

MEIKO NETWORK JAPAN CO., LTD.

4668

Tokyo Stock Exchange First Section

22-Nov.-2018

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

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Summary

Rebuilding the business foundation toward renewed growth by introducing MEIKO Style Coaching into all schools and enhancing new content that utilizes ICT

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

1. FY8/18 results

In the FY8/18 consolidated results, sales and profits decreased for the first time in two fiscal years, with net sales declining 1.4% year on year (YoY) to ¥19,116mn and operating income falling 44.9% to ¥1,441mn. This is mainly due to a continued decline in the number of students for the third consecutive fiscal year. In the mainstay Meiko Gijuku business (including the franchised operations), the Company aimed to advance the introduction of MEIKO Style Coaching*, its new learning guidance method, and recover student numbers. Despite this effort, at the end of the period, the number of students was down 7.1% on the end of the previous fiscal year, intensifying the struggles of both the directly operated and the franchised operation schools. Another reason for the profit decline was that the Company actively invested in TV commercials and other measures, so sales promotions expenses increased ¥550mn YoY alongside the renewal of the brand. However, the steady expansion of other businesses such as the Kids Schools and the Japanese language schools are clear signs that the Company’s new businesses secondary to the Meiko Gijuku business are growing.

* MEIKO Style Coaching is a learning guidance method that raises students’ understanding capabilities during learning through the tutor giving them hints, and the students then solving problems using their own capabilities and explaining what they have understood in their own words to the tutor, and recording this in review notes. It is a guidance method that further evolves the Meiko Style - Independent Learning that the Company had developed.

2. FY8/19 outlook and the Meiko Gijuku business strategy

The forecasts for the FY8/19 consolidated earnings are for higher sales and profits, with net sales to increase 6.3% YoY to ¥20,320mn and operating income to rise 29.0% to ¥1,860mn. The main reason for the increase in net sales will be the addition of nearly ¥1bn from K. Line Co., Ltd., which conducts Meiko Gijuku franchised operations, after it was made a subsidiary in the previous 4Q. Sales will also increase in the other businesses, including the Kids Schools and the Japanese language schools. Looking at the Meiko Gijuku business as a whole, the sales level is expected to be basically unchanged YoY. Profits are forecast to increase due to higher sales in the other businesses, in addition to the effect of promotional expenses that the Company actively invested in the previous fiscal year returning to the level of a typical year. In the Meiko Gijuku business, the Company is sequentially introducing MEIKO Style Coaching into the franchised operations schools, and it plans to have completed its introduction into all schools by the new student recruitment season in the spring of 2019. This is expected to lead to the recovery of student numbers from the spring of 2019 onwards. Competition between private tutorial schools continues to intensify, and the Company plans to realize renewed growth through spreading the use of its new learning guidance method and the utilization of ICT to all schools at the same time as improving the quality of its services, and also by providing educational services that are optimized to each student group, of elementary, junior high, and high school students.

Summary

3. Trends in the other businesses

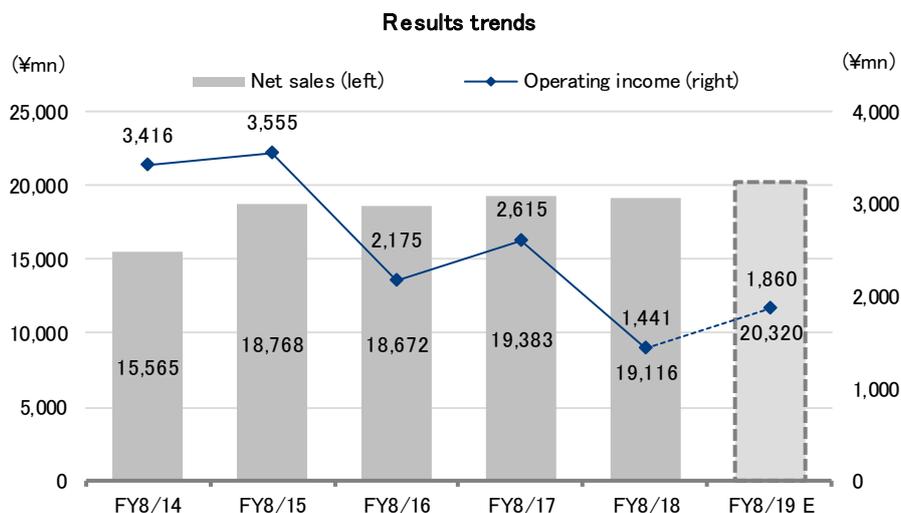
Although the scale of the businesses other than Meiko Gijuku business is still small, providing only around 5% of total profits, they continue to steadily grow. Among them, the Group’s Japanese language schools for overseas students has the highest number of students in Japan, and in its FY8/18 results, net sales increased 11% YoY to ¥1,317mn and operating income was ¥52mn. While the level of profits appears low, this is because it recorded amortization of goodwill of ¥169mn, and the profit margin before the amortization of goodwill was around 17%, indicating that it is a highly profitable business. Going forward, sales are forecast to continue to increase against the backdrop of the rise in the number of overseas students in Japan. Moreover, in FY8/18 the Kids Schools business was profitable for the first time since it was launched. In addition to the increase in student numbers in the Meiko Kids Schools, a factor behind this was the rise in the number of consignment operations projects for nursery care for preschool children and after-school care for elementary school children. The demand for nursery care and after-school care has also been increasing year by year and is expected to continue to grow in the future.

4. Shareholder return policy

There has been no change to the Company’s policy of actively returning profits to shareholders. The FY8/19 dividend per share will be ¥30 (dividend payout ratio, 78.1%), down ¥12 YoY, which will be the first decrease since the Company was listed. However, its policy is to set an upper limit for the dividend payout ratio of 80%. There have also been no changes to the shareholder benefit program, in which the Company gives QUO cards worth ¥1,000 to ¥5,000 to shareholders as of the end of August, according to the number of shares they hold and the length of time that they have held them. The gross investment yield per share unit, including the shareholder benefit program, is at the 4-6% level at the current share price (¥1,001 as of October 19).

