

Riso Kyoiku Co., Ltd.

4714

Tokyo Stock Exchange First Section

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

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■ Summary

Healthy expansion of existing businesses and new businesses Beneficial cycle driven by strong customer satisfaction supporting growth in student volume despite the shrinking youth population

Riso Kyoiku Co., Ltd. <4714> (hereafter, also “the Company”) is an educational services company that has established a unique position by combining “genuine one-on-one instruction” and “academic advancement.” The Company has eight operating companies, including Shingakai Co., Ltd., which provides entrance exam preparation for kindergartens and elementary schools, and Meimonkai Co., Ltd., which dispatches professional home tutors, and operates five businesses under the TOMAS brand.

1. Posted double-digit sales and profit growth in 1H FY2/20, reached profitability in all five business segments

The Company announced 1H FY2/20 results with higher sales and profits at ¥12,987mn in net sales (+10.0% YoY) and ¥1,166mn in operating profit (+19.8%). All five business segments posted higher sales YoY, including healthy gains in student volumes in core business segments of the educational instruction school, home tutor dispatching education, and young child education. In earnings, the in-school one-on-one instruction business attained an operating profit in 1H FY2/20 with its entry into a “recouping” phase after completion of early investments in FY2/19.

2. Awareness of “strong customer satisfaction” contributes to realization of a unique business model and stable growth and high earnings

Looking back at results over the long term, the Company has continuously delivered stable sales growth amid shrinkage of Japan’s youth population. It also sustains robust operating margin in the 10% range in profitability. We attribute the income strength to the Company’s provision of strong customer satisfaction (in other words, business operations with emphasis on realizing results in academic advancement) with awareness that it operates a “service business.” This stance contributed to establishment of the unique positioning of TOMAS as “genuine one-on-one instruction” with the goal of academic advancement and robust business performance of realizing increases in student volume even in the current environment of a shrinking youth population.

3. Upbeat progress in medium to long-term growth strategies, likely to arrive at the “second golden growth phase” over the next few years

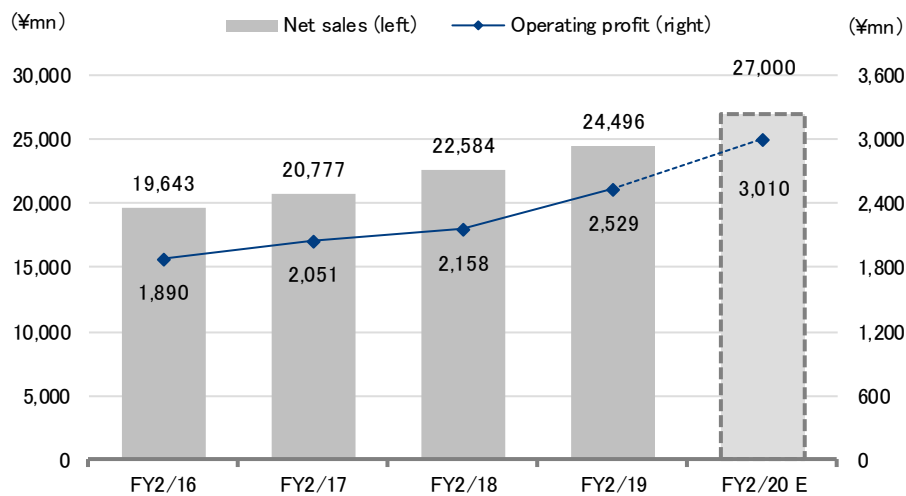
The Company is making upbeat progress in medium to long-term growth strategies. In the educational instruction school business, it has been steadily raising the number of TOMAS classrooms through a satellite strategy and decided to launch a new business format in an alliance with Sundai Preparatory School in 1H FY2/20. In the in-school one-on-one instruction business, the Company completed early investments in online English conversation business and has moved to the stage of accelerating activities toward expansion of contracts and deployed school volume. It expects to reach 64 schools with the service by the end of FY2/20. In the young child education business, its childcare and after-school care businesses operated by new business Shinga’s Club are performing well and have completed the business model of long-term recruitment of customers. In the new medium-term management plan that started in FY2/20, the Company aims to reach ¥33bn in net sales and ¥3.8bn in ordinary profit in final-year FY2/22. We think it has moved within clear visibility of attaining these levels.

Summary

Key Points

- Entered a phase of “recouping” investments from the in-school one-on-one instruction business, this area offers large potential demand and should serve as a medium-term growth engine
- Paying close attention to the capital and business alliance with Sundai Preparatory School as a major opportunity
- Management plans to continue 100% dividend payout to clarify emphasis on shareholders

Trends in operation results



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

Company profile

Established in 1985 for the purpose of delivering high-quality education service

1. History

Mitsugu Iwasa, currently a director and adviser, took over 14 classrooms from Kodomo Pia as the latter, a business in which he was part of the management team switched to emphasis on selling educational equipment, and established Nihon Kyoiku Kosha K.K. in July 1985 for the purpose of delivering high-quality one-on-one educational service.

The Company initially started with a group learning format of classrooms under the name of Riso Kyoiku Kenkyusho (Risoken) that consisted of six students per class, classes organized by academic capabilities, and 100% full-time teachers. In March 1990, the Company developed and started provision of a unique “genuine one-on-one individual instruction system” and changed the service name to “Tokyo Man-to-man School.” Management subsequently changed the service name to TOMAS (initially as a nickname in 1997 and then as the official name in 2000), which has continued since then.

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Company profile

The Company has actively diversified educational services too. It opened the Meimonkai home tutor center and entered the home tutoring market in May 1989. In 2000, it established Nihon Edunet Co., Ltd. (now, School TOMAS Co., Ltd.) that offers genuine one-on-one instruction in a real-time interactive format utilizing Internet teleconferencing. It also established School Tour Ship Co., Ltd., which provides character-building training camp education (now, Plus One Kyoiku Co., Ltd.), in 2002 and acquired Shingakai, which offers entrance exam preparation for well-known kindergartens and elementary schools in 2003.

In 2013, the Company revamped business content and the group framework to address technology innovations and changes in social conditions. These changes substantially altered the group structure, including corporate spinoffs of the English school business and character-building training camp education business, and largely completed the current group framework.

The Company entered into a capital and business alliance with Sundai Preparatory School in July 2019 and established Sundai TOMAS Co., Ltd., a joint-venture company, in September based the alliance.

The Company conducted OTC registration of its shares with the Japan Securities Dealers Association in 1998, listed shares on the Tokyo Stock Exchange Second Section (TSE-2) in 2001, and moved its shares to the TSE First Section (TSE-1) in June 2002 (where they currently trade).

History

Date	History
July 1985	Established Nihon Kyoiku Kosha K.K. in Shinjuku-ku (Tokyo) Started rollout of classrooms under the Riso Kyoiku Kenkyusho (Risoken) name Aimed for responsible instruction operations with 100% full-time teachers and a limit of six students per class
May 1989	Established the Meimonkai home tutor center and entered the home tutor market, began individual instruction with a professional tutor group that differs from student tutors and opened the Mejiro School
March 1990	Developed the unique "one-on-one individual instruction system (each equipped with a whiteboard)" and changed the service name to "Tokyo Man-to-man School." Opened the Shin-Nakano School as the first school with this format.
January 1997	Adopted TOMAS as the nickname for "Tokyo Man-to-man School" Opened the Kawasaki School, advancing into Kanagawa Prefecture
August 1997	Opened the Tokorozawa School, advancing into Saitama Prefecture
October 1998	Changed the Company name to Riso Kyoiku Co., Ltd.
December 1998	Conducted OTC registration of shares with the Japanese Securities Dealers Association
March 2000	Adopted TOMAS, the "Tokyo Man-to-man School" nickname, as the official service name
July 2000	Established Nihon Edunet Co., Ltd. for the purpose of offering genuine one-on-one instruction in a real-time interactive format utilizing Internet
March 2001	Listed shares on the Tokyo Stock Exchange Second Section (TSE-2)
June 2002	Listed shares on the Tokyo Stock Exchange First Section (TSE-1)
September 2002	Opened the Meimonkai Home Tutor Center Kanagawa Branch and Yokohama Ekimae School
November 2002	Opened the Meimonkai Home Tutor Center Chiba Branch
December 2002	Opened the Meimonkai Home Tutor Center Saitama Branch Established School Tour Ship Co., Ltd.
January 2003	Spun off Meimonkai Co. Ltd. Acquired Shingakai Co., Ltd. as a subsidiary
July 2005	Renamed School Tour Ship Co., Ltd. as Riso Kyoiku Kikaku Co., Ltd.
October 2013	Spun off Inter TOMAS Co., Ltd. Spun off Plus One Kyoiku Co., Ltd. Renamed Nihon Edunet Co., Ltd. as School TOMAS Co., Ltd. Renamed Riso Kyoiku Kikaku Co., Ltd. as TOMAS Kikaku Co., Ltd.
November 2016	Established TOMAS ENGLISH TRAINING CENTER, INC. (99.9% owned by School TOMAS), an online English conversation business for school operators, in Cebu IT Park
September 2019	Established joint-venture company Sundai TOMAS (owns a 51% stake) based on a capital and business alliance with Sundai Preparatory School

