

# **MEIKO NETWORK JAPAN CO., LTD.**

**4668**

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## Summary

### **Aiming to recover student numbers from the spring of 2018 through a differentiation strategy that includes expanding MEIKO Style Coaching and conducting promotions using TV commercials and other methods**

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

#### **1. The FY8/18 1Q results were basically as forecast**

The FY8/18 1Q (September-November 2017) consolidated results announced on January 10 were basically in line with the Company’s forecasts, with net sales decreasing 1.4% year on year (YoY) to ¥4,411mn and operating income falling 26.2% to ¥401mn. The main reason for the lower sales and profits was the decline in student numbers in the mainstay Meiko Gijuku business (including franchised operations) due to the declining birthrate and the intensification of competition between private tutorial schools. As of the end of November 2017, the number of schools had declined 1.5% YoY to 2,069 schools, while the number of students had fallen 4.4% to 131,067 students. On the other hand, an upward trend in sales and profits in other businesses continued from the increases in student numbers at Japanese language schools and Meiko Kids Schools.

#### **2. Currently implementing a strategy for the regrowth of the Meiko Gijuku business**

Toward the regrowth of the Meiko Gijuku business, the Company is planning the fully fledged deployment of MEIKO Style Coaching, which is its new guidance method, from its launch in the spring of 2018. MEIKO Style Coaching is a learning guidance method that incorporates coaching, where instead of the tutors lecturing students, the students raise their level of learning comprehension by thinking for themselves with the support of the tutors, and then explaining to the tutors using their own words the content of what they have understood. This learning guidance method is in accordance with the Company’s educational philosophy of “independent learning” and is a further evolution of its approach of having students learn proactively. It has appointed the gymnast Kohei Uchimura as the “head coach” from January 2018, and it plans to actively conduct promotional activities, including TV commercials.

#### **3. Sales to increase and profits to decrease YoY in FY8/18 forecast, but profits likely to increase from 2H**

The Company has maintained its initial forecasts for the FY8/18 consolidated results of net sales to increase 5.3% YoY to ¥20,415mn and operating income to decrease 23.1% to ¥2,011mn. Profits will fall in tandem with the decrease in the number of students in the Meiko Gijuku business in 2Q (December 2017-February 2018), while the Company will also conduct concentrated spending of approximately ¥600mn on strategic advertising utilizing TV commercials and the Internet. However, from 3Q onwards, it is planning for higher sales and profits from the recovery in student numbers. The average number of Meiko Gijuku students during the period is forecast to increase around 2% YoY, marking the first increase in three fiscal years. Therefore, when looking at the FY8/18 results, the key point will be to what extent will student numbers have recovered by the end of 3Q (May 2018).

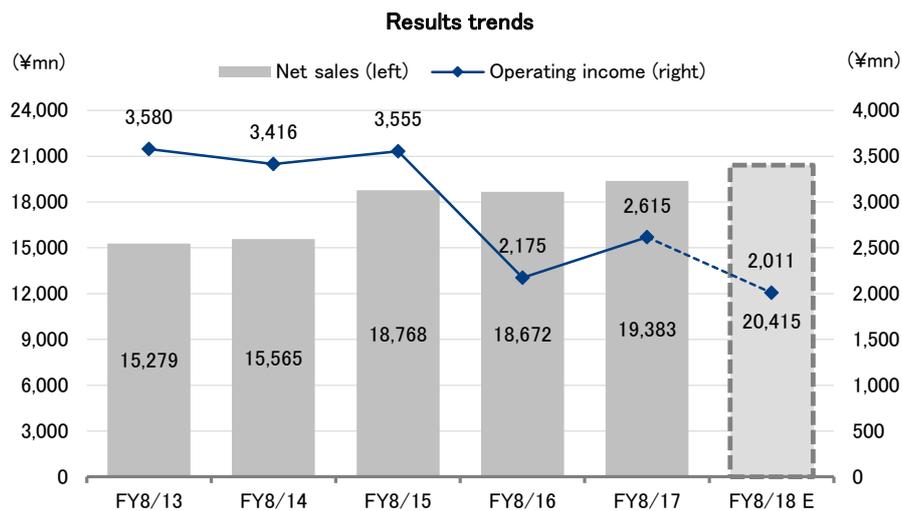
Summary

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

The Company's policy on returns to shareholders is to continue its current proactive stance. For dividends, it intends to continue the consecutive increases in dividends that it has maintained since its listing. In FY8/18, it is planning to increase its dividend per share by ¥2.0 YoY to ¥42.0 even while forecasting reduced profits. Moreover, under the shareholder benefit program, the Company will give QUO cards worth ¥1,000-5,000 to shareholders as of the end of August, according to the number of shares held and the length of time held. The gross investment yield per share unit including the shareholder benefit program is at the 4-5% level at the current share price (¥1,339 as of January 29).