Key Points

- Although the Meiko Gijuku business continues to struggle, the Japanese language schools and Kids Schools businesses are steadily growing
- Aiming for the renewed growth of the Meiko Gijuku business through differentiation by spreading the use of MEIKO Style Coaching and the utilization of ICT to all schools
- Although its record of increasing dividends will end for the time being, going forward it will continue the policy of actively returning profits to shareholders



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

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■ Business overview

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

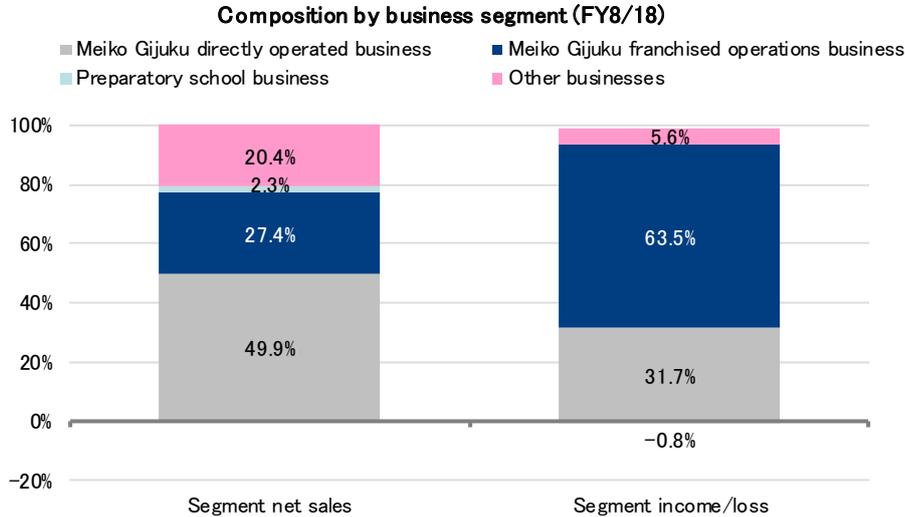
Based on its educational philosophy of human development through independent learning, the industry leader* in private tutorial schools primarily operates the Meiko Gijuku business (directly operated and franchised operations). The Company is also actively expanding into other businesses related to educational services, aiming to become a top company in human development. Specifically, it operates the Meiko Soccer Schools, soccer schools for children; Waseda Academy Kobetsu Schools, which provide tutorial instruction to junior high school and high school students seeking entry into prestigious high schools and universities; and Meiko Kids Schools, which provide nursery care for preschool children and after-school care for elementary school children. Additionally, its subsidiaries operate Tokyo Ishin Gakuin, a preparatory school that specializes in the medical university field, and Waseda EDU Japanese language school and JCLI Japanese language schools as schools that cater to overseas students learning Japanese. Other businesses include subsidiary Kotoh Jimusho Co., Ltd., which operates businesses related to university education and exams; subsidiary Youdec Co., Ltd., which publishes an exam information magazine, produces mock exam questions, sells educational materials, and offers private instruction to students at their schools; and Youdec's subsidiary Koyo Shobo Co., Ltd., which is involved in the academic publishing business.

* Meiko Gijuku's share of the private tutorial schools market in FY2017 was approximately 10%. In reference to the market-scale values in the 2017 Education Industry White Paper by Yano Research Institute Ltd., the Company assumed Meiko Gijuku total system-wide sales as ¥43,778mn in FY2017, from the period of September 2016 to August 2017.

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

Looking at the percentages of results in FY8/18 by business segment, the Meiko Gijuku business (the directly operated and franchised operations businesses) contributed 77.3% of net sales and 95.2% of income (85.9% based on income before amortization), and it is the main business. It contributed 87.5% of net sales and 99.7% of income 5 fiscal years ago (FY8/14). But during this time, the Company has conducted M&A, including for the Japanese language schools business, so the percentages provided by the other businesses have risen slightly.

Business overview



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

Business performance

Actively implemented promotions measures for MEIKO Style Coaching, the new learning guidance method, and to improve name awareness, but profits fell in FY8/18 for the first time in 2 fiscal years

1. Overview of FY8/18 results

In FY8/18 consolidated results announced on October 11, net sales decreased 1.4% YoY to ¥19,116mn, operating income declined 44.9% to ¥1,441mn, ordinary income fell 44.5% to ¥1,558mn, and net income attributable to owners of the parent was down 67.8% to ¥657mn.

Net sales decreased for the first time in two fiscal years; although sales steadily increased in businesses such as the Kids Schools and Japanese language schools, they declined in the Meiko Gijuku business (directly operated and franchised operations business) and the preparatory school business. Profits also declined for the first time in two fiscal periods due to the decrease in net sales in both these businesses. The large decrease for operating income was because of the major rise in sales promotions expenses, which increased ¥550mn YoY to ¥1,597mn. On the introduction in the Meiko Gijuku business of MEIKO Style Coaching, the new learning guidance method, the Company actively conducted promotions activities, including TV commercials and Internet advertising, in order to improve name awareness and recruit students. In addition, the extraordinary income recorded in the previous fiscal year, of a gain on sale of non-current assets of ¥539mn, was not recorded in this fiscal year, which meant net income also decreased significantly.

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Business performance

Compared to the initial Company forecasts, net sales and operating income were below their forecasts by 6.4% and 28.3% respectively. At the initial stage, it was thought that the number of Meiko Gijuku students at the end of the period would have increased slightly from the effects of the introduction of the new learning guidance method and the promotions. But in fact, the number of newly admitted students in the spring of 2018 trended at a low level, and the number at the end of the period had declined by 7.1% on the end of the previous fiscal year to 116,374 students, which is why the results was below the forecasts. Results in the preparatory school business were also less than forecast, which, in the same way, was due to the low number of newly acquired students in the spring of 2018.

In the Meiko Gijuku business, the total number of directly operated and franchised operations schools declined 2.2% on the end of the previous fiscal year to 2,029 schools, the third consecutive fiscal year of decline, while total system-wide sales also fell 4.9% YoY to ¥41,637mn, the sixth consecutive fiscal year of decline. While the number of the Company's directly operated schools remained unchanged, the number of franchised operations schools declined by 45 schools, including due to closures and cancellations. Also, the average number of students during the period declined 5.6% to 119,537 students, which was the sixth consecutive fiscal year of decline, and it was a 12% decrease compared to the peak level in FY8/12. But if looking only at elementary school students, the number increased 0.3% for the first increase in 5 fiscal years, which can be seen as a positive sign for the future.

