

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

**4668**

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

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## Summary

### Aiming to rapidly recover student numbers by introducing MEIKO Style Coaching, enhancing learning content that utilizes ICT, and strengthening web marketing

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 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. 1H FY8/18 results

In the 1H FY8/18 (September 2017 to February 2018) consolidated results announced on April 12, net sales decreased 3.7% year on year (YoY) to ¥9,769mn and operating income decreased 41.8% to ¥1,186mn. The main reasons for the decrease in sales and profits were a continued decline in student numbers in the mainstay Meiko Gijuku business and the Company’s investment in strategic advertising and sales promotion alongside the fully fledged launch of MEIKO Style Coaching\*, which is its new learning guidance method. However, compared to the Company forecasts, advertising and sales promotion expenses were less than expected, and so on an operating income basis, the result was ¥262mn above forecast. In the other businesses, sales continued to increase alongside the growth in student numbers in the Meiko Kids Schools, the Japanese language schools, and the Waseda Academy Kobetsu Schools.

\* MEIKO Style Coaching is a learning guidance method that further 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 has been developing up until now.

#### 2. Measures for the renewed growth of the Meiko Gijuku business

Aiming for the renewed growth of the Meiko Gijuku business, the Company began the fully fledged introduction of MEIKO Style Coaching in the spring of 2018 as its differentiation strategy, and it is also promoting the introduction of learning content that utilizes ICT. Both have been favorably received by parents and guardians and students, and going forward, they are expected to contribute to an increase in student numbers. The Company is also working on strengthening web marketing to acquire new students. In recent years, there has been an increase in the percentage of parents using comparison websites to judge tutorial schools, so it is aiming to improve the enrollment rate via the web while conducting data analysis, such as of web access, and enhancing the functions of contact centers. Recently, we have begun to see signs of a recovery in student numbers, including the number of newly enrolled students in directly operated schools exceeding the number in the same period in the previous fiscal year, and it seems that the effects of these measures are gradually starting to appear.

#### 3. The initial forecasts for FY8/18 have been left unchanged

The initial forecasts for the FY8/18 consolidated results have been left unchanged, of net sales to increase 5.3% YoY to ¥20,415mn and operating income to decrease 23.1% to ¥2,011mn. As student numbers in the Meiko Gijuku business are trending lower than expected, it is possible that net sales will be below forecast. But at FISCO, we think that the forecast will be achieved on a profits basis. The Company is aiming to achieve the full fiscal year forecasts by acquiring new students in summer courses and increasing sales per student through the introduction of new content.

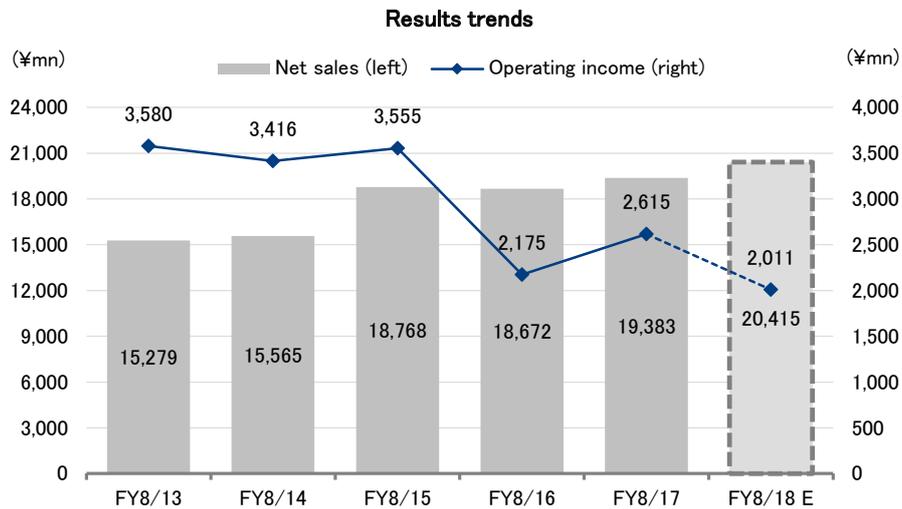
Summary

4. Policy for returning profits to shareholders is to continue to increase dividends

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 gives 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 4-6% level at the current share price (¥1,245 as of May 2).

Key Points

- In the 1H FY8/18 results, net sales were slightly below forecast, but operating income exceeded its forecast
- There are signs of recovery in the number of newly enrolled students and the initial forecasts for the FY8/18 results have been left unchanged