Key Points

- Actively conducting promotional activities for the new student recruitment season in the spring of 2018
- Aiming to return to a growth track through a differentiation strategy that includes expanding MEIKO Style Coaching and enhancing learning content
- Aiming for ¥3.6bn in operating income in FY8/20 through renewed growth in the Meiko Gijuku business and cultivation of new businesses



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

## ■ Business overview

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

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

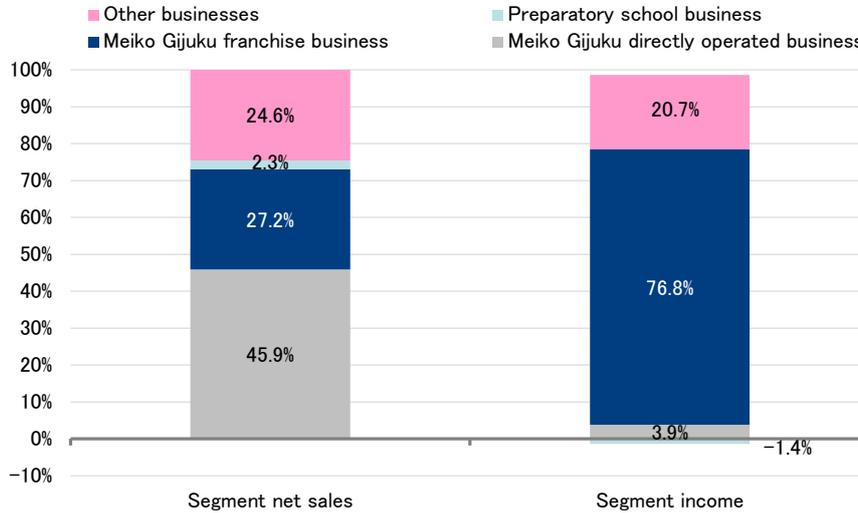
Specifically, it operates Meiko Soccer School, a soccer school for children; Waseda Academy Kobetsu Schools, which provide tutorial instruction to junior high school and high school students seeking entry into prestigious high schools and universities; and Meiko Kids Schools, which provide nursery care for preschool children and after-school care for elementary school children. Additionally, its subsidiaries operate Tokyo Ishin Gakuin, a preparatory school that specializes in the medical university field, and Waseda EDU Japanese Language School and JCLI Japanese Language 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.

In overseas businesses, the Company operates a nursery school for Japanese residents in Singapore (non-consolidated subsidiary COCO-RO PTE LTD) and has invested in NEXCUBE 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), a joint venture with a local firm that operates Meiko Gijuku business in Taiwan.

By business segment for FY8/18 1Q, the mainstay Meiko Gijuku business (directly operated and franchised operations) is clearly the primary source of the Company's income at 73.1% of net sales and 80.7% of profits. The Company's policy, as its medium-term strategy, is to aim for Group-wide growth and become Japan's top company in human development by maintaining the expansion of the Meiko Gijuku business while developing its other educational services businesses.

Business overview

Composition by business segment (FY8/18 1Q)



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

## Business performance

### The FY8/18 1Q results were basically in line with the Company's forecasts

#### 1. Overview of FY8/18 1Q results

The Company posted FY8/18 1Q consolidated results of ¥4,411mn in net sales (down 1.4% YoY), ¥401mn in operating income (down 26.2%), ¥427mn in ordinary income (down 28.6%), and ¥229mn in net income attributable to owners of the parent (down 29.6%), posting decreases in both sales and profits but roughly in line with its forecasts.

## Business performance

## Review of consolidated FY8/18 1Q results

	FY8/17 1Q		FY8/18 1Q		YoY
	Results	% of sales	Results	% of sales	
Net sales	4,476	-	4,411	-	-1.4%
Cost of sales	3,021	67.5%	3,063	69.4%	1.4%
SG&A expenses	911	20.4%	946	21.5%	3.9%
Operating income	544	12.2%	401	9.1%	-26.2%
Ordinary income	599	13.4%	427	9.7%	-28.6%
Net income attributable to owners of the parent	326	7.3%	229	5.2%	-29.6%
Number of students enrolled at Meiko Gijuku schools, number of schools, and total system-wide sales (directly operated and franchised operations)					
Number of schools (end of November)	2,101		2,069		-1.5%
Number of students (end of November)	137,071		131,067		-4.4%
Total system-wide sales	10,529		10,008		-4.9%

Note: Total system-wide sales include total sales of directly operated schools (including fees for lessons, educational materials, and tests) and franchised operations (including fees for lesson).

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

In FY8/18, the Company's basic policies include strengthening the Meiko Gijuku business (such as by developing and sequentially introducing review classes, Meiko e-Po, and new content that utilizes ICT; maintaining the school environment; rejuvenating the brand; and strengthening marketing), bolstering the profitability of all businesses, and training human resources. In the current 1Q in the Meiko Gijuku business, it held workshops and implemented other measures toward the sequential introduction of review classes, Meiko e-Po, and new content, such as English language content, that utilizes ICT. Also, its promotional activities include newly establishing English language content on its website for elementary and junior high school students, renewing the community website, and implementing measures for stable operation of its contact centers.

