

Riso Kyoiku Co., Ltd.

4714

Tokyo Stock Exchange First Section

8-Jan.-2021

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

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Summary

Student volume moving onto a recovery path as a result of success with unique rigorous COVID-19 infection prevention measures

Riso Kyoiku Co., Ltd. <4714> (hereafter, also “the Company”) is an educational service company that has established a unique business model by combining “genuine one-on-one instruction” and “academic advancement” and is steadily broadening its scope. The Company’s subsidiaries include Shingakai Co., Ltd., which provides entrance exam preparation for kindergartens and elementary schools, Meimonkai Co., Ltd., which dispatches professional home tutors, School TOMAS Co., Ltd., which provides in-school one-on-one instruction, and Plus One Kyoiku Co., Ltd., which plans tour-style experiences and runs gymnastics classes.

1. COVID-19 measures and impact on results

Within the Group, following Japan’s issuance of a state of emergency declaration accompanying the COVID-19 outbreak, the Company fully closed TOMAS and Meimonkai schools (only classroom guidance) for two weeks from April 8–22, 2020 and Shingakai schools from April 8–May 7. At TOMAS, the Company used the shutdown period to make changes to classrooms and implement unique rigorous infection prevention measures. These actions enabled it to be the first in the educational instruction school industry to reopen, attracting television news coverage. Thanks to favorable reaction to provision of safe learning environments afforded by the rigorous prevention measures, student volume switched to positive growth (YoY) in August 2020 and has continued rising since then. The Company is on track to quick recovery in student volume and earnings because of its prompt deployment of thorough measures.

2. Trends in 1H FY2/21 results

In 1H FY2/21 (Mar–Aug 2020) consolidated results, the Company reported ¥11,109mn in net sales (-14.5% YoY) and a ¥460mn operating loss (vs. a ¥1,166mn profit a year earlier). Sales weakened in 1H with declines in all businesses, particularly mainstay TOMAS, due to temporary school closures in response to the COVID-19 outbreak. Costs related to COVID-19 countermeasures weighed on profits too. While sales dropped 21.2% YoY in 1Q FY2/21, which caused the largest impact, the rate of decline slowed in 2Q to 9.8%.

3. FY2/21 forecast

The Company’s FY2/21 consolidated forecast projects ¥26,000mn in net sales (-2.6% YoY) and ¥1,510mn in operating profit (-44.4%). These levels put 2H targets at gains (YoY) of 8.6% in net sales and 27.0% in operating profit. Student volume at TOMAS already reached a 3% increase in October 2020 compared to the same month in the previous fiscal year, and class volume per student is likely to rise as well ahead of exams. Student volume at Shingakai is upbeat too with an 8% increase in October. Although recovery in student volume at Meimonkai has lagged somewhat, the Company expects to catch up, including support from the launch of online classes. Furthermore, School TOMAS sales are recovering along with resumption of school operations after schools were forced to close in 1H due to host school closures, and inquiries are rising with the addition of online classes, as well as one-on-one instruction. These are positive conditions for growth from FY2/22.

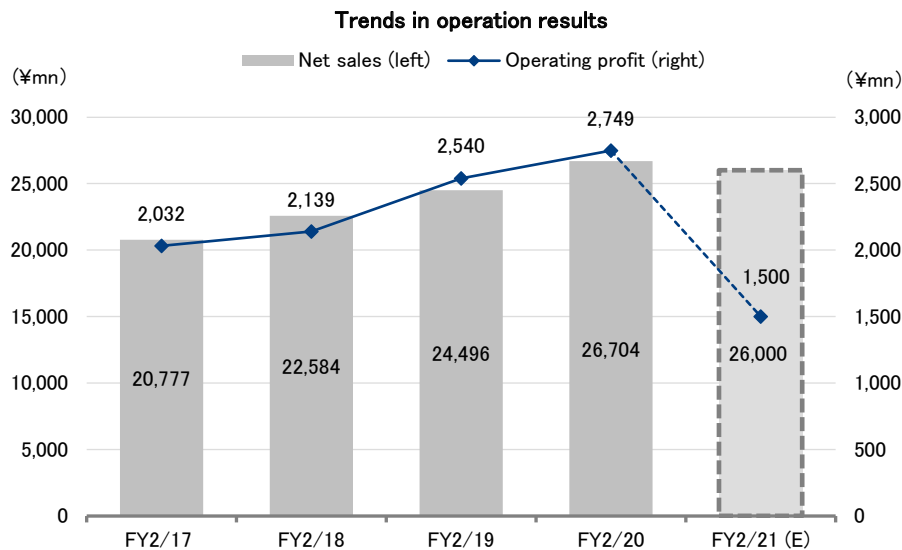
Summary

4. Growth strategy

As a growth strategy, the Company hopes to expand early childhood education, and it concluded a business alliance with Konami Sports Co., Ltd. and a capital and business alliance with Hulic Co., Ltd. <3003> in September 2020 to support this initiative. In the alliance, the Company and Konami Sports will mutually provide their respective early childhood educational services (Shinga's Club, Undo Juku). The Company is offering this service as Shinga's S Academy Sports (provisional name). Hulic envisions comprehensive provision of educational services to children at buildings it plans to develop that will act as one-stop service centers focusing on children with the Company's Shinga's Club and Konami Sports' Undo Juku as tenants. According to Hulic, it will launch the first building in 2022 and then develop roughly 20 buildings in the metro Tokyo area through 2029. Since finding suitable spaces has been an issue for the Company, this initiative should be closely monitored for the potential to expand the young child education business. In the in-school one-on-one instruction business, the Company intends to steadily open new schools under the TOMAS brand in metro Tokyo and under Meimonkai's TOMEIKAI brand in other areas outside of metro Tokyo, and expand School TOMAS deployment from just under 60 schools currently to 100 schools in the near term. Despite temporary income sluggishness due to COVID-19 impact, the Company is likely to enter a renewed growth stage from FY2/22.

Key Points

- Offers a variety of educational services mainly at TOMAS, Meimonkai, and Shingakai
- Student volume is recovering alongside favorable reaction to rigorous infection prevention measures, likely to restore sales and profit gains in 2H FY2/21
- Starting an initiative to expand the young child education business through an alliance with Konami Sports and Hulic



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

■ Company profile

Established in 1985 for the purpose of delivering high-quality educational services

1. Company history

Mitsugu Iwasa, currently a director and chairman, took over 14 classrooms from Kodomo Pia, a business in which he was part of the management team switched to an 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 services.

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.

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 shares of Shingakai, which offers entrance exam preparation for well-known kindergartens and elementary schools, and made it a subsidiary in 2003. In July 2019, the Company formed a capital and business alliance with Surugadai Gakuen Educational Institute and established Sundai TOMAS Co., Ltd. (the Company owns a 51% stake) to support “spec. TOMAS,” a provider of one-to-one instruction that specializes in entrance exams for the most difficult schools.

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).