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

Operates in five segments with education as the business domain

2. Business overview

The Company has steadily broadening business scope from its start as an educational instruction school business, as explained in the company history above, and formed a group of 10 companies with the Company and nine subsidiaries as of November 2019 (includes Sundai TOMAS founded in September 2019). These 10 companies operate educational instruction schools, home tutor dispatching education services, young child education services, and other businesses. In the Company's disclosing materials, it discloses the five segments based on business formats.

Business segments and main group companies fundamentally have direct correspondence, and company names and service brands are the same in most cases. The Company's financial explanatory materials hence often replace business segments with group company names or service brands. The educational instruction school business is an exception with coverage of the TOMAS one-on-one academic advancement instruction business and subsidiary Inter TOMAS Co., Ltd., which operates an English conversation school (under the "Inter TOMAS" service brand that matches the company name). While the Company does not give a detailed breakdown of the segment, we think Inter TOMAS currently has about ¥500mn in annual sales and the TOMAS business accounts for most of this segment's income. We also expect the Company to include the new former Spec. TOMAS operated by joint-venture Sundai TOMAS (established in September 2019), which is scheduled to open its first school in February 2020, in this segment too.

Overview of business segments and main companies

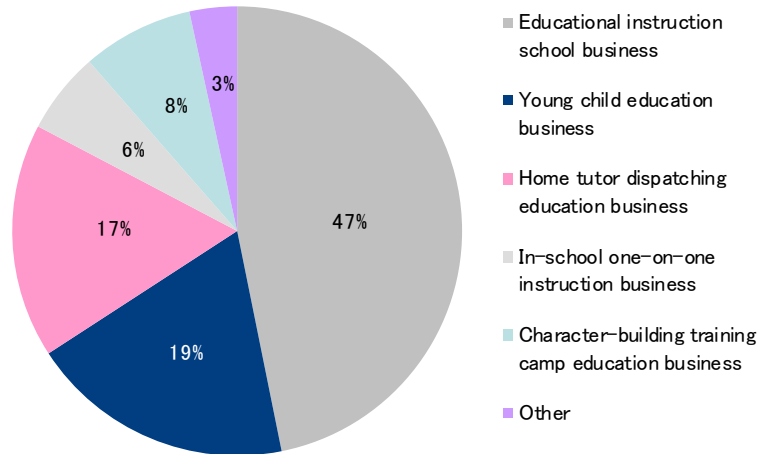
Business segments	Company name	Business description
Educational instruction school business	Riso Kyoiku	Educational instruction school business that operates TOMAS genuine one-on-one instruction schools and MEDIC TOMAS medical exam one-on-one instruction schools
	Inter TOMAS	Operates English conversation classrooms with students ranging from young children to adults
Home tutor dispatching education business	Meimonkai	Dispatches home tutors and operates TOMEIKAI one-on-one instruction schools in regional areas (outside of Tokyo and the three surrounding prefectures)
Young child education business	Shingakai	Provides entrance exam preparation for well-known kindergartens and elementary schools and childcare and after-school care under the Shinga's Club brand
In-school one-on-one instruction business	School TOMAS	Offers In-school one-on-one instruction and "Hello eSensei" online English conversation business run by a subsidiary located on Cebu Island
Character-building training camp education business	Plus One Kyoiku	Operates a tour business that enhances action skills and decision-making capabilities through various experiences and a school business with soccer classrooms and exercise classrooms
Other	TOMAS Kikaku	Student recruitment and marketing business (handles recruitment and marketing for group businesses)

Source: Prepared by FISCO from the Company's securities report and results briefing materials and others

Looking at the segment breakdown of net sales and operating profit using 1H FY2/20 results, educational instruction school business generated 47% of overall sales and young child education business and home tutor dispatching education business were at 19% and 17%, respectively. While in-school one-on-one instruction business is likely to expand rapidly over the medium term, it was only at 6% of net sales in 1H FY2/20.

Company profile

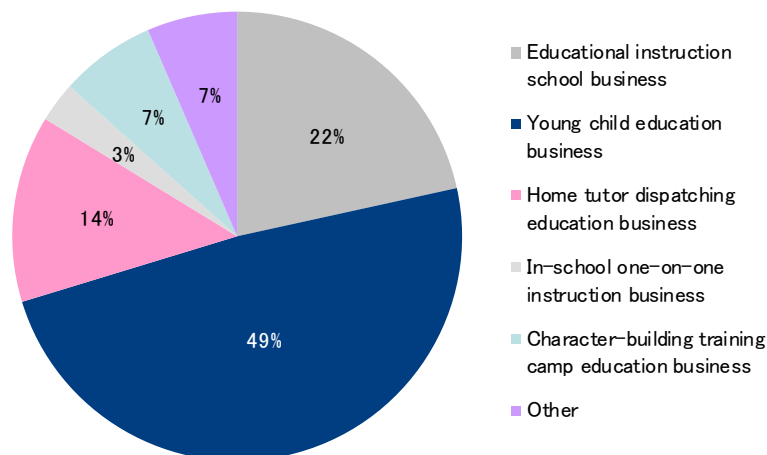
Sales breakdown by business segment (1H FY2/20 results)



Note: Calculation of business share excludes adjustment values
 Source: Prepared by FISCO from the Company's financial results

In operating profit, young child education business had a top share at 49% and the educational instruction school and home tutor dispatching education businesses followed at 22% and 14%, respectively. We advise caution in assessing 1H FY2/20 results because of significant skewing compared to annual results due to larger profits in young child education business with the main demand phase in 1H versus educational instruction school business and other segments with demand phases in 2H. At the full-year level, we expect operating profit ratios of the mainstay educational instruction school and home tutor dispatching education businesses and in-school one-on-one instruction business and other businesses rise to the same level as sales ratios.

Operating profit breakdown by business segment (1H FY2/20)



Note: Calculation of business share excludes adjustment values
 Source: Prepared by FISCO from the Company's financial results

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Established a business model of “pursuing academic advancement results” and realizing stable sales growth and high profitability despite headwinds from Japan’s shrinking youth population

3. Characteristics and strengths

While the Company has a variety of characteristics and strengths, we think the following two are particularly important – 1) consistently expanding income results over the long term and 2) realizing high profitability. We believe these two characteristics are rooted in the same place and a solid understanding of them is likely to boost understanding of and confidence in the Company’s longer-term growth scenario.

The Company, which was founded in July 1985, booked ¥163mn in net sales in FY6/86, its first fiscal year, and then continuously improved sales through FY2/13 (although sales dropped in FY2/06 because it only had eight months in order to adjust the fiscal period and sales effectively increased on a 12-month basis). It subsequently stalled through FY2/16 due to discovery of inappropriate accounting techniques and the need to address these issues. However, it reported all-time high sales for the first time in four years in FY2/17 and restored a trend of steadily rising sales.

A key point is that the Company contented with shrinkage of Japan’s youth population, which results in contraction of the instruction school and prep school industry, during this period. For example, the number of new births in Japan was 1,901,440 people in 1975 (ten years before the Company’s founding), but almost consistently declined thereafter to 918,937 people in 2018. Despite these conditions, the Company maintained growth in student volume and even reported increases in student volumes in the three core businesses of educational instruction school, home tutor dispatching education, and young child education in 1H FY2/20. In other words, it is important to understand that the volume factor (gains in student volume), not only the price factor (sales per student, etc.), has been driving expansion of the Company’s income results.