Within this situation, in the current 1Q in the Meiko Gijuku business, net sales declined due to the impact of the fall in the number of students, while the operating income margin was also down from 12.2% at the end of the previous fiscal year to 9.1%. Looking at the management indicators for the mainstay Meiko Gijuku business, we see that the downward trend is continuing and at the end of the current 1Q, the number of schools had fallen 1.5% YoY to 2,069 schools, the number of students had decreased 4.4% to 131,067 students, and total system-wide sales were down 4.9%. The main reason behind these struggles in the last two years is the Company's inability to come up with an effective differentiation strategy to acquire new students in the private tutorial school industry, which is affected by the declining birthrate and intensifying competition. However, toward the new student recruitment season in the spring of 2018, it plans to actively conduct promotional activities for MEIKO Style Coaching as its new guidance method, which is expected to lead to a recovery in student numbers.

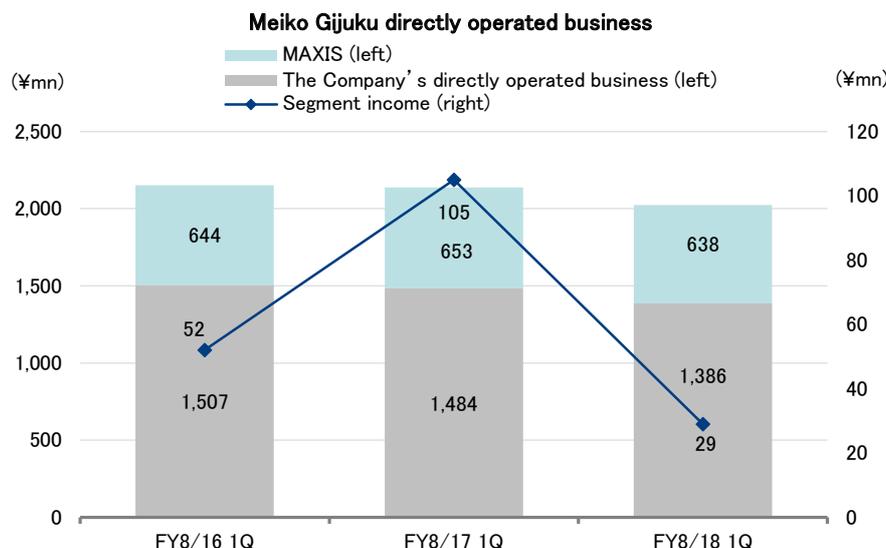
## Lower sales and profits in the Meiko Gijuku business and the preparatory school business, but higher sales and profits in other businesses

### 2. Segment trends

#### (1) Meiko Gijuku directly operated business

Net sales in the Meiko Gijuku directly operated business dropped 5.2% YoY to ¥2,025mn, while segment income declined 72.2% to ¥29mn. Within these results, sales from the Company's directly operated business fell 6.6% to ¥1,386mn and operating income declined 44.5% to ¥81mn. Sales from subsidiary MAXIS Education Co., Ltd. (hereafter, MAXIS) declined 2.3% to ¥638mn, and operating loss was ¥16mn, compared to operating loss of ¥5mn in the same period in the previous fiscal year. The amortization of goodwill for MAXIS was ¥35mn.

At the end of 1Q, student numbers declined 5.5% YoY to 17,076 students at schools directly operated by the Company, and fell 4.2% to 6,769 students at schools directly operated by MAXIS. The number of schools directly operated by the Company increased by 2 to 233 schools, and the number of schools directly operated by MAXIS rose by 2 to 95 schools, and the main factor behind the worsened profits was the fall in the number of students per school.