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Company profile

Company history

Date	History
July 1985	Established Nihon Kyoiku Kosha K.K. to accommodate the acquisition of 14 classrooms from Kodomo Pia with the purpose of providing high-quality one-on-one educational instruction services and started opening classrooms under the Riso Kyoiku Kenkyusho name
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.
October 1998	Renamed from Nihon Kyoiku Kosha K.K. to Riso Kyoiku Co., Ltd.
December 1998	Conducted OTC registration of shares with the Japanese Securities Dealers Association
July 2000	Established Nihon Edunet Co., Ltd. with the aim of conducting genuine one-to-one instruction in an interactive environment utilizing Internet video conferencing
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)
December 2002	Established School Tour Ship Co., Ltd. with the aim of conducting character-building training camp education
January 2003	Established Meimonkai Co., Ltd. as a spin-off of the home tutor dispatching business, acquired Shingakai Co., Ltd., which provides kindergarten and elementary school entrance exam preparation, as a wholly owned subsidiary
July 2005	Transferred the student recruitment business division to School Tour Ship Co., Ltd. and renamed it as Riso Kyoiku Kikaku Co., Ltd.
October 2013	Established Inter TOMAS Co., Ltd. as a spin-off of the English school division, established Plus One Kyoiku Co., Ltd. as a spin-off of the character-building training camp education business, 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
February 2020	Opened the first school for spec. TOMAS, a new brand, in Jiyugaoka under Sundai TOMAS. Absorbed Inter TOMAS Co., Ltd. and TOMAS Kikaku Co., Ltd.
August 2020	Established Kokokara Teachers Co., Ltd. as a firm specializing in hiring, training and placing teachers to Group companies

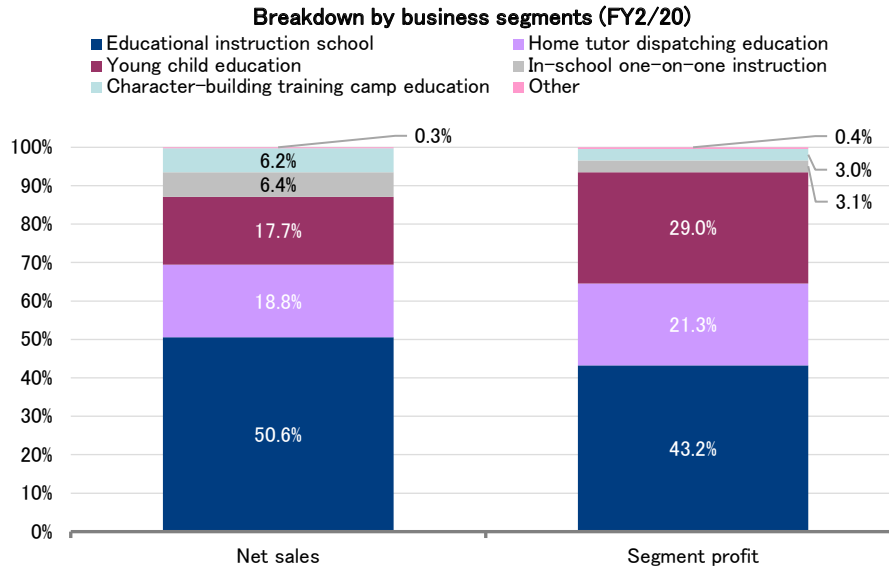
Source: Prepared by FISCO from the Company's securities report and press releases

Building educational service businesses mainly through TOMAS, Meimonkai, and Shingakai

2. Business overview

The Company and its five major subsidiaries are steadily building educational services mainly driven by educational instruction schools. As business segments, the Company provides disclosure for the 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. In the FY2/20 results breakdown by segment, the educational instruction school business was the primary business, accounting for 50.6% of net sales and 43.2% of segment profit. The top three segments (educational instruction school, home tutor dispatching education, and young child education) provide the vast majority of overall income.

Company profile



Note: Segment shares calculated excluding adjustment values
 Source: Prepared by FISCO from the Company's financial results

The educational instruction school business consists of 84 mainstay genuine one-on-one instruction TOMAS schools in the Tokyo metropolitan area (as of the end of August 2020, same below), 11 English conversation Inter TOMAS schools, and 2 one-on-one instruction MEDIC TOMAS schools for medical school exam preparation. Additionally, it opened spec. TOMAS (Jiyugaoka school), a provider of one-to-one instruction that specializes in entrance exams for the most difficult schools, in February 2020 under subsidiary Sundai TOMAS.

TOMAS is a genuine individualized instruction school with a one-on-one format that covers from elementary students to high school students and prepares and provides curricula optimized to personal skills in order to realize the goal of passing the exam at a target school. Teachers are mainly students, adults, and other part-time staff, and full-time employees handle consultation about learning content and support services. Additionally, spec. TOMAS schools implement an entrance exam and refer students who fail the exam to nearby TOMAS schools. The Jiyugaoka school focuses on 3rd–6th year elementary students with the aim of preparing them to pass exams for the toughest middle schools and hires teachers as full-time employees to support this process.

The home tutor dispatching education business has 33 Meimonkai schools nationwide that dispatch adult professional teachers as home tutors. It also operates 8 TOMEIKAI schools as individualized instruction schools with service areas outside of the Tokyo metropolitan area (4 schools in the Kyushu area, 3 schools in the Tokai area, and 1 school in the Koshinetsu area). TOMEIKAI schools hire student teachers and thus seek locations near medical universities or other universities that have many talented students nearby.

The young child education business consists of Shingakai, a pioneer in entrance exam instruction for top kindergartens and elementary schools, with 23 schools mainly in the Tokyo metropolitan area (20 schools in metro Tokyo and 3 schools in the Keihanshin area), and Shinga's Club, an after-school care and childcare business with vibrant demand, with 21 schools in the Tokyo metropolitan area (15 after-school care schools and 6 childcare schools).

We encourage readers to review our complete legal statement on "Disclaimer" page.

Company profile

In the in-school one-on-one instruction business, it is expanding individualized instruction services from 2020 to include the atama+ AI learning assistance system and Sundai Satellite Network 21, a system with video learning materials, in addition to Hello eSensei, an online English conversation service that uses the internet and individualized instruction from instructors dispatched by the Company utilizing after-school time based on contracts between School TOMAS and individual schools. These services have been deployed to 59 schools (70 schools on a contract basis), including Hello eSensei, mainly at private integrated middle and high schools.

The character-building training camp education business consists of seven schools each for soccer and gymnastics run by Plus One Kyoiku and planning and provision of School Tour Ship, an experience-type educational program using weekend days, summer vacation and other extended holidays. This program aims to cultivate action-taking and decision-making capabilities through participation in various experiences provided by School Tour Ship.