Consolidated FY8/18 results

	FY8/17		Forecast	FY8/18			
	Results	% of sales		Results	% of sales	YoY	vs. forecast
Net sales	19,383	-	20,415	19,116	-	-1.4%	-6.4%
Meiko Gijuku directly operated business	9,647	49.8%	10,107	9,530	49.9%	-1.2%	-5.7%
Meiko Gijuku franchised operations business	5,586	28.8%	5,680	5,242	27.4%	-6.2%	-7.7%
Preparatory school business	573	3.0%	578	443	2.3%	-22.6%	-23.4%
Other businesses	3,576	18.5%	4,049	3,899	20.4%	9.0%	-3.7%
Cost of sales	12,696	65.5%	13,582	13,020	68.1%	2.5%	-4.1%
SG&A expenses	4,070	21.0%	4,821	4,654	24.3%	14.3%	-3.5%
Operating income	2,615	13.5%	2,011	1,441	7.5%	-44.9%	-28.3%
Ordinary income	2,806	14.5%	2,100	1,558	8.2%	-44.5%	-25.8%
Extraordinary income/loss	533	2.8%	-	-86	-0.5%	-	-
Net income attributable to owners of parent	2,042	10.5%	1,191	657	3.4%	-67.8%	-44.8%
Number of students enrolled at Meiko Gijuku schools, number of schools, and total system-wide sales (directly operated and franchised operations)							
Number of schools	2,074		2,029		-2.2%		
Number of students	125,219		116,374		-7.1%		
Total system-wide sales	43,778		41,637		-4.9%		

Note: The number of schools refers to the number of schools operational in the final month. Total system-wide sales = the sum of 1) total sales of directly operated schools, including lesson fees, fees for educational materials, and test fees, and 2) total sales of franchised operations including lesson fees.

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

Although the Meiko Gijuku business continues to struggle, the Japanese language schools and Kids Schools businesses are steadily growing

2. Segment trends

(1) Meiko Gijuku directly operated business

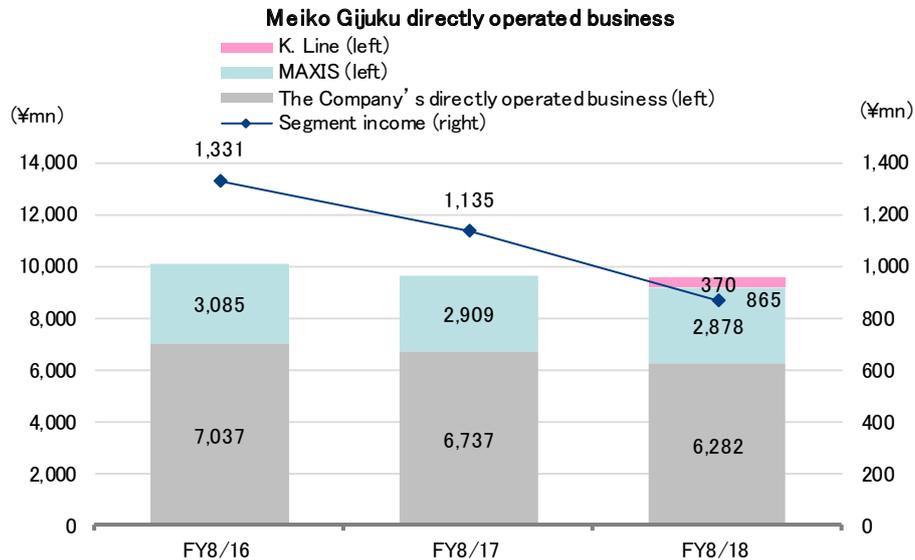
In the Meiko Gijuku directly operated business, net sales decreased 1.2% YoY to ¥9,530mn and segment income declined 23.8% to ¥865mn. Within these amounts, in the Company's directly operated business, net sales fell 6.8% to ¥6,282mn and operating income decreased 30.9% to ¥721mn. In the subsidiary MAXIS Education Co., Ltd. (hereafter, MAXIS), net sales declined 1.1% to ¥2,878mn and operating income increased 1.3% to ¥238mn. In K. Line, whose results were added from the previous 4Q when it was made a subsidiary, net sales were ¥370mn and operating income was ¥68mn. Amortization of goodwill was ¥158mn (¥143mn in MAXIS, ¥14mn in K. Line). The main reason for the lower sales and profits was that the average number of students during the period slumped in the Company's directly operated business, falling 6.2% YoY.

The Company worked on the following as the priority measures in the fiscal period under review toward the renewed growth of the Meiko Gijuku business: Accumulating and making visible the MEIKO Style Coaching learning guidance method and learning programs to realize the students' improved academic performance through their independent learning; improving customer satisfaction by introducing Meiko e-Po, which is an ICT tool that enables students, parents, and guardians to have a sense of (the students') growth; and enhancing learning programs that utilize ICT (including Meiko Mirai Eigo, which is English content for elementary school students, and Meiko Chugaku Listening, which is English content for junior high school students, and classes to prepare for the English proficiency test). With such measures, the Company worked to recover student numbers and the unit price per student. The reason for the large rate of decrease in operating income was the increases in expenses, which were mainly promotions expenses for MEIKO Style Coaching and to implement strategic, upfront investment to enhance ICT content (introducing tablet devices and developing and managing Meiko e-Po).

Within these measures, in the fall of 2017 the Company started introducing MEIKO Style Coaching into its directly operated schools, and it had introduced it into all directly operated schools by the end of the fiscal year. Even in just the short space of time of around one year, many parents and students said it had led to an improvement in academic performance. However, as yet it has not led to a visible result, of a recovery in student numbers. This would seem to be partly because, as in the new student recruitment season in the spring of 2018, it took some time to introduce the new learning guidance method, such as to train the part-time tutors, which meant that the schools were unable to allocate sufficient time to recruitment activities. The Company plans to continue to refine the content of MEIKO Style Coaching, so it seems that it will take some time for it to be fully completed and established.

