

MEIKO NETWORK JAPAN CO., LTD.

4668

Tokyo Stock Exchange First section

21-Feb.-2019

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

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■ Summary

In the FY8/19 1Q results, made progress in line with the Company forecasts, and will focus on new student recruitment activities in the spring of 2019

MEIKO NETWORK JAPAN CO., LTD. <4668> (hereafter, also “the Company”) offers a variety of educational services centered on the directly operated and franchised operations for the Meiko Gijuku private tutorial schools, but that also include medical-related preparatory schools, soccer schools, after-school care, and Japanese language schools for overseas students. Its strengths include its expertise in franchised operations and the Company is aiming to become a top company in human development while expanding business domains with M&A activities.

1. FY8/19 1Q results

In the FY8/19 1Q (September to November 2018) consolidated results, net sales increased 4.1% year-on-year (YoY) to ¥4,591mn and operating income rose 7.2% to ¥430mn, and progress was made basically in line with the Company forecasts. In the situation in the private tutorial schools industry of intensifying competition to acquire students, in the mainstay MEIKO Gijuku business, the number of schools and the number of students both continued to trend downward. But from the effects of the higher sales due to K. Line Co., Ltd., a franchise operations management company, being made a subsidiary in the previous 4Q, net sales increased YoY for the second consecutive quarter. Also, operating income rose for the first time in two quarters due to the implementation of measures to keep down SG&A expenses, mainly Head Office expenses. In MEIKO Gijuku as a whole in the 1Q, the number of schools decreased 2.3% YoY to 2,021 schools, the number of students declined 7.1% to 121,704 students, and total system-wide sales fell 3.9%. However, the sales unit price per student rose as much as 3%, which was mainly due to the increases in students taking English-content courses for elementary and junior high school students that utilize ICT, which is being focused on as a bright sign for the future.

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Summary

2. FY8/19 outlook

The forecasts for the FY8/19 consolidated results are for higher sales and profit, with net sales to increase 6.3% YoY to ¥20,320mn and operating income to rise 29.0% to ¥1,860mn. The main reasons for the higher net sales will be an increase in sales of less than ¥1bn from K. Line being made a subsidiary, and also that sales will rise in the other businesses, including the Kids Schools and the Japanese language schools businesses. In December 2018, MEIKO Gijuku announced that it had made a subsidiary of K.M.G. Corporation Co., Ltd., a franchise operations management company, and it became a consolidated subsidiary from 2Q. Its sales scale is around ¥1bn a year, so net sales will increase from it becoming a subsidiary. Profits are forecast to increase, as the Company will keep down sales promotions expenses, in which it actively invested in the previous fiscal year, to the same level as in a typical year, and also from the effects of the higher sales in the other businesses. In the MEIKO Gijuku business, the plan is to start MEIKO Style Coaching* in all schools, include franchise operations schools, from April 2019 onwards, and in the current spring new student recruitment season, the point to focus on will be whether and to what extent the Company can acquire new students. If MEIKO Style Coaching functions well as a differentiation strategy, we can expect it to lead to recoveries in the number of students and sales in the future, including from the enhancement of content.

* MEIKO Style Coaching is a learning system that the Company starting introducing into directly operated schools from the fall of 2017 that effectively improves students' academic performance through combining "review lessons" and an e-portfolio system (Meiko e-Po). "Review lessons" are a learning guidance method that raises students' understanding capabilities during learning through the tutor giving them hints, and the students then solving problems using their own capabilities and explaining what they have understood in their own words to the tutor, and recording this in review notes. Meiko e-Po is a system in which students record information, such as learning records and plans, in a dedicated app, and the parents and guardians can use their smartphones to check on their children's learning status and academic performance at any time.

3. Trends in the other businesses

In the businesses other than MEIKO Gijuku, attention is focusing on the Japanese language schools for overseas students and the Kids Schools businesses. In the Japanese language schools at the end of the current 1Q, the number of Group students had steadily risen, up 3% YoY to 1,889 students, meaning it is largest within Japan for student numbers. Profits temporarily declined in the current 1Q due to the recording of school-relocation expenses, but the forecasts for the full fiscal year are for sales and profits to rise due to the increase in the number of students. In the Kids Schools business also, although it is still small scale, the number of consignment operations projects for nursery care for preschool children and after-school care for elementary school children is increasing, and at the end of the current 1Q, the number of students had risen 19% YoY to as high as 958 students. Results are also trending strongly, with both sales and profits increasing.