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

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

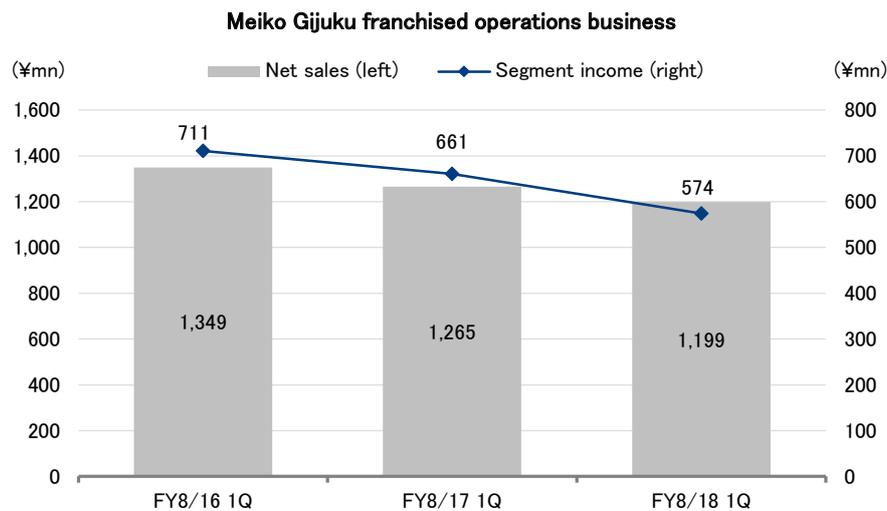
	Directly operated by the Company			Directly operated by MAXIS		
	FY8/17 1Q	FY8/18 1Q	Change	FY8/17 1Q	FY8/18 1Q	Change
Number of schools (end of November)	231	233	+0.9%	93	95	+2.2%
Number of students (end of November)	18,063	17,076	-5.5%	7,065	6,769	-4.2%
Number of students per school (end of November)	78.2	73.3	-6.3%	76.0	71.3	-6.2%
Sales (¥mn)	1,484	1,386	-6.6%	653	638	-2.3%

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

## Business performance

**(2) Meiko Gijuku franchised operations business**

In the Meiko Gijuku franchised operations business, net sales decreased 5.3% YoY to ¥1,199mn and segment income declined 13.1% to ¥574mn. As of the end of 1Q, the number of students had fallen 4.2% YoY to 107,222 students, the number of schools was down by 36 to 1,741 schools, and total system-wide sales had decreased 4.9%. As a result, royalties from franchised operations slumped, which was the main reason for the lower sales and profits.



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

**Number of franchises, number of students, and total system-wide sales**

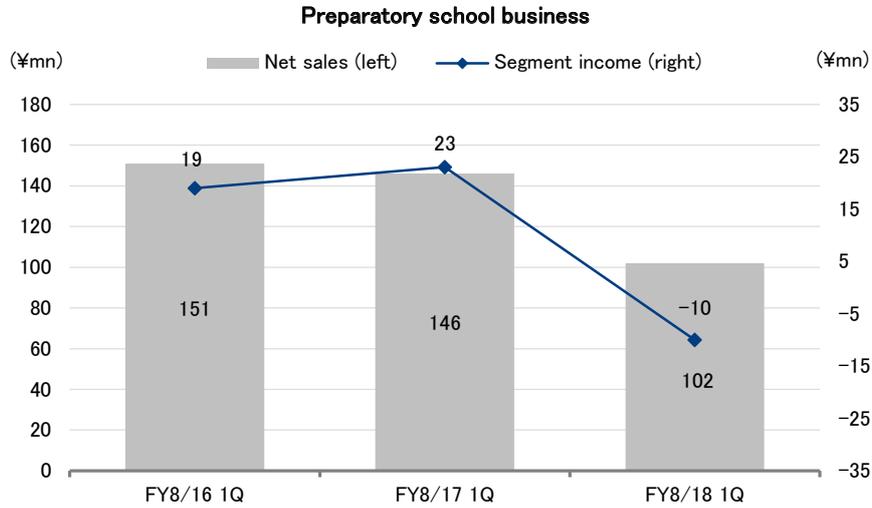
	FY8/17 1Q	FY8/18 1Q	Change
Number of schools (end of November)	1,777	1,741	-2.0%
Number of students (end of November)	111,943	107,222	-4.2%
Average number of students per school (end of November)	63.0	61.6	-2.2%
Total system-wide sales (¥mn)	8,392	7,983	-4.9%

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

**(3) Preparatory school business**

In the preparatory school business, which is conducted by consolidated subsidiary Tokyo Ishin Gakuin Co., Ltd., net sales decreased 29.5% YoY to ¥102mn and segment loss was ¥10mn (compared to income of ¥23mn in the same period in the previous fiscal year). As more students want to pass entrance exams while still attending high school, 2017 spring enrollments for courses for graduates were sluggish, and at the end of 1Q, student numbers had fallen 23.8% YoY to 109 students. This situation will continue in 2Q, but the Company is focusing on acquiring students still at high school for the 2018 spring season. It is conducting various measures, including holding entrance exam consultations, preparation courses for AO entrance exams and interview training to improve the pass rate. In this way, the Company is aiming to recover profits by increasing the number of students from 3Q onwards.