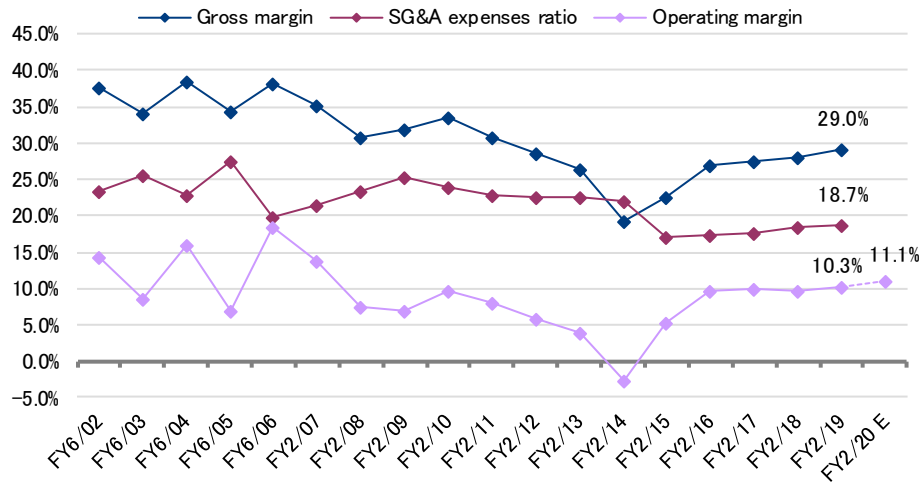
In profitability, meanwhile, looking at gross margin, the SG&A expenses ratio, and operating margin, while FY2/19 operating margin was slightly above 10% at 10.3%, the Company is not satisfied with operating margin in the 10% range and is doing its utmost in pursuit of 15% operating margin as a near-term goal.

For the educational instruction school and preparatory school industry as a whole, 10% operating margin is not low and is actually positioned in the upper range. While multiple peers realize higher operating margin than the Company (among listed firms), these companies utilize group instruction as the core business model. In the category of companies mainly implementing one-on-one instruction (such as the Company) and peers with businesses that are roughly split between group and individual instruction, however, very few companies realize double-digit operability profitability along the lines of the Company.

We think the Company’s earnings results up to FY2/19 do not fully reflect its earnings potential, including recognition of losses in some businesses due to upfront investments in new businesses, and believe the near-term goal of 15% margin presented by management is an inherent level that the Company is capable of attaining and sufficiently within reach. While it could pursue even higher margin in the future after reaching this level, the current environment differs substantially from past years (for example, when it posted operating margin of over 20% prior to listing the shares) due to stricter compliance and other changes. The 15% goal is a reasonable and convincing level from a variety of perspectives, in our view.

Company profile

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



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

The Company's characteristics of stable earnings growth and high-margin business are essentially different things and it is natural to assume that the underlying sources as well. However, we believe they have similar roots.

Current director and chairman Iwasa took into account the implications of China's one-child policy in founding the Company. One is the prospect of shrinking the youth population because of the one-child policy, and the other is increase in the amount spend per child on education costs as a result of the smaller youth population. In other words, the Company held a relatively advantageous position from the outset thanks to launching the business in anticipation of a shrinking youth population and building a business model from this perspective. With its insight into likely increase in education costs spent per child too, the Company succeeded in transforming the headwind of a shrinking segment into a tailwind.

Important points in the Company's business model that address decline in the number of children are 1) genuine one-on-one instruction and 2) emphasis on academic advancement as the goal. These two are common aspects of the Company's TOMAS service and other business formats. The Company is currently the only firm actively promoting individual instruction that combines both aspects. The most typical model in the individual instruction market at this point is a quasi-approach with a ratio of one teacher to a few (2-3) students for the purpose of supplementing school coursework. We think a major reason why other companies do not adopt its model is high business risk. Since service fees must be higher in order to implement truly individual instruction, supplementing coursework is not enough to justify these fees. The tough reality is that only academic advancement results are capable of justifying high course fees. Even if this is understood theoretically, actual execution faces a major hurdle because success (academic advancement result) is not guaranteed and it takes a considerable amount of time to establish the brand and reputation.

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Company profile

The Company itself started with group instruction using a class format of six students at a similar academic level per teacher to fulfill provision of high-quality individual instruction when it was initially founded and only introduced genuine one-on-one instruction that Mr. Iwasa envisioned five years after launching the Company in 1990. While we think executive opinions and policy aims clashed internally during this period, adoption and thorough application of a mentality that the “educational instruction school industry is a service business” ultimately led to realization of genuine individual instruction. With this stance, the Company moved forward in the aim of delivering high customer satisfaction. High customer satisfaction in the educational instruction school and preparatory school industry comes from getting into the desired school. The Company has always retained the mentality of being a service business from its founding up to the present and defined pursuits of academic advancement results as its mission as a service firm as the top management goal. We think this business model of “pursuing academic advancement results” is the source of the Company’s strength and supports the above-mentioned two characteristics of stable sales growth and high profitability.

An example of the Company’s management approach with high awareness as a service company is its style of having full-time employees focus on management. The mainstay TOMAS business utilizes part-time students and adults as instructors and has full-time employees assigned to each classroom site serve as coordinators between instructors and children and students and their guardians. Specifically, they engage in the following tasks – 1) identify genuine aims and goals of students and guardians, 2) develop curriculum that with the instructor based on this information, and 3) explain progress updates, subsequent instruction policy, and other details to guardians after lessons begin. Repetition of this cycle maintains a high level of customer satisfaction on a normal basis and contributes to the biggest customer satisfaction of getting into the desired school.

Regarding whether the Company is capable of sustaining stable growth and high profitability in the future, while this depends on the length of the investment time horizon, we see a sufficiently strong prospect of achieving these goals with a timeline of 5-10 years that is the typical time horizon of longer-term investment.

This view reflects the likely existence of a certain amount of demand for the Company’s business model (high-priced, high-quality services). We also consider low risk of excessive competition because of market entry by other firms in this segment for reasons explained above. The Company’s model does not rely on any particular secrets, but its characteristics and strengths took shape through organic integration of multiple factors and this takes some time. We think following and recreating the Company’s path from its founding over many years in the current environment of accelerated decline in the youth population poses even more risk than what the Company experienced. From this perspective, we see the tough hurdle to entering the business model of pursuing academic advancement results as a third characteristic.

Results trends

Posted higher sales in all segments and double-digit sales and profit growth

1. 1H FY2/20 results

In the Company's 1H FY2/20 results, sales and profits increased, with net sales of ¥12,987mn (+10.0% YoY), operating profit of ¥1,166mn (+19.8%), ordinary profit of ¥1,165mn (+19.0%), and profit attributable to owners of parent of ¥727mn (+25.3%).

The Company manages its results forecast on a full-year basis and does not disclose 1H targets. We hence cannot make a comparison with an advance outlook. Nevertheless, we think the Company achieved healthy progress in line with its full-year forecast judging from progress toward these targets, YoY growth rates, and other aspects.

1H FY2/20 results

	FY2/19		FY2/20		
	1H	1H	YoY	Full year (E)	Progress
Net sales	11,808	12,987	10.0%	27,000	48.1%
Operating profit	973	1,166	19.8%	3,010	38.7%
Operating profit margin	8.2%	9.0%	-	11.1%	-
Ordinary profit	979	1,165	19.0%	3,000	38.8%
Profit attributable to owners of parent	580	727	25.3%	1,800	40.4%

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

Sales increased in all five business segments (YoY) and rose 10.0% YoY on an overall basis as explained above. Educational instruction school business (TOMAS), which holds a 47% share of sales, achieved robust growth and contributed about 47% of the ¥1,179mn rise in 1H sales (¥551mn). In growth rates, meanwhile, in-school one-on-one instruction business (School TOMAS) posted the strongest gain at 17.1%. The next highest results were the young child education business (Shingakai) at 12.4% and the educational instruction school business at 9.4%.