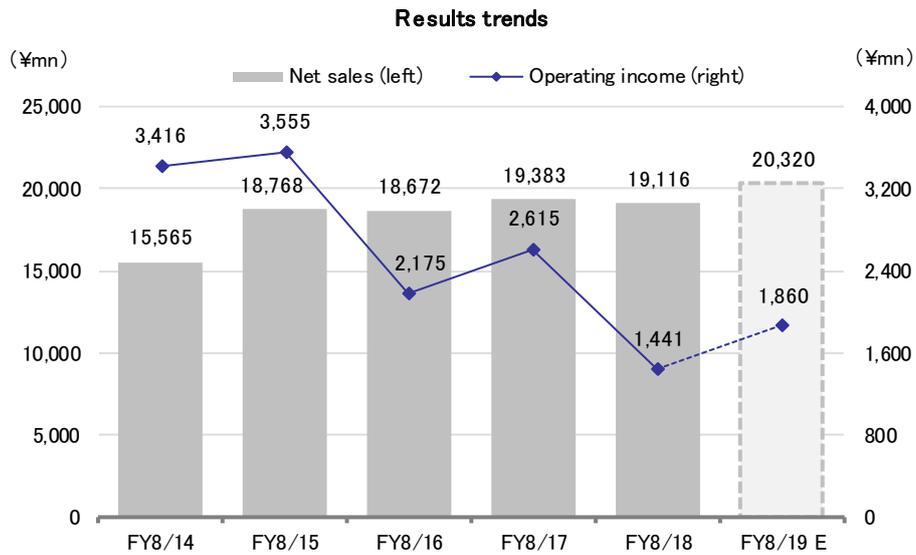
4. Shareholder return policy

There has been no change to the Company's policy of actively returning profits to shareholders. The FY8/19 dividend per share will be ¥30 (dividend payout ratio, 78.1%), down ¥12 YoY, which will be the first decrease since the Company was listed. However, its policy is to set an upper limit for the dividend payout ratio of 80%. There have also been no changes to the shareholder benefit program, in which 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. The gross investment yield per share unit, including the shareholder benefit program, is at the 4-6% level at the current share price (¥949 as of January 31).

Summary

Key Points

- The outlook for FY8/19 is for a double-digit increase in profits from the recovery of the Meiko Gijuku business and the reduction in sales promotions expenses
- Aiming for the renewed growth through differentiation by spreading the use of MEIKO Style Coaching and the utilization of ICT to all schools
- Although its record of increasing dividends will end for the time being, going forward it will continue the policy of actively returning profits to shareholders



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

■ Business overview

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

Based on its educational philosophy of human development through independent learning, the industry leader* in private tutorial schools primarily operates the Meiko Gijuku business (directly operated and franchised operations). The Company is also actively expanding into other businesses related to educational services, aiming to become a top company in human development. Specifically, it operates the Meiko Soccer Schools, 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. 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 schools as schools that cater to overseas students learning Japanese. Other businesses include subsidiary Kotoh Jimusho Co., Ltd., which operates businesses related to university education and exams; subsidiary Youdec Co., Ltd., which publishes an exam information magazine, produces mock exam questions, sells educational materials, and offers private instruction to students at their schools; and Youdec's subsidiary Koyo Shobo Co., Ltd., which is involved in the academic publishing business.

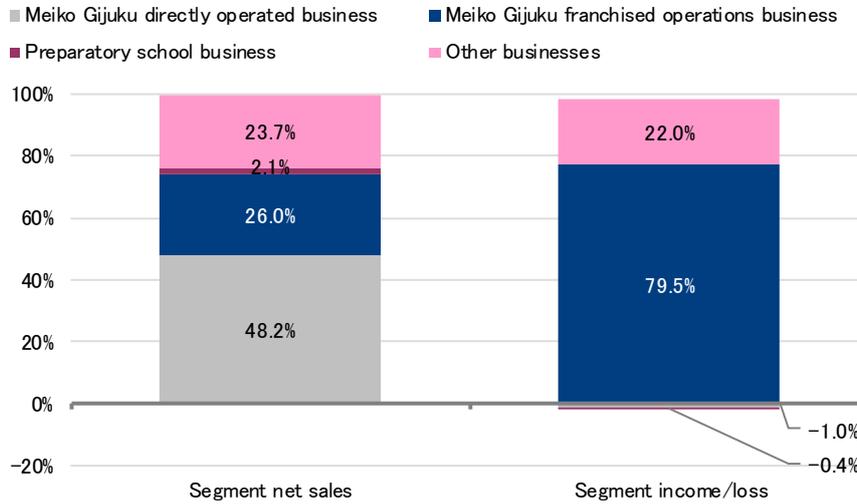
* Meiko Gijuku's share of the private tutorial schools market in FY2018 was approximately 10%. In reference to the market-scale values in the 2018 Education Industry White Paper by Yano Research Institute Ltd., the Company assumed Meiko Gijuku total system-wide sales as ¥43,778mn in FY2018, from the period of September 2017 to August 2018.

In overseas businesses, the mainstay Company operates a nursery school for Japanese residents in Singapore (non-consolidated subsidiary COCO-RO PTE LTD) and has invested in NEXCUBE Corporation, 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), which operates the Meiko Gijuku business in Taiwan.

Looking at the percentages of results by business segment in FY8/19 1Q, the MEIKO Gijuku business (including directly operated and franchise operations) provided 74.3% of net sales and 78.5% of segment income, and it is the mainstay business. The percentages of the Japanese language schools and the Kids Schools businesses are also growing more than the other businesses, and they steadily rose to 23.7% of net sales and 22.0% of segment income.

Business overview

Composition by business segment (FY8/19 1Q)



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

Business performance

In the FY8/19 1Q results, sales and profits increased and progress was made in line with the Company forecasts

1. Overview of FY8/19 1Q results

In FY8/19 1Q consolidated results announced on January 10, net sales increased 4.1% YoY to ¥4,591mn, operating income rose 7.2% to ¥430mn, ordinary income rose 5.9% to ¥453mn, and net income attributable to owners of the parent was up 13.5% to ¥261mn. The results proceeded nearly according to plan.

Total net sales increased for the second consecutive quarter. This was because although sales declined in the MEIKO Gijuku franchise operations business and the preparatory school business, they increased alongside K. Line, which is a MEIKO Gijuku franchise operations management company, being made a subsidiary in the previous 4Q, and also from the higher sales in the other businesses. Operating income rose for the first time in two quarters despite the decline in profits in the MEIKO Gijuku business (directly operated and franchise operations), due to the effects of the measures to keep down SG&A expenses, mainly Head Office expenses.