Conversely, signs of a recovery are starting to appear for the sales unit price per student. Although the decreasing trend continued in the Company's directly operated schools, down 0.6% YoY, the decrease in 1H compared to in the same period in the previous fiscal year was 2.1%. So if looking only at 2H, we find that the trend changed direction to an increase. In MAXIS also, it rose 3.0%, which was the first increase since it was made a subsidiary (up 1.2% YoY in 1H). The fact that MAXIS was able to halt the trend, with results at basically the same level as in the previous fiscal year despite the fact the average number of students during the period decreased 3.9% YoY, was due to the rise in the sales unit price per student. The main factor behind this rise in the sales unit price was the increase in the number of students taking the newly launched programs, including Meiko Mirai Eigo for elementary school students and Meiko Chugaku Listening for junior high school students.

Business performance



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

Number of directly operated schools, number of students, and sales

	Directly operated by the Company			Operated by MAXIS			Operated by K. Line		
	FY8/17	FY8/18	Change	FY8/17	FY8/18	Change	FY8/17	FY8/18	Change
Number of schools (end of August)	233	233	-	95	93	-2.1%	-	42	-
Sales per school (¥1,000)	29,082.0	26,962.0	-7.3%	30,898.0	30,543.0	-1.1%	-	8,809.0	-
Average number of students	17,023.0	15,974.1	-6.2%	6,699.7	6,438.0	-3.9%	-	2,680.3	-
Average number of students per school	73.5	68.6	-6.7%	71.1	68.3	-3.9%	-	63.8	-
Sales per student (¥1,000)	395.8	393.3	-0.6%	434.3	447.2	+3.0%	-	138.0	-

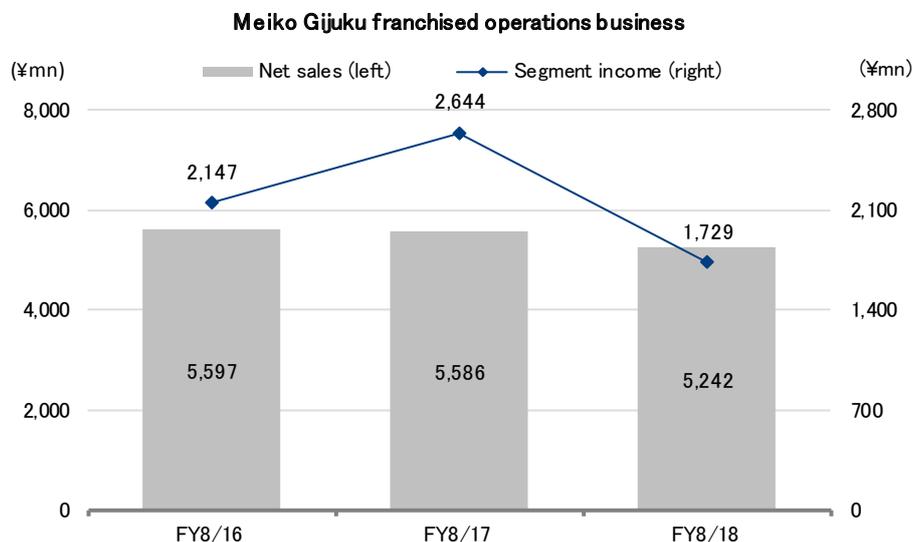
Source: Prepared by FISCO from the Company's results briefing materials

(2) Meiko Gijuku franchised operations business

In the Meiko Gijuku franchised operations business, net sales decreased 6.2% YoY to ¥5,242mn and segment income declined 34.6% to ¥1,729mn, meaning net sales decreased for the seventh consecutive fiscal year and segment income declined for the first time in two fiscal years. The average number of students during the period decreased 6.2%, the average number of students per school declined 3.4%, and average royalty sales per school fell 2.9%, so each continued to trend downward. Against the backdrop of the worsening of profits due to the decline in the number of students per school, the Company progressed the closure and cancellation of unprofitable schools at a pace exceeding its opening of new schools and expansion of existing schools. Therefore, the number of schools at the end of the period had decreased by 85 on the end of the previous fiscal year to 1,661 schools (excluding MAXIS and K. Line), and within this number, on an actual basis excluding K. Line, there was a decrease of 43 schools. The rate of decrease in the average number of students was below the rate in the directly operated business, which can be seen as an effect of the progress made in closing unprofitable schools with few students.

In the franchised operations schools, the reason for the declines in student numbers and net sales was that the schools were unable to allocate sufficient time to student recruitment activities, mainly because of the time they required to conduct training sessions to introduce MEIKO Style Coaching, Meiko e-Po, and various types of ICT content. The factors behind the lower profits were the fall in sales and also the increase in strategic investment costs, including to introduce ICT content.

Business performance



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

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

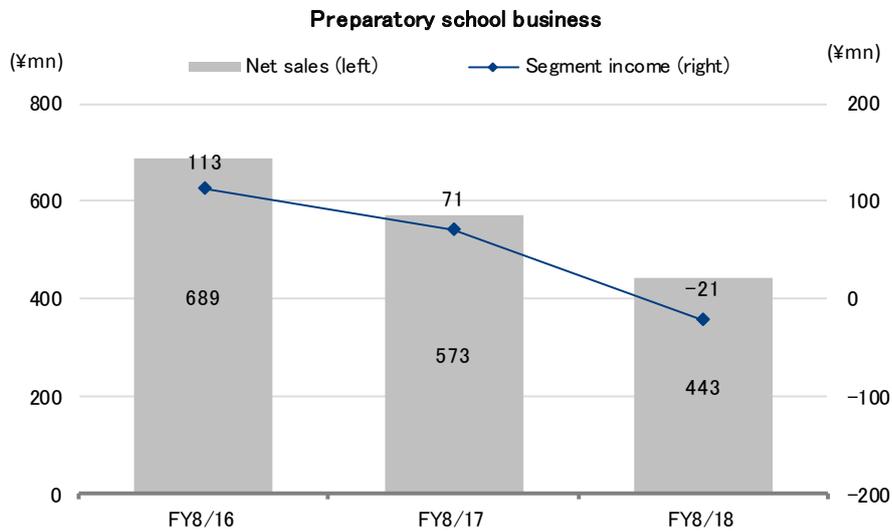
	FY8/17	FY8/18	Change
Number of schools (end of August)	1,746	1,661	-4.9%
Royalty sales (¥mn)	3,520.5	3,317.0	-5.8%
Royalty sales per school (¥1,000)	1,994.2	1,935.6	-2.9%
Average number of students	102,852.0	96,455.7	-6.2%
Average number of students per school	58.3	56.3	-3.4%