In earnings, gross margin improved by 0.7ppt to 28.1% (vs. 27.4% in 1H FY2/19), mainly on faster growth in young child education business with high profitability than the average pace that lifted its share of total sales and substantial improvement in profitability of the in-school one-on-one instruction business. SG&A expenses rose 9.4% YoY, though its ratio was down by 0.1ppt to 19.1% (vs. 19.2% a year earlier) because this was slower than the sales growth rate. Thanks to these trends, operating profit climbed 19.8% YoY, as mentioned above, and operating margin improved by 0.8ppt to 9.0% (vs. 8.2%).

We think two points stood out in 1H FY2/20 results. One is realization of higher sales accompanying an increase in the number of students. While the Company is steadily adding schools and classrooms, it succeeded in lifting the number of students on a real basis, which excludes this effect, as well. It is a rare example of a company realizing sales growth on a combination of volume (number of students), despite the shrinking population, and average price. The other is attainment of internal profitability goals in all five of the business segments. Profitability is improving in all areas compared to 1H FY2/19, including achievement of a profit for the in-school one-on-one instruction business. We believe healthy trends in these two areas supported upbeat 1H FY2/20 results and also think this was a qualitatively attractive half year.

Realized a profit for the in-school one-on-one instruction business, delivering profits in all segments

2. Segment trends

The Company operates in five segments – educational instruction school business, home tutor dispatching education business, young child education business, in-school one-on-one instruction business, and character-building training camp education business.

(1) Educational instruction school business

This segment posted lower profits on increased sales in 1H FY2/20 with ¥6,395mn in net sales (+9.4% YoY) and ¥245mn in operating profit (-6.4%). Operating margin dropped to 3.8% (vs. 4.5% a year earlier).

Segment sales climbed at an almost double-digit pace thanks to a 9.9% rise in TOMAS student volume. The TOMAS business is steadily opening new schools under its satellite strategy with a near-term goal of 120 schools and added the Gakugei Daigaku School (May) and Tama Center School (June) in 1H. Operating profit slipped because of upfront costs related to the new format Spec. TOMAS being implement through an alliance with Sundai Preparatory School described below. We think sales and profits improved on a real basis adjusted for this point.

(2) Home tutor dispatching education business

This segment reported higher sales and profits in 1H FY2/20 with ¥2,305mn in net sales (+8.9% YoY) and ¥153mn in operating profit (+43.1%). It mainly operates the Meimonkai home tutor dispatching education business, though also has the TOMEIKAI business, which is a roll out of TOMAS business in regional areas, as a new business. Overall student volume expanded at a healthy 6.7% YoY pace. The home tutor business bolstered its presence in the Kita-Kanto area with site additions in Utsunomiya in May and Mito and Takasaki in June. The TOMEIKAI business is proceeding based on careful assessment of market potential and location as a fundamental policy and did not open new locations in 1H FY2/20.

(3) Young child education business

This segment booked higher sales and profits in 1H FY2/20 with ¥2,594mn in net sales (+12.4% YoY) and ¥553mn in operating profit (+12.9%). Operating margin rose 0.1ppt versus 1H FY2/19 to 21.4%. Segment sales benefited from a double-digit rise in the number of students (+12.9%). Since young child education fundamentally involves group instruction, a rise in student volume boosts profit through an increase in incremental profit. Related gains absorbed higher expenses accompanying expansion of sites and supported the profit advance. In site development, the Company has been focusing on additions to new-business Shinga's Club sites and opened two Shinga's Club locations in 1H FY2/20 (Ikebukuro Higashiguchi in April and Gakugei Daigaku in June).

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

This segment booked higher sales and realized a profit in 1H FY2/20 with ¥802mn in sales (+17.1% YoY) and ¥32mn in operating profit (vs. a ¥41mn loss in 1H FY2/19). It operates School TOMAS and Hello eSensei businesses, with a focus on expanding the number of schools offering School TOMAS service for the time being. It had 36 schools* offering its service as of the end of FY2/19 and full operation of these sites contributed to higher sales in 1H FY2/20. The Company deployed the service at another 3 schools in 1H FY2/20 and was at 39 schools as of the end of August 2019.

* School TOMAS and Hello eSensei use the same business model of selling service through schools. The number of schools offering its service includes schools with contracts only for Hello eSensei service.

Results trends

(5) Character-building training camp education business

This segment reported ¥1,093mn in net sales (+1.9% YoY) and ¥78mn in operating profit (-11.8%) in 1H FY2/20. Subsidiary Plus One Kyoiku handles operation of TOMAS Gymnastics exercise classrooms and planning and execution of school tours. Sales fluctuate considerably depending on the number of events and other content, and this business was roughly flat in 1H FY2/20. Profit dropped because of higher costs related to opening the TOMAS Gymnastics Azabu school in July.

Detailed trends by business segments

		(¥mn)			
		FY2/19		FY2/20	
		1H	1H	YoY	
Net sales	Educational instruction school business	5,844	6,395	9.4%	
	Home tutor dispatching education business	2,116	2,305	8.9%	
	Young child education business	2,308	2,594	12.4%	
	In-school one-on-one instruction business	685	802	17.1%	
	Character-building training camp education business	1,072	1,093	1.9%	
	Other	418	465	11.3%	
	Subtotal	12,446	13,656	9.7%	
	Adjusted amount	-638	-669	-	
Net sales total		11,808	12,987	10.0%	
Operating profit	Educational instruction school business	261	245	-6.4%	
	Home tutor dispatching education business	106	153	43.1%	
	Young child education business	490	553	12.9%	
	In-school one-on-one instruction business	-41	32	-	
	Character-building training camp education business	88	78	-11.8%	
	Other	35	73	108.0%	
	Subtotal	942	1,136	20.7%	
	Adjusted amount	31	29	-	
Operating profit total		973	1,166	19.8%	
Operating profit margin	Educational instruction school business	4.5%	3.8%	-	
	Home tutor dispatching education business	5.1%	6.6%	-	
	Young child education business	21.3%	21.4%	-	
	In-school one-on-one instruction business	-6.1%	4.1%	-	
	Character-building training camp education business	8.3%	7.1%	-	
	Other	8.5%	15.8%	-	
	Companywide operating margin	8.2%	9.0%	-	

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

Medium to long-term growth strategy and advances

Started a three-year medium-term management plan with aims of businesses benefitting from seeds planted in the past and developing new businesses for the future

1. Overview of medium to long-term growth strategy

The Company's medium to long-term growth strategy focuses on steady implementation of the three-year medium-term management plan. It announced the three-year medium-term management plan covering FY2/20-22 along with the disclosure of FY2/19 results.

We think the absence of major changes in initiatives for growth in business segments over the three years of the new medium-term management plan stems from management's aim of avoiding pursuit of rapid profit growth as a company in the educational industry.

Nevertheless, as a listed company, it is not less interested in achieving profit growth and is constantly pursuing business on a horizon of 5-10 years while addressing changes in the social structure, systems, and other areas. The new medium-term management plan is entering a phase of realizing profits in new businesses for which it laid seeds in the previous mid-term plan period, and one of the central tenets of the new medium-term management plan is the extent of these gains. Another point is content of areas where the Company is laying new seeds for the future.

List of initiatives for growth by individual business segments

Business segments	Main business operator	Business content	Growth initiatives	
			Existing business	New business
Educational instruction school business	Riso Kyoiku	Operation of academic advancement one-on-one instruction school TOMAS	Existing classroom renewals, etc.	Accelerated openings of new satellite schools and operation of medical exam preparation school MEDIC TOMAS
	Inter TOMAS	Operation of English conversation school based on one-on-one instruction		Deployed at the same locations as TOMAS, maximizes synergies
Home tutor dispatching education business	Meimonkai	Home tutor dispatching education	Expansion of home tutor dispatching education sites	Operation of one-on-one instruction school TOMEIKAI
Young child education business	Shingakai	Operation of entrance exam preparation school Shingakai classrooms	Expansion of capacity by increasing Shingakai floor space	Gifted childcare business (ages 1-3) and after-school care with academic advancement instruction (elementary students in 1st-3rd grade) under the Shinga's Club brand
In-school one-on-one instruction business	School TOMAS	Operation of in-school academic advancement one-on-one instruction School TOMAS Hello eSensei business (operation of man-to-man English conversation service at schools)		Accelerated growth through a business alliance with the Tokyo Metropolitan Board of Education and Mizuho Bank, Ltd. Strong affinity with School TOMAS, expansion of schools with service amid growing needs for English education
Character-building training camp education business	Plus One Kyoiku	Operation of various classrooms (school business), tour business, and overseas study business	Lifting group profits through reinforcement of mutual student transfers with TOMAS and other businesses	

Source: Prepared by FISCO from the Company materials and interviews

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Medium to long-term growth strategy and advances

While the Company has only completed 1H of the first fiscal year of the medium-term management plan (FY2/20), we observed a number of clear advances already and think the new plan had a very healthy start.