Business performance

In the mainstay MEIKO Gijuku business at the end of the 1Q, the number of schools, as the total of directly operated and franchise operations schools, had declined 2.3% YoY to 2,021 schools. There was also no change to the downward trend in the number of students, which declined 7.1% to 121,704 students. In the continuing situation of the intense competition to acquire students in the private tutorial schools industry, the Company is currently at the stage of strengthening training to develop MEIKO Style Coaching, which it has set as the differentiation strategy to its franchise operations schools, such as training for the owners and the heads of schools in each area. So the fact that it is currently in this transition process would seem to be a factor behind the continuing decline in the number of students. It can also be said that a negative spiral, of declining profitability per school due to the fall in the number of students per school, which leads to closures of unprofitable schools, is continuing. However, the rate of decrease of total system-wide sales was only 3.9% YoY, while the average sales unit price per student rose 3%, which is being focused on as a positive sign for the future. It seems that the increase in the number of students taking online English content courses for elementary and junior high school students led to the rise in the sales unit price.

Consolidated FY8/19 1Q results

	FY8/18 1Q		FY8/19 1Q		YoY
	Results	% of sales	Results	% of sales	
Net sales	4,411	-	4,591	-	4.1%
Cost of sales	3,063	69.4%	3,227	70.3%	5.3%
SG&A expenses	946	21.5%	933	20.3%	-1.4%
Operating income	401	9.1%	430	9.4%	7.2%
Ordinary income	427	9.7%	453	9.9%	5.9%
Net income attributable to owners of parent	229	5.2%	261	5.7%	13.5%
Number of students enrolled at Meiko Gijuku schools, number of schools, and total system-wide sales (directly operated and franchised operations)					
Number of schools (end of November)	2,069		2,021		-2.3%
Number of students (end of November)	131,067		121,704		-7.1%
Total system-wide sales	10,008		9,620		-3.9%

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 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

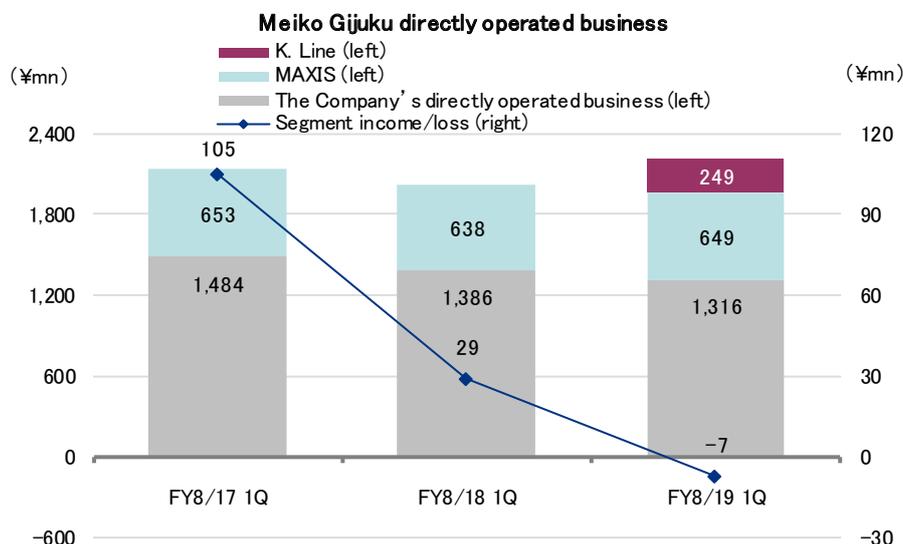
While the number of MEIKO Gijuku students continues to decline, numbers are steadily increasing in the Japanese language schools, the Kids Schools, and the Waseda Academy Kobetsu Schools businesses

2. Segment trends

(1) Meiko Gijuku directly operated business

In the MEIKO Gijuku directly operated business, net sales increased 9.4% YoY to ¥2,215mn and the segment loss was ¥7mn (compared to segment income of ¥29mn in the same period in the previous fiscal year). Within these amounts, in the Company's directly operated business, net sales declined 5.1% to ¥1,316mn and operating income decreased 19.8% to ¥65m. In the subsidiary MAXIS Education Co., Ltd., (hereafter, MAXIS), net sales increased 1.7% to ¥649mn and the operating loss was ¥2mn (a loss of ¥16mn). Also, at K. Line, whose results have been added following it being made a subsidiary in the previous 4Q, net sales were ¥249mn and the operating loss was ¥19mn. The amortization of goodwill relating to MAXIS and K. Line was ¥50mn (¥35mn in the same period in the previous fiscal year), and profit before the amortization of goodwill decreased 33.1% YoY to ¥43mn.

Business performance



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

Number of directly operated schools and number of students

	Directly operated by the Company			Operated by MAXIS			Operated by K. Line		
	FY8/18	FY8/19	Change	FY8/18	FY8/19	Change	FY8/18	FY8/19	Change
Number of schools (end of November)	233	231	-0.9%	95	93	-2.1%	-	42	-
Number of enrolled students (end of November)	17,076	16,069	-5.9%	6,769	6,712	-0.8%	-	2,815	-
Average number of students per school (end of November)	73.3	69.6	-5.1%	71.3	72.2	1.3%	-	67.0	-

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

At the end of the current 1Q, the number of Company directly operated schools had declined 0.9% YoY to 231 schools, the number of students had decreased 5.9% to 16,069 students, and the average number of students per school had fallen 5.1% to 69.6 students, so the declining trends are continuing. Sales per student rose only slightly, and the decrease in the number of students was the main factor behind the lower sales and profits. On the other hand, looking at MAXIS, although the number of schools declined 2.1% YoY to 93 schools, the decrease in the number of students was only 0.8% to 6,712 students, and the average number of students per school increased 1.3% to 72.2, which is the second consecutive quarter it has increased. In addition, the sales unit price per student also rose by as much as 3%, and it seems this led to the increase in sales and the improvement in the profit-loss result.