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

(3) Preparatory school business

In the preparatory school business, which is conducted by the consolidated subsidiary Tokyo Ishin Gakuin Co., Ltd., net sales decreased 22.6% YoY to ¥443mn and the segment loss was ¥21mn (compared to income of ¥71mn in the previous fiscal year). In the medical-related preparatory schools also, competition is intensifying each year and the slump for the second consecutive fiscal year in the number of new students in the spring of 2018 resulted in the worsening of earnings. The number of students at the end of the period was down 25.0%, or 78 students, on the end of the previous fiscal year (of which, down 13.0%, or 67 students, for already graduated students, and down 59.3%, or 11 students, for those still at high school). This is a decline to around half the level of the recent peak in FY8/15, of 153 students.

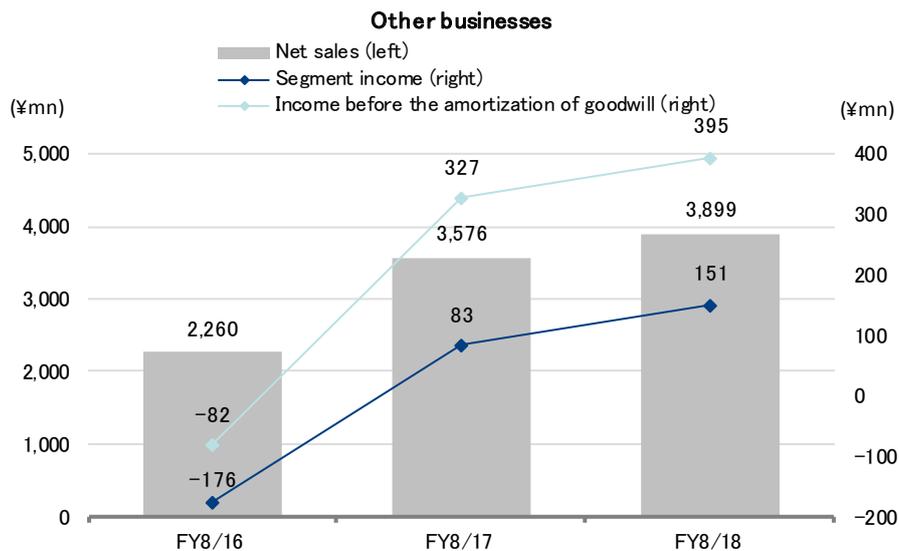
Business performance



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

(4) Other businesses

In the other businesses, net sales increased 9.0% YoY to ¥3,899mn and segment income rose 81.0% to ¥151mn. Segment income before amortization, which includes the amortization of goodwill in the Japanese language schools and Kotoh Jimusho (¥243mn), increased 20.8% YoY to ¥395mn, and the profit margin exceeded 10%. Sales are increasing in most of the businesses, centered on the Japanese language schools business, the Kids Schools business, and Kotoh Jimusho. Profits also increased, because in addition to the rise in profits at the Japanese language schools and Kotoh Jimusho, the Kids Schools business was profitable for the first time since it was launched.



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

Business performance

Other businesses' net sales

(¥mn)

	FY8/17	FY8/18	Change rate	Change amount	Special notes, figures within parentheses are YoY increases/decreases
Waseda Academy Kobetsu Schools	347	372	+7.2%	+25	No. of schools 35 (+3), No. of students 2,839 (+244)
Kids Schools business	236	298	+26.3%	+62	No. of schools and consignment operations 19 (+4), No. of students 1,002 (+220)
Soccer Schools business	151	141	-6.6%	-10	No. of schools 13 (-1), No. of students 843 (-83)
Waseda EDU Japanese language school	382	453	+18.6%	+71	No. of students 686 (+89)
JCLI Japanese language schools (Kokusai Jinzai Kaihatsu)	808	864	+6.9%	+56	No. of students 1,131 (+13)
Kotoh Jimusho	466	518	+11.2%	+52	University education-related business
Youdec	679	633	-6.8%	-46	Sales from private tutorial courses for students at their schools, mock exams, etc.
Koyo Shobo	285	352	+23.5%	+67	Book sales, etc.
MAXIS (other business)	168	167	-0.6%	-1	Private tutorial English schools, etc.
Other	49	98	+100.0%	+49	Other educational services (programming education, etc.)
Total	3,576	3,899	+9.0%	+323	

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

Looking at the trends in detail, in Waseda Academy Kobetsu Schools, net sales increased ¥25mn YoY to ¥372mn, and the operating loss was ¥11mn (a loss of ¥11mn in the previous fiscal year). The number of schools at the end of the period had increased by 3 on the end of the previous fiscal year (up 1 Company directly operated school, 1 franchised operations school, and 1 Waseda Academy directly operated school) to 35 schools (7 Company directly operated schools, 5 MAXIS directly operated schools, 11 franchised operations schools, and 12 Waseda Academy directly operated schools). The number of enrolled students in all schools had risen by 244 to 2,839 students. The number of students per school at the end of the period, which was affected by the establishment of new schools, was basically unchanged on the end of the previous fiscal year, at 81.1 students. But due to the improvement in the awareness of the track record of the schools' students passing entrance exams for prestigious, difficult-to-enter schools, student numbers are steadily increasing in existing schools.

The Kids Schools business benefitted from the increase in demand for nursery care and after-school care, with net sales increasing ¥62mn YoY to ¥298mn and operating income of ¥3mn. In addition to the increase in student numbers in directly operated schools, in the fiscal year under review the Company strengthened consignment operations services for nursery care and after-school care, which can be monetized at an early stage, which led to the increase in earnings. At the end of the period, there were 19 schools (7 directly operated schools, 1 nursery care club facility, and 11 consignment operations and related facilities), which was an increase of 4 schools on the end of the previous fiscal year (up 4 consignment operations and related facilities), while the number of students enrolled in the schools had increased by 220 to 1,002 students.

