

	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 (excluding treasury shares)		Market Cap.	ROE (Act.)	Trading Unit
¥966	26,557,026 shares		¥25,654 million	6.7%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS(Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥30.00	3.1%	¥31.63	30.5 x	¥542.21	1.8 x

*The share price is the closing price on January 30. The number of shares outstanding was obtained by subtracting the number of treasury shares from the number of shares outstanding as of the end of the latest quarter. 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	Profit attributable to owners of parent	EPS (¥)	DPS (¥)
August 2016 (Act.)	18,672	2,175	2,325	944	35.25	38.00
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 (Est.)	21,000	1,570	1,690	840	31.63	30.00

* Estimates are those of the company. Unit: Million yen

This Bridge Report includes the overview of the financial results of MEIKO NETWORK JAPAN CO., LTD. for the first quarter of fiscal year ending August 2020, the outlook for full-year results, and the interview with the President Yamashita.

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. The First Quarter of Fiscal Year ending August 2020 Earnings Results](#)

[3. Fiscal Year ending August 2020 Earnings Forecasts](#)

[4. Interview with President Yamashita](#)

[5. Conclusions](#)

[<Reference: Regarding Corporate Governance>](#)

Key Points

- Amid the declining birthrate, the tutoring market is growing, and MEIKO NETWORK JAPAN is a pioneer boasting the largest share in this market. The company is developing independent personnel who can create their own paths proactively, by teaching how to study rather than drilling them. In the Meiko Gijuku business, which is the mainstay, the company runs the private tutoring Meiko Gijuku schools directly and with a franchise system nationwide, and also operates the after-school childcare business, the Japanese language school business for international students via a subsidiary, etc.
- For 1Q of FY ending August 2020, sales grew 3.3% year on year while operating profit declined 23.8% year on year, almost as estimated. There is no revision to the earnings forecast for the first half or the full year, and it is estimated that sales will rise 5.2% year on year while operating profit will decline 11.6% year on year. Sales are projected to increase mainly in the Meiko Gijuku business and the after-school childcare business, but the company will bear upfront investments amounting to 400 million yen for the development of information systems and ICT contents, English-language businesses, and a new tutoring school business. As for dividends, the company plans to pay an interim dividend of 15 yen/share and a term-end dividend of 15 yen/share for 30 yen/share (the estimated payout ratio: 94.8%).
- In October last year, the company formed alliances with SPRIX Co., Ltd. (securities code: 7030) and tyotto Inc. (Kawasaki-shi, Kanagawa Prefecture). These two companies and Meiko Gijuku share the ethos of self-learning. The company offers Self-learning RED by fusing the private tutoring class operation system utilizing the educational IT of SPRIX without relying on lecturers, the know-how to operate private tutoring schools and franchise business, which is a strength of the company. Furthermore, the company plans to combine the coaching know-how of tyotto Inc., learning management apps, and active learning contents, run “tyotto juku” (tyotto schools), and expand its share in the private tutoring school market. We would like to expect from their future developments.

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”, to enable the company to respond to various needs for diversified education and nurture creative and independently-minded human resources for 21st century society.

Furthermore, based upon a fundamental principle of “Through our contribution to educational and cultural programs, we aim to bring prosperity to the trinity of our clients, shareholders, and employees”, MEIKO NETWORK JAPAN positions the aspirations, objectives, and satisfaction of their clients, shareholders, and employees as the foundation for their business activities as the company aims to create an ideal company that can fulfill all these requirements.

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 “Meiko Kids,” “Meiko Soccer School,” which provides training by professional coaches, “Waseda Academy Kobetsu School,” which is an individual tutoring school for students with high academic performance, a cram school for medicine-related university entrance examinations operated by Tokyo Ishin Gakuin Co., LTD., business-related to university entrance exams and education-related business operated by Kotoh Jimusho Co., LTD., Youdec Co., Ltd., which creates mock exams and sells educational materials and an academic publishing business operated by Koyo Shobo Co., Ltd.

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. and K.M.G CORPORATION 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, advertising, and promotional materials, 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 “Meiko Kids”: The company “Meiko Soccer School,” a soccer school for children: The company “Waseda Academy Kobetsu School,” an individual tutoring school for students with high academic performance: The company and MAXIS Education Co., Ltd. Cram school for medicine-related university entrance examinations: Tokyo Ishin Gakuin Co., LTD. Business related to university entrance exams and university education: by Kotoh Jimusho Co., LTD. Publishing an exam information magazine, creating mocks exams, selling educational materials, operating university preparatory schools for their students at students’ schools, etc.: Youdec Co., Ltd. Publishing academic books: Koyo Shobo Co., LTD.