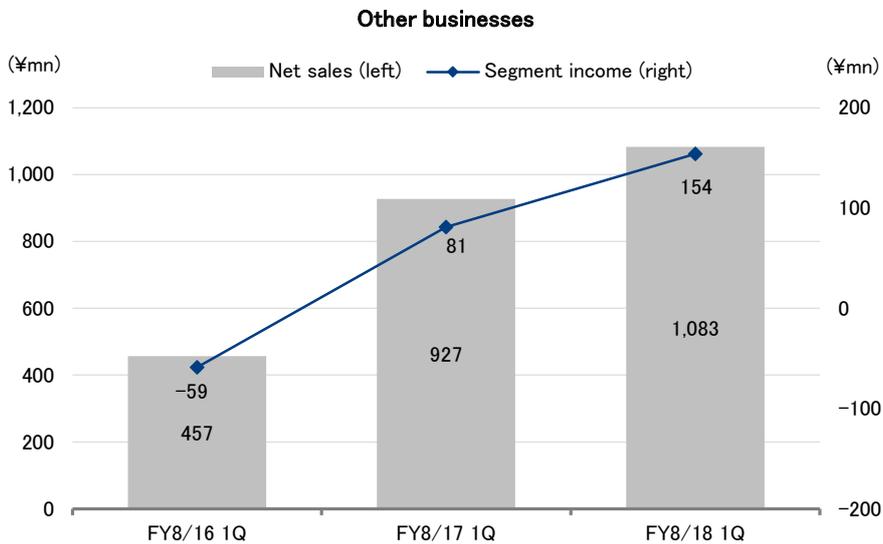
Business performance



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

**(4) Other businesses**

In other businesses, net sales increased 16.9% YoY to ¥1,083mn and segment income rose 90.5% to ¥154mn. It seems that the higher sales and profits were mostly caused by a growth in earnings following an increase in the number of students in the Japanese language schools.



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

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## Business performance

Looking at trends in the mainstay businesses, sales in the Waseda Academy Kobetsu Schools business increased ¥1mn to ¥117mn and operating loss was ¥5mn (compared to income of ¥1mn in the same period in the previous fiscal year). At the end of 1Q, the number of schools had risen by 1 YoY (an increase of 1 school directly operated by Waseda Academy) to 32 schools (6 schools directly operated by the Company, 5 schools directly operated by MAXIS, 11 schools directly operated by Waseda Academy, and 10 franchised operations), while the number of students enrolled in all of the schools rose by 8.8% to 2,772 students. The Company's policy is to work to improve the quality of its exam guidance services and to focus on acquiring new students in the spring of 2018 by strengthening cooperation with Waseda Academy Co., Ltd., including through educational affairs meetings and joint tutor training.

In the Meiko Soccer School business, sales decreased ¥1mn YoY to ¥32mn and operating loss was ¥0mn (compared to a loss of ¥3mn in the same period in the previous fiscal year). At the end of 1Q, the number of schools had decreased by 2 YoY to 14 schools (of which, 1 is a franchised operation), while the number of students had fallen 7.3% to 936 students. The profit-loss result improved slightly as a result of the consolidation of two directly operated schools into a neighboring school in the previous 3Q. The priority issue for the time being is strengthening the profitability of existing schools, and the Company is working to improve customer satisfaction by reviewing the management system and aiming to strengthen meetings aimed at improving the guidance provided by coaches, and at the same time, by holding consultations with the schools' students and their parents and guardians.

In the Meiko Kids Schools business, the number of students is steadily expanding in the context of the robust demand for after-school care. At the end of 1Q, the number of schools had increased by 2 YoY to 15 schools (8 directly operated schools and 7 consignment operations schools), while the number of students enrolled in the schools had steadily risen by 14.7% to 804 students. The Company is working to improve the level of customer satisfaction, including by renewing the website, holding a briefing session for new students for the 2018 academic year, and starting the fully fledged operations of a new system for members to be used by the schools and the parents and guardians.

The Japanese language schools for overseas students business consists of the Waseda EDU Japanese Language School (1 school) run by consolidated subsidiary Waseda EDU Co., Ltd., and the JCLI Japanese Language Schools (3 schools) operated by Kokusai Jinzai Kaihatsu Co., Ltd. Overseas student numbers continue to increase, including from China, Southeast Asia, and other countries, and at the end of 1Q, the number of students had steadily risen by 13.0% YoY to 660 students in the Waseda EDU Japanese Language School (it can accommodate 710 students), and 12.2% to 1,171 students in the JCLI Japanese Language Schools (it can accommodate 1,380 students), and higher sales and profits are forecast for this business as a whole. In order to respond to the increase in the number of students, in January 2018, the Waseda EDU Japanese Language School relocated to a new building, which is approximately 1.5 times the size of the former building. As a result, the number of students it can accommodate has risen from the previous 600 to 710 students.

At consolidated subsidiary Kotoh Jimusho, sales and profits rose from an increase in the number of orders in the main business of solutions to university entrance exam questions. Business results were sluggish at consolidated subsidiary Youdec, due to the number of students taking its mock exams being lower than expected and the number of contracts for private instruction also slumping.

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

### 3. Financial position and management indicators

Looking at the financial position at the end of FY8/18 1Q, total assets were down ¥758mn compared to the end of the previous fiscal year to ¥18,556mn. Breaking down the main change factors, in current assets, cash and deposits fell ¥1,040mn and securities declined ¥200mn. Also, in non-current assets, investment securities increased ¥561mn, mainly due to higher market values for securities held.

