

	MEIKO NETWORK JAPAN CO., LTD.(4668)
	 明光ネットワークジャパン

Kazuhito Yamashita, President

Company Overview

Exchange	TSE 1st Section
Industry	Service
President	Kazuhito Yamashita
HQ Address	Sumitomo Fudosan Nishi-Shinjuku Bldg., Nishi-Shinjuku 7-20-1, Shinjuku-Ku, Tokyo
Year-end	August
HP	https://www.meikonet.co.jp/index-e/

Stock Information

Share Price	Shares Outstanding (end of the term)		Market Cap.	ROE (Act.)	Trading Unit
¥598	27,803,600 shares		¥16,626 million	-18.7%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS(Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥20.00	3.3%	¥27.91	21.4x	¥377.67	1.6x

*The share price is the closing price on July 30. The number of shares outstanding, DPS, and EPS are from the financial results for the third quarter of the Fiscal Year ending August 2021. ROE and BPS are the actual values as of the end of the previous term.

Consolidated Earnings Trends

Fiscal Year	Sales	Operating Profit	Ordinary Profit	Net Income	EPS (¥)	DPS (¥)
August 2017 (Act.)	19,383	2,615	2,806	2,042	76.92	40.00
August 2018 (Act.)	19,116	1,441	1,558	657	24.74	42.00
August 2019 (Act.)	19,967	1,775	1,907	958	36.08	30.00
August 2020 (Act.)	18,218	214	451	-2,232	-85.21	30.00
August 2021 (Est.)	18,600	630	760	700	27.91	20.00

*The forecasted values were provided by the company. Unit: Million yen, yen. Net profit means the profit attributable to owners of parent hereinafter.

This Bridge Report includes the overview of the financial results of MEIKO NETWORK JAPAN CO., LTD. for the third quarter of fiscal year ending August 2021.

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Key Points

- In the third quarter of FY ending August 2021, sales increased 1.0% year on year to 13,505 million yen, and operating income grew 620.2% year on year to 269 million yen. The sales and profit of Meiko Gijuku directly operated schools business improved while the sales and profit of the Meiko Gijuku franchised schools business deteriorated. Both the number of enrolled students and sales have been on a recovery trend from the same period of the previous year, which was strongly affected by the spread of the novel coronavirus. Quarterly sales and profit increased for the first time in five quarters.
- The earnings forecast remains unchanged. For FY ending August 2021, sales are expected to increase 2.1% year on year to 18.6 billion yen, and operating income is forecasted to rise 193.3% to 630 million yen. The year-end dividend forecast has been increased from 5 yen/share to 10 yen/share in light of the steady performance trends with the recovery of the number of enrolled students. The company plans to pay an annual dividend of 20 yen/share. The expected payout ratio is 71.7%.
- As of the end of the third quarter, the progress rate was 72.6% for sales and 42.7% for operating income. Sales are almost the same as usual, and operating income is not low, so it can be said that the company is making good progress. The recovery trend seems to be steady, as the year-end dividend forecast has been raised. Although there is still strong uncertainty about the future, since the period of the state of emergency has been extended and the target areas expanded, we hope that the company will be able to achieve the full-year forecast.
- The attention of investors is shifting to the next fiscal year ending August 2022. We would also like to pay attention to the steps taken each quarter to recover to the level before the novel coronavirus crisis and the speed of "enhancing and expanding the new FC business."

1. Company Overview

MEIKO NETWORK JAPAN is a top-brand enterprise running the private tutoring school Meiko Gijuku as a pioneer in private tutoring since the start of its business in 1984. Private tutoring is attracting a lot of attention as a method for nurturing a sense of independence, autonomy, and creativity of children, and the company operates Meiko Gijuku directly and with a franchise system around Japan. In addition, the company conducts a broad range of businesses, including the after-school childcare business, the Japanese language school business, the school support business, etc. via subsidiaries while focusing on the fields of education and culture.

【Management principles, educational ethos, and basic policy】

“We aim to nurture human resources through our contribution to educational and cultural programs.”

“We help achieve goals through our development and diffusion of franchise know-how”.

Under the above two management principles, MEIKO NETWORK JAPAN aims to contribute to society by fulfilling its role as “a private-sector educational business” and “a business assisting in goal achievement,” growing to become a business with high social existential value acknowledged by society.