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

## ■ Business overview

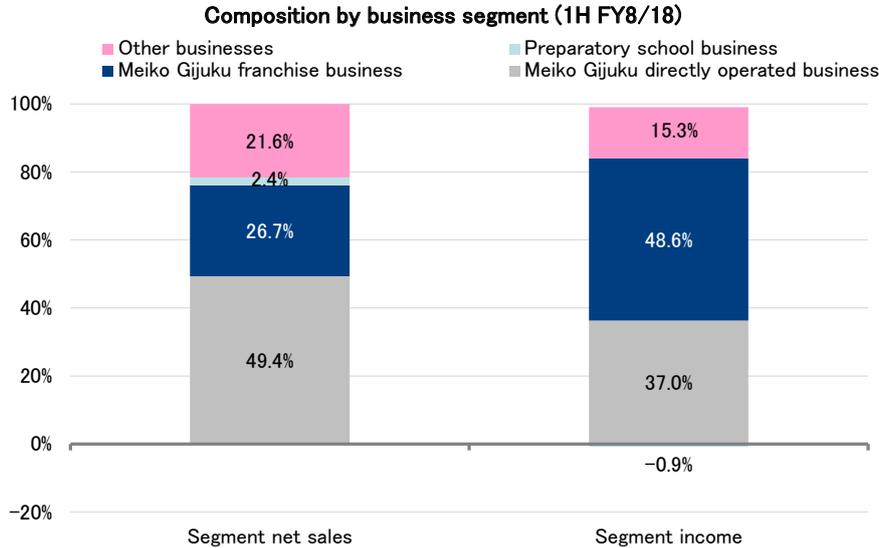
### **Aiming to become a top company in human development through expanding the mainstay Meiko Gijuku business and other educational services**

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. 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.

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), which operates the Meiko Gijuku business in Taiwan.

By business segment for 1H FY8/18, the Meiko Gijuku business (directly operated and franchised operations) is clearly the primary source of the Company's income at 76.0% of net sales and 85.6% of profits. The Company's policy, as its medium-term strategy, is to aim for Group-wide growth by maintaining the expansion of the Meiko Gijuku business while developing its other educational services businesses.

Business overview



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

## Business performance

**In the 1H FY8/18 results, net sales were slightly below forecast, but operating income exceeded its forecast**

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

The Company's basic policies for FY8/18 include strengthening the Meiko Gijuku business, bolstering the profitability of all businesses, and developing human resources. In particular, for the Meiko Gijuku business, it is advancing measures including introduction of its MEIKO Style Coaching, which is a new learning guidance method, and Meiko e-Po\*, an e-portfolio system, into franchise schools, and introduction of English content that utilizes ICT for elementary and junior high school students. Also, as promotion measures to acquire students, the Company is strengthening web advertising and establishing a contact center structure. Moreover, from Q2, it began broadcasting TV commercials that feature the Olympic gymnast Kohei Uchimura.

\* A system that records learning records, etc., through the schools' tablet devices and students' smartphones. Not only the students, but also the parents and guardians can check the progress of their child's learning on their smartphones.

## Business performance

Within the progress being made for these measures, the 1H consolidated results were that net sales decreased 3.7% YoY to ¥9,769mn, operating income declined 41.8% to ¥1,186mn, ordinary income fell 41.7% to ¥1,261mn, and net income attributable to owners of the parent decreased 60.1% to ¥683mn. The decline in net sales was mainly due to that in the mainstay Meiko Gijuku business (directly operated and franchised operations), as the numbers of schools and students are continuing to trend downward against the backdrop of intensified competition. At the end of Q2, the number of Meiko Gijuku schools had decreased 1.9% YoY to 2,066 schools, the number of students had declined 6.0% to 125,045 students, and total system-wide sales had fallen 5.8%. At the end of Q1, the number of students had declined 4.4%, so it seems that the rate of decrease is growing. In terms of the reasons for this, in addition to the intensifying competition to acquire students, compared to a typical year there has been an increase in cases of parents using comparison websites to decide on a tutorial school, and as a result of this, it seems that the timing of admissions is tending to be delayed.

In addition to the lower net sales, the decline in operating income can be attributed to the increase in SG&A expenses of ¥371mn, which included Meiko Gijuku marketing expenses and advertising and sales promotion expenses in order to renew the brand. Also, in the same period in the previous fiscal year, the Company recorded extraordinary income due to a gain on the sale of non-current assets, which caused the larger rate of decrease in net income.

Looking at the comparison with the initial Company forecasts, net sales were 2.8% below forecast because student numbers declined more than expected in the Meiko Gijuku business. However, operating income was 28.3% above forecast, as the Company kept down advertising and sales promotion expenses to less than forecast, and it also worked to keep down other expenses.

**Consolidated 1H FY8/18 results**

	1H FY8/17		Forecast	Results	1H FY8/18		
		% of sales			% of sales	YoY	vs. forecast
Net sales	10,145	-	10,054	9,769	-	-3.7%	-2.8%
Cost of sales	6,206	61.2%	6,611	6,291	64.4%	1.4%	-4.8%
SG&A expenses	1,900	18.7%	2,518	2,291	23.5%	20.6%	-9.0%
Operating income	2,039	20.1%	924	1,186	12.1%	-41.8%	28.3%
Ordinary income	2,164	21.3%	968	1,261	12.9%	-41.7%	30.2%
Extraordinary income/loss	544	5.4%	0	-2	-0.0%	-	-
Net income attributable to owners of the parent	1,713	16.9%	525	683	7.0%	-60.1%	30.1%
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 February)	2,105			2,066		-1.9%	
Number of students (end of February)	133,018			125,045		-6.0%	
Total system-wide sales	23,465			22,107		-5.8%	

Note: Total system-wide sales include total sales of directly operated schools (including fees for lessons, learning materials, and tests) and franchised operations (including fees for lessons). Fees for learning materials, tests, etc., at franchised operations are not included.