Overview of business segments and main companies

Business segments	Company name	Business description	Service regions
Educational instruction school business	Riso Kyoiku	Educational instruction school business. Mainly operates TOMAS genuine one-on-one instruction schools as well as Inter TOMAS English conversation schools and MEDIC TOMAS medical department entrance exam individualized instruction schools	Tokyo metropolitan area
	Sundai TOMAS	Operates spec. TOMAS one-on-one instruction schools that specialize in entrance exams for the most difficult schools	Tokyo metropolitan area (likely to expand in the future)
Home tutor dispatching education business	Meimonkai	Operates Meimonkai that dispatches home tutors and TOMEIKAI one-on-one instruction schools in regional areas (outside of Tokyo and the three surrounding prefectures)	Dispatches home tutors nationwide TOMEIKAI offers services outside of the Tokyo metropolitan area
Young child education business	Shingakai	Operates Shingakai, a school that handles entrance exam instruction for top kindergartens and elementary schools, and Shinga's Club, a childcare and after-school care business	Shingakai has schools in the Tokyo metropolitan area and Keihanshin Shinga's Club has locations in the Tokyo metropolitan area
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	Nationwide
Character-building training camp education business	Plus One Kyoiku	Operates a school business with a soccer school and gymnastics school and a tour business that cultivates action-taking and decision-making capabilities through various experiences	-

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

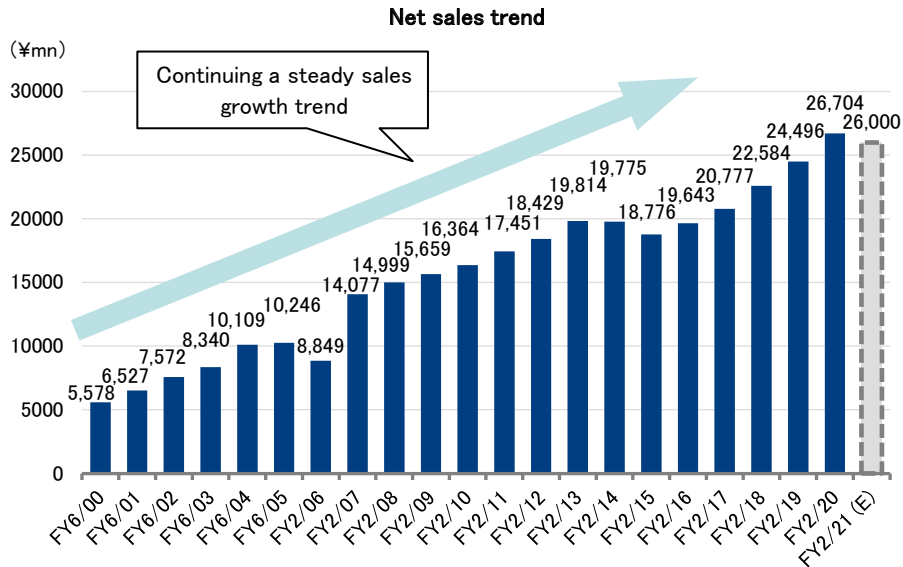
Currently in a "second golden growth phase" with a tailwind from the shrinking youth population based on a foundation of high-quality educational services

3. Characteristics and strengths

While the Company has a variety of characteristics and strengths, we think the following two are particularly important: 1) consistently increasing income over the long term and 2) realizing high profitability. We think the advantageous business model built by the Company is the source of these two characteristics, and grasping them is likely to improve understanding and certainty of the medium- to long-term growth scenario.

Company profile

The Company reported ¥163mn in net sales in FY6/86, its founding year, and sustained steady sales growth through FY2/13 (although sales dropped in FY2/06 with its abnormal 8-month period due to the fiscal year change, they were higher on a real basis that converts sales to a 12-month format). The Company subsequently discovered improper accounting practices and rebuilt internal control operations. Since it posted record-high sales for the first time in four years in FY2/17, sales have been steadily rising again. Despite the temporary disruption of growth in FY2/21 due to COVID-19 impact, the Company expects to return to the growth stage from FY2/22.

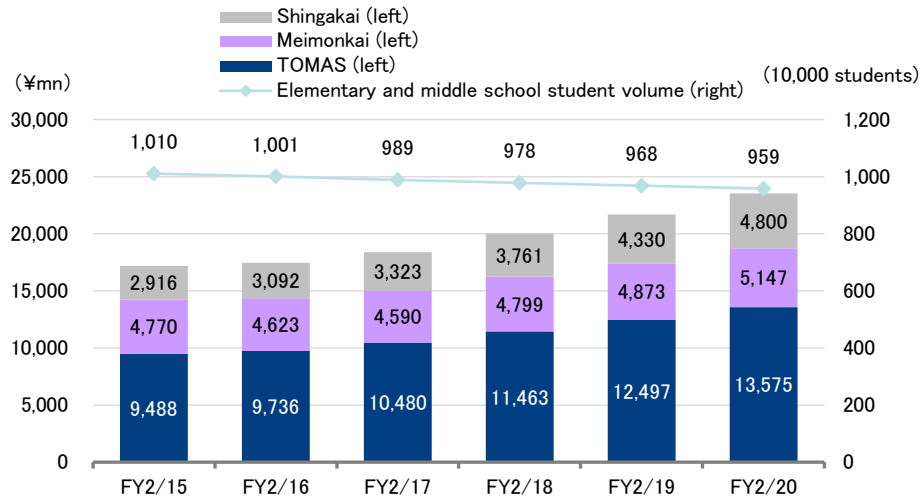


Note: FY2/06 was an eight-month fiscal year
Source: Prepared by FISCO from the Company's financial results, securities reports, and results briefing materials

We think an important point is the Company's success in increasing student volumes in all major businesses (TOMAS, Meimonkai, and Shingakai) and sustaining growth despite a tough industry environment with fierce competition to acquire students amid peaking of the educational advancement and preparatory school market because of a shrinking youth population and increase in market participants. Even though the number of domestic elementary and middle school students, the main target segment, fell 1.0% annually from 10.1mn students in 2014 to 9.59mn students in 2019, the Company's sales in its three main businesses increased 6.5% annual from ¥17,176mn in FY2/15 to ¥23,523mn in FY2/20, with mainstay TOMAS growing by 7.4%.