Moreover, in its role as a part of a private-sector educational business, MEIKO NETWORK JAPAN has established the educational philosophy which is “To nurture creative, independently-minded human resources for 21st century society through an individual tutoring service that promotes self-motivated learning.”

Furthermore, all staff members join hands to actualize “an ideal company,” under the basic policy of “achieving the prosperity of customers, shareholders, and employees by contributing to the educational and cultural businesses.”

1-1 Business description

The reported segments are the three following businesses: Meiko Gijuku directly operated schools, Meiko Gijuku franchised schools, and Japanese language schools. The company operates Meiko Gijuku as a directly operated business using self-study and individual tutoring approaches based on the academic abilities of each student for all grade levels. Also, based on their unique franchise system, the company provides support for establishing classes and continuous guidance to their franchisees and also sell merchandise such as classroom equipment, devices, educational materials, exams, and goods, etc. to them.

As for the Japanese language schools, their consolidated subsidiary, Waseda EDU Co., LTD., manages “Waseda Edu Language School,” which has art classes. Also, Kokusai Jinzai Kaihatsu Co., Ltd. operates “JCLI Japanese Language School,” which has Japanese teacher training seminars for as well as Japanese language courses, etc. for the “Specified skills” visa system.

Aside from these businesses, there are other businesses such as extended-hours cram school performing the added function of after-school care “KIDS,” “Waseda Academy Kobetsu School,” which is an individual tutoring school for students with high academic performance, the "Jiritsu Gakushu RED" business, which uses AI to optimize the curriculum for each student; the "Meiko Kids e" business, which offers English-only childcare for schoolchildren; the business related to university entrance examinations and university education conducted by Kotoh & Company Co., Ltd., etc.

Business segments and group companies

	Segment	Major Business
Reported Segments	Meiko Gijuku directly operated schools	<ul style="list-style-type: none"> The individual tutoring schools “Meiko Gijuku” provides tutoring services for students at its directly operated classes and sell merchandise such as educational materials and exams. The company, MAXIS Education Co., Ltd., K. Line Co., Ltd, K.M.G CORPORATION Co. Ltd. And One link Co., Ltd.
	Meiko Gijuku franchised schools	<ul style="list-style-type: none"> Establishing classes, management guidance, and sales of merchandise such as classroom equipment, devices, educational materials, exams, merchandise, etc. to “Meiko Gijuku” (the individual tutoring cram schools) franchise schools: The company
	Japanese language schools	<ul style="list-style-type: none"> Operating “Waseda Edu Language School”: Waseda EDU Co., Ltd. Operating “JCLI Japanese Language School”: Kokusai Jinzai Kaihatsu Co., Ltd.
Others	Other businesses	<ul style="list-style-type: none"> Extended-hours cram school performing the added function of after-school care “KIDS”: The company “Waseda Academy Kobetsu School,” an individual tutoring school for students with high academic performance: The company and MAXIS Education Co., Ltd. “Jiritsugakusyu RED,” where students learn through individually optimized curricula based on AI: The company “Meiko Kids e,” which offers English-only after-school childcare: The company Business related to university entrance exams and university education: by Kotoh & Company Co., LTD. Cram school for medicine-related university entrance examinations: Tokyo Ishin Gakuin Co., LTD. (Liquidated by the end of June 2021)

* As of the end of May 2021. Besides the above companies, there are the affiliated companies NEXCUBE Corporation, Inc. (South Korea: it operates a private tutoring school), the affiliated company Meiko Culture and Education Ltd (Taiwan: it operates a private tutoring school)

1-2 Strengths

The company's strengths are “Brand power of Meiko Gijuku” and “the unique franchise system that thrives to achieve prosperous coexistence with owners.” Meiko Gijuku operates in all prefectures and is recognized as familiar and accommodating cram schools. This sort of high reputation and brand power are the company's strengths.

Furthermore, as for the company's franchise system, the headquarters (the company) and the affiliated owners share the same philosophy and work together with the Meiko Owners Club, where all owners are members. Through this cooperation, they hold regular training and study sessions to improve and share the know-how of success, etc. leading them to achieve a prosperous coexistence.

1-3 Market trends

Market trends

According to a research firm, in FY 2020, the forecast of the market size of cram schools and university preparatory schools as of Sep 2020 is 960 billion yen. Among this, the market size of the individual tutoring school, which is the company's battlefield, was 445 billion yen and constituted 46.4% of the cram school and university preparatory school market. Also, there are many new entrants in the individual tutoring school market. Hence, the individual tutoring school market share in the cram school and university preparatory school market is growing.