Total liabilities were down ¥747mn compared to the end of the previous fiscal year to ¥4,150mn. In current liabilities, income taxes payable decreased ¥768mn and advances received fell ¥125mn, while in non-current liabilities, deferred tax liabilities increased ¥129mn. Also, net assets were down ¥11mn compared to the end of the previous fiscal year to ¥14,405mn, resulting from the decrease in retained earnings of ¥301mn, mainly due to the payment of dividends, exceeding the increase in valuation difference on available-for-sale securities of ¥290mn.

Looking at business indicators, the equity ratio increased from 74.5% at the end of the previous fiscal year to 77.5% because of the decrease in liabilities. The Company also maintains effectively debt-free operations with an interest-bearing debt ratio of 0.5%, and we think that its financial position continues to be healthy.

#### Consolidated balance sheet and management indicators

	(¥mn)				
	FY8/15	FY8/16	FY8/17	FY8/18 1Q	Change
<b>Current assets</b>	9,828	6,865	10,431	9,126	-1,304
(Cash and deposits)	7,345	4,633	7,822	6,782	-1,040
<b>Non-current assets</b>	8,852	10,105	8,883	9,429	+546
<b>Total assets</b>	18,680	16,970	19,314	18,556	-758
<b>Current liabilities</b>	3,357	3,059	4,168	3,299	-869
<b>Non-current liabilities</b>	694	701	729	851	+122
<b>Total liabilities</b>	4,052	3,760	4,897	4,150	-747
(Interest-bearing debt)	96	82	70	70	0
<b>Net assets</b>	14,628	13,209	14,416	14,405	-11
<b>Management indicators</b>					
(Stability)					
Equity ratio	78.0%	77.4%	74.5%	77.5%	
Interest-bearing debt ratio	0.7%	0.6%	0.5%	0.5%	

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

## Business outlook

### Actively conducting promotional activities for the new student recruitment season in the spring of 2018

#### 1. FY8/18 outlook

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

Toward the regrowth of the Meiko Gijuku business and in line with the Company's strategy to recover student numbers in the new student recruitment season in the spring of 2018, the Company began actively conducting promotional activities, including using TV commercials and Internet advertising, for MEIKO Style Coaching, its new guidance method, from January 2018. The rate of decline in profits will grow larger in 1H as approximately ¥600mn will be spent on advertising, mainly in 2Q. But the outlook is for student numbers to recover from 3Q onwards and for this to lead to an increase in profits from the effects of higher sales. The assumption is that the average number of students in the Meiko Gijuku business in FY8/18 will increase by around 2% YoY. In promotional activities for MEIKO Style Coaching, the Company has utilized gymnast Kohei Uchimura as its "head coach" since January 2018 with the aim of improving brand recognition. It has also renewed the Meiko Gijuku brand logo and characters.

In other businesses, the Company is also aiming to acquire students in the spring of 2018 in its preparatory school business, and the forecast for the full fiscal year is for sales to increase 1.0% YoY. Furthermore, student numbers and sales are expected to rise for the Waseda Academy Kobetsu Schools, Meiko Kids Schools, and Japanese language schools for overseas students.

#### FY8/18 outlook (consolidated)

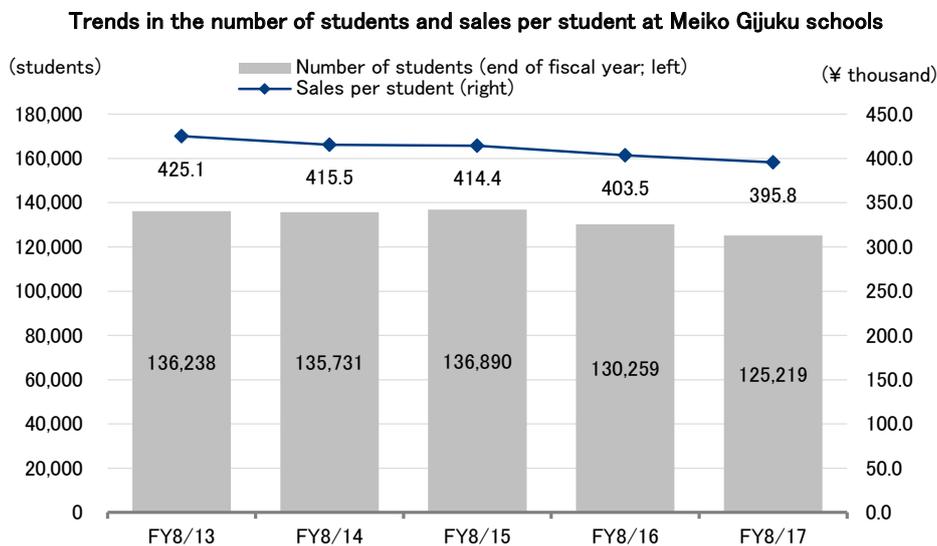
	FY8/17		FY8/18					
	Full-year results	YoY	1H forecast	YoY	2H forecast	YoY	Full-year forecast	YoY
Net sales	19,383	3.8%	10,054	-0.9%	10,360	+12.2%	20,415	5.3%
Meiko Gijuku directly operated business	9,647	-4.7%	5,073	-1.4%	5,033	+11.8%	10,107	4.8%
Meiko Gijuku franchised operations business	5,586	-0.2%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