Company profile

Main business sales and elementary and middle school student volume trends



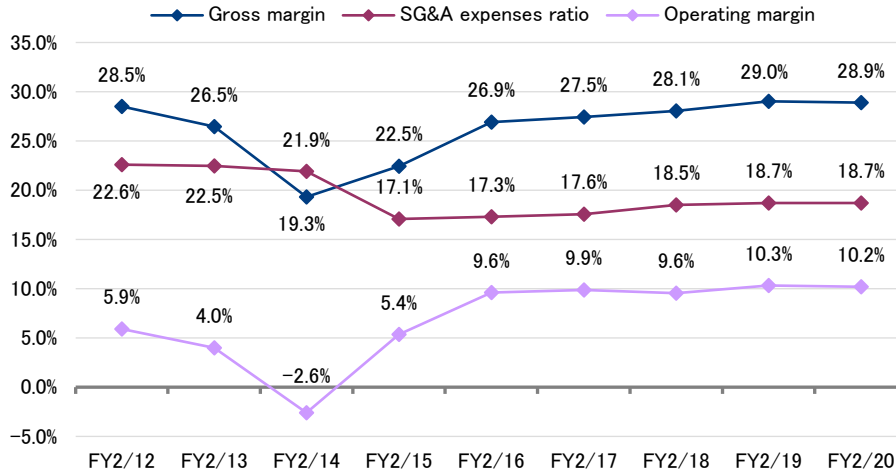
Source: Prepared by FISCO from the Company's securities reports and the Ministry of Education, Culture, Sports, Science and Technology's Statistical Abstract 2020 (Education, Culture, Sports, Science and Technology)

Looking at gross margin, SG&A expenses ratio, and operating margin trends, the operating margin held at double digits in FY2/20, the latest fiscal year, at 10.2%. The Company itself is not satisfied with the current operating margin of about 10% and is making its utmost efforts to reach the near-term goal of 15%. The 10% margin level is higher than the industry average for educational advancement and preparatory schools. While multiple listed peers realize higher operating margins than the Company, these firms either use group instruction as the core business model or acquire royalty income through franchise businesses. Very few peers that mainly conduct one-on-one instruction only in directly run schools, such as the Company, or utilize a mix of group and individualized instruction have double-digit operating margins.

We believe the Company is capable of attaining a 15% operating margin considering its investments in new school openings and new business ramp-up through FY2/20. While it might have potential to pursue an even higher margin after that point, management is also putting emphasis on compliance and other areas and needs to sustain a certain amount of spending on internal management operations compared to past years (during the prelisting era with an operating margin above 20%). From this perspective, we think 15% for the operating margin goal is a reasonable level.

Company profile

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



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

Our understanding is that the same source drives the Company's strengths of stable sales growth and high profitability. When founding the Company, current director and chairman Iwasa took into account the implications of China's one-child policy, which include the prospect of a shrinking youth population and increased spending per child on education costs as a result. 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 increases in the amount spent per child on education costs too, the Company succeeded in transforming the headwind of a shrinking segment into a tailwind.

Key points in harnessing shrinkage of the youth population as a tailwind are provision of high-quality educational services with genuine individualized instruction using a one-on-one format and focus on advancement instruction 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 students (2-3) for the purpose of supplementing school coursework. We think high business risk is a major reason other companies do not adopt this model. 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. Almost no newcomers are entering the market with the same business model as the Company for this reason, and this has solidified the Company's strong brand presence as a one-on-one educational advancement and preparatory school.

Company profile

While the Company's founding purpose was high-quality individualized instruction, it initially started with a group learning format that consisted of six students per class with classes organized by academic capabilities. It was not until five years later in 1990 that the Company started provision of the "genuine one-to-one personalized teaching system" envisioned by Mr. Iwasa. 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 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 the business model of "pursuing academic advancement results" is the source of the Company's strength and supports the two characteristics of stable sales growth and high profitability mentioned above.

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. As explained above, 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 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.

Whether the Company is capable of sustaining stable growth and high profitability in the future depends on the time horizon and scale of investments, but we have high expectations for it to achieve these goals with a time line of 5–10 years. 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. This is because of significant business risk involved in copying or recreating the business model that the Company has built over many years since its founding. The high entry barrier for the Company's business model that pursues educational advancement results is a third characteristic.

Results trends

Favorable reaction to unique rigorous measures to prevent COVID-19 infections and prompt restoration of classes

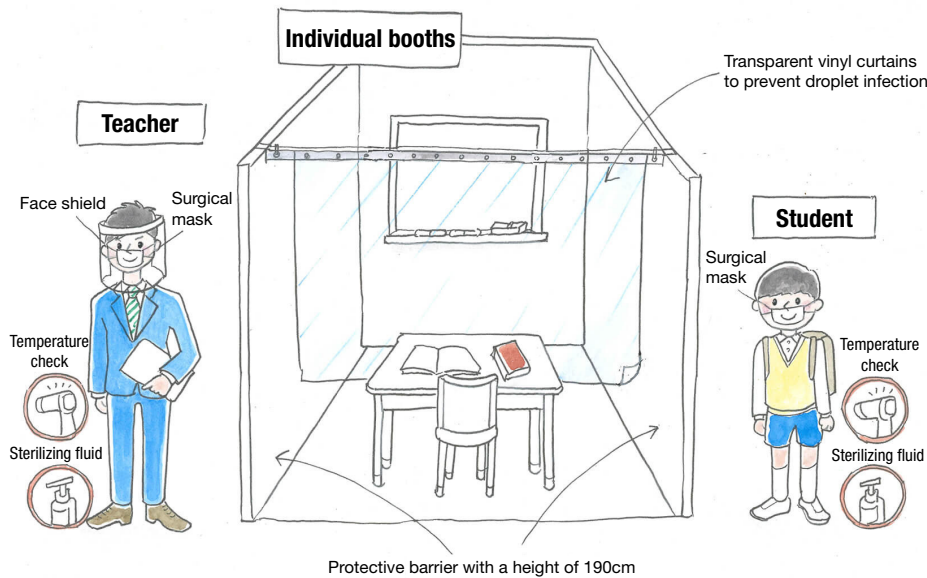
1. COVID-19 measures and impact on results

Japan issued a state of emergency declaration on April 7 in response to COVID-19 infections spreading in the country from March 2020. Due to closures of Group schools and an inability to sufficiently recruit students, student and class volumes declined, and this trend took a heavy toll on the Company's results. Mainstay TOMAS business suspended all schools for two weeks from April 8–22. Actions taken to implement rigorous infection prevention measures during that period enabled the Company to restart classes promptly prior to removal of the emergency declaration in late May.

Results trends

Specifically, the Company installed vinyl curtains as partitions between students and teachers in individual booths with walls taller than 190cm in all schools. Students and teachers sterilize their hands and have their temperature taken when entering and exiting the school and wear surgical masks. Teachers also wear a face shield in class. After the class finishes, the teacher handles sterilization inside the booth. Television news programs covered the rigorous measures to prevent infections, and East Japan Railway <9020> displayed large billboards about the Company's infection prevention measures at no charge for a period of just over two months at 22 train stations mainly on the Yamanote Line. The initiative attracted significant interest.

Image of COVID-19 infection countermeasures implemented by TOMAS



Source: Prepared by FISCO from the TOMAS website

The Company's quick preparation of an environment supporting a safe return to classes not only earned positive reactions from students and guardians, but also spurred inquiries about attending the school, which increased by more than 20% YoY from June 2020. Besides students, the number of teachers seeking positions has been healthy too, including a sharp expansion of 40% YoY in June. The Company attributes elevated interest to the positive response to its extensive measures to protect not only students, but teachers as well.