2. The Third Quarter of Fiscal Year ending August 2021 Earnings Results

2-1 Consolidated results (accumulated total)

	3Q of FY 8/20	Ratio to sales	3Q of FY 8/21	Ratio to sales	YoY
Sales	13,365	100.0%	13,505	100.0%	+1.0%
Gross Profit	3,063	22.9%	3,242	24.0%	+5.9%
SG&A	3,025	22.6%	2,972	22.0%	-1.7%
Operating Profit	37	0.3%	269	2.0%	+620.2%
Ordinary Profit	181	1.4%	370	2.7%	+103.6%
Quarterly Net Income	-9	-	672	5.0%	-

* Unit: Million yen.

Sales and profit increased

Sales increased 1.0% year on year to 13,505 million yen, and operating income grew 620.2% year on year to 269 million yen. The sales and profit of Meiko Gijuku directly operated schools business improved while the sales and profit of the Meiko Gijuku franchised schools business deteriorated. Both the number of enrolled students and sales have been on a recovery trend from the same period of the previous year, which was strongly affected by the spread of the novel coronavirus. Quarterly sales and profit increased for the first time in five quarters.

Variations in quarterly sales and operating profit (million yen)



2-2 Sales and Profit by Segment

	3Q of FY 8/20	Ratio to sales	3Q of FY 8/21	Ratio to sales	YoY
Meiko Gijuku directly operated school business	7,211	54.0%	8,041	59.5%	+11.5%
Meiko Gijuku franchised school business	3,264	24.4%	3,162	23.4%	-3.1%
Japanese language school business	970	7.3%	665	4.9%	-31.4%
Other Business	1,918	14.4%	1,635	12.1%	-14.7%
Consolidated sales	13,365	100.0%	13,505	100.0%	+1.0%
Meiko Gijuku directly operated school business	-84	-	597	7.4%	-
Meiko Gijuku franchised school business	1,045	32.0%	855	27.0%	-18.2%
Japanese language school business	119	12.3%	-125	-	-
Other business	-158	-	-179	-	-
Adjustments	-885	-	-878	-	-
Consolidated operating profit	37	0.3%	269	2.0%	+620.2%

* Unit: Million yen. The composition of profit is the ratio of profit to net sales.

Meiko Gijuku directly operated school business

Sales and profit increased.

While continuing to take thorough measures to prevent the spread of the new coronavirus infection, the company offered classes tailored to the goals of each student, mainly through face-to-face tutorials, such as, preparation for regular tests and entrance examinations, and through close cooperation between the head office and classrooms, standardized classroom operations and shared know-how to improve management efficiency and strengthen the ability to respond to customer needs.

Although there are regional differences due to the effects of the coronavirus crisis, the number of students enrolled has increased year-on-year, and the company is beginning to show signs of recovery.

The number of classrooms was 402, down 19 year on year. The number of registered students was 24,389, up 2,534 year on year.

Meiko Gijuku franchised school business

Sales and profit decreased. In order to improve the learning outcomes of students, the schools thoroughly managed the students' progress until they achieve their goals by providing an optimal learning plan that effectively utilized ICT contents as well as individual face-to-face tutoring. In addition, the headquarters actively supported promotions for increasing students to help with the recovery and improvement of the profit structure of franchised classrooms, which had to reduce the number of students due to the novel coronavirus crisis.

The number of classrooms was 1,370 (down 80), and the number of enrolled students was 64,744 (up 409).

Japanese language school business (Waseda EDU Co., LTD. and Kokusai Jinzai Kaihatsu Co., Ltd.)

Sales declined, and losses were recorded. Immigration restrictions due to reissuing the state of emergency had a significant impact, forcing the number of students to drop significantly year on year. In response to the novel coronavirus crisis, the school organized hybrid classes with the option of choosing between face-to-face lessons that undertook thorough infection prevention measures and online lessons.

The number of school buildings was 2 (unchanged from the same period of the previous year), and the number of enrolled students was 672 (down 349 year on year).

Other business

Sales and profit declined.