The in-school one-on-one instruction business, which has potential to be a new growth engine, clearly entered the phase of recouping investments. As explained above, this business achieved an operating profit in 1H FY2/20 and confidence in a scenario of accelerated growth from FY2/21 has risen with the prospect of a large increase in the number of schools with service availability at the end of FY2/20, compared to a year earlier.

In the young child education business, which generates high profitability, is steadily expanding new-business Shinga's Club that provides childcare for toddlers and after-school care for elementary students. The biggest benefit of Shinga's Club is its facilitation of a long-term recruitment strategy from infants and young children through high school students. We expect the Company to shift to a stage of acceleration of new school openings and business expansion thanks to confirmation of service functioning in line with expectations.

The Company's formation of a capital and business alliance and establishment of a joint venture with Sundai Preparatory School constitute a new seed for the future. Based on this relationship, the two companies established Sundai TOMAS in September 2019 (with ownership stakes of 51% for the Company and 49% for Sundai Preparatory School) and started preparations to begin new business in February 2020.

Earnings goals in the new medium-term management plan for final fiscal-year FY2/22 are ¥33,000mn in net sales, ¥3,810mn in operating profit, ¥3,800mn in ordinary profit, and ¥2,300mn in profit attributable to owners of parent.

Results outlook in the new medium-term management plan (FY2/20-22)

	FY2/20		FY2/21		FY2/22	
	Plan	YoY	Plan	YoY	Plan	YoY
Net sales	27,000	10.2%	30,000	11.1%	33,000	10.0%
Operating profit	3,010	19.0%	3,410	13.3%	3,810	11.7%
Operating profit margin	11.1%	-	11.4%	-	11.5%	-
Ordinary profit	3,000	18.1%	3,400	13.3%	3,800	11.8%
Profit attributable to owners of parent	1,800	14.2%	2,000	11.1%	2,300	15.0%

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

We think the Company is capable of achieving these goals premised on 1) continuing growth rates in the educational instruction school and home tutor dispatching education businesses on par with average annual growth rates in the previous medium-term management plan, 2) boosting the young child education business to 15% growth through expansion of Shinga's Club, and 3) rapid expansion of average annual growth for the in-school one-on-one instruction business to 30%. Our net sales estimate in this scenario works out to ¥33,336mn, which is close to the plan's sales goal of ¥33,000mn.

Medium to long-term growth strategy and advances

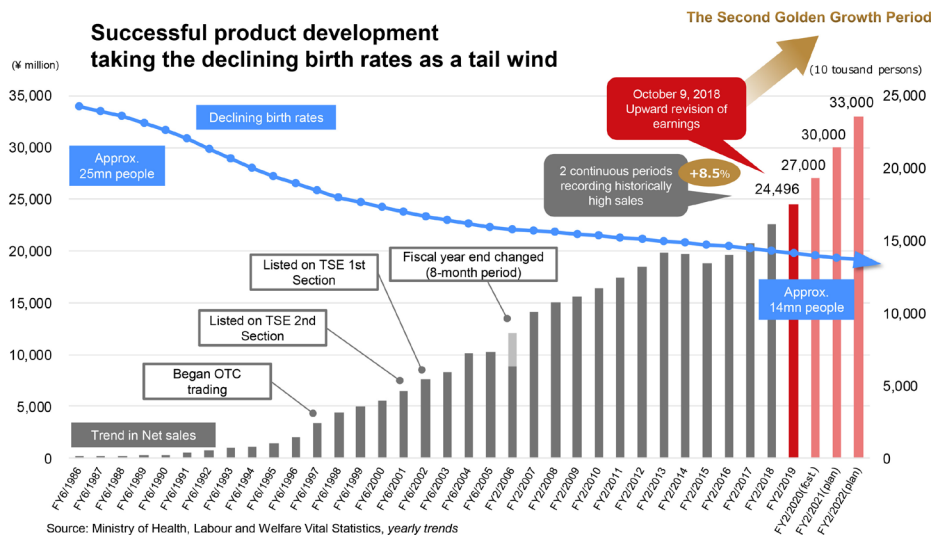
Average annual net sales growth rates by business segment and FY2/22 estimates

	(¥mn)					
	FY2/16 Net sales	Previous medium-term management plan (FY2/17-FY2/19)		Three-year average growth rate	New medium-term management plan (FY2/20-FY2/22)	
		FY2/19 Net sales	YoY		Three-year estimated average growth rate	FY2/22 Net sales (E)
Educational instruction school business	9,869	12,586	8.9%	8.4%	10.0%	16,752
Home tutor dispatching education business	4,623	4,873	1.5%	1.8%	2.0%	5,171
Young child education business	3,119	4,358	15.0%	11.8%	15.0%	6,628
In-school one-on-one instruction business	1,175	1,393	4.6%	5.8%	30.0%	3,060
Character-building training camp education business	-	1,671	12.3%	-	-	2,224
Other	1,657	854	18.5%	-	-	1,000
Subtotal	20,444	25,737	8.7%	8.0%	-	34,836
Adjusted amount	-802	-1241	-	-	-	-1500
Total	19,643	24,496	8.5%	7.6%	-	33,336

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

As explained above, the Company continuously booked higher sales from its establishment in 1985 through FY2/13, but sales flattened out from FY2/14 for some time. While it restored steady sales expansion from FY2/16, the in-school one-on-one instruction business offers opportunity to accelerate the growth pace over the next three years. In light of these conditions, the Company aims to accelerate earnings growth momentum with the next few years, including the period covered by the new medium-term management plan, as the “second golden growth phase.”

Sales growth trends since the Company's founding



Source: Ministry of Health, Labour and Welfare Vital Statistics, yearly trends
 Source: Prepared from the Company's financial results briefing materials

Medium to long-term growth strategy and advances

Entered the phase of recouping investments in School TOMAS and Hello eSensei businesses Large potential demand and opportunity as a medium-term growth engine

2. Growth strategy in the in-school one-on-one instruction business and its progress

Subsidiary School TOMAS operates the in-school one-on-one instruction business that consists of School TOMAS for one-on-one instruction service at schools and Hello eSensei for online English conversation service.

(1) School TOMAS business

School TOMAS established one-on-one instruction TOMAS at schools. Key points are the good fit with schools (group instruction) and class content that focuses on entrance exam preparation rather than supplementing coursework. While many peers offer individual instruction, almost all of them occupy a position of school supplementation.

Schools adopting this service aim to improve their academic advancement results. The strongest sales point to recruit students in an era of shrinking youth population is academic advancement results. We think pursuit of this outcome with one-on-one instruction fits well with school coursework has significant potential needs. While this model has various benefits for the Company too, most importantly it reduces real estate costs and thereby supports high profitability.

While the number of schools with School TOMAS service had been lagging the plan, the Company has readied its operations, including recruitment of instructors and entered a stage of accelerating the number of schools with its service. It offered service at 36 schools at the end of February 2019 and aims to reach 64 schools (70 schools on a contract basis) by the end of February 2020.

The Company concluded a business consignment contract with the Tokyo Metropolitan Board of Education for School TOMAS service. Under this arrangement, School TOMAS handles business related to the “academic advancement assistance school” program promoted by the Tokyo Metropolitan Board of Education and this involves deployment of School TOMAS service at city high schools in order to give academic advancement instruction for university entrance exams (refer to the press release issued on April 10, 2019 for details). Multiple city high schools are currently conducting trial programs (we think it is 2-3 schools), and the next step is decisions on details, such as the number of rollout schools and timing, based on the results. Since the “results” refer to student results in academic advancement, it might take until spring 2020 at the earliest or another year (spring 2021) depending on circumstances to clarify business progress. While the initiative requires time and effort, we expect it to strongly influence the future of School TOMAS business and thus intend to closely monitor results.