For consignment operations, the Company received an order for consignment operations for private nursery and after-school care businesses in Nerima Ward, Tokyo. It has also acquired orders for consignment operations in various forms, including on-campus, after-school care at a private elementary school (Saitama City, Saitama Prefecture), Kids Schools consignment operations at a kindergarten (Hiratsuka City, Kanagawa Prefecture), and the after-school J Smile Kids in collaboration with JS Corporation. The only fixed costs in consignment operations are personnel costs, so they can be expected to contribute to profits from the first fiscal year. Therefore, going forward, the Company's policy is to expand its provision of consignment-operations services to customers including local governments, school corporations, and kindergartens.

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Business performance

In the Soccer Schools business, net sales decreased ¥10mn YoY to ¥141mn and operating income was ¥7mn (a loss of ¥1mn in the previous fiscal year). The number of schools at the end of the period had decreased by 1 on the end of the previous fiscal year to 13 schools (down 1 directly operated school due to a consolidation), while student numbers had declined by 83 to 843 students. Although net sales fell, the Company has set out a policy of prioritizing improving earnings, and operating income was in profit for the first time in seven fiscal periods. It would seem that the review of the management structure into two types of schools—namely, Meiko Soccer School Academies, which aim for students to acquire the fully fledged techniques to become professional players in the future, and Meiko Soccer Schools, which provide enjoyable coaching for students to acquire practical skills to become better at soccer—contributed to the improved earnings.

The Japanese language schools for overseas students consist of the Waseda EDU Japanese language school managed by the consolidated subsidiary Waseda EDU and the JCLI Japanese language school managed by Kokusai Jinzai Kaihatsu Co., Ltd. As the totals for the 2 schools, net sales increased 10.7% YoY to ¥1,317mn and operating income was ¥52mn. Before deducting the amortization of goodwill (¥169mn), operating income was ¥221mn and the profit margin was around 17%, so it is a highly profitable business. This is because, against the backdrop of the rise in the number of overseas students in Japan from China, Southeast Asia, and elsewhere, student numbers continue to trend upwards in both schools. In the Waseda EDU Japanese language school, the number of students at the end of the period increased by 89 on the end of the previous fiscal year to 686 students. As the former school building was small, in December 2017 it relocated to a new building (in Ichigaya, Shinjuku Ward, Tokyo), which is about 1.5 times larger than the former building, and this has made it possible to increase the number of students it can accommodate above the current number of 710 students. On the other hand, in the JCLI Japanese language school, the number of students at the end of the period had increased by 13 on the end of the previous fiscal year to 1,131 students. In the past, this school was managed over three branches, but in anticipation of an increase in student numbers in the future, in October 2018 the three branches were integrated into a single, new school building (Toshima, Kita Ward, Tokyo), which increased the size of the school by around 1.4 times. It currently can accommodate 1,380 students, but going forward it plans to raise this number while keeping a close watch on the demand trend.

The consolidated subsidiary Kotoh Jimusho performed strongly, with net sales increasing ¥52mn YoY to ¥518mn. This was primarily due to the increase in new orders for the main service of solutions to university entrance exams. Conversely, in the consolidated subsidiary Youdec, net sales decreased ¥46mn to ¥633mn due to the slumping performance of its entrance exam questions service. Its subsidiary, Koyo Shobo, performed well, with net sales rising ¥67mn to ¥352mn, from increases in new publications of academic journals and the number of resale points. The totals for these school-support businesses and specialist, academic publishing business were net sales of ¥1,503mn and operating income of ¥188mn, meaning sales and profits increased YoY.

Other operations include programming schools and new educational services that utilize ICT. In particular, interest in the programming schools is increasing, as from academic year 2020, it will become a compulsory subject in elementary schools. It seems that the number of applicants to the approximately 30 Meiko Gijuku and Meiko Kids schools being opened in the Tokyo metropolitan area and Kansai is steadily increasing.

While the financial condition continues to be strong, recovering profitability is an urgent issue

3. Financial position and management indicators

Looking at the financial condition at the end of FY8/18, total assets were down ¥478mn on the end of the previous fiscal year to ¥18,835mn. The main change factor was that in current assets, cash and deposits decreased ¥1,314mn. This was primarily due to the costs to acquire the shares of K. Line and for dividend payments. Also, in non-current assets, goodwill rose ¥192mn on K. Line being made a subsidiary and investment securities increased ¥636mn, mainly because of the rises in the prices of shares held.

Total liabilities were down ¥398mn on the end of the previous fiscal year to ¥4,498mn. In current liabilities, there were decreases in income tax payable of ¥790mn and consumption tax payable of ¥194mn, but advances received increased ¥224mn following K. Line being made a subsidiary. In non-current liabilities, deferred tax liabilities increased ¥175mn due to a rise in the valuation difference of other available-for-sale securities. Net assets declined ¥79mn on the end of the previous fiscal year to ¥14,336mn, with the main factors being increases from net income attributable to owners of the parent of ¥657mn and the valuation difference on other available-for-sale securities of ¥346mn, and a decrease from dividend expenses of ¥1,088mn.

Looking at the management indicators, the equity ratio rose slightly on the end of the previous fiscal year, from 74.5% to 76.0%, due the decline in liabilities, while the interest-bearing debt ratio was 0.5% and the Company is maintaining practically debt-free management. From these indicators, it can be judged that it is maintaining an excellent financial condition. One issue is the major declines in the indicators of profitability, with ROE falling from 14.8% in the previous fiscal year to 4.6% and the operating income margin decreasing from 13.5% to 7.5%. As previously stated, the downward trend in student numbers is continuing in the Meiko Gijuku business, which caused the worsening of results. Therefore, it is thought that the most urgent issue for management is recovering the profitability of the Meiko Gijuku business.