◎ KIDS (after-school) business

The company worked on providing services with high customer satisfaction and contributing to local communities through its various management forms, such as the directly operated school "Meiko Kids," private after-school care facilities (the subsidized type), facilities established by the public sector and operated by the private sector, facilities entrusted by private elementary schools and kindergartens, and franchised ones, while thoroughly implementing prevention measures against COVID-19.

In the third quarter, sales were 379 million yen (up 89 million yen from the same period of the previous year), and operating loss was 17 million yen (improved by 14 million yen from the same period of the previous year).

The number of schools was 32 (2 schools decreased from the same period of the previous year), and the number of registered students was 1,533 (311 students increased from the same period of the previous year).

◎ Waseda Academy Kobetsu School business

As an individual tutoring brand for entrance exams for competitive schools, the company implemented measures to improve academic performance and enable students to pass their desired school's entrance exams by using the optimal tutoring method tailored to each student's needs. Furthermore, the company strengthened its alliance with Waseda Academy Co., Ltd. by holding educational affairs management and advertising meetings.

In the third quarter, sales were 436 million yen (up 51 million yen from the same period of the previous year), and operating profit was 13 million yen (up 14 million yen from the same period of the previous year).

The number of school buildings was 52 (1 school buildings increased from the same period of the previous year), and the total number of students was 4,100 (1,293 students increased from the same period of the previous year).

◎ Jiritsugakusyu RED business

Along with using AI to provide individually optimized learning content based on each student's academic ability and characteristics, the company worked with SPRIX, Ltd. to operate the franchised classrooms.

In the third quarter, sales were 78 million yen, and operating loss was 104 million yen.

The number of classrooms was 38 (14 directly managed ones and 24 franchised ones).

◎ Meiko Kids e business

As preschools that offer English-only after-school childcare, the company opened two directly managed schools in the spring of 2020 and three schools (1 directly operated school and 2 franchised schools) in the spring of 2021 to respond to the growing interests in early childhood education of English due to the expansion of demand for after-school childcare and educational reform.

In the third quarter, sales were 64 million yen, operating loss was 64 million yen, and the number of schools was 5(3 directly managed, 2 franchised).

◎ School support business (Kotoh & Company Co., LTD.)

There were no major changes in the trend of orders received, and business conditions were healthy as a whole.

In the third quarter, sales were 457 million yen, and operating profit was 147 million yen.

◎ Crams school business (Tokyo Ishin Gakuin Co., LTD.)

Although the company made efforts to improve student performance by providing guidance that thoroughly addresses each student, the number of students remained stagnant due to the significant impact of intensifying competition among medical prep schools.

In the third quarter, sales were 118 million yen (down 82 million yen from the same period of the previous year), and operating loss was 84 million yen (a loss of 54 million yen in the same period of the previous year).

They resolved to dissolve and liquidate it, and liquidation finished on June 30th, 2021.

BRIDGE REPORT



Trend of numbers of Meiko Gijuku schools and registered students and system-wide sales

	3Q of FY 8/20	YoY	3Q of FY 8/21	YoY
Number of Meiko Gijuku directly operated schools	243	+22	206	-37
Number of Meiko Gijuku directly operated schools (MAXIS)	94	+2	93	-1
Number of Meiko Gijuku directly operated schools (KLINE)	42	+1	41	-1
Number of Meiko Gijuku directly operated schools (KMG)	42	-1	42	-
Number of Meiko Gijuku directly operated schools (One link)	-	-	20	+20
Number of Meiko Gijuku directly operated schools	421	24	402	-19
Number of Meiko Gijuku franchised schools	1,450	-99	1,370	-80
Total number of Meiko Gijuku schools	1,871	-75	1,772	-99
Number of registered students of Meiko Gijuku directly operated schools	12,521	-1,198	13,109	+588
Number of registered students of Meiko Gijuku directly operated schools (MAXIS)	5,406	-381	6,060	+654
Number of registered students of Meiko Gijuku directly operated schools (KLINE)	2,217	-180	2,561	+344
Number of registered students of Meiko Gijuku directly operated schools (KMG)	1,711	-233	1,900	+189
Number of registered students of Meiko Gijuku directly operated schools (One link)	-	-	759	+759
Number of registered students of Meiko Gijuku directly operated schools	21,855	-1,992	24,389	+2,534
Number of registered students of Meiko Gijuku franchised schools	64,335	-10,256	64,744	+409
Total number of registered students of Meiko Gijuku schools	86,190	-12,248	89,133	+2,943
Sales from Meiko Gijuku directly operated schools	7,211	-16	8,041	+829
Sales from Meiko Gijuku franchised schools*1	3,264	-355	3,162	-101
Sales from Japanese language schools	970	-47	665	-304
Sales from others	1,918	-266	1,635	-282
Total Sales (million yen)	13,365	-686	13,505	+139
Sales from Meiko Gijuku directly operated schools	7,211	-16	8,041	+829
System-wide sales from Meiko Gijuku franchised schools	19,402	-2,012	18,509	-893
Total system-wide sales from Meiko Gijuku schools *2(million yen)	26,614	-2,029	26,550	-63