The Company believes it has room to deploy service at 300 schools as the scale of School TOMAS business from a medium-term standpoint. If the current pace continues, deployed sites could reach 100 schools during FY2/21. Management intends to use this as an opportunity and substantially accelerate rollouts to achieve further growth in School TOMAS sales. This takes into account the prospect of stronger rollout momentum driven by competitive necessity and relative advantages as direct incentives if advancement results meet expectations along with attainment of 100 schools with service availability.

Medium to long-term growth strategy and advances

(2) Hello eSensei business

Hello eSensei service provides in-school man-to-man personalized English conversation instruction and utilizes the same B-to-B-to-C business model as School TOMAS in which the contract counterpart is a school corporation. This structure offers a variety of synergies, including sales activities and academic advancement instruction for course recipients.

Hello eSensei service instructs students in English conversation with a native speaker as the teacher. Meanwhile, it is difficult to secure native English conversation teachers in Japan including from a cost perspective. The Company developed a model of conducting online English conversation classes at Japanese high schools with instructors in Cebu (Philippines) to resolve this issue. The online format contributes to improved utilization rates (in other words, productivity) for instructors.

Up to now, however, the Company incurred initial investments in the Hello eSensei business. It faced larger costs to launch the service than expected in order to recruit personnel mainly from well-known local college graduates, establish an employment framework that meets the local regulations, and train instructors in Japanese as a necessary skill to improve education efficiency. These costs weighed on profitability. Nevertheless, the Company already reached the peak of early investment costs in FY2/19 and has moved into a phase of “recouping investments,” similar to School TOMAS service, in FY2/20.

The Company expects to increase the number of schools with Hello eSensei service from 16 locations in FY2/19 to 28 locations at the end of FY2/20.

Steadily expanding the school network under the satellite strategy Focus on large potential offered by the capital and business alliance with Sundai Preparatory School

3. Growth strategy in the educational instruction school business and its progress

The educational instruction school business consists of the TOMAS one-on-one academic advancement instruction business, which the Company operates itself, and an English conversation school (under the “Inter TOMAS” service brand that matches the company name), which is operated by its subsidiary Inter TOMAS Co., Ltd., which operates. While the Company does not give a detailed breakdown of the segment, we think Inter TOMAS currently has about ¥500mn in annual sales and the TOMAS business accounts for most of this segment’s income.

TOMAS business has built a unique position of genuine one-on-one instruction with the aim of achieving academic advancement. The most typical model in the individual instruction school market at this point is a quasi-approach with a ratio of one teacher to a few (2-3) students for the purpose of supplementing school coursework. TOMAS seeks differentiation in the instruction purpose and class format and thereby realizes higher pricing in class fees.

High fees have positive and negative implications. Main positive ones are realizing stronger income and recruiting instructors. We think instructor recruitment is a major advantage in light of current social conditions with chronic manpower shortages. A downside aspect is market potential. Target customers for TOMAS service are households with high incomes, and this limits deployment of TOMAS business to Tokyo and the three surrounding prefectures based distribution of these households. Home tutor dispatching education business Meimonkai handles the regional business, as explained below.

Medium to long-term growth strategy and advances

(1) Progress with the satellite strategy

The Company is promoting a “satellite strategy” as the growth strategy in this business in light of these characteristics of TOMAS business. While it previously deployed schools at terminal train stations with about 495-661m² floor space that accommodate 200-400 students, satellite strategy deploys schools at mid-sized train stations around terminal sites with about 165-198m² floor space that accommodate 100-150 students. It opened nine new schools in FY2/19, putting period-end school count at 83 schools. It plans to continue opening new satellite schools at a pace of about 5-10 schools a year with the aim of adding about 50 schools during the five years covering FY2/19-23 and establishing operations with 120 schools. The 120-school level is the goal and milestone for the time being.

As progress in 1H FY2/20, the Company opened two new schools in line with the initial plan (Gakugei Daigaku School and Tama Center School). It also opened the Miyazakidai School, as planned, in September, which comes under 2H. These openings completed the new school plan for FY2/20.

(2) Sundai TOMAS establishment and Spec. TOMAS business

A major development in 1H FY2/20 was formation of a capital and business alliance between the Company and Sundai Preparatory School. The two companies established joint-venture Sundai TOMAS in September as a specific action, and the Company owns 51% of this entity. Sundai TOMAS intends to offer only one-on-one individual instruction schools that focus on the toughest target schools utilizing strengths of the two companies. It adopted the Spec. TOMAS brand to market the service.

Spec. TOMAS opens its first school in Jiyugaoka in February 2020 and then plans to open schools in Kichijoji, Ichigaya, Yokohama, and Omiya to establish a five-school operation. While it is initially starting with junior-high school entrance exams as the business area, the plan calls for broadening service to high school and university entrance exams in the future.

We think the alliance with Sundai Preparatory School offers large potential and is a very high-quality initiative. Opportunities include utilization of Sundai Preparatory School’s instructor personnel and pursuit of related businesses, such as publishing course materials. Personnel potential is highly noteworthy because only about half of the estimated Sundai’s 5,000 to 6,000 instructors are actually engaged. We expect the Company to confront even stronger instructor recruitment needs than up to now accompanying arrival of a full-fledged expansion phase in School TOMAS business and advances in the TOMAS satellite strategy. The Company could make considerable progress in dealing with this issue if it can leverage personnel from Sundai Preparatory School.

Focus on setting up sites in core cities in existing home tutor dispatching education business, reviewing locations in TOMEIKAI business (regional TOMAS service)

4. Growth strategy in the home tutor dispatching education business and its progress

Subsidiary Meimonkai handles home tutor dispatching education business. The Company launched this business relatively early in its history in 1989. It stands out by dispatching 100% professional adult instructors and being the only firm in the home tutor industry, which provides less disclosure of information than educational instruction schools and prep schools, with full disclosure of academic advancement results.

Medium to long-term growth strategy and advances

Home tutors deliver one-on-one instruction, similar to TOMAS, but the class location is different. The Company segments group business into focus on expanding TOMAS service in Tokyo and three surrounding prefectures and one-on-one instruction by home tutors in areas outside of TOMAS coverage. This approach leads to regional sales breakdown in Meimonkai business of 31% in the Tokyo metropolitan area and 69% in other areas.

Growth strategy at Meimonkai, which covers the home tutor dispatching education business, consists of expansion of sites in the existing home tutor dispatching service business and development of the TOMEIKAI one-on-one instruction school business as a new area.

(1) Progress in the home tutor dispatching education business

The home tutor dispatching education business aims to strengthen openings in core cities that lacked sites up to now. The Company primarily developed home tutor dispatching education business in ordinance-designated cities, such as Osaka and Nagoya, but plans to expand site volume by selecting core cities with strong market potential in order to drive earnings growth.

In FY2/20, the Company is targeting reinforcement of its presence in the Kita-Kanto area and opened the Utsunomiya site in May and Mito and Takasaki sites in August during 1H FY2/20. It added the Tsukuba Ekimae site in September (2H).

The Company is looking to add new schools in cities with large populations and economies, such as Osaka and Nagoya, among ordinance-designated cities that already have sites.

(2) Progress in the TOMEIKAI business

Another growth strategy at Meimonkai is regional development of TOMAS business. The Company follows a policy that limits sales area covered by TOMAS business handled directly to Tokyo and the three surrounding prefectures and covers regional areas under Meimonkai's TOMEIKAI brand.

TOMEIKAI operated seven schools nationwide at the end of February 2019 and continued to operate as a seven-school operation without adding a new school in 1H FY2/20. We think it is taking some time to reassess opening candidate sites and market potential.

We see TOMEIKAI business potential as opening 80-90 sites nationwide with an average of two schools per prefecture. Since it might open schools near universities that target medical departments and 75 of the 81 public and private university medical departments are located outside of Tokyo and the three surrounding prefectures, this also contributes to room for opening 80-90 schools.

Risks, meanwhile, are decline in regional population and weakening of local economies at faster paces than expected. From this perspective, it might be safer to estimate the above-mentioned potential market size at about half that size, or around 50 schools. These questions might be one of the reasons for the slower pace of opening TOMEIKAI schools than in the Company's other businesses and formats.