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

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

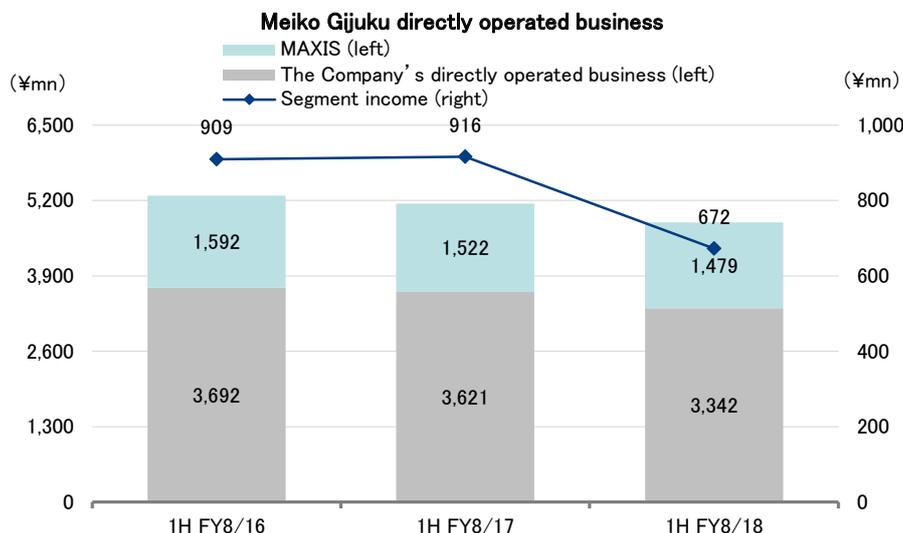
### 2. Segment trends

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

Net sales in the Meiko Gijuku directly operated business dropped 6.2% YoY to ¥4,822mn, while segment income declined 26.6% to ¥672mn. The main reason for the lower sales was the decline in student numbers.

Within the above, in the Company's directly operated business, net sales decreased 7.7% YoY to ¥3,342mn and operating income fell 30.7% to ¥563mn. Sales from the subsidiary MAXIS Education Co., Ltd. (hereafter, MAXIS) declined 2.8% to ¥1,479mn, while its operating income increased 3.4% to ¥181mn (amortization of goodwill of ¥71mn). Profits increased at MAXIS mainly due to the reductions in personnel expenses and other expenses.

Looking at the various indicators, for the Company's directly operated schools at the end of Q2, the number of schools had increased by 2 YoY to 233 schools, the average number of enrolled students during the period had decreased 5.7% to 16,967 students, and sales per student during the period had fallen 2.1% to ¥197,000. On the other hand, at MAXIS, the number of schools had risen by 1 to 95 schools, the average number of enrolled students during the period had decreased 3.9% to 6,748 students, and sales per student during the period had increased 1.2% to ¥219,300. Sales per student increased, if only slightly, YoY. The average number of students per school continues to trend downward in the Company's directly operated schools, decreasing 6.5% to 72.9 students, and in MAXIS schools, falling 5.7% to 71.0 students.



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

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## Business performance

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

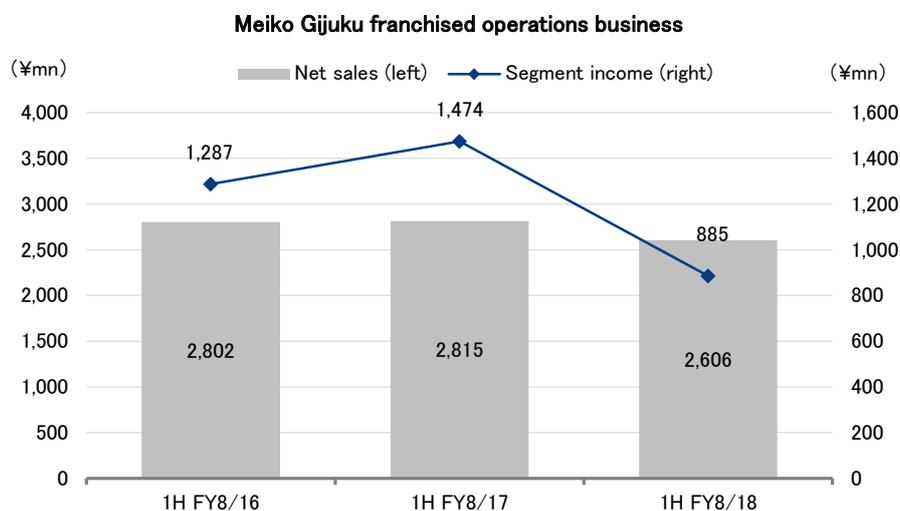
	Directly operated by the Company			Directly operated by MAXIS		
	1H FY8/17	1H FY8/18	Change	1H FY8/17	1H FY8/18	Change
Number of schools (end of February)	231	233	+0.9%	94	95	+1.1%
Number of students (average during 1H)	17,997	16,967	-5.7%	7,025	6,748	-3.9%
Number of students per school (average during 1H)	78.0	72.9	-6.5%	75.3	71.0	-5.7%
Sales per student (¥1,000)	201.2	197.0	-2.1%	216.7	219.3	+1.2%

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

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

In the Meiko Gijuku franchised operations business, net sales decreased 7.4% YoY to ¥2,606mn and segment income declined 40.0% to ¥885mn. The Company held training sessions for the introduction of its new learning guidance method of MEIKO Style Coaching, Meiko e-Po, and English content for elementary and junior high school students. It also implemented initiatives together with the directly operated schools toward recovering student numbers, including providing counselling training. However, profits declined mainly because sales from royalties decreased alongside the fall in student numbers and also due to the increase in upfront investment expenses for advertising and sales promotion expenses and enhancing ICT content.