The Company deployed rigorous measures beyond TOMAS to prevent COVID-19 infections, tailoring them to conditions in the Meimonkai and Shingakai businesses. These two businesses enjoyed smooth recoveries in student volume from the summer. Looking at student volume as of August, TOMAS was back to a gain of 0.8% YoY and Shingakai had restored positive growth to 6.5%. Meimonkai lagged behind TOMAS somewhat in deploying the infection countermeasures and hence was still slipping at a decline of 5.2%. However, the rate of decline is easing, and the Company expects it to start increasing relatively soon. Shingakai's student volume growth stands out. We think this occurred due to a rise in new entrant candidates following favorable reaction to the quick and thorough infection-related measures. This is good news for the Company's outlook because increases in student volumes directly drive income recovery.

Results trends

The Company expects extra costs totaling about ¥500mn at TOMAS and roughly ¥800mn at the consolidated level in FY2/21 to pay for renovation work and purchases of various sterilizing products to prevent infections as expenses to counter COVID-19 as well as financial assistance for teachers during the closures and special allowances after classes resumed. These are mainly personnel costs and consumable costs, and it intends to adjust fees to offset higher costs from spring 2021. Conversely, this could add about ¥800mn to profits in FY2/22.

COVID-19 impact on Group companies

Company	Impact	April and May sales (YoY change)	August student volume (YoY change)	Situation from September
TOMAS	Closed all schools from April 8–22	-25.7%	0.8%	Student volume rose 4% month on month (MoM) and teacher volume increased too in September
Meimonkai	Closed all schools from April 8–22 (only classroom instruction)	-15.2%	-5.2%	Rate of decline in student volume is easing
Shingakai	Closed all schools from April 8–May 7	-44.6%	6.5%	Student volume rose 1.4% MoM in September ahead of November exams
School TOMAS	Closed all schools due to host school closures from March	-31.7%	-	Rise in inquiries about online classes, rush of school openings
Plus One Kyoiku	Halted all tours, resumed operations in June	-93.3%	-	Restarted tours with coverage under the Go To Travel program

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

Heavy COVID-19 impact (1Q) on 1H FY2/21 results

2. Overview of 1H FY2/21 results

In 1H FY2/21 (Mar–Aug 2021) consolidated results, the Company reported ¥11,109mn in net sales (-14.5% YoY), a ¥460mn operating loss (vs. a ¥1,166mn profit a year earlier), a ¥416mn ordinary loss (vs. a ¥1,165mn profit), and a ¥468mn loss attributable to owners of parent (vs. a ¥727mn profit). Main income setbacks were closures of TOMAS, Meimonkai (only school instruction), and Shingakai schools in Apr–May 2020, sharply lower sales at School TOMAS and Plus One Kyoiku due to COVID-19 impact as explained above and booking costs for COVID-19 countermeasures.

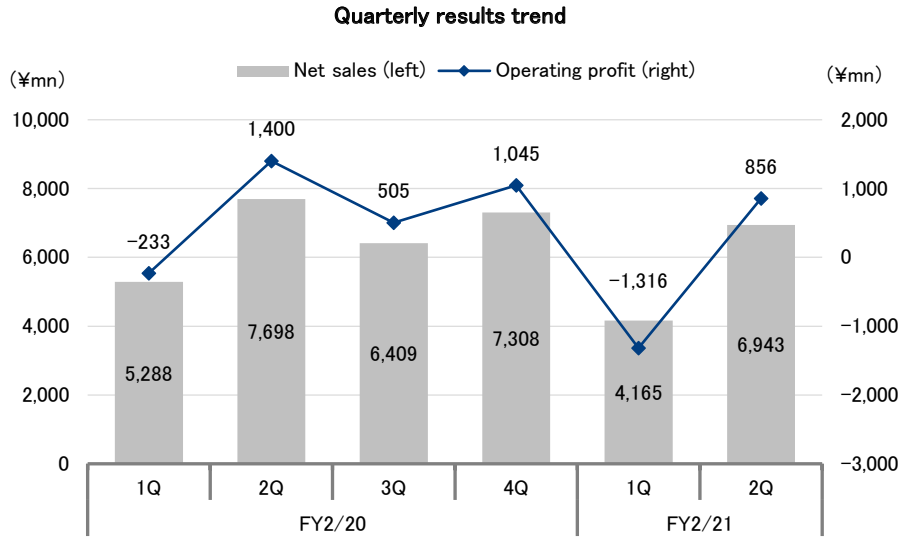
Looking at sales trends on a quarterly basis, sales fell substantially in 1Q by 21.2% YoY and then the rate of decline greatly eased to 9.8% in 2Q, an indication of an upturn in the number of new students accompanying the resumption of classes. In particular, young child education business sales recovered to a level roughly on par with the previous year. As explained earlier, the Company's prompt restart of classes by quickly and rigorously implementing infection measures helped drive the recovery in sales.

1H FY2/21 consolidated results

	1H FY2/20		1H FY2/21		YoY
	Results	Ratio to sales	Results	Ratio to sales	
Net sales	12,987	-	11,109	-	-14.5%
Cost of sales	9,342	71.9%	9,019	81.2%	-3.5%
SG&A expenses	2,478	19.1%	2,549	23.0%	2.9%
Operating profit (loss)	1,166	9.0%	-460	-4.1%	-
Ordinary profit (loss)	1,165	9.0%	-416	-3.8%	-
Profit (loss) attributable to owners of parent	727	5.6%	-468	-4.2%	-