Medium to long-term growth strategy and advances

Steadily expanding childcare and after-school care in new-business Shinga's Club, important component of long-term retention strategy

5. Growth strategy in the young child education business and its progress

The Company entered the young child education business in 2003 by acquiring Shingakai as a wholly owned subsidiary. Shingakai has a longstanding presence in the market with a history of 62 years since its founding and was the pioneer and offers the No.1 entrance results in the “entrance exam” industry for well-known kindergartens and elementary schools.

This segment is expanding and strengthening new-business Shinga's Club as a growth initiative.

(1) Progress in the Shinga's Club business

The elementary school entrance exam market is highly unique, and this makes it difficult to achieve horizontal development (regional expansion) of the Shingakai business that handles it. The Company hence is aiming for vertical development (age segment expansion) with Shinga's Club as the platform.

Vertical expansion is essentially a retention strategy. While preparation for elementary school entrance exams begin at the age of about four years old, this strategy seeks to engage at an even younger age and also ensure that Shingakai graduates (first-year elementary students) continue in TOMAS service for junior-high school entrance exams (exam studies typically start with fourth-grade elementary students). Specific services are Shinga's Club childcare and after-school care businesses.

Childcare business covers children aged 1-3 years old and recruits a group that is one stage before entrance exam instruction provided by Shingakai. Key service points are 1) entrance exam-oriented extended-hours childcare and 2) provision of entrance exam-oriented solutions to households in which both parents work (traditionally it is believed that children from homes without a stay-at-home mother have trouble passing entrance exams). While the Company currently operates six schools in the Tokyo metropolitan area (as of the end of February 2019), schools fill up and have waiting lists as soon as they open.

After-school care is also known as nursery care for elementary students. This business continues to grow, despite the current environment of decline in the youth population, for reasons similar to nursery care. General after-school care receives subsidies from the government based on the Child Welfare Act. It is also one of the few growth markets, and educational instruction school operators and other private-sector companies have been entering the market. The Company entered this market by distinguishing itself as “extended-hours after-school care with academic advancement instruction (as preparation for junior-high school entrance exams). It opened the Ikebukuro Higashiguchi School in April and Gakugei Daigaku School in May as progress in 1H FY2/20 and operated 15 schools as of the end of August 2019. In 2H, it plans to open another three schools (adding a total of five schools in the fiscal year).

We think the Company has leeway to roughly triple the number of Shinga's Club classrooms over the medium term and hence could expand to about 60 classrooms for childcare and after-school care services. If the Company is positioning Shinga's Club as a way of broadening the age scope of existing Shingakai business, it might open childcare and after-school care sites at the 20 Shingakai schools in the Tokyo metropolitan area as a core format. We believe 60 schools is a realistic target assuming 40 schools based on two classrooms x 20 sites and openings other terminal train stations and core stations.

Medium to long-term growth strategy and advances

Even from a standpoint of positioning as the preparatory period for TOMAS service (currently 86 schools), we think a goal of 60 classrooms makes sense in light of recent rapid expansion of TOMAS toward 120 schools. Rather than market potential, main hurdles for realization are securing real estate locations and recruiting instructors. Personnel recruitment, in particular, might pose an unexpectedly tough hurdle, because skills for childcare and after-school care differ entirely with those used at educational instruction schools.

(2) Growth scenario for Shingakai business

Entrance exams for the kindergarten and elementary school industry differ vastly from those of junior-high school and high schools, which make acceptance decisions based on academic testing. It employs a wide range of criteria, such as intelligence, movement capabilities, and behavioral observation, and test categories vary at each school. This has resulted in a plethora of small-scale businesses and self-run businesses that target specific kindergartens and elementary schools. Furthermore, the market is much larger in Tokyo and limited to portions of Kanagawa, Saitama, and Chiba prefectures and the Kansai area outside of Tokyo.

Due to these conditions, Shingakai's 23 classrooms have a breakdown of 20 classrooms in the Kanto area and 3 classrooms in the Kansai areas (as of the end of February 2019). Shingakai holds the No. 1 position in the industry in terms of scale and results.

While it might seem as if Shingakai business lacks growth potential due to unique aspects of the entrance exam market and the shrinking youth population, this is not our view.

We see continued expansion of this business at a moderate pace because of shrinkage in the number of children. Even though university entrance exams rapidly diversified over the past roughly 10 years (expansion of recommended entrance exams and AO entrance exams, etc.), this led to tougher competition for the general entrance exam. Furthermore, upcoming reforms to the university entrance exam system from FY2020 are driving sentiment to avoid the general entrance exam, including uncertainty about the overall image. These changes in the environment are fueling intense interest in exams to enter kindergartens and elementary schools affiliated with universities. Universities, meanwhile, are seeking to strengthen their affiliated kindergartens and elementary schools as part of a retention strategy aimed at recruiting students. These mutual interests support our outlook for expansion of the entrance exam market.

However, the Company remains cautious in its stance toward expanding the number of Shingakai classrooms. We attribute this approach to limited opening room geographically with the existing 20 schools in the Tokyo metropolitan area and expect accommodation of growing demand by adding floor space at existing classrooms. We hence think Shinga's Club business described above is likely to be the main driver of growth strategy in the young child education business.

Business outlook

Upbeat momentum from 1H continuing in 2H Healthy possibility of attaining FY2/20 forecast

The Company's FY2/20 forecast calls for higher sales and earnings with ¥27,000mn in net sales (+10.2% YoY), ¥3,010mn in operating profit (+19.0%), ¥300mn in ordinary profit (+18.1%), and ¥1,800mn in profit attributable to owners of parent (+14.2%). Management did not change the initial full-year forecast after disclosing 1H FY2/20 results.

FY2/20 forecast

	FY2/19			FY2/20				
	1H	2H	Full year	1H	2H forecasts	YoY	Full year forecasts	YoY
Net sales	11,808	12,688	24,496	12,987	14,012	10.4%	27,000	10.2%
Operating profit	973	1,556	2,529	1,166	1,843	18.5%	3,010	19.0%
Operating profit margin	8.2%	12.3%	10.3%	9.0%	13.2%	-	11.1%	-
Ordinary profit	979	1,561	2,540	1,165	1,834	17.5%	3,000	18.1%
Profit attributable to owners of parent	580	995	1,576	727	1,072	7.7%	1,800	14.2%

Note: 2H forecast values are calculated by deducting 1H results from the FY2/20 forecast. They represent the amounts needed in 2H to achieve targets.

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

The Company does not disclose the outlook by segments. However, as noted in the section on long-term growth strategy, a scenario that assumes continuation of growth rates from FY2/19 results over the medium term (3-5 years) in each segment and robust earnings growth for the in-school one-on-one instruction business, which entered a recouping phase after completion of upfront investments, should support overall gains. Our estimates using these assumptions obtained results on track with the Company's outlook.

Estimated sales outlook by business segments in FY2/20

	FY2/19		FY2/17-FY2/19 CAGR	FY2/20 net sales	
	Net sales	YoY		Case applying FY2/19 net sales growth rates	Case applying FY2/17-FY2/19 CAGR
Educational instruction school business	12,586	8.9%	8.4%	13,708	13,649
Home tutor dispatching education business	4,873	1.5%	1.8%	4,948	4,959
Young child education business	4,358	15.0%	11.8%	5,012	4,872
In-school one-on-one instruction business	1,393	4.6%	5.8%	1,811	1,811
Character-building training camp education business	1,671	12.3%	-	1,877	1,877
Other	854	18.5%	-	1,012	685
Subtotal	25,737	8.7%	8.0%	28,368	27,853
Adjusted amount	-1,241	-	-	-1,200	-1,200
Net sales total	24,496	8.5%	7.6%	27,168	26,653

Note: For the in-school one-on-one instruction business, 30% YoY sales growth rates are used for FY2/20 in both cases. For the character-building training camp education business, the FY2/19 sales growth rate is used in both cases due to the absence of FY2/17-FY2/19 CAGR.

CAGR = Compound Annual Growth Rate

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

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Business outlook

As explained above, we think the Company exhibited high-quality content in 1H FY2/20 with very robust momentum and rising student volume in main business segments. These conditions have been continuing in 2H. We do not see any signs of sudden change in a negative direction. While this situation boosts expectations for upside in full-year results, we believe it is necessary to take a cautious view.