At the end of Q2, the number of schools had decreased by 42 YoY to 1,738 schools, the average number of enrolled students during the period had fallen 4.6% to 105,797 students, the average number of students per school had declined 2.4% to 60.8 students, and sales from royalties were down 5.0% to ¥1,783mn.



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

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

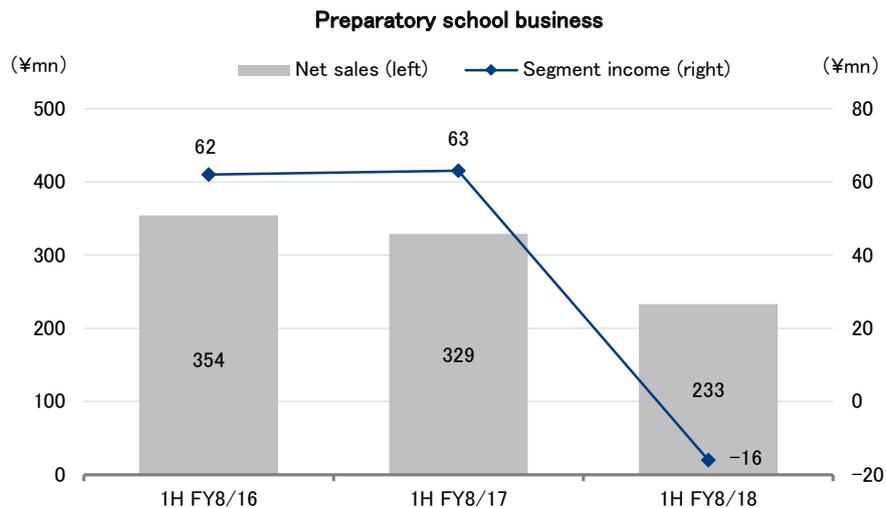
	1H FY8/17	1H FY8/18	Change
Number of schools (end of February)	1,780	1,738	-2.4%
Number of students (average during 1H)	110,850	105,797	-4.6%
Number of students per school (average during 1H)	62.3	60.8	-2.4%
Royalty sales (¥mn)	1,876	1,783	-5.0%

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

Business performance

**(3) Preparatory school business**

In the preparatory school business, which is conducted by consolidated subsidiary Tokyo Ishin Gakuin Co., Ltd., net sales decreased 29.1% YoY to ¥233mn and the segment loss was ¥16mn (compared to income of ¥63mn in the same period in the previous fiscal year). In addition to newly establishing small classes and private tutorial courses during the fiscal period, the Company started pilot operations of ICT tools that support student guidance and learning. However, sales and profits decreased because at the end of Q2, the number of students had declined 26.5% to 97 students, because 2017 spring enrollments for courses for graduates were sluggish.



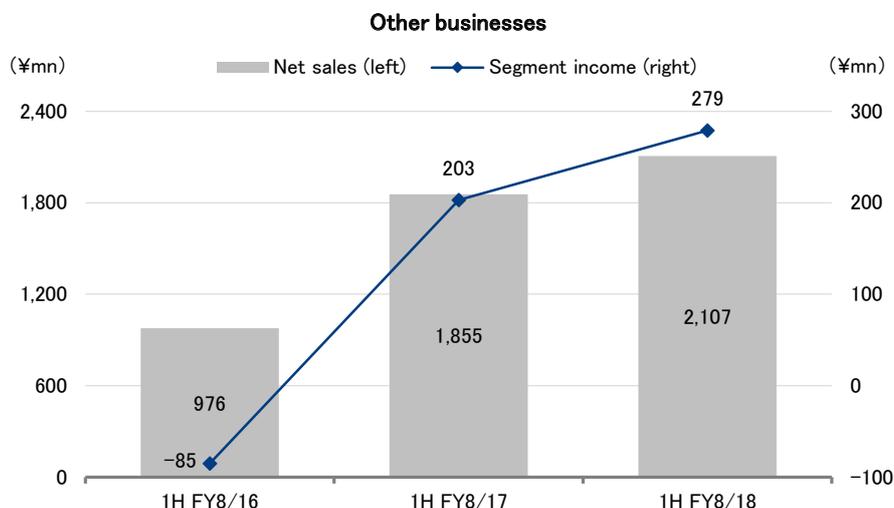
Source: Prepared by FISCO from the Company's financial results

**(4) Other businesses**

In the other businesses, net sales increased 13.5% YoY to ¥2,107mn and segment income rose 37.4% to ¥279mn. The businesses that contributed to the higher sales and profits included those of the Meiko Kids Schools, the Japanese language schools, Kotoh Jimusho and Koyo Shobo. Within them, the Meiko Kids Schools and Japanese language schools businesses are steadily expanding, with double-digit increases in sales.