* 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) and the non-consolidated subsidiary COCO-RO PTE LTD (Singapore: it operates a nursery 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.

The company has the largest number of classes and students except for KUMON and Gakken Classroom (As of the end of November 2019)

Number of classes: 1,929

Number of students: 116,997

1-3 Market trends

Market conditions and trends

According to a research firm, in FY 2018, the market size of cram schools and university preparatory schools was 972 billion yen. Among this, the market size of the individual tutoring school, which is the company’s battlefield, was 445 billion yen and constituted 45.8% 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 expanded in FY 2019 as well.

Size of the Market of Cram Schools and University Preparatory Schools

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 forecast
Cram School and University Preparatory School Market Size [100 million yen]	9,570	9,620	9,690	9,720	9,750
Individual tutoring school market size [100 million yen]	4,290	4,350	4,390	4,450	4,510
The share of individual tutoring schools in the cram school and university preparatory school market	44.8%	45.2%	45.3%	45.8%	46.3%

* The table was created based on the company's documents (source: Yano Research Institute Ltd., "Education Industry 2019." Based on business sales, the values in FY 2019 are forecasted ones (as of September 2019)

* The share of individual tutoring schools is calculated by the company based on the cram school and university preparatory school market size and the individual tutoring school market size

2. The First Quarter of Fiscal Year ending August 2020 Earnings Results

2-1 Consolidated results for the 1st quarter (Sep. to Nov.)

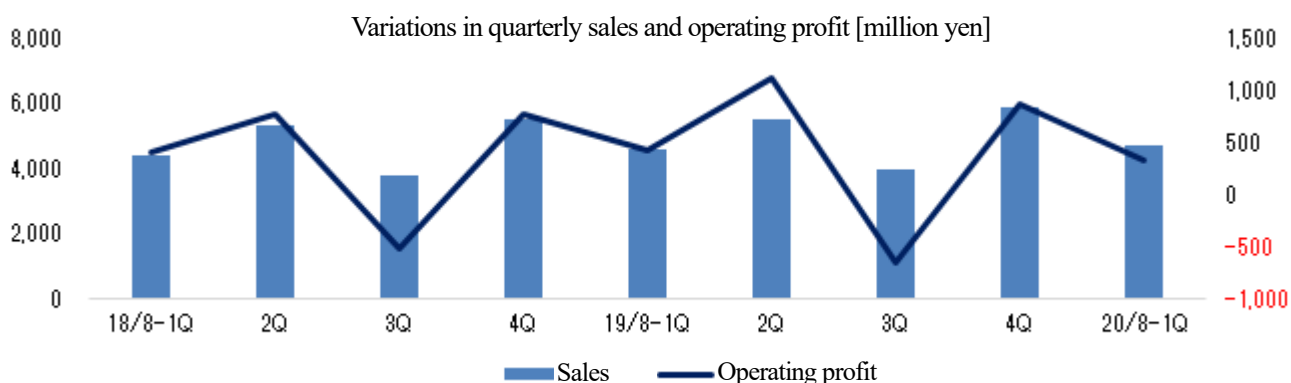
	1Q (Sep. to Nov.) of FY 8/19	Ratio to sales	1Q (Sep. to Nov.) of FY 8/20	Ratio to sales	YoY
Sales	4,591	100.0%	4,743	100.0%	+3.3%
Gross Profit	1,364	29.7%	1,260	26.6%	-7.6%
SG&A	933	20.3%	932	19.7%	-0.1%
Operating Profit	430	9.4%	327	6.9%	-23.8%
Ordinary Profit	453	9.9%	398	8.4%	-12.0%
Profit attributable to owners of parent	261	5.7%	195	4.1%	-25.0%

* Unit: Million yen

Sales grew 3.3% year on year, while operating profit dropped 23.8% year on year

Sales were 4,743 million yen, up 3.3% year on year. As for the Meiko Gijuku business, which is the mainstay, the number of classrooms and the number of students kept decreasing, and the sales of the franchise (FC) business declined 7.6% year on year, but the sales of the direct management business rose 8.0% year on year, due to the effects of the reorganization of "K.M.G CORPORATION," which was a franchising company, into a subsidiary in the previous year. As for other businesses, the sales of the Japanese language school business increased 11.0% year on year, while the sales of the after-school childcare business and the Waseda Academy Kobetsu School business grew.