The reason for the continuing decline in the number of students per school is that in the new student recruitment season in the spring of 2018, time was required to introduce MEIKO Style Coaching, such as to train the part-time tutors, and therefore all of the schools were unable to allocate sufficient time to student recruitment activities. However, one reason why there have been no signs of improvement even after its introduction is considered to be because differences have emerged in the spread in the use of MEIKO Style Coaching, depending on the school. For this reason, it can be said that an issue going forward will be working to improve the quality of MEIKO Style Coaching, including by utilizing ICT, at the same time as sharing information on case studies of successes.

Business performance

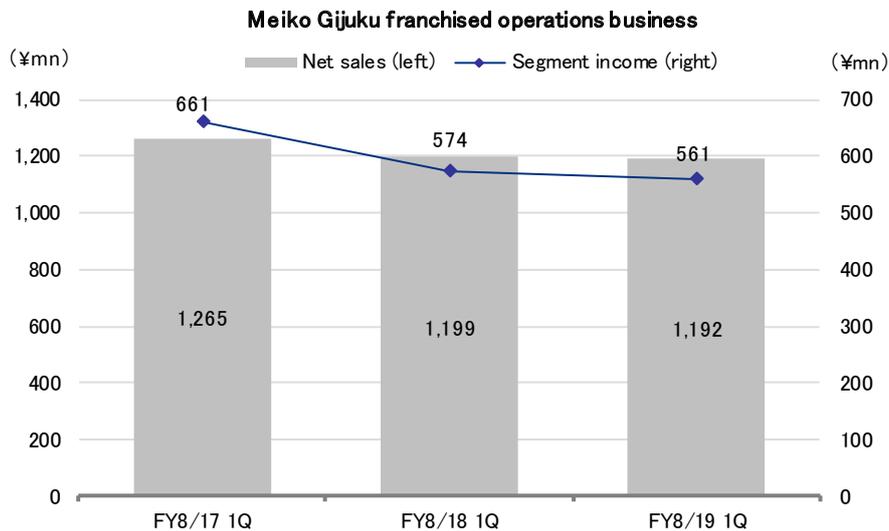
The rise in the average sales unit price per student was mainly due to the positive evaluations and the increase in the number of students taking the online learning programs that utilize ICT (including Meiko Mirai Eigo for elementary school students, Meiko Chugaku Listening for junior high school students, and classes to prepare for the English proficiency test).

(2) Meiko Gijuku franchised operations business

In the MEIKO Gijuku franchise business, net sales decreased 0.6% YoY to ¥1,192mn and segment income fell 2.3% to ¥561mn, so sales and profits declined, although only slightly. This was mainly due to the decline in royalty sales alongside the decreases in the numbers of franchise operations schools and students. At the end of the 1Q, the number of schools had decreased 4.9% to 1,655 schools (down 2.5% when including K. Line), the number of students had fallen 10.4% to 96,108 students (down 7.7%), and the average the number of students per school had decreased 5.7% to 58.1 students (down 5.3% to 58.3 students). So the current situation is that, the same as in the directly operated business, the declines are continuing for the average number of students per school and the number of schools, including due to the closures of unprofitable schools.

The Company is strengthening guidance using school records* in order to improve the level of management at the franchise operations schools. It is also working to strengthen various other measures, such as sharing information on case studies of successful schools and conducting regular training for franchise operations school owners and heads toward the introduction of MEIKO Style Coaching. The plan is to start introducing MEIKO Style Coaching into all schools, including franchise operations schools, from April 2019 onwards.

* Something like a notification table to objectively evaluate the management capabilities of schools. Whether or not the SV guidance content is being correctly implemented is quantitatively evaluated, and information is shared with the franchise operations school owners, the heads of schools, and the franchise operations headquarters. It is a system to provide guidance and to rectify problems, should they occur.



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

Business performance

The numbers of franchise operations schools and students in each 1Q

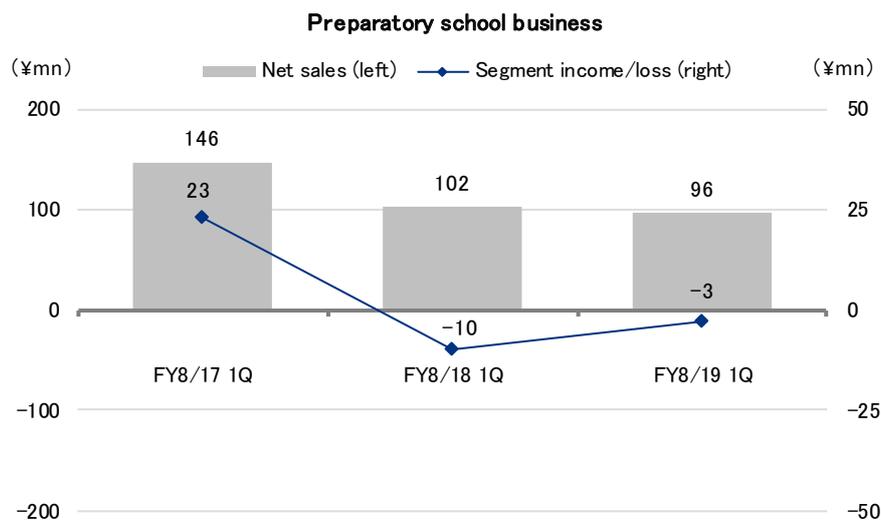
	FY8/18 1Q	FY8/19 1Q	Change	FY8/19 E (reference)	Change
Number of schools	1,741	1,655	-4.9%	1,697	-2.5%
Average number of enrolled students	107,222	96,108	-10.4%	98,923	-7.7%
Average number of students per school	61.6	58.1	-5.7%	58.3	-5.3%

* The reference values are the values including K. Line.