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

## Aiming to return to a growth track through a differentiation strategy that includes expanding MEIKO Style Coaching and enhancing learning content

### 2. Measures aimed at promoting renewed growth of the Meiko Gijuku business

Since FY8/16, sales and profits have continued to decrease in the Meiko Gijuku business due to declines in the number of students and sales per student. To get this business back on a growth track, the Company is advancing a differentiation strategy that includes expanding MEIKO Style Coaching as its new guidance method and enhancing learning content.



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

#### (1) Measures to increase student numbers

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

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

## Business outlook

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

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

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

**(2) Measures to raise sales per student**

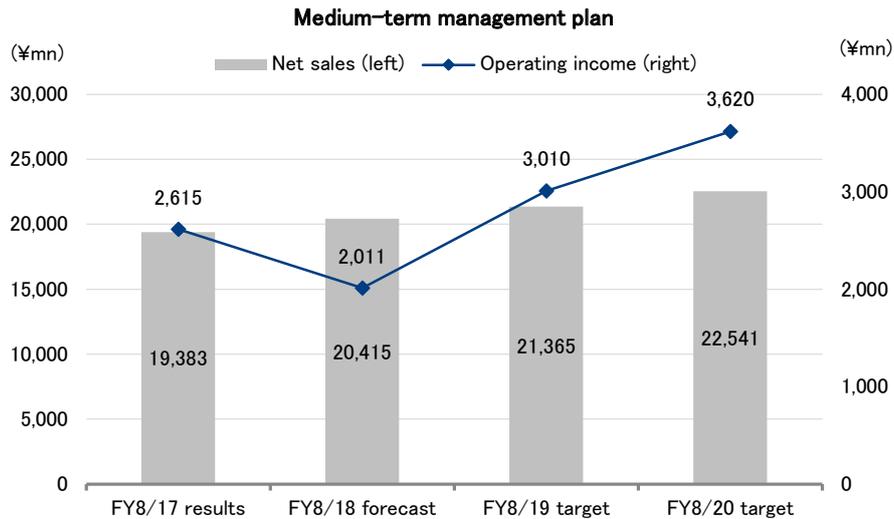
As measures to raise sales per student, the Company is working to enhance learning content that utilizes ICT. It is already providing online science and sociology courses for junior high school students and video courses for high schools students. From FY8/18, it will sequentially launch a variety of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

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

## ■ Medium-term management plan

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

In October 2016, the Company announced its medium-term management plan for the four years until FY8/20. The management targets in the plan's final year are net sales of ¥22,541mn and operating income of ¥3,620mn. Looking at FY8/18, compared to the medium-term management plan targets (net sales of ¥20,585mn and operating income of ¥2,640mn), the Company forecasts are for net sales of ¥20,415mn and operating income of ¥2,011mn, meaning there is deviation of slightly more than ¥600mn for operating income. The reason for this is that it is spending approximately ¥600mn on strategic advertising costs. If the Company succeeds in recovering student numbers in the second half of FY8/18, in FY8/19 it will not spend ¥600mn on strategic advertising costs, and therefore it is considered that the medium-term target of around ¥3bn will once again be in sight.



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

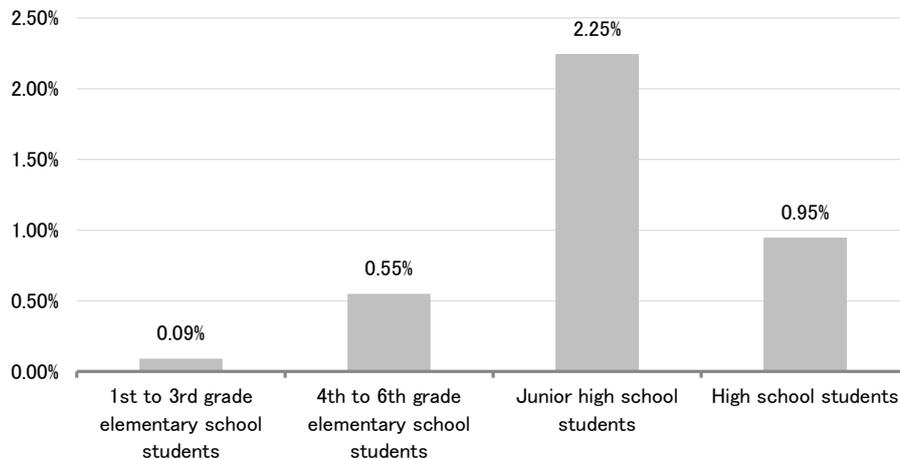
The Company is implementing five strategies as its basic strategies in the medium-term management plan: “Strengthen the Meiko Gijuku business,” “strengthen the profitability of all businesses,” “expand the business areas to achieve sustainable growth,” “train human resources,” and “improve corporate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