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

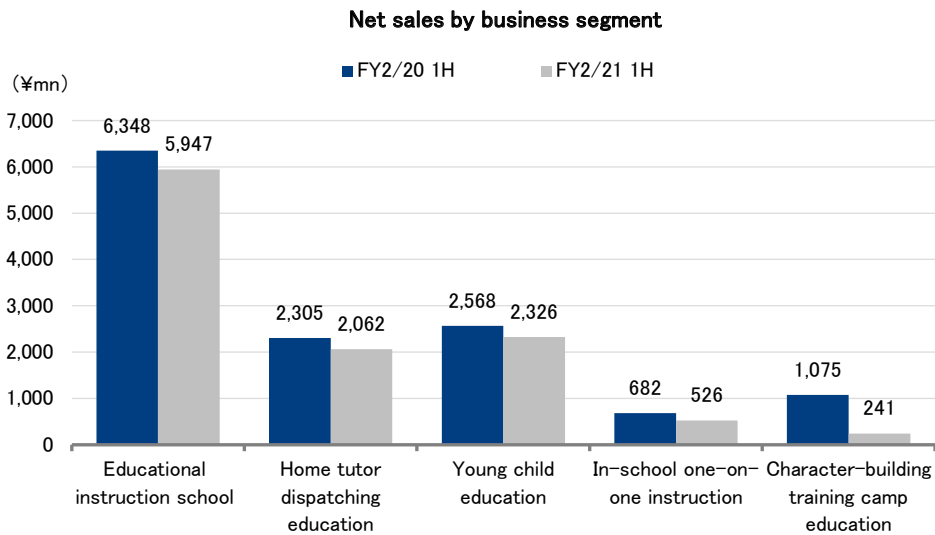
Results trends



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

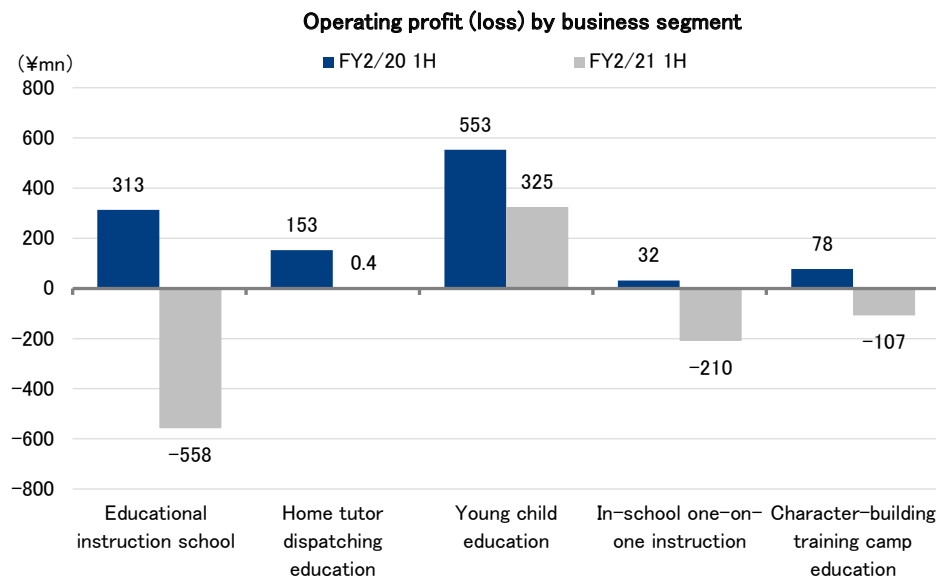
Sales dropped in all businesses, though Meimonkai and Shingakai posted profits

3. Segment trends



Note: Excluding internal transactions
 Source: Prepared by FISCO from the Company's financial results

Results trends



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

(1) Educational instruction school business

The educational instruction school business posted ¥5,947mn in net sales (-6.3% YoY) and a ¥558mn operating loss (vs. a ¥313mn profit in the previous year). Sales weakened with the closure of all schools for a period of two weeks in April 2020 due to COVID-19 impact. Profit came under pressure from lower sales, an increase in personnel costs to pay living assistance to teachers during the shutdown and special allowances after classes resumed, and recognition of costs related to measures for preventing infections. This segment only opened one new school, an Inter TOMAS in Sakura Shinmachi (March), in 1H FY2/21. It also had four migrations and expansions to accommodate rising student volume in the TOMAS business (Omiya School, Sakura Shinmachi School, and Sangenjaya School in March and Fujisawa School in August). Student volume at the end of 2Q was up 0.8% YoY.

(2) Home tutor dispatching education business

The home tutor dispatching education business recorded ¥2,062mn in net sales (-10.5% YoY) and ¥0.4mn in operating profit (-99.7%). Both sales and profits decreased due to the suspension of classroom instruction for Meimonkai and TOMEIKAI services for roughly two weeks in April 2020 and booking costs related to COVID-19 countermeasures, similar to the educational instruction school business. During 1H FY2/21, this segment opened one new TOMEIKAI (Nagoya Gokiso School in May) and migrated and reopened one Meimonkai (Fujisawa Ekimae School in April). Student volume was down 5.2% versus the end of 1H FY2/20 on a combined basis for Meimonkai and TOMEIKAI at the end of 2Q.

(3) Young child education business

The young child education business reported ¥2,326mn in net sales (-9.4% YoY) and ¥325mn in operating profit (-41.2%). While sales and profit slipped on total closure of Shingakai for roughly one month in April and May 2020, it is worth noting that 2Q, which is the peak for income results in a normal year, exceeded levels for the previous year with gains of 0.7% to ¥1,501mn in net sales and 1.0% to ¥476mn in operating profit thanks to quick recovery in student volume. During 1H FY2/21, the segment did not open any new schools but migrated and reopened one Shinga's Club After-School Care due to a rise in student volume (Fujisawa School in July). Total student volume for Shingakai and Shinga's Club After-School Care and Childcare at the end of 2Q increased 6.5% YoY.

Results trends

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

The in-school one-on-one instruction business booked ¥526mn in net sales (-22.9%) and a ¥210mn operating loss (vs. a ¥32mn profit a year earlier). Sales and profit declined due to suspension of School TOMAS accompanying closures of host schools from Mar–May 2020. Nevertheless, amid growing consideration of online class initiatives by schools in the COVID-19 era, the Company, which has know-how in this area, saw increases in inquiries and requests for joint business from system integrators ranging from system construction to operation, and the outlook indicates further expansion in the number of schools deploying this service from the current level of just under 60 schools.

(5) Character-building training camp education business

The character-building training camp education business posted ¥241mn in net sales (-77.6%) and a ¥107mn operating loss (vs. a ¥78mn profit a year earlier). Income dropped on suspending experience-style tours that cultivate tastes for a certain period and fully closing TOMAS Gymnastics School and TOMAS Soccer School locations for two months during April and May 2020 due to the COVID-19 situation. During 1H FY2/21, the segment opened two TOMAS Soccer School sites (Suidobashi School and Toyochō School in April) and one TOMAS Gymnastics School site (Futakotamagawa School in July).

Outlook

Recovery in student volume alongside favorable reaction to rigorous infection prevention measures, outlook for higher sales and profits in 2H FY2/21

1. FY2/21 forecast

The Company's FY2/21 consolidated forecast projects lower sales and profits with ¥26,000mn in net sales (-2.6% YoY), ¥1,510mn in operating profit (-44.4%), ¥1,500mn in ordinary profit (-45.4%), and ¥1,000mn in profit attributable to owners of parent (-48.8%). Despite setbacks in 1H FY2/21 from COVID-19 impact, these levels put 2H targets at gains (YoY) of 8.6% in net sales and 27.0% in operating profit.

FY2/21 consolidated forecast

	FY2/20 results		FY2/21 forecast			
	2H	Full year	2H	YoY	Full year	YoY
Net sales	13,717	26,704	14,890	8.6%	26,000	-2.6%
Operating profit	1,550	2,716	1,970	27.0%	1,510	-44.4%
Ordinary profit	1,584	2,749	1,916	21.0%	1,500	-45.4%
Profit attributable to owners of parent	1,226	1,953	1,468	19.8%	1,000	-48.8%
Earnings per share (¥)	8.31	13.24	10.12		6.89	

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

Outlook

As explained earlier, favorable reaction to rapid implementation of rigorous measures to prevent infections and create an environment for provision of safe, high-quality educational services at schools despite the COVID-19 situation facilitated recovery in student volumes at Group companies. The Company is not planning to open new schools in 2H FY2/21, but has decided to open MEDIC TOMAS (Kichijoji School), Shingakai (Kichijoji School), Shinga's Club After-School Care (Kichijoji School), and Shinga's Club Childcare (Ogikubo School) in April 2021.