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

(3) Preparatory school business

In the preparatory school business, which is conducted by the consolidated subsidiary Tokyo Ishin Gakuin Co., Ltd., net sales decreased 6.0% YoY to ¥96mn and the segment loss was ¥3mn (compared to a loss of ¥10mn in the same period in the previous fiscal year). In the medical-related preparatory schools also, competition is intensifying each year and the slump for the second consecutive fiscal year in the number of new students in the spring of 2018 resulted in the worsening of earnings, although the extent of the loss contracted slightly due to the reduction in costs. At the end of the 1Q, the number of students had decreased 25.7% to 81 students. As the fall in the number of currently enrolled students who have a low sales unit price was comparatively large, the rate of the decrease in net sales was small relative to the decline in the number of students.

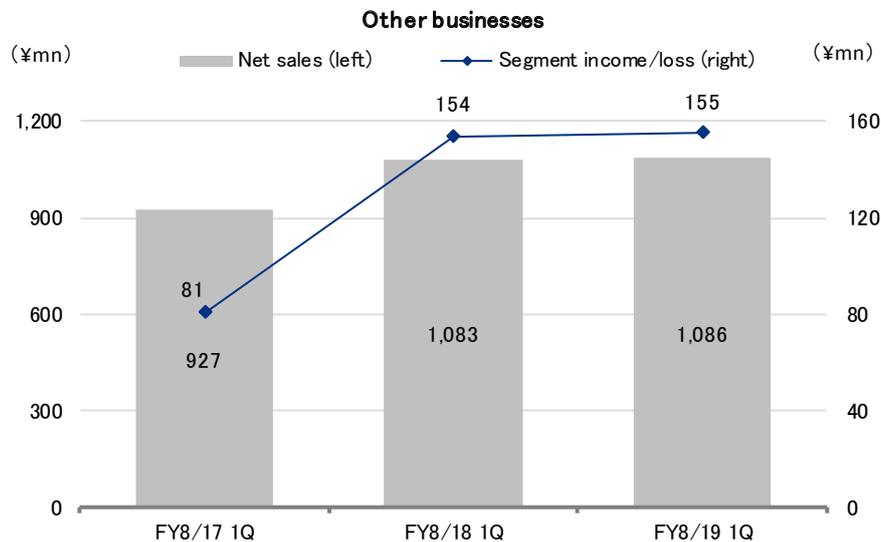


Source: Prepared by FISCO from the Company's financial results

(4) Other businesses

In the other businesses, net sales increased 0.3% YoY to ¥1,086mn and segment income rose 0.8% to ¥155mn. Also, segment income before amortization, including amortization of goodwill relating to the Japanese language schools, Kotoh Jimusho, and others (¥61mn), was basically unchanged YoY at ¥216mn.

Business performance



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

Looking at the trends in the mainstay businesses, in the Waseda Academy Kobetsu Schools, net sales increased ¥2mn YoY to ¥122mn and the operating loss was ¥0mn (compared to a loss of ¥5mn in the same period in the previous fiscal year). At the end of the 1Q, the number of schools had increased by 3 (1 Company directly operated school, 1 franchise operations school, and 1 Waseda Academy directly operated school) to 35 schools (7 Company directly operated schools, 5 MAXIS directly operated schools, 11 franchise operations schools, and 12 Waseda Academy directly operated schools). The number of enrolled students in all schools had grown 10.9% to 3,075 students, and the average the number of students per school had risen 1.4% to 87.9 students, so both steadily increased. The Company strengthened collaborations, including joint training with Waseda Academy <4718> and worked to enhance entrance exam guidance services, and awareness has improved of its track record of its schools' students passing entrance exams for prestigious, difficult-to-enter schools, and it seems that this and other factors are causing student numbers to increase.

The Kids Schools business benefitted from the increase in demand for nursery care and after-school care, with net sales increasing ¥23mn YoY to ¥92mn and operating income of ¥10mn. In addition to the increase in student numbers in directly operated schools, in the fiscal year under review the Company strengthened consignment operations services for nursery care and after-school care, which can be monetized at an early stage, which led to the increase in earnings. At the end of the period, there were 19 schools (7 directly operated schools, 1 nursery care club facility, and 11 consignment operations and related facilities), which was an increase of 4 schools YoY (up 4 consignment operations and related facilities), while the number of students enrolled in the schools had increased by 19.2 to 958 students.

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Business performance

In the Soccer Schools business, net sales decreased ¥2mn YoY to ¥30mn and operating income was ¥2mn (compared to ¥0mn in the same period in the previous fiscal year). At the end of the 1Q, the number of schools had decreased by 1 to 13 schools (down 1 directly operated school due to a consolidation), and the number of students had also fallen 4.7% to 892 students, so sales declined. However, profits increased, if only slightly, due to the efforts to improve management efficiency. Specifically, since the second half of the previous fiscal year, it has been conducting management through dividing schools into two types; Meiko Soccer School Academies, (which aim for students to acquire the fully fledged techniques to become professional players in the future) and Meiko Soccer Schools (which provide enjoyable coaching for students to acquire practical skills to become better at soccer).