To “strengthen the Meiko Gijuku business,” the Company is first aiming to increase the number of students and profitability per school through introducing the previously described “review classes” and “Meiko e-Po.” After that, its strategy is to once again increase the number of schools. In terms of the management targets for the number of schools and students, in FY8/20, it is targeting 2,180 schools (2,069 schools at the end of FY8/18 1Q) and 150,000 students (131,000 students).

Medium-term management plan

Looking at the shares of Meiko Gijuku student numbers as percentages of the student population by grade, junior high school students are the highest percentage at 2.25% (74,843 students), followed by high school students at 0.95% (31,032), and then fourth to sixth grade elementary school students at 0.55% (17,785). So it can be said that there is still room for it to acquire more high school students and fourth to sixth grade elementary school students, and the Company is forecasting that student numbers will increase while it aims to differentiate itself from the competition through providing the MEIKO Style Coaching and enhancing learning content.

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



Note: The student populations are as of May 2017 based on the "School Basic Survey" by the Ministry of Education, Culture, Sports, Science and Technology, and the Meiko Gijuku student numbers are as of August 2017.

Source: Prepared by FISCO from the "School Basic Survey" by the Ministry of Education, Culture, Sports, Science and Technology and the Company's results briefing materials

To "strengthen the profitability of all businesses," the Company intends to strengthen the profitability of the other businesses as well as that of the Meiko Gijuku business, to establish new core businesses. While sharing expertise between each member of the 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. These include new forms of schools utilizing ICT, next-generation soroban (Japanese abacus) schools, and high-end English language schools. For these, it is considering not only conducting development in-house, but also through utilizing business alliances, M&A, and other ways.

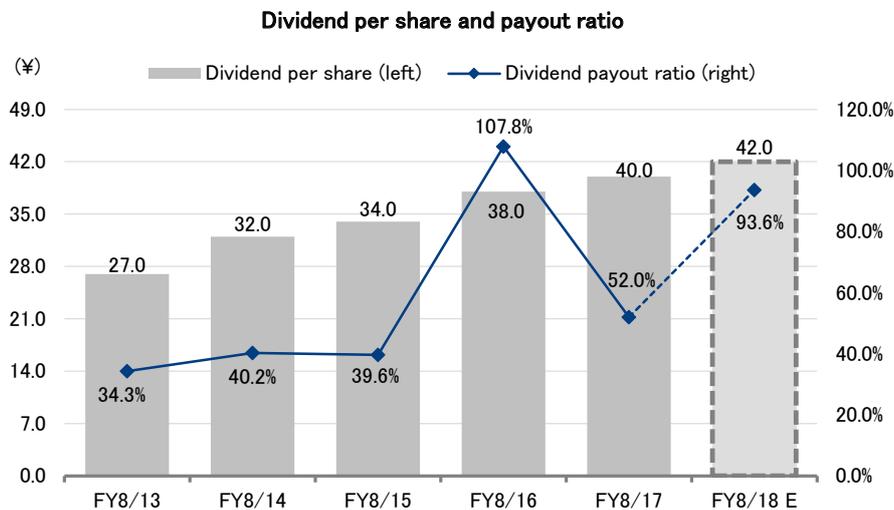
To "train human resources," the Company is aiming to realize a work-life balance, reform personnel awareness, and improve productivity, and train the human resources who will drive growth for the Group. To "improve corporate value" the Company is implementing a capital dividend policy attractive to investors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

## Shareholder return policy

### Plans to increase the dividend for the 20th consecutive fiscal period Also has a shareholder benefit program and actively returns profits to shareholders

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

Under the shareholder benefit program, the Company gives QUO cards worth ¥1,000 to ¥5,000 to shareholders as of the end of August, according to the number of shares they hold and the length of time that they have held them. Those holding 100 shares for less than three years will receive a ¥1,000 QUO card, while those holding the same number of shares continuously for three years will receive cards with a value of ¥3,000. The gross investment yield per share unit including the shareholder benefit program is at the 4-5% level at the current share price (¥1,339 as of January 29). The Company's capital policy is to strengthen its equity and to flexibly consider acquiring treasury stock when possible, taking into account the share price and financial position.



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

#### Shareholder benefit program

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

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

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

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## ■ 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 investigates measures to prevent the leakage of information through the Risk Management Committee and verifies the operational statuses of measures to protect personal information.



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