*1 Sales from Meiko Gijuku franchised schools represent royalty revenues and sales of products.

*2 Total system-wide sales from Meiko Gijuku schools represent the sum of total sales of Meiko Gijuku directly operated schools, including tuition, materials fees, and examination fees, and the total sales of Meiko Gijuku franchised schools, including tuition. Materials fees and examination fees of franchised schools are excluded.

2-3 Financial standing

	Aug. 2020	May. 2021	Increase/decrease		Aug. 2020	May. 2021	Increase/decrease
Current Assets	8,848	10,163	+1,315	Current Liabilities	3,847	4,286	+439
Cash	7,015	8,784	+1,768	Accounts payable	119	108	-11
Trade receivables	845	513	-332	Short term loans payable	-	1,000	+1,000
Noncurrent Assets	5,192	4,333	-858	Noncurrent Liabilities	720	694	-26
Tangible Assets	1,142	532	-610	Asset retirement Obligation	346	340	-6
Intangible Assets	545	436	-109	Total Liabilities	4,568	4,981	+413
Investments, Other Assets	3,504	3,364	-140	Net Assets	9,473	9,516	+43
Investment securities	2,120	1,953	-167	Retained earnings	10,140	10,061	-79
Total Assets	14,041	14,497	+456	Total Liabilities, Net Assets	14,041	14,497	+456

* Unit: Million yen

Total assets increased 456 million yen from the end of the previous fiscal year to 14,497 million yen. While tangible assets decreased, cash increased 1,768 million yen.

Total liabilities augmented 413 million yen from the end of the previous fiscal year to 4,981 million yen. Short-term loans payable rose 1 billion yen. Net assets were 9,516 million yen, almost unchanged from the end of the previous fiscal year.

As a result, equity ratio was 65.6%, down 1.9 points from the end of the previous term.

2-4 Topics

(1) Compliance with the listing maintenance standards of the "Prime Market"

In July 2021, the company received the "Results of the Primary Judgment regarding the Compliance with the Listing Maintenance Standards in the New Market Category" from Tokyo Stock Exchange, Inc. The results confirmed that the company complies with the listing maintenance standards of the "Prime Market." Based on these results, the company will proceed with the prescribed procedures for application for the new market category.

(2) The Digital Transformation Strategy Dept. was newly established

In December 2020, the Digital Transformation Promotion Office was established to automate and reconstruct business processes based on data. Furthermore, in July 2021, the Digital Transformation Strategy Dept. was established to increase the entire company's efficiency further.

(3) Entrusted with the Pre-Arrival Japanese Language Training Project for the 10th Batch of Vietnamese Candidates for Nurses and Certified Care Workers

In July 2021, it was announced that the company will be entrusted by the Ministry of Foreign Affairs of Japan with the "Pre-arrival Japanese Language Training Program for Vietnamese Candidates for Nurses and Certified Care Workers (10th batch) based on the 2021-2022 Economic Partnership Agreement (EPA)".

(Outline of the project)

In this pre-arrival Japanese language training project, the company will provide the Vietnamese candidates for nurses and certified care workers who will be accepted into Japan based on the EPA with a 12-month training camp and a four-month online training from December 2021 to March 2023 in Hanoi, Vietnam. The purpose of the training is to enable the candidates to pass the Japanese-Language Proficiency Test (JLPT) N3 or higher and acquire comprehensive Japanese proficiency of the four skills (reading, writing, listening, and speaking), including the technical Japanese related to nursing and caregiving. The training will also help the candidates learn about the Japanese social culture and workplace adaptability, including specialized knowledge and skills related to Japanese-style nursing and caregiving.