Looking at sales trends by segment, the Company projects a 2.4% YoY rise in mainstay educational instruction school business sales to ¥13,900mn. Student volume at TOMAS recovered to a 3% YoY increase in October 2020, and the Company aims to increase sales on gains in student volume and classes per student ahead of the exam season. An increase in the number of high-quality teachers hired also provides a tailwind for expansion of sales.

The home tutor dispatching education business is the only segment headed for sales decline among the major businesses with a projected 8.7% YoY drop to ¥4,700mn. While TOMAS received extensive media coverage of its rigorous measures to prevent COVID-19 infections and the effect appears to have contributed to higher student volume, Meimonkai has not made sufficient progress in boosting awareness of these activities and this might be causing the lagging recovery in student volume. TOMEIKAI, however, is realizing increases in student volume at existing and new schools, and expanded overall volume by a healthy 57% YoY as of the end of October 2020.

The Company forecasts a 4.1% YoY rise in young child education business sales to ¥5,000mn. Shingakai has also received a positive reaction to its measures to prevent COVID-19 infections, and student volume is already recovering, mainly for exam-year students. Holding classes at schools on Sundays too ahead of the November 2020 exams should contribute to higher sales. The Company expects in-school one-on-one instruction business to expand sales by 6.7% YoY to ¥1,600mn in FY2/21. Inquiries from schools about deploying online classes are increasing, as mentioned above, and the number of schools adopting this service is likely to expand. In 2H, the Company anticipates the rate of sales decline will fall to about 6% YoY.

Sales trends by business segment

	(¥mn)				
	FY2/18	FY2/19	FY2/20	FY2/21 forecast	YoY
Educational instruction school	11,463	12,497	13,575	13,900	2.4%
Home tutor dispatching education	4,799	4,873	5,147	4,700	-8.7%
Young child education	3,761	4,330	4,800	5,000	4.1%
In-school one-on-one instruction	1,093	1,153	1,499	1,600	6.7%
Character-building training camp education	1,453	1,631	1,669	800	-52.1%
Other	13	9	12	-	-
Total	22,584	24,496	26,704	26,000	-2.6%

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

Starting an initiative to expand the young child education business through an alliance with Konami Sports and Hulic

2. Growth strategy

(1) Overview of the medium-term management plan

The Company outlined a growth strategy in the three-year medium-term management plan that started in FY2/20 to achieve sustainable growth through further expansion of TOMAS, Meimonkai, and Shingakai as core existing businesses and further expand School TOMAS, Shinga's Club, Inter TOMAS, and Plus One Kyoiku. Due to significant changes in the business environment caused by COVID-19, it put top priority on reviving income and halted new school opening plans in FY2/21. While this temporarily postponed FY2/22 numerical goals (¥33bn in net sales and ¥3.8bn in ordinary profit), the basic strategy remains unchanged, and the Company plans to resume aggressive business rollout from FY2/22.

(2) Growth strategy in the young child education business

In the young child education business, the Company concluded a three-way business alliance with Konami Sports and Hulic (and further capital alliance*1 with Hulic) as new initiatives in September 2020. The alliance aims to seize opportunities in early childhood education as a team of three companies and expand this business through provision of the Company's Shinga's Club and Konami Sports' Undo Juku*2 at buildings developed by Hulic in metro Tokyo that act as one-stop service centers focusing on children. It will also develop Shinga's Academy Sports (provisional name) with optional selection of services from Konami Sports at Shinga's Club, and allows for Shinga Club classes to be taken at Konami Sports' facilities. Given robust demand for well-balanced rearing of children in studies and exercise, this initiative seeks to deliver services at a single location. The current plan envisions developing sites that offer both services at about 20 locations in Tokyo, Kanagawa, and other areas of metro Tokyo in the next three years. According to Hulic, it will launch the first building that targets early childhood education in 2022 and then develop roughly 20 buildings in the metro Tokyo area through 2029.

*1 Hulic acquired 5.01% of the Company's shares and has become a major shareholder.

*2 Undo Juku facilities operated by Konami Sports as an exercise school for children have roughly 400 locations nationwide and over 80,000 members.

Shinga's Club After-School Care currently has 15 schools in metro Tokyo. Despite strong demand at all of these sites, the Company's efforts to expand business have faced a challenge of finding suitable properties. The ability to secure sites for educational services through this alliance hence should contribute very positively to growing the business. Furthermore, if the Company successfully expands the young child education business, it will have more opportunities to connect this customer base to the next phase of educational services, such as TOMAS and Meimonkai, and should be capable of bolstering Group synergies even more.

Meanwhile, the Company has maintained a cautious stance toward expansion of Shingakai schools. It already operates 20 schools in metro Tokyo and 3 schools in the Keihanshin area that target a specialized market of preparing for entrance exams of well-known kindergartens and elementary schools. From this perspective, it is addressing higher student volume mainly by increasing floor space at existing schools. The Company positions this as a cash-cow business because Shingakai growth is highly profitable and is likely to enjoy stable demand each year.

Outlook

(3) Growth strategy in the educational instruction school business

The educational instruction school business consists of one-on-one instruction at TOMAS, English conversation classes at Inter TOMAS, and one-on-one instruction focused on medical school exams at MEDIC TOMAS. In February 2020, it added spec. TOMAS as a provider of one-to-one instruction that specializes in entrance exams for the most difficult schools. The Company aims to increase sales by roughly 10% annually from FY2/22, driven by expansion of schools and student volumes.

The Company intends to continue promoting a “strategy of satellite schools in the Tokyo metropolitan area,” which it has been implementing since FY2/18, as the TOMAS school initiative. While it previously deployed schools at terminal train stations with about 495–661m² of floor space that could accommodate 200–400 students, the satellite strategy deploys schools at mid-sized train stations around terminal sites with about 165–198m² of floor space that can accommodate 100–150 students. The Company operated 84 schools in metro Tokyo as of the end of November 2020 and wants to open new satellite schools at a pace of 5–10 schools a year from FY2/22 with a near-term goal of operating 120 schools. It also plans to steadily implement renovation and migration of existing schools that have become crowded due to rising student volume.

While the Company had wanted to open a second school for spec. TOMAS, a new brand, in FY2/21, it postponed this addition because of COVID-19 and intends to focus on monetizing the existing Jiyugaoka school for the time being. Student volume per school is somewhat smaller than TOMAS in the range of 150–200 students, due to its use of an entrance exam. A key characteristic is guiding students interested in the most difficult schools to achieve admission to their desired school by integrating know-how accumulated by Surugadai Gakuen Educational Institute and the Company to create original curriculum and provide genuine one-on-one instruction with professional teachers. We expect numerous synergies from the alliance with Surugadai Gakuen Educational Institute by utilizing its teacher personnel and enhancing the quality of original materials in production and publishing. Since admission results are the main barometer for student recruitment at academic advancement schools, the Company hopes to solidify spec. TOMAS as the brand for one-on-one instruction that specializes in entrance exams for the most difficult schools by building a track record of admission results.