The Japanese language schools for overseas students consist of the Waseda EDU Japanese language school managed by the consolidated subsidiary Waseda EDU and the JCLI Japanese language school managed by Kokusai Jinzai Kaihatsu Co., Ltd. At the end of the 1Q, the total number of students in the 2 schools had increased 3.2% YoY to 1,889 students (664 students in the Waseda EDU Japanese language school and 1,225 students in the JCLI Japanese language school), and the upward trend continued. Net sales trended steadily at ¥343mn, but operating income declined by double digits YoY to ¥28mn due to the rise in costs relating to the relocation and expansion of the JCLI Japanese language school in October 2018. The Waseda EDU Japanese language school can accommodate 710 students and the JCLI Japanese language school can accommodate 1,380 students, so both are approaching their upper limits for student numbers. Therefore, going forward, the plan is to raise the number of students they can accommodate, while observing demand trends.

The school-support businesses conducted by consolidated subsidiaries Kotoh Jimusho and Youdec, which includes solutions to university entrance exams and private instruction to students at their schools, performed strongly. Results in the academic publishing business conducted by Koyo Shobo also basically trended favorably, although the number of new publications was slightly less than forecast. The totals for these school-support businesses and specialist, academic publishing business were net sales of ¥474mn and operating income of ¥117mn, and sales and profits increased.

Business outlook

The outlook for FY8/19 is for a double-digit increase in profits from the recovery of the Meiko Gijuku business and the reduction in sales promotions expenses

1. FY8/19 outlook

The forecasts for the FY8/19 consolidated earnings are for higher sales and profits, with net sales to increase 6.3% to ¥20,320mn, operating income to rise 29.0% to ¥1,860mn, ordinary income to climb 24.5% to ¥1,940mn, and net income attributable to owners of the parent to grow 55.2% to ¥1,020mn. The cost of sales ratio will rise from 68.1% in the previous fiscal year to 69.3%, but this will mainly be due to the decline in the percentage of total sales provided by the franchised operations business, from 27.4% to 25.6%, following K. Line being made a subsidiary. Meanwhile, sales promotions expenses, which increased in the previous fiscal year, will return to the level of a typical year and decrease 5.9%. This decrease in sales promotions expenses will account for the majority of the increase in profits.

Business outlook

FY8/19 outlook (consolidated)

	FY8/18		FY8/19			
	Full-year results	YoY	1H forecast	YoY	Full-year forecast	YoY
Net sales	19,116	-1.4%	10,240	4.8%	20,320	6.3%
Cost of sales	13,020	2.5%	6,920	10.0%	14,080	8.1%
SG&A expenses	4,654	14.3%	2,080	-9.2%	4,380	-5.9%
Operating income	1,441	-44.9%	1,240	4.5%	1,860	29.0%
Ordinary income	1,558	-44.5%	1,280	1.5%	1,940	24.5%
Net income attributable to owners of the parent	657	-67.8%	690	1.0%	1,020	55.2%
EPS (¥)	24.74		25.98		38.41	

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

In December 2018, the Company announced that it had acquired the shares of K.M.G. Corporation, a MEIKO Gijuku franchise operations management company, for ¥300mn and was to make it a wholly owned subsidiary. It manages 43 schools, mainly in Kyoto Prefecture, Shiga Prefecture, and Nara prefecture, and its results in the most recent fiscal year of FY6/18 were net sales of ¥1,041mn and operating income of ¥12mn, while it has net assets of ¥40mn. Its results will be reflected in the consolidated results from the current 2Q. While this will be a factor adding to net sales, its effect on profits is expected to be negligible, including due to the recording of the amortization of goodwill. Following on from MAXIS and K. Line, by making K.M.G. Corporation a subsidiary, it is considered that the Company plans to further strengthen cooperation with each company, and that it intends for this to lead to an improvement in the competitiveness of the MEIKO Gijuku chain as a whole.

K.M.G. Corporation's business results and financial condition

	FY6/18		
	FY6/16	FY6/17	FY6/18
Net sales	1,251	1,178	1,041
Operating income	64	42	12
Ordinary income	61	41	11
Net income	43	28	-292
Total assets	516	527	200
Net assets	308	332	40

Source: Prepared by FISCO from the Company's materials

To strengthen cooperation in the Group, recently the President and Representative Director of MAXIS was newly made an executive officer of the Company, and he will supervise the Educational Affairs headquarters. As previously stated, in a situation in which MEIKO Gijuku as a whole is being forced to struggle, MAXIS has been highly evaluated for its management capabilities, including a track record of exceeding the Group averages for the number of students per school and the sales unit price per student. It has an excellent reputation for its education affairs and guidance capabilities, including for exam information and other matters, so the aim is to improve competitiveness through sharing its expertise with the Group as a whole. We will be paying attention to developments in the future, including the effects of introducing MEIKO Style Coaching.

MEIKO Style Coaching will be introduced to all schools from April 2019 onwards to apply the brakes to the decline in student numbers

2. Outlook by business segment

In the outlook for sales by business segment, in the MEIKO Gijuku directly operated business, net sales will increase 10% YoY to ¥10.5bn (excluding K.M.G. Corporation); in the franchise operations business, they will decrease 1% to ¥5.2bn; in the preparatory school business, they will rise 4% to ¥460mn, and in the other businesses, they will grow 8% to ¥4.2bn.

In the MEIKO Gijuku business, as the differentiation strategy, the plan is to introduce and develop MEIKO Style Coaching into all schools, including franchise operations schools, from April 2018 onwards. In the current 4Q, the Company is aiming to keep the number of students at the same level as in the same period in the previous fiscal year. At the end of the 1Q, the number of students had declined 7.1% YoY, while the average number of students during the period is expected to fall by a single digit YoY. While the decline in the number of schools will continue for the time being, including due to the closures of unprofitable schools, the Company is aiming to recover profitability through increasing the number of students per school and raising the sales unit price per student.