Consolidated balance sheet and management indicators

	(¥mn)				
	FY8/15	FY8/16	FY8/17	FY8/18	Change
Current assets	9,828	6,865	10,431	9,170	-1,260
(Cash and deposits)	7,345	4,633	7,822	6,508	-1,314
Non-current assets	8,852	10,105	8,883	9,665	+782
Total assets	18,680	16,970	19,314	18,835	-478
Current liabilities	3,357	3,059	4,168	3,564	-604
Non-current liabilities	694	701	729	934	+205
Total liabilities	4,052	3,760	4,897	4,498	-398
(Interest-bearing debt)	96	82	70	70	0
Net assets	14,628	13,209	14,416	14,336	-79
Management indicators					
(Stability)					
Equity ratio	78.0%	77.4%	74.5%	76.0%	+1.5pt
Interest-bearing debt ratio	0.7%	0.6%	0.5%	0.5%	+0.0pt
(Profitability)					
ROE	17.1%	6.8%	14.8%	4.6%	-10.2pt
Operating income margin	18.9%	11.7%	13.5%	7.5%	-6.0pt

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

Business outlook

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

1. FY8/19 outlook

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

FY8/19 outlook (consolidated)

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

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

The most important issue for FY8/19 is building the business foundation toward the renewed growth of the mainstay Meiko Gijuku business. The Company intends to have introduced MEIKO Style Coaching into all schools by the spring of 2019, which is the new student recruitment season, and by 4Q it is aiming to catch up student numbers to the level of the same period in the previous fiscal year. At the end of FY8/18, student numbers had declined 7.1% on the end of the previous fiscal year, so it is anticipated that the average number of students during the period will fall by a single digit. The decline in the number of schools will continue, including due to the closures of unprofitable schools. But the Company intends to recover profitability by increasing the number of students per school and the sales unit price per student.

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Business outlook

In the outlook for net sales by business segment, in the Meiko Gijuku directly operated business, sales are forecast to increase 10% YoY to ¥10.5bn; in the franchised operations business, to decrease 1% to ¥5.2bn; in the preparatory school business, to rise 4% to ¥460mn, and in the other businesses, to grow 8% to ¥4.2bn. The results of the Meiko Gijuku directly operated business will include the full fiscal year contribution to net sales of K. Line, which was made a subsidiary in the previous 4Q, and this will be an increase factor of more than ¥800mn. But even after excluding this factor, sales are expected to increase slightly. Conversely, in the franchised operations business, the end of royalty sales from K. Line (10% of net sales) will be a factor causing sales to decline. But on excluding this factor, sales are forecast to increase slightly in this business also. This assumes that the sales unit price per student will rise, but when looking at the previous fiscal year, the MAXIS sales unit price rose 3%, while in the Company's directly operated business as well, in 2H it changed direction and increased. So it seems possible that the rise in the sales unit price will cover the impact of the decline in student numbers.

Therefore, it can be said that the key point toward achieving the forecasts is whether or not the Company can halt the downward trend in student numbers from 3Q onwards by introducing MEIKO Style Coaching into all schools. In some of the directly operated and franchised operations schools into which this method was introduced in advance in the fall of 2017, no change was seen to the downward trend in student numbers during the 2018 spring and summer student recruitment seasons. In addition to the intensification of competition to acquire students, the Company believes that this was partly because the schools required some time for training for the MEIKO Style Coaching and the utilization of ICT, so they had to reduce the time they spent on recruitment activities. In addition to the fact that these schools will be able to allocate sufficient time to recruitment activities in the spring of 2019, the Company also intends to halt the decline in student numbers by strengthening its Internet marketing strategy.

Therefore net sales will increase only slightly on an actual basis and the spending on investment, such as to introduce ICT, will continue. But despite this, the outlook is still for a double-digit increase in profits due to the significant decrease in sales promotions expenses.

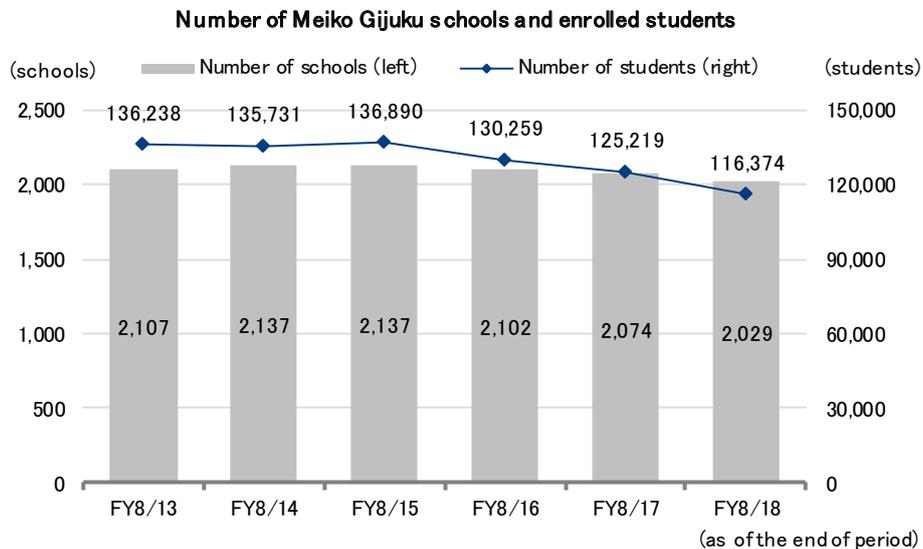
As the measures to recover student numbers in the preparatory school business, in addition to improving students' academic performance and pass rates and utilizing ICT, the Company is newly launching a tutor visiting service in order to capture demand in regional areas from students wishing to enter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

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

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

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

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



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

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

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In particular, the Company is focusing on a differentiation strategy to acquire students with MEIKO Style Coaching as a learning guidance method for students to practice independent learning, which is a point in the academic reforms to be implemented from academic year 2020. MEIKO Style Coaching is a guidance method that establishes “learning” and “review” as a single cycle, in which students acquire various “insights” through independently learning and then reviewing what they have learned, toward them acquiring an essential understanding. Previously, based on its MEIKO Style Independent Learning guidance method, the Company used a method in which answers were drawn out of the students themselves in order for them to acquire understanding, but the new method emphasizes independent thinking to an even greater extent. Specifically, the learning programs are advanced while the students themselves independently use their own words and express their own thoughts in writing, and then 5 to 10 minutes before the end of the lesson, they themselves summarize as “review notes” what they have learned on that day and create a learning plan for the future. These learning records are scanned using an iPad and entered into the Meiko e-Po system.