Operating profit was 327 million yen, down 23.8% year on year. SG&A declined slightly, but the drop in gross profit due to the augmentation of costs affected the profit. Non-operating profit/loss improved due to the reversal of provision for doubtful receivables, etc., but tax burden ratio rose from 43.7% to 51.8%. Then, net profit dropped 25.0% year on year to 195 million yen.



2-2 Segment Earnings Trends

	1Q (Sep. to Nov.) of FY 8/19	Ratio to total sales; profit rate	1Q (Sep. to Nov.) of FY 8/20	Ratio to total sales; profit rate	YoY
Meiko Gijuku directly operated school business	2,215	48.2%	2,392	50.4%	+8.0%
Meiko Gijuku franchised school business	1,192	26.0%	1,101	23.2%	-7.6%
Japanese language school business	343	7.5%	381	8.0%	+11.0%
Other Business	839	18.3%	867	18.3%	+3.3%
Consolidated sales	4,591	100.0%	4,743	100.0%	+3.3%
Meiko Gijuku directly operated school business	-7	-	-30	-	-
Meiko Gijuku franchised school business	561	47.1%	498	45.2%	-11.2%
Japanese language school business	28	8.2%	43	11.3%	+53.6%
	123	14.7%	117	13.5%	-4.9%
Corporate expenses	-275	-	-301	-	-
Consolidated operating profit	430	9.4%	327	6.9%	-23.9%

* Unit: Million yen

Meiko Gijuku directly operated school business

Sales were 2,392 million yen, up 8.0% year on year, and loss was 30 million yen in a segment (a loss of 7 million yen in the same period of the previous year). As the number of classrooms and the number of students decreased, the (non-consolidated) sales of the company decreased year on year from 1,316 million yen to 1,270 million yen, but the sales of subsidiaries rose from 898 million yen (from two subsidiaries) to 1,122 million yen (from three subsidiaries), thanks to the contribution of K.M.G CORPORATION (whose profit-and-loss statement has been taken into account in consolidated results since the third quarter of the previous term). As for the breakdown of operating profit/loss, the company earned an (non-consolidated) operating profit of 48 million yen (65 million yen in the same period of the previous year), 3 consolidated subsidiaries incurred an operating loss of 21 million yen (in the same period of the previous year, two subsidiaries incurred an operating loss of 21 million yen), and amortization of goodwill was 57 million yen (50 million yen in the same period of the previous year).

As of the end of the first quarter, the number of classrooms was 399 (the number of classrooms directly operated by the company: 223; the number of classrooms operated by 3 consolidated subsidiaries: 176) and the number of students was 27,704 (composed of 15,636 students of directly operated schools and 12,068 students of schools operated by 3 consolidated subsidiaries).

Meiko Gijuku franchised school business

Sales were 1,101 million yen, down 7.6% year on year, and profit was 498 million yen in a segment, down 11.2% year on year. Both sales and profit declined, due to the decrease of classrooms, students, and franchisees, as a franchisee became a consolidated subsidiary. As of the end of the first quarter, the number of classrooms (excluding those of 3 consolidated subsidiaries) was 1,530 and the number of students (excluding those of 3 consolidated subsidiaries) was 89,293.

Japanese language school business

Sales were 381 million yen, up 11.0% year on year, and profit was 43 million yen in a segment, up 53.4% year on year. The company runs two schools: Waseda Edu Language School and JCLI Japanese Language school (two schools in the same period of the previous year), and the number of students as of the end of the first quarter was 2,011 (1,889 as of the end of the same period of the previous year). In detail, Waseda Edu Language School has 760 students (664 students in the same period of the previous year), while JCLI Japanese Language school has 1,251 students (1,225 students in the same period of the previous year).

In the first quarter, the company strived to increase the ratio of students who advance to higher education by giving thoroughgoing instructions for students' paths, and concentrated on the cultivation of new markets, including the lectures for the Japanese language in the residency status system for "Specified skills."

Other businesses

Sales were 867 million yen, up 3.3% year on year, while profit was 117 million yen in a segment, down 4.8% year on year. The revenue of the major business is as follows.