In the MEIKO Gijuku directly operated business, K. Line, which became a subsidiary in 4Q in the previous fiscal year, will contribute for the full fiscal year, which will add more than ¥800mn to sales. But even when excluding this factor, sales are forecast to increase slightly. On the other hand, in the franchise operations business, the end of royalty revenue from K. Line (10% of sales) will cause sales to decline, but if excluding this factor, sales are expected to increase slightly in this business also. It can be said that the key point toward achieving the forecasts will be whether or not the Company can apply the brakes on the downward trend in student numbers from 3Q onwards through introducing MEIKO Style Coaching into all schools. In the directly operated schools into which it was introduced in advance in the fall of 2017, there are still no signs of a change to this downward trend. However, attention will be focused on developments in February and March, which will be the first peak in the student recruitment season. Last year, each school spent time and money in order to introduce MEIKO Style Coaching, and therefore they were unable to conduct sufficient student recruitment activities, and ultimately this became a factor causing student numbers to decline. However, the recruitment activities structure will return to normal in 2019, so the rate of decline in the number of students is expected to be reduced. In order to deepen understanding of MEIKO Style Coaching, the Company has divided the production of TV commercials into for three groups, of for elementary, junior high, and high school students. It also plans to develop promotional activities in conjunction with leaflet advertisements and online advertisements. Sales promotion expenses are expected to decline by around a few hundred million yen compared to in the previous fiscal year.

As the measures to recover student numbers in the preparatory school business, in addition to improving students' academic performance and pass rates and utilizing ICT, the Company is newly launching a tutor visiting service in order to capture demand in regional areas from students wishing to enter university medical departments. In 1H, the decline in sales and profits is unavoidable due to the ongoing downward trend in student numbers. But in 2H, the Company is aiming to recover student numbers, including from the effects of this visiting service, and to achieve an increase in sales and operating income for the full fiscal year.

Business outlook

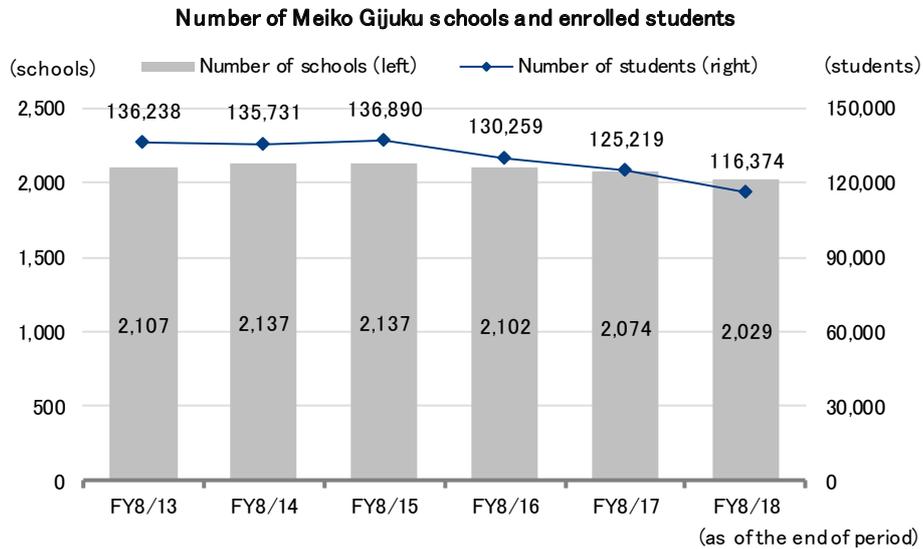
In the other businesses, student numbers are expected to rise in the Japanese language schools business from the increase in the number of students that can be accommodated following the relocations of the schools to larger buildings. Higher sales and profits are also expected in the Kids Schools business from the progress made in expanding consignment operation services. The policy for Waseda Academy Kobetsu Schools is to develop the franchise operations, but there are no specific plans to expand facilities yet. However, the outlook is for the increase in sales to continue from the rise in student numbers. The plan is to advance the Soccer Schools business while prioritizing strengthening profitability, the same as in the previous fiscal year, and there are no plans to establish new schools. Aside from these schools, the Company received good reviews for the programming schools for elemental school students that were launched in the previous fiscal year. The Company also intends to focus on developing models for new educational services that utilize ICT.

Aiming for the renewed growth through differentiation by spreading the use of MEIKO Style Coaching and the utilization of ICT to all schools

3. Strategy for the renewed growth of the Meiko Gijuku business

As a pioneer in private tutorial schools, the Company developed its business nationwide through a franchise-operations method, and it continuously grew through increasing its numbers of schools and students. But for 3 consecutive fiscal years from FY8/16, the numbers of students and schools decreased, and it has been forced to struggle. Despite the declining birth rate, the number of companies entering the private tutorial schools market has been increasing and competition has been intensifying. In this situation, it is considered that the Company has been struggling as it has been unable to establish an effective differentiation strategy and also, as the industry leader that already manages more than 2,000 schools throughout the country, there are few new areas into which it can enter and acquire new students. The number of students per school has been declining due to the intensification of competition, and the number of closures of unprofitable schools has exceeded the number of schools newly opened or expanded. Therefore, first of all, an important issue can be said to be recovering the number of students per school toward achieving renewed growth. The number of students per school, which serves as the profit-loss break-even point for the franchised operations schools, differs from region to region (due to differences in rent); for instance, the standard is around 30 students for a school whose owner also serves as the head of the school, and around 50 students for a school that employs the head of the school.