We expect the Company to attain full-year forecast, but think upside might not reach a level that requires timely disclosure of upward revisions. Net sales and operating profit progress rates through 1H were at 48.1% and 38.7%, respectively, on par with last year's progress. Additionally, while the Company aims to expand classroom and school deployment in existing and new businesses as part of growth strategies, these activities involve early spending and pressure earnings in the first fiscal year. We believe the Company faces a tough hurdle to absorb these costs and reach upward revisions that require timely disclosure.

From FY2/21, the main focus is the Company's outlook for a substantial rise in the number of schools with service from 36 schools at the end of February 2019 to 64 schools at the end of February 2020 with arrival of a ramp-up phase for the in-school one-on-one instruction business (School TOMAS) seen as a potent growth engine over the longer term. Since it effectively takes until FY2/21 to realize income contributions from net increase in school volume during FY2/20, this is the basis for rising expectations in the Company's ability to sustain earnings growth from FY2/20 as well.

Statements of income and key indicators

	FY2/16	FY2/17	FY2/18	FY2/19	1H FY2/20	FY2/20 forecast
	(¥mn)					
Net sales	19,643	20,777	22,584	24,496	12,987	27,000
YoY	4.6%	5.8%	8.7%	8.5%	10.0%	10.2%
Gross profit	5,291	5,704	6,341	7,113	3,644	-
Gross profit margin	26.9%	27.5%	28.1%	29.0%	28.1%	-
SG&A expenses	3,401	3,653	4,183	4,583	2,478	-
SG&A expenses ratio	17.3%	17.6%	18.5%	18.7%	19.1%	-
Operating profit	1,890	2,051	2,158	2,529	1,166	3,010
YoY	87.9%	8.5%	5.2%	17.2%	19.8%	19.0%
Operating profit margin	9.6%	9.9%	9.6%	10.3%	9.0%	11.1%
Ordinary profit	1,857	2,032	2,139	2,540	1,165	3,000
YoY	89.8%	9.4%	5.3%	18.7%	19.0%	18.1%
Profit attributable to owners of parent	1,428	1,275	1,381	1,576	727	1,800
YoY	-40.0%	-10.7%	8.3%	14.1%	25.3%	14.2%
EPS after adjustment for share-split	9.23	8.37	9.36	10.68	4.93	12.19
Dividends after adjustment for share-split	3.33	8.33	9.33	11.00	6.00	12.00
BPS after adjustment for share-split	50.28	42.68	42.49	42.28	40.78	-

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

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Business outlook

Balance sheet

	End of FY2/15	End of FY2/16	End of FY2/17	End of FY2/18	End of FY2/19	End of 1H FY2/20
	(¥mn)					
Current assets	5,216	6,395	5,598	6,052	6,318	6,920
Cash and deposits	3,288	4,515	3,866	4,171	4,716	4,815
Operating accounts receivable	1,217	1,356	739	833	924	1,452
Inventories	107	99	125	100	102	129
Non-current assets	6,768	6,058	5,577	5,602	6,138	6,387
Property, plant and equipment	2,282	2,177	2,277	2,489	2,877	3,071
Intangible assets	218	200	203	162	153	138
Investments and other assets	4,267	3,680	3,097	2,950	3,106	3,176
Deferred assets	85	39	74	69	54	44
Total assets	12,069	12,493	11,250	11,724	12,510	13,351
Current liabilities	3,981	3,042	3,162	3,430	3,861	4,804
Accounts payable - other	913	805	810	761	1,222	1,492
Advances received	1,646	1,155	1,090	1,331	1,169	1,645
Non-current liabilities	2,047	1,664	1,786	2,019	2,385	2,505
Shareholders' equity	5,986	7,680	6,290	6,292	6,415	6,182
Capital stock	2,890	2,890	2,890	2,890	2,890	2,890
Capital surplus	822	822	822	822	822	822
Retained earnings	2,521	4,181	3,971	3,975	4,099	3,867
Treasury shares	-249	-215	-1,394	-1,396	-1,397	-1,398
Total accumulated other comprehensive income	55	105	10	-18	-173	-163
Total net assets	6,041	7,785	6,301	6,273	6,263	6,041
Total liabilities and net assets	12,069	12,493	11,250	11,724	12,510	13,351

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

Cash flow statements

	FY2/15	FY2/16	FY2/17	FY2/18	FY2/19	1H FY2/20
	(¥mn)					
Cash flows from operating activities	-2,546	1,434	2,481	2,278	2,707	1,346
Cash flows from investing activities	5,488	-217	-527	-593	-731	-287
Cash flows from financing activities	-1,556	9	-2,603	-1,377	-1,433	-958
Effect of exchange rate change on cash and cash equivalents	-	-	0	-2	-1	-1
Net increase (decrease) in cash and cash equivalents	1,385	1,227	-649	305	544	98
Cash and cash equivalents at beginning of period	1,903	3,288	4,515	3,866	4,171	4,716
Cash and cash equivalents at end of period	3,288	4,515	3,866	4,171	4,716	4,815

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

Shareholder returns

Sustaining 100% dividend payout to clarify emphasis on shareholders

The Company positions returning profits to shareholders as an important issue and has a fundamental policy of paying dividends that reflect profits with consolidated dividend payout as the indicator. It has been targeting a 100% dividend payout ratio since FY2/17, following restoration of dividend payments from temporary suspension, and pays dividends four times a year at the end of each quarter.

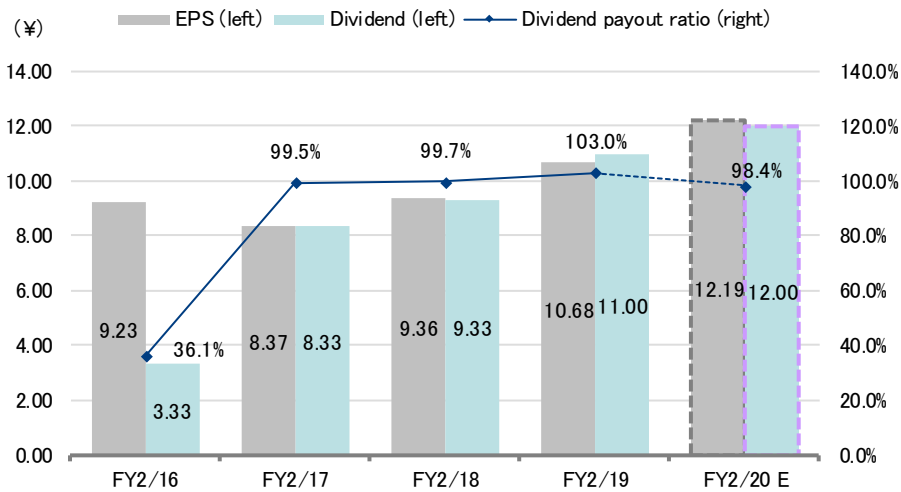
Shareholder returns

For FY2/20, the Company disclosed a ¥12 annual dividend based on a ¥3 dividend for each quarter. This is ¥1 higher from ¥11 in 1H FY2/19 and puts the payout ratio at 98.4% based on ¥12.19 in estimated EPS. The Company has paid dividends on track with the initial forecast thus far in FY2/20 with ¥3 at the end of 1Q and ¥3 at the end of 2Q.

The Company adopted a 100% dividend payout ratio to strengthen profit redemption long-term shareholders. This stance also reflects the relatively small amount of funds needed for growth investments and the ability to cover dividends through internal procurement, mainly from operating cash flow, and surplus funds. While the Company is likely to sustain a 100% payout target if it does not encounter a rise in funding needs for large-scale investments in the future, there are also hopes that it finds a major growth investment deal that necessitates revision of the payout ratio.

We think another reason for the management policy of paying a high dividend is controlling the share price. It is clearly important to sustain a suitable and strong share price in the educational instruction school and prep school industry that has seen many mergers. Nevertheless, share prices inherently fluctuate and the Company cannot control this movement by itself. We believe it aims to support a high share price by using the dividend, which it can control through its own efforts, provide the maximum amount of profit redemption.

Dividend, EPS, and dividend payout ratio trends



Note: Implemented a three-for-one stock split on December 1, 2018
 Retroactively revised dividend values
 Source: Prepared by FISCO from the Company's financial results



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