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

An issue is whether or not the Company can smoothly spread the use of this new learning guidance method and the methods for utilizing ICT among the tutors who provide the learning guidance at the schools. At the franchised operations schools, the heads of the schools, who have received training, conduct the training for the tutors. But in the spring and summer recruitment seasons in 2018, there were cases in which the time spent on training tutors resulted in a reduction in the time spent on student recruitment activities. Overall, students and their parents and guardians are positively evaluating MEIKO Style Coaching, so if its use spreads to all schools, it can be expected to lead to an increase in student numbers.

The Company is also enhancing content utilizing ICT in order to expand the student groups for each of elementary, junior high, and high school students. Meiko Mirai Eigo for elementary school students and Meiko Chugaku Listening for junior high school students, which it started in the previous fiscal year, have been positively received. In addition, the number of applicants for MEIKO MUSE, which is a video learning course for high school students that it previously launched, is steadily increasing. The Company is currently developing a new English proficiency test course for elementary school students, which it plans to launch in the future. In FY8/18, the percentages of students by school type were that the most were junior high school students, at 57.1% of all students, followed by high school students at 25.2% and then elementary school students at 17.4%. So the extent of the Company’s reliance on junior high school students is high, but going forward, the percentages of elementary and high school students are expected to rise. In particular, elementary school student numbers recovered quickly in FY8/18 and increased YoY, and this number is expected to rise in the future.

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Another issue is improving the admission rate from inquiries via the Internet. In August 2018, the number of inquiries via the Internet increased by 37.6% compared to the same month in the previous fiscal year, but the number of admissions rose by only 9.2%. The reason for this is that the percentage of bulk requests for information from comparison websites increased to constitute more than 60% of all requests (compared to less than 50% in the same month in the previous fiscal year), and the admission rate from these comparison websites is low. Therefore, the Company is aiming to improve the admission rate by analyzing responses to online advertisements and the admission process and creating measures to increase the number of accesses to its official homepage, which is considered will lead to an increase in student numbers.

■ Medium-term management plan

While maintaining the basic strategy, intends to reset the numerical targets and work to improve results and establish a foundation for growth as the priority issues

In October 2016, the Company announced its medium-term management plan for the next 4 years up to FY8/20. But as earnings in the Meiko Gijuku business are trending greatly below the level initially anticipated, it has decided to reset the numerical targets. However, there has been no change to the fact that it will continue to implement its basic strategy.

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

In strengthening the Meiko Gijuku Business, the Company sets forth its aims of improving profitability and achieving renewed growth by recovering the number of students per school through a differentiation strategy of using MEIKO Style Coaching and the utilization of ICT, and also by working to increase the sales unit price per student through enhancing learning content.

To strengthen the profitability of all businesses, the Company intends not only to strengthen the profitability of the Meiko Gijuku business but also that of other businesses and to establish new core businesses. While sharing expertise among Group companies and improving management efficiency, it is leveraging synergies to the greatest possible extent to bolster the Group's comprehensive strength.

To expand the business areas to achieve sustainable growth, in the education and culture business area, the Company will consider M&A and investment proposals. Based on its management philosophy, the Company will do so if there are projects that can be expected to strengthen its main businesses and generate synergies with each business within its development. It is also working to develop new educational services. The programming schools that began in August 2018 are off to a strong start, with other new forms of schools utilizing ICT, next-generation soroban (Japanese abacus) schools, and high-end English language schools. For these, the Company is considering not only conducting development in-house, but also through utilizing business alliances, M&A, and other ways.

Medium-term management plan

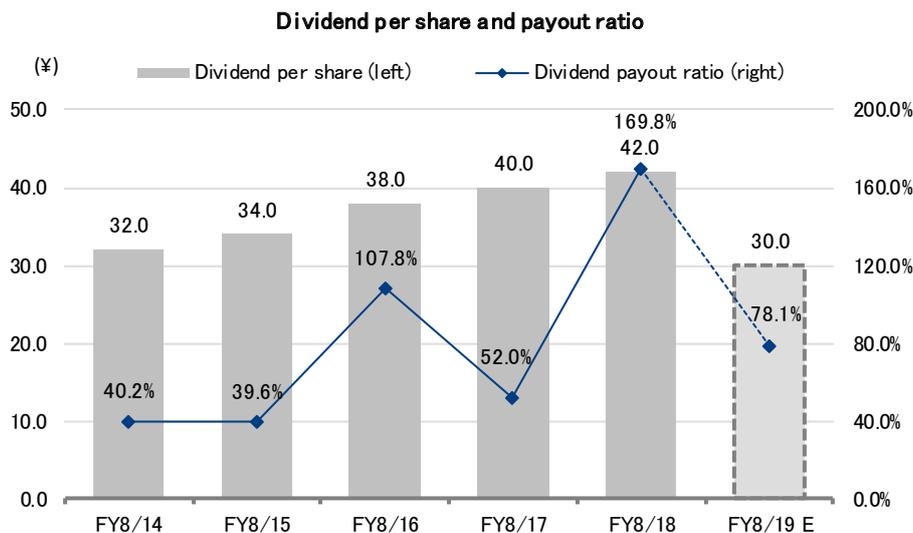
To train human resources, the Company is aiming to realize a work-life balance, reform personnel awareness, and improve productivity, and train the human resources who will drive growth for the Group. To improve corporate value, the Company is implementing a capital dividend policy attractive to investors through sustained earnings growth.

Shareholder return policy

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

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

Under the shareholder benefit program, the Company continues to give QUO cards worth ¥1,000-5,000 to shareholders as of the end of August, according to the number of shares they hold and the length of time that they have held them. Those holding 100 shares for less than three years will receive a ¥1,000 QUO card, while those holding the same number of shares continuously for three years will receive cards with a value of ¥3,000. The gross investment yield per share unit, including the shareholder benefit program, is at the 4-6% level at the current share price (¥1,001 as of October 19). The Company's capital policy is unchanged to strengthen its equity and to flexibly consider acquiring treasury stock when possible, taking into account the share price and financial position.



Source: Prepared by FISCO from Company materials

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

Shareholder return policy

Shareholder benefit program

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

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

Note: Shareholders became eligible for the program from August 31, 2016.
 Source: Prepared by FISCO from Company materials

Information security policy

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



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