Regarding TOMAS, since factors such as higher teacher personnel costs and extra expenses for countermeasures to prevent COVID-19 infections weighed on earnings in FY2/21, the Company plans to revise class fees from spring 2021 to offset these costs. We estimate that fee revisions might boost earnings by about ¥500–600mn in FY2/22.

(4) Growth strategy in the home tutor dispatching education business

Subsidiary Meimonkai handles the home tutor dispatching education business. The Company launched this business in 1989. Meimonkai stands out by dispatching 100% professional instructors and being the only firm in the home tutor industry with full disclosure of academic advancement results. These are important differentiating points with peers.

Home tutors deliver one-on-one instruction, 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 Meimonkai home tutors in areas outside of TOMAS coverage. This approach leads to a regional sales breakdown of Meimonkai business with 31% in the Tokyo metropolitan area and 69% in other areas. Meimonkai's growth strategy involves 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.

Outlook

The Company primarily developed Meimonkai in the Tokyo metropolitan area, Osaka, Nagoya, and other large cities, but plans to actively deploy sites in core regional cities too. In fact, it newly opened four schools in the Kita-Kanto area and a satellite school in Okayama in FY2/20. Additionally, the Company started Meimonkai Online, an interactive online class developed on its own, for a limited number of students in November 2020, based on a post COVID-19 world. With this service, students have access to classes taught by high-quality professional teachers from anywhere in Japan just by setting up an environment with PC and internet facilities. The Company intends to efficiently recruit for the service with web promotions and hopes to acquire students from regions where it has not opened schools yet. This effort deserves notice for its potential as a new growth driver.

TOMEIKAI business is opening schools in core cities outside of the Tokyo metropolitan area. While it currently only has eight schools (four in the Kyushu area, three in the Tokai area, and one in the Koshinetsu area), the Company established Kokokara Teachers Co., Ltd. in August 2020 as a subsidiary for hiring, training, and placing teachers and is likely to accelerate the school opening pace as this subsidiary makes it easier to increase the number of part-time teachers than in the past. It is also considering rollout in Osaka, Nagoya, Fukuoka, and other major cities. Regarding TOMEIKAI's potential, 80–90 schools nationwide could be imagined at an average rate of 2 schools per prefecture, but we think it is safer to view its potential market size as about half this level at roughly 50 schools amid a trend of shrinking child volume in regional areas. The Company hopes to realize solid annual growth in Meimonkai sales of 5–10% over the medium term.

(5) Growth strategy in the in-school one-on-one instruction business

School TOMAS provides one-on-one instruction at schools for interested people and stands out for class content that focuses on entrance exam preparation rather than supplementing coursework. Schools adopting this service aim to improve their academic advancement results. Many private schools use academic advancement results as a sales point to recruit students. We think this service has very strong potential demand because client schools are capable of increasing the number of people who want to attend if the addition of School TOMAS to the school's ordinary classes raises exam passing rates. A key advantage for the Company is elimination of real estate costs and advertising and promotional costs to recruit students. Management estimates that School TOMAS could theoretically achieve an operating margin of 15–20%.

School TOMAS was deployed at just under 60 schools as of the end of August 2020 and is expanding annually. Since the formation of a capital and business alliance with Surugadai Gakuen Educational Institute in 2019, this business has benefitted from a framework of hiring Sundai Preparatory School graduates as part-time teachers and dispatching them to host schools. Amid advances in school rollouts of the online class initiative mentioned above, the Company, which has know-how in this area, is receiving more inquiries and is likely to expand through deployments at more schools. While it targets prompt attainment of 100 schools as a near-term goal, this business has room to expand to about 300 schools based on potential demand. It aims to achieve strong double-digit growth over the medium term by raising awareness of the service through steady realization of academic advancement results.

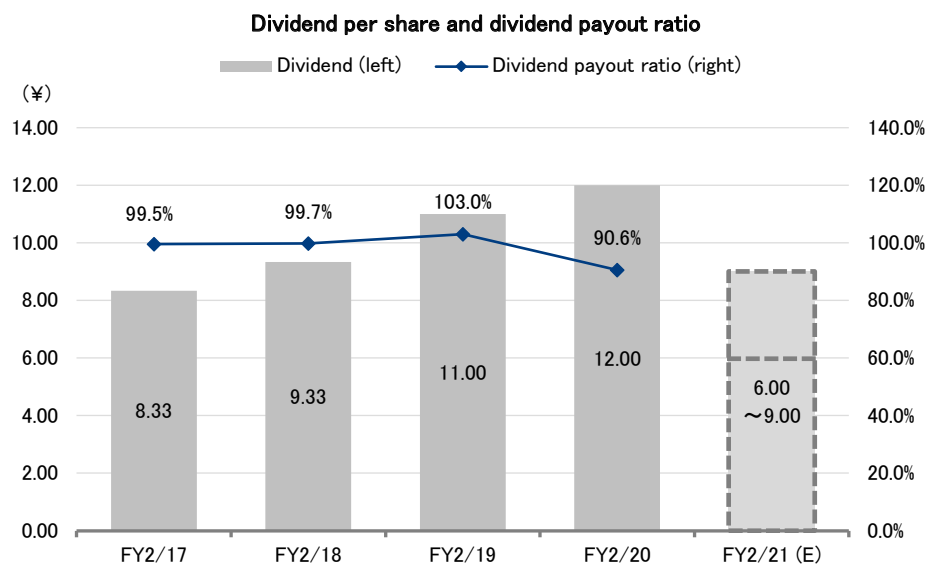
(6) Founded a specialty subsidiary to improve the efficiency of hiring teachers

Hiring and training high-quality teachers is a key factor in the ability to expand the number of schools at Group companies. As explained above, teacher recruitment is often an issue for school rollout in regional areas. To address this challenge, the Company established Kokokara Teachers as a subsidiary that specializes and will consolidate hiring, training, and placing of teachers, and will build a framework for appropriately placing teachers at Group companies. TOMAS, meanwhile, hires teachers independently too, and the Company intends to continue parallel hiring for the time being. By consolidating hiring and training for the Group and placing teachers appropriately, cost efficiency will improve and the Company may find it easier to roll out TOMEIKAI schools in regional areas as noted earlier. We think this is an initiative that could accelerate growth at the Group level.

Shareholder returns

Plans to pay a single period-end FY2/21 dividend in the range of ¥6.0–9.0

The Company treats returning profits to shareholders as a priority and has paid dividends quarterly with a target dividend payout ratio of 100% since FY2/17. However, it discovered that the past four dividend payments exceeded the allowable distribution value because of an inadequate internal check. The Company formed external and internal investigation committees to determine the cause and devise measures to prevent recurrence, and announced the outcome in September 2020. Due to this incident, the Company concluded that it should be cautious about paying quarterly dividends until the finalization of prevention measures and decided to pay a single period-end dividend in FY2/21. It announced a per-share dividend in the range of ¥6.0–9.0 and intends to reach a final decision based on its earnings trend. Further discussions about the approach to dividends will take place and a policy will be determined.



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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