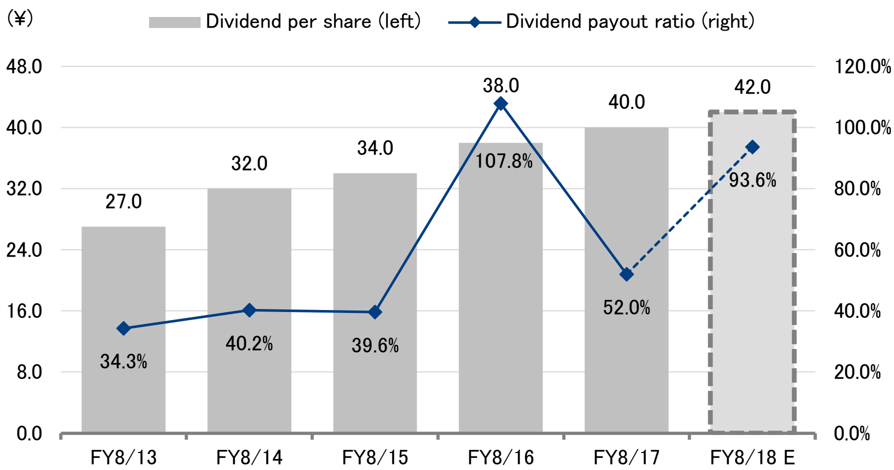
Shareholder return policy

Plans to increase the dividend for the 20th consecutive fiscal period and also has a shareholder benefit program, and is actively returning profits to shareholders

The Company is considered to have taken an active stance on returning profits to shareholders since it listed on JASDAQ in April 1997. It has continued to consecutively increase dividends since its listing, and has also introduced a shareholder benefit program. The Company's basic policy on dividends remains the same to continue increasing dividends in the future. In FY8/18, it is planning a dividend per share of ¥42.0, up ¥2.0 YoY, with a payout ratio of 93.6%, making the 20th consecutive fiscal period of increased dividends.

Under the shareholder benefit program, the Company gives QUO cards worth ¥1,000 to 5,000 to shareholders as of the end of August, according to the number of shares they hold and the length of time that they have held them. Those holding 100 shares for less than three years will receive a ¥1,000 QUO card, while those holding the same number of shares continuously for three years will receive cards with a value of ¥3,000. The gross investment yield per share unit including the shareholder benefit program is at the 4% to 5% level at the current share price (¥1,303 as of Nov. 2). The Company's capital policy is to strengthen its equity and to flexibly consider acquiring treasury stock when possible, taking into account the share price and financial position.

Dividend per share and payout ratio



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

Shareholder benefit program

QUO card distribution (once annually, for shareholders as of August 31)

Number of shares held	Value of gift cards for holding stock for less than three years	Value of gift cards for holding stock for three years or more
100–499 shares	Equivalent to ¥1,000	Equivalent to ¥3,000
500–999 shares	Equivalent to ¥2,000	Equivalent to ¥4,000
1,000 or more shares	Equivalent to ¥3,000	Equivalent to ¥5,000

Note: Program applies to shareholders as of the end of August 2016.
Source: Prepared by FISCO from Company materials

Information security policy

The Company manages tutorial schools and also concludes contracts with member companies based on its own franchise operations system, and it provides continuous school management guidance. In the school management process, it obtains personal information on students, parents and guardians, and tutors. It manages this personal information in accordance with its Regulations on the Protection of Personal Information, it investigates measures to prevent the leakage of information through the Risk Management Committee, verifies the operational statues of measures, and implements measures to protect personal information.

FISCO

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