(Background on why the company was selected)

The company offers "MEIKO GLOBAL," a service that provides comprehensive support to companies that recruit foreigners including, recruitment support, training and Japanese language education using in-house developed online Japanese language learning materials to foreigners, and management training for foreign managers.

As introduced in the previous report, the company concluded a Memorandum of Understanding (MOU) with the University of Hanoi, one of the top-ranked foreign language education institutions in Vietnam, on the exchange of human resources and the enhancement of Japanese language education in Vietnam to enhance Japanese language education in Vietnam and develop excellent global human resources.

Moreover, in order to improve the quality of service provided to the medical and caregiving industry, the company has concluded a comprehensive business alliance with the healthcare corporation Aijinkai (Osaka City, Osaka Prefecture) and has engaged in activities related to the education of foreigners aiming to work in the Japanese caregiving industry or already have started working in it.

The recognition of the company's achievements and great know-how led to being entrusted with this project.

Many inquiries have already been received, and the company believes that further improvement in reliability and brand power is expected, which will significantly contribute to the growth of "MEIKO GLOBAL."

3. Fiscal Year ending August 2021 Earnings Forecasts

3-1 Consolidated Business Results

	FY 8/20 (Act.)	Ratio to total sales	FY 8/21 (Est.)	Ratio to total sales	YoY	Progress rate
Sales	18,218	100.0%	18,600	100.0%	+2.1%	72.6%
Operating Profit	214	1.2%	630	3.4%	+193.3%	42.7%
Ordinary Profit	451	2.5%	760	4.1%	+68.2%	48.7%
Net Income	-2,232	-	700	3.8%	-	96.0%

* Unit: Million yen

No change in earnings forecast, but dividend forecast revised upward

The earnings forecast announced in April remains unchanged. For FY ending August 2021, sales are expected to increase 2.1% year on year to 18.6 billion yen, and operating income is forecasted to rise 193.3% to 630 million yen. The year-end dividend forecast has been increased from 5 yen/share to 10 yen/share in light of the steady performance trends with the recovery of the number of enrolled students. The company plans to pay an annual dividend of 20 yen/share. The expected payout ratio is 71.7%.

(Update on the current situation and priority measures for the current fiscal year, etc.)

*Trend in the number of students

Although the current situation is uncertain due to factors such as the extension of the period of the state of emergency and the expansion of the target areas, the number of enrolled students is on a recovery trend compared to last year when the novel coronavirus impact was substantial.

In the future, the company aims for a V-shaped recovery compared to year before last (pre-pandemic year).

*** Strengthening and expansion of the new FC business**

The company aims to strengthen and expand the new FC business, mainly “Jiritsugakusyu RED,” in which students learn through individually optimized curricula based on AI, and “Meiko Kids e,” which offers English-only after-school childcare.

"Jiritsu Gakushu RED" plans to expand the number of classrooms from 28 (14 directly managed and 14 franchised ones) at the end of February 2021 to 41 (16 directly managed and 25 franchised ones) at the end of August 2021. As of the end of May, the number of classrooms was 38 (14 directly managed and 24 franchised ones), indicating a steady progress.

Providing a learning experience with a reasonable fee system is one of the company's appealing points since it is unnecessary to provide instructors due to the individual optimization curriculum that utilizes AI. Thus, the company plans on accelerating the pace of opening franchised classrooms in rural areas where there is a shortage of instructors.

First, the company will open model classrooms in the metropolitan area and other core rural cities and expand the number of classrooms by having the owners observe the actual classrooms.

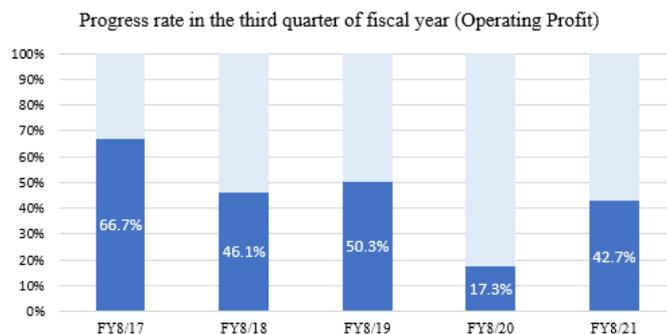
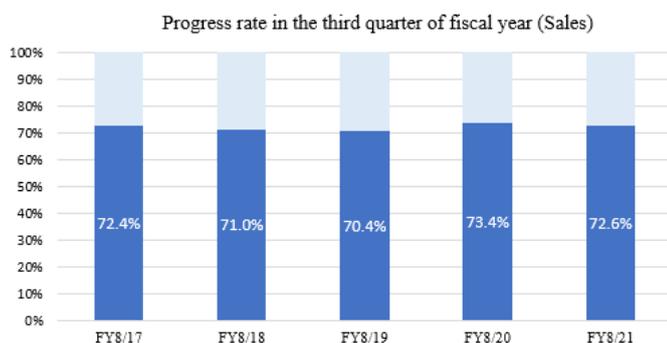
The number of schools for "Meiko Kids e" is now 5 (3 directly managed, and 2 franchised ones).