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## Business performance



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

## Other businesses' net sales

	1H FY8/17	1H FY8/18	Change rate	Change amount	Special notes, figures within parentheses are YoY increases/decreases
Waseda Academy Kobetsu Schools	258	269	+4.3%	+11	No. of schools 35 (+4), No. of students 2,422 (+258)
Meiko Kids Schools	88	126	+43.2%	+37	No. of schools 15 (±0), No. of regular members 360 (+132)
Meiko Soccer Schools	70	68	-2.9%	-2	No. of schools 14 (-2), No. of students 931 (-73)
Waseda EDU	184	218	+18.5%	+34	Japanese language school No. of students 656 (+94)
Kokusai Jinzai Kaihatsu	394	434	+10.2%	+39	Japanese language schools No. of students 1,183 (+91)
Kotoh Jimusho	385	403	+4.7%	+17	University education-related business
Youdec	361	354	-1.9%	-7	Sales from private tutorial courses for students at their schools, mock exams, etc.
Koyo Shobo	70	157	+124.3%	+86	Book sales, etc.
MAXIS (other business)	19	17	-10.5%	-2	
Other	20	56	+180.0%	+36	
<b>Total</b>	<b>1,855</b>	<b>2,107</b>	<b>+13.6%</b>	<b>+251</b>	

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

In the Waseda Academy Kobetsu Schools business, net sales increased 4.3% YoY to ¥269mn and operating income declined slightly to ¥9mn. Sales grew due to the increase in student numbers, but profits were down because of higher fixed expenses following the opening of one new directly operated school. At the end of Q2, the number of schools had increased by 4 YoY to 35 schools. Breaking this down, the Company's directly operated schools (including MAXIS) increased by 2 to 12 schools, franchised operations schools also increased by 2 to 12 schools, and Waseda Academy directly operated schools remained unchanged at 11 schools. Also, the number of enrolled students at all schools increased steadily, up 11.9% to 2,422 students. It would seem the main factor behind this was the improvement in name recognition among private tutorial schools due to the increase in the number of students passing exams to enter prestigious junior high and high schools.

#### Business performance

In the Meiko Kids Schools business, net sales increased 43.2% YoY to ¥126mn and the operating loss shrunk to ¥5mn. In the directly operated Meiko Kids Schools (7 schools), which provide nursery care for preschool children and after-school care for elementary school children, the number of regular members had steadily increased by 132 YoY to 360 members at the end of Q2. In the consignment operations business also, the number of consignment operations schools is steadily increasing, rising by 1 to 7 schools. In April 2018, the Company started consignment operations for on-campus after-school care at the private Urawa Lutheran Elementary School (Saitama City) and operations for the after-school J Smile Kids in collaboration with JS Corporation. Going forward, its policy is to expand the consignment operations business that can become profitable at an early stage.

In the Meiko Soccer Schools business, net sales decreased 2.9% YoY to ¥68mn, and operating income was ¥1mn (compared to a loss of ¥5mn in the same period in the previous fiscal year). At the end of Q2, the number of directly operated schools had decreased by 2 YoY to 14 (in addition to 1 franchised operations school) while the number of students had declined 7.3% to 931, slumping in the last few years. The priority issue for the time being is strengthening the profitability of existing schools, and the Company is working to improve customer satisfaction by bolstering student counseling and reviewing the operation system. At the same time, it is working to acquire new students, including by renewing the homepage and holding events.

The Japanese language schools business is comprised of one Waseda EDU Japanese language school, which is managed by consolidated subsidiary Waseda EDU Co., Ltd., and three JCLI Japanese language schools, which are managed 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 Q2, the number of students had steadily risen by 16.7% YoY to 656 students in the Waseda EDU Japanese language school (it can accommodate 710 students) and 8.3% to 1,183 students in the JCLI Japanese language schools (it can accommodate 1,380 students). In this business as a whole, net sales increased 12.8% to ¥652mn, and operating income after deducting goodwill was ¥87mn (amortization of goodwill of ¥84mn). In order to respond to the increase in the number of students, the Waseda EDU Japanese language school relocated to a new building in January 2018, and the related costs of ¥35mn were a factor behind the higher costs.

Looking at sales conditions in the other consolidated subsidiaries, in Kotoh Jimusho, net sales rose 4.7% YoY to ¥403mn due to the increase in the number of orders in the main business of solutions to university entrance exam questions. Sales at Koyo Shobo also grew significantly, up 124.3% to ¥157mn, because of the increase in new publications.

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

### 3. Financial position and management indicators

Looking at the financial condition at the end of Q2 FY8/18, net assets were up ¥120mn on the end of the previous fiscal year to ¥19,434mn. The main change factors were that in current assets, cash and deposits increased ¥69mn, but securities and accounts receivable decreased ¥200mn and ¥102mn, respectively. In non-current assets, there were decreases in goodwill of ¥193mn and long-term deposits of ¥99mn, but investment securities rose ¥696mn due to the increases in the market values of securities held.

## Business performance

Total liabilities were down ¥418mn compared to the end of the previous fiscal year to ¥4,479mn. In current liabilities, income taxes payable decreased ¥467mn and advances received fell ¥278mn, while in non-current liabilities, deferred tax liabilities increased ¥199mn. Also, net assets were up ¥539mn compared to the end of the previous fiscal year to ¥14,955mn, resulting from the increases in retained earnings of ¥152mn and valuation difference on available-for-sale securities of ¥380mn.

Looking at business indicators, the equity ratio increased from 74.5% at the end of the previous fiscal year to 76.8% 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	1H FY8/18	Change
<b>Current assets</b>	9,828	6,865	10,431	10,069	-361
(Cash and deposits)	7,345	4,633	7,822	7,892	69
<b>Non-current assets</b>	8,852	10,105	8,883	9,365	482
<b>Total assets</b>	18,680	16,970	19,314	19,434	120
<b>Current liabilities</b>	3,357	3,059	4,168	3,563	-605
<b>Non-current liabilities</b>	694	701	729	915	186
<b>Total liabilities</b>	4,052	3,760	4,897	4,479	-418
(Interest-bearing debt)	96	82	70	70	0
<b>Net assets</b>	14,628	13,209	14,416	14,955	539
<b>Management indicators</b>					
(Stability)					
Equity ratio	78.0%	77.4%	74.5%	76.8%	
Interest-bearing debt ratio	0.7%	0.6%	0.5%	0.5%	

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

## Business outlook

**There are signs of recovery in the number of newly enrolled students, and the initial forecasts for the FY8/18 results have been left unchanged**

### 1. FY8/18 outlook

The Company left forecasts for the FY8/18 consolidated earnings unchanged, 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.

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## Business outlook

The rates of progress for the 1H results toward achieving the full fiscal year forecasts are 47.9% of the net sales forecast and 59.0% of the operating income forecast. Both are below the average rates of progress for the last five years (50.7% of the net sales forecast and 63.8% of the operating income forecast). At the end of February, the number of students in the Meiko Gijuku business had continued to slump, down 6.0% YoY, so it is highly possible that net sales will be slightly below forecast. However, it seems that the operating income forecast may be achieved as advertising and sales promotion expenses will decrease compared to 1H, although it will also depend on the pace of increase in student numbers. The key point for the trend in student numbers will be to what extent the Company is able to acquire newly enrolling students for the summer season, which is the next most important enrollment season after the spring season. It plans to invest approximately ¥600mn, the same as the initial forecast, in the full fiscal year in advertising and sales promotion expenses to renew the brand and to improve the name recognition of MEIKO Style Coaching. It has already spent approximately 60% of this amount in 1H.

**FY8/18 outlook (consolidated)**

	(¥mn)					
	FY8/17		FY8/18			
	Full-year results	YoY	1H results	YoY	Full-year forecast	YoY
<b>Net sales</b>	19,383	3.8%	9,769	-3.7%	20,415	5.3%
Meiko Gijuku directly operated business	9,647	-4.7%	4,822	-6.2%	10,107	4.8%
Meiko Gijuku franchised operations business	5,586	-0.2%	2,606	-7.4%	5,680	1.7%
Preparatory school business	573	-16.9%	233	-29.1%	578	1.0%
Other businesses	3,576	+58.2%	2,107	+13.5%	4,049	13.2%
<b>Cost of sales</b>	12,696	+4.4%	6,291	+1.4%	13,582	7.0%
<b>SG&amp;A expenses</b>	4,070	-6.0%	2,291	+20.6%	4,821	18.4%
<b>Operating income</b>	2,615	+20.2%	1,186	-41.8%	2,011	-23.1%
<b>Ordinary income</b>	2,806	+20.7%	1,261	-41.7%	2,100	-25.2%
<b>Extraordinary income</b>	533	-	-	-	-	-
<b>Net income attributable to owners of the parent</b>	2,042	+116.4%	683	-60.1%	1,191	-41.7%

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

Looking at the full fiscal year sales forecasts by business segment, in the Meiko Gijuku directly operated business, sales are expected to increase 4.8% YoY to ¥10,107mn. This assumes that the number of students and sales per student will recover in 2H. Similarly, sales in the Meiko Gijuku franchised operations business are forecast to increase 1.7% to ¥5,680mn, and the Company is aiming to increase sales through recovering student numbers and the unit price per student.

In the preparatory school business, net sales are forecast to increase 1.0% YoY to ¥578mn. But as the number of newly enrolled students in the spring of 2018 stayed at around the same level as in the previous fiscal year, it is possible that the result will be below forecast. On the other hand, in the other businesses, the outlook is for the double-digit sales growth to continue, up 13.2% YoY to ¥4,049mn. Sales are forecast to increase from the rise in student numbers, mainly in the Waseda Academy Kobetsu Schools, the Meiko Kids Schools, and the Japanese language schools for overseas students.

## Placing the Meiko Gijuku business on a renewed growth trajectory by introducing MEIKO Style Coaching, enhancing learning content that utilizes ICT, and strengthening web marketing

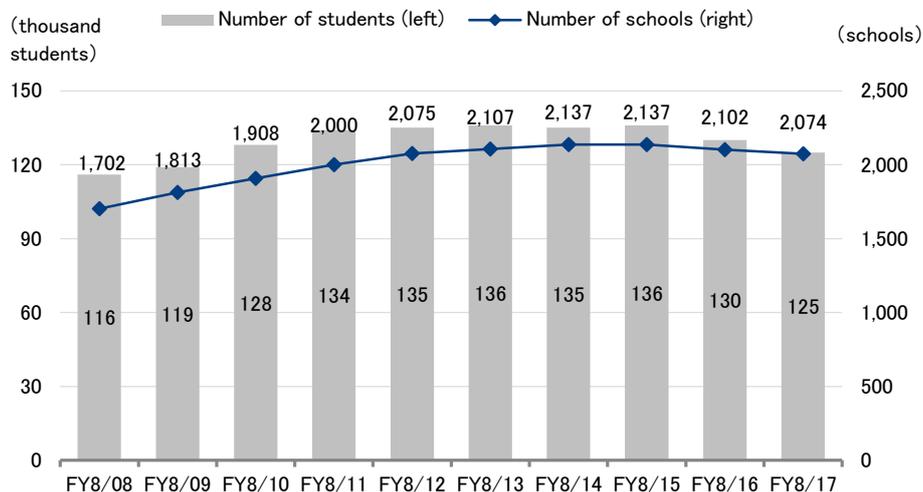
### 2. Strategy aimed at promoting renewed growth of the Meiko Gijuku business

#### (1) Numbers of Meiko Gijuku students and schools

The Company leads its industry as the pioneer of private tutorial schools, and it has continued to grow by developing its franchised operations to increase the numbers of schools and students. However, since peaking in FY8/15, both the number of schools and the number of students have been declining, and in recent years, it has been forced to struggle. A factor behind this is considered to be that, in a situation in which the number of companies entering the private tutorial schools industry is increasing and the competition to acquire students is intensifying, it has not been able to successfully appeal to students and their parents and guardians about its educational philosophy of fostering creativity through “independent learning,” which is a feature of Meiko Gijuku.

Competition to acquire junior high school students, who are a volume zone for the Company, has become particularly intense, and it seems that the decline in this zone has been great. Therefore, in order to place the Meiko Gijuku business on a renewed growth trajectory, an urgent task is stopping the decrease in the number of junior high school students. On the other hand, we have started to see a positive trend toward an increase in the number of elementary school students in the future, such as a rise in the number of lower-grade elementary school students through the progress made in enhancing learning content.

Number of Meiko Gijuku enrolled students and schools at the period-end



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

## Business outlook

**(2) Priority measures for 2H**

In this situation, as its priority measures for 2H, the Company plans to work on strengthening web marketing aiming to increase student numbers and on strengthening competitiveness by improving the quality of services.

In the past, when students and their parents and guardians decided on a tutorial school, they would decide based on information such as leaflets and word-of-mouth introductions. But recently, there has been an increase in the number of decisions being made using comparison websites to judge and narrow down multiple candidates. The Company has also seen an increase in the number of requests for information via the web, and in particular, there has been a significant rise in the number of requests for information via comparison websites since the start of 2018. When via comparison websites, the enrollment rate inevitably decreases because the Company is compared to other schools. Based on this trend, its policy is to strengthen the analysis of website access data and to work to improve the homepage and conduct effective promotion measures in order to raise the admission rate. The broadcasting of TV commercials featuring gymnast Kohei Uchimura is also a measure that is intended to improve the name recognition of MEIKO Style Coaching as its new learning guidance method.

In addition, as its differentiation strategy, the Company is working to improve the quality of its services and to strengthen its competitiveness. Specifically, in order to realize independent learning, it started to introduce its MEIKO Style Coaching learning guidance method and Meiko e-Po, which utilizes tablet PCs and smartphones, into its franchised operations schools in April 2018. It has already been introducing them into its directly operated schools since the fall of 2017, so it plans to utilize the expertise in introducing them it has already accumulated since then for their deployment in the franchised operations schools, with the goal of introducing them into all schools by the spring of 2019.

MEIKO Style Coaching is a new learning guidance method incorporating coaching techniques that further evolves the Meiko Style - Independent Learning that the Company has been developing up until now. It further raises students' understanding and expression capabilities during learning through the tutor giving them hints during the class, and the students then solving problems using their own capabilities and explaining what they have understood using their own words to the tutor.

As the tools to advance MEIKO Style Coaching, the Company is utilizing review classes and Meiko e-Po. Introducing Meiko e-Po makes it possible for parents and guardians to use a smartphone to check various information, such as their child's learning records and the extent of the improvement in their academic abilities in a timely manner, which in turn leads to an improvement in customer satisfaction.

The Company is also working on strengthening new learning content that utilizes ICT. In particular, Meiko Mirai Eigo (Meiko Future English) for elementary school students has been favorably received, and the number of students taking this course, mainly existing students, is increasing. It incorporates the four elements of listening, speaking, reading, and writing that are needed to acquire communication skills in English, and the students can enjoy learning using a tablet device. It seems that for English education, the Japanese government's new Courses of Study, which it will introduce in 2020, will prioritize classes that educate students in communication skills such as listening and speaking compared to the former grammar-centric classes that focused on reading and writing. Therefore, the number of students taking this course is expected to increase in the future. In addition, the Company is introducing listening practice content that uses tablet devices in its English classes for junior high school students. In terms of learning content that utilizes ICT, it has provided Risha Quipper, which includes online materials on science and sociology for junior high school students, and MEIKO MUSE, which is a video course for high school students. It intends to expand this learning content in the future, which will lead to an increase in sales per student.

## Business outlook

By promoting these initiatives, the Company is aiming for the number of Meiko Gijuku students to return to the level of the previous fiscal year at an early stage, and thereby realize renewed growth.

**(3) Announced that it had made a subsidiary of a franchisee**

In April 2018, the Company announced that it had acquired all the shares and made a wholly owned subsidiary of K. Line Co., Ltd., which was a Meiko Gijuku franchisee that operates 42 schools in Tokyo, Kanagawa Prefecture, Shizuoka Prefecture, and Aichi Prefecture. The acquisition price was ¥606mn (which included an advisory fee of ¥6mn). K. Line's most recent results in FY8/17 were net sales of ¥1,267mn and an operating loss of ¥120mn, and it is considered that its impact on the consolidated results will be negligible.

**K. Line's management results and financial condition**

	(¥mn)		
	FY8/15	FY8/16	FY8/17
Net sales	1,618	1,478	1,267
Operating income	35	3	-120
Ordinary income	30	5	-124
Net income	11	-1	-126
Total assets	666	610	473
Net assets	429	428	301

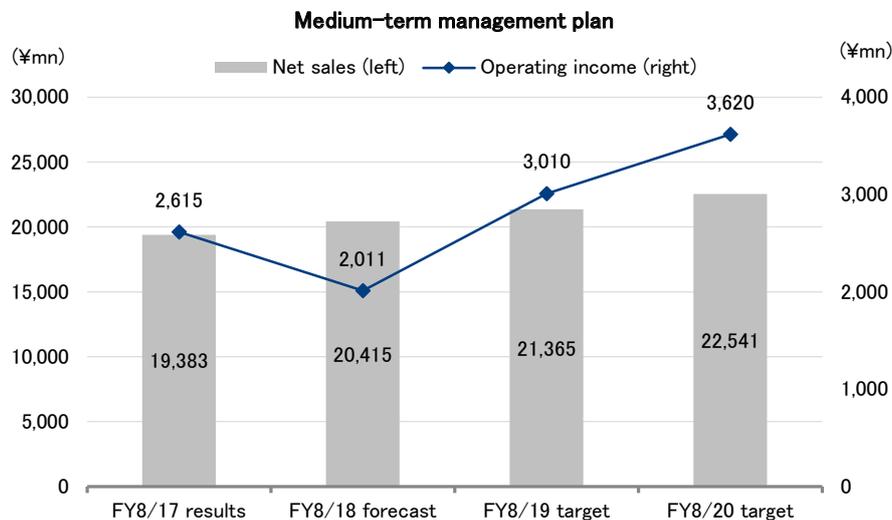
Source: Prepared by FISCO from Company materials

## 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, as described above, it is spending approximately ¥600mn on strategic advertising and sales promotion expenses. If the Company succeeds in recovering student numbers in FY8/18, strategic advertising expenses will run their course in FY8/19, and therefore it is considered that the medium-term target of around ¥3bn will once again be in sight.

Medium-term management plan



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 recover the number of students and sales per student to improve profitability per school through introducing the previously described MEIKO Style Coaching and Meiko e-Po, as well as enhancing learning content that utilizes ICT. 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 (2,066 schools at the end of 1H FY8/18) and 150,000 students (125,000 students).

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. These include new forms of schools utilizing ICT, next-generation soroban (Japanese abacus) schools, and high-level 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.

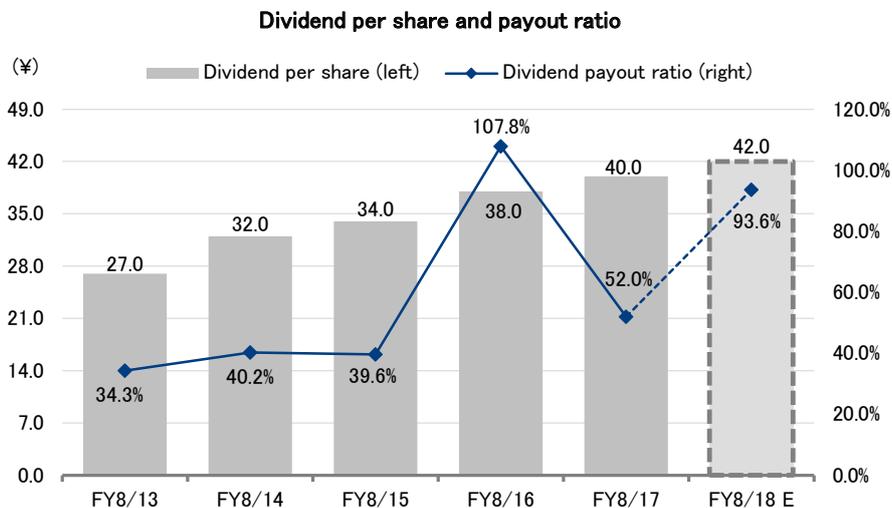
To train human resources, the Company is aiming to realize a work-life balance, reform personnel awareness, and improve productivity, and train the human resources who will drive growth for the Group. To improve corporate value, the Company is implementing a capital dividend policy attractive to investors 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 the 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 ¥1,000-5,000 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 (¥1,245 as of May 2). 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 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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