As for the after-school childcare business, sales were 99 million yen (92 million yen in the same period of the previous year), and operating profit was 3 million yen (10 million yen in the same period of the previous year). The company offers services based on various management styles, including direct management of the after-school facility Meiko Kids, franchise, private management of public facilities, and undertaking of operation. As of the end of the first quarter, the number of schools was 25 (19 as of the end of the same period of the previous year), which is composed of 7 directly operated schools (7 as of the end of the same period of the previous year), 3 clubs for pupils (1 as of the end of the same period of the previous year), and 15 facilities that are franchised or whose management was outsourced to the company (11 as of the end of the same period of the previous year). The number of students was 1,240 (958 as of the end of the same period of the previous year).

As for the sports business, including football schools, sales were 27 million yen (30 million yen in the same period of the previous year) and operating loss was 4 million yen (operating profit: 2 million yen in the same period of the previous year). Meiko Soccer School, which is the mainstay, is characterized by “the soccer school of the high-quality training by professional coaches,” including former professional soccer players, those who have an official license of FIFA (Fédération Internationale de Football Association) and JFA (Japan Football Association), etc. and other professional coaches who possess advanced skills and plentiful experience. Professional coaches offer a high-quality training in Meiko Soccer School. As of the end of the first quarter, the number of schools was 15, including a franchised one (13 as of the end of the same period of the previous year), and the number of students was 811 (892 as of the end of the same period of the previous year).

As for the Waseda Academy Kobetsu School business, sales were 137 million yen (122 million yen in the same period of the previous year) and operating profit was 11 million yen (an operating loss of less than 1 million yen in the same period of the previous year). As the number of students rose, sales and profit grew. The number of school buildings as of the end of the first quarter was 47 (35 as of the end of the same period of the previous year), which is composed of 8 directly operated ones (7 in the same period of the previous year), 5 ones of MAXIS Education (5 in the same period of the previous year), 25 directly operated ones of Waseda Academy (12 as of the end of the same period of the previous year), and 9 franchised ones (11 in the same period of the previous year). The number of students was 4,726 (3,075 in the same period of the previous year). As part of efforts to strengthen the brand, the company integrated the “Kobetsu Shido MYSTA” brand, which had been operated by Waseda Academy, into “Waseda Academy Kobetsu School” in October 2019.

As for the school support and academic book publication businesses, sales were 501 million yen (474 million yen in the same period of the previous year) and operating profit was 147 million yen (117 million yen in the same period of the previous year). As for the school support business operated by Kotoh Jimusho Co., LTD. and Youdec Co., Ltd., the service business, such as mock entrance exams, was sluggish, but it was offset by the entrance exam solution business, for which the receipt of orders and the delivery of services were conducted earlier than scheduled. On the other hand, the academic book publication business, which is operated by Koyo Shobo Co., LTD., saw the contribution of publication of new books at the end of the previous term, but it could not offset the effects of the decline in the number of new books published in this term.

As for the university preparatory school business, which is operated by Tokyo Ishin Gakuin Co., LTD., sales were 74 million yen (96 million yen in the same period of the previous year) and operating loss was 12 million yen (an operating loss of 3 million yen in the same period of the previous year). Amid the fierce competition among preparatory schools for medicine, the number of students decreased, and sales and profit declined. As of the end of the first quarter, the number of school buildings was 2 (3 as of the end of the same quarter of the previous year) and the number of students was 68 (81 as of the end of the same quarter of the previous year).

BRIDGE REPORT



	1Q (Sep. to Nov.) of FY 8/19	Y/Y change	1Q (Sep. to Nov.) of FY 8/20	Y/Y change
No. of classrooms directly run by the company	231	-2	223	-8
No. of MAXIS classrooms	93	-2	92	-1
No. of K. LINE classrooms	42	+42	41	-1
No. of K.M.G classrooms	-	-	43	+43
Total No. of classrooms directly run by Meiko Gijuku	366	38	399	+33
No. of franchised classrooms of Meiko Gijuku	1,655	-86	1,530	-125
Total number of classrooms of Meiko Gijuku	2,021	-48	1,929	-92
No. of students of schools directly run by the company	16,069	-1,007	15,636	-433
No. of students of MAXIS	6,712	-57	7,008	+296
No. of students of K. LINE	2,815	+2,815	2,709	-106
No. of students of K.M.G	-	-	2,351	+2,351
Total No. of students of schools directly run by Meiko Gijuku	25,596	+1,751	27,704	+2,108
No. of students of franchised schools of Meiko Gijuku	96,108	-11,114	89,293	-6,815
Total No. of students of Meiko Gijuku [person]	121,704	-9,363	116,997	-4,707
Sales of the Meiko Gijuku directly operated school business	2,215	+189	2,392	177
Sales of the Meiko Gijuku franchised school business	1,192	-6	1,101	-90
Sales of the Japanese language school business	343	+14	381	+37
Sales of other businesses	839	-18	867	+28
Total sales [million yen]	4,591	+179	4,743	+151
Sales of directly operated Meiko Gijuku classrooms	2,215	+189	2,392	+177
System-wide sales from Meiko Gijuku franchised schools	7,405	-578	6,911	-493
Total system-wide sales from Meiko Gijuku schools [million yen]	9,620	-388	9,303	-316