The company will accelerate the operation of franchised schools by accumulating management know-how at the directly managed schools and promoting the concept of global human resources development that is not limited to an English conversation class.

4. Conclusions

As of the end of the third quarter, the progress rate was 72.6% for sales and 42.7% for operating income. Sales are almost the same as usual, and operating income is not low, so it can be said that the company is making good progress. The recovery trend seems to be steady, as the year-end dividend forecast has been raised. Although there is still strong uncertainty about the future, since the period of the state of emergency has been extended and the target areas expanded, we hope that the company will be able to achieve the full-year forecast.

The attention of investors is shifting to the next fiscal year ending August 2022. We would also like to pay attention to the steps taken each quarter to recover to the level before the novel coronavirus crisis and the speed of "enhancing and expanding the new FC business."



* The ratios from FY 8/17 to FY 8/20 are ones of the third quarter (cumulated total) to the full-year results.

<Reference: Regarding Corporate Governance>

◎Organizational form and the composition of the boards of directors and auditors

Organizational form	Company with audit and supervisory board
Directors	6 directors, including 2 outside directors
Auditors	4 auditors, including 4 outside auditors

◎ Corporate governance reports

Last updated on Apr.12, 2021

Basic policy

Our company continuously promotes managerial structure reforms to construct a flexible and transparent management organization that adapts to the new era. Moreover, our company plans to further strengthen corporate governance focused on the shareholder value by ensuring the transparency, soundness, and fairness of its management, implementing thorough risk management and improving accountability. Furthermore, our company's basic policy is to maximize the corporate value for all stakeholders including shareholders through the sustainable growth of our company group, the enhancement of the business model which demonstrates unique added value, and the strengthening of profitability via the collaboration of all the group companies. Our company's basic policy also includes the improvement of management transparency and efficiency. Hence, the company is working to establish a swift and efficient management and execution systems while balancing the management supervision and business execution systems. The company is also making efforts to achieve highly transparent management through the participation of outside directors. Additionally, the company established "The MEIKO NETWORK JAPAN Group Corporate Governance Code Guideline" and published it on the company website to clarify the status of the efforts and policies related to each principle of the corporate governance code, fulfill the fiduciary responsibilities and to provide accountability.

<https://www.meikonet.co.jp/investor/governance/index.html>

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

The company follows all the principles of the corporate governance code.

< Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principle 1-4 [The So-Called Strategically Held Shares]

The strategically held shares are shares held for purposes other than investment. We hold the shares of business partners for purposes such as business alliances, maintaining and strengthening transactions, and stabilizing shares. The board of directors examines the necessity of reducing these shares appropriately through considering whether these shares are important for the company's growth, whether there is a more effective use of funds, etc. Moreover, as for exercising voting rights for these shares, the approval for a proposal is decided by having the department in charge examine carefully the proposal content taking into consideration the conditions of the invested companies and the business relationship with these companies, etc.

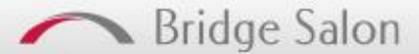
Principle 1-7 [Transactions between Related Parties]

Transactions that would constitute competition or conflict of interest for the directors and the corporations that the directors substantially control should be deliberated and decided by the board of directors. Additionally, transaction conditions and policies for determining transaction conditions, etc. are disclosed in the notice of convocation of the general meeting of shareholders and annual securities reports, etc. The company has established a system that will not be disadvantageous to it in case the corporations that the company's officers and directors substantially control, and major shareholders do business as clients of the company.

Principle 5-1 [Policy on Constructive Dialogue with Shareholders]

Our company's corporate planning department is responsible for IR. The company holds financial results briefings for shareholders and investors once every six months and conducts regular individual interviews.

BRIDGE REPORT



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