Business outlook



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

In this situation, the Company has set the following three measures as its priority measures for FY8/19: 1) aim to improve customer satisfaction by returning to the basics of tutorial-school services and thoroughly improving the levels of services, such as learning guidance skills and communication; 2) aim to differentiate itself from its industry peers by advancing measures including fully spreading the use of MEIKO Style Coaching and the utilization of ICT, to all schools, in conjunction with improving the schools' environments; and 3) launch measures to provide services optimized to elementary school students, junior high school students, and high schools students, while also expanding the range of each of these student groups.

In particular, the Company is focusing on a differentiation strategy to acquire students with MEIKO Style Coaching as a learning guidance method for students to practice independent learning, which is a point in the academic reforms to be implemented from academic year 2020. MEIKO Style Coaching is a guidance method that establishes "learning" and "review" as a single cycle, in which students acquire various "insights" through independently learning and then reviewing what they have learned, toward them acquiring an essential understanding. Previously, based on its MEIKO Style Independent Learning guidance method, the Company used a method in which answers were drawn out of the students themselves in order for them to acquire understanding, but the new method emphasizes independent thinking to an even greater extent. Specifically, the learning programs are advanced while the students themselves independently use their own words and express their own thoughts in writing, and then they themselves summarize as "review notes" what they have learned on that day. These learning records are entered into the Meiko e-Po system.

In this system, the students themselves can get a sense of their own growth through accumulation of learning records and making their progress visible. In addition, parents and guardians can use their smartphones to check on their children's learning status anytime. Conventionally, parents would confirm what their children are doing at the school and whether or not their academic abilities are improving through regular meetings with the tutors, but this still left many points unclear. But by utilizing Meiko e-Po, they can confirm their children's learning records and the extent that their academic abilities have improved in real time, which appears to be leading to higher levels of customer satisfaction.

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Business outlook

An issue is whether or not the Company can smoothly spread the use of this new learning guidance method and the methods for utilizing ICT among the tutors who provide the learning guidance at the schools. Overall, students and their parents and guardians are positively evaluating MEIKO Style Coaching, so if its use spreads to all schools, it can be expected to lead to an increase in student numbers.

The Company is also enhancing content that utilizes ICT in order to expand all student groups, of elementary, junior high, and high school students. The courses started in the previous fiscal year are being highly evaluated, including Meiko Mirai Eigo, which is English content for elementary school students, Meiko Chugaku Listening, which is English content for junior high school students, and courses to learn programming and to prepare for the English proficiency test. The number of applicants for MEIKO MUSE, which is a previously launched video learning contents course for high school students, is also steadily increasing, which is leading to a rise in the sales unit price per student. It is thought that going forward, the Company will develop appealing content that will lead to further increases in the sales unit price and the number of students.

Another issue is improving the admission rate from inquiries via the Internet. As the admission rate from requests for information from comparison websites is relatively low, the Company is aiming to improve the admission rate by analyzing responses to online advertisements and the admission process and creating measures to increase the number of accesses to its official homepage. It is considered that these measures will lead to an increase in student numbers.

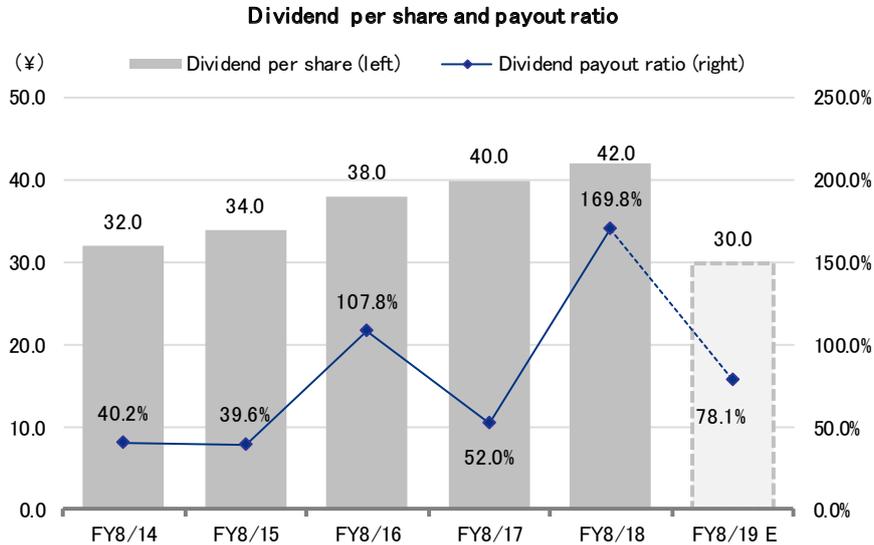
■ Shareholder return policy

Although its record of increasing dividends will end for the time being, going forward it will continue the policy of actively returning profits to shareholders

Since it was listed on the JASDAQ market in April 1997, the Company has continuously increased its dividend. But for FY8/19, it has announced it will decrease the dividend for the first time, down ¥12 YoY to ¥30.0 (dividend payout ratio, 78.1%). This is because, in the context of the continuing severe earnings environment for its mainstay Meiko Gijuku business, it judged that in order to invest in realizing growth in the future, it would not be advantageous for shareholders if it continued to pay dividends of an amount exceeding the period's profit. However, as it has set a standard of 80% for the dividend payout ratio level, from FY8/20, if profits continue to trend upward, we can expect it to increase the dividend again.

Under the shareholder benefit program, the Company continues to give QUO cards worth ¥1,000-5,000 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 4-6% level at the current share price (¥949 as of January 31). The Company's capital policy is unchanged to strengthen its equity and to flexibly consider acquiring treasury stock when possible, taking into account the share price and financial position.

Shareholder return policy



Source: Prepared by FISCO from Company materials

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: Shareholders became eligible for the program from August 31, 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 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 also examines measures to prevent the leakage of information through the Risk Management Committee and verifies the operational statutes of measures to protect personal information.



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