* In the sales of the Meiko Gijuku franchised school business, the revenue from royalties, the sales of products, etc. are written.

* Total system-wide sales from Meiko Gijuku schools is the sum of the tuition of directly run classrooms, expenses for teaching materials, costs for exams, the tuition for franchised classes, etc., excluding the expenses for teaching materials, costs for exams, etc. at franchised schools.

* K.M.G stands for K.M.G CORPORATION.

2-3 Financial standing

	Aug. 2019	Nov. 2019		Aug. 2019	Nov. 2019
Cash	7,495	6,806	Accounts payable/accrued expenses	1,355	1,003
Accounts receivable	1,294	1,114	Accrued income and consumption taxes, etc.	797	509
Inventory assets	417	403	Advances received	1,480	1,309
Current Assets	9,734	9,086	Asset retirement obligations	300	302
Tangible Assets	1,220	1,224	Interest-bearing liabilities	196	193
Intangible Assets	3,311	3,200	Liabilities	5,350	4,955
Investments, Others	5,497	6,168	Net Assets	14,414	14,724
Noncurrent Assets	10,030	10,593	Total Liabilities, Net Assets	19,765	19,680

* Unit: Million yen

The total assets as of the end of the first quarter were 19,680 million yen, down 84 million yen from the end of the previous term. The company collects receivables swiftly, opens and operates schools with small funds, and possesses the know-how of franchise business, so its cash flow is stable. Accordingly, the ratio of cash and deposits is as high as 174.2% (166.3% at the end of the previous term), and cash and deposits account for 34.6% of total assets (37.9% at the end of the previous term). Like this, its financial standing has liquidity. In addition, capital-to-asset ratio is as high as 74.8% (72.9% at the end of the previous term), and its financial stability is excellent.

3. Fiscal Year ending August 2020 Earnings Forecasts

3-1 Full-year consolidated results

	FY 8/19 Actual	Ratio to sales	FY 8/20 Est.	Ratio to sales	YoY
Sales	19,967	100.0%	21,000	100.0%	+5.2%
Operating Profit	1,775	8.9%	1,570	7.5%	-11.6%
Ordinary Profit	1,907	9.6%	1,690	8.0%	-11.4%
Profit attributable to owners of parent	958	4.8%	840	4.0%	-12.3%

* Unit: Million yen

It is estimated that sales will grow 5.2% year on year, but operating profit will decline 11.6% year on year due to the burden of upfront investment

Sales are estimated to grow 5.2% (1.03 billion yen) year on year to 21 billion yen. While the full-year contribution of K.M.G CORPORATION Co., Ltd. is expected to increase sales by 540 million yen, the non-consolidated sales of the company is projected to increase 450 million yen and the sales of other subsidiaries are estimated to rise 40 million yen. It is forecasted that the Meiko Gijuku business will account for 200 million yen in the sales growth, the after-school childcare business 120 million yen, and the Kobetsu Shingakukan business 60 million yen, etc.

Operating profit is projected to decline 11.6% (200 million yen) year on year to 1.57 billion yen. The sales growth increased the profit by 200 million yen, but the investment for growth amounting to 400 million yen affected the profit. In detail, the company invested 150 million yen for developing information systems and ICT contents of the Meiko Gijuku business, 150 million yen for the English business (English schools for pupils and ESL Club), and 100 million yen for developing the new tutoring school business.

3-2 Intensive strategies for Fiscal Year ending August 2020

The intensive strategies for FY ending August 2020 are the redevelopment of the Meiko Gijuku business, the expansion and strengthening of the existing businesses, the creation of new businesses, and the reform of human resources and organizations.

Redevelopment of the Meiko Gijuku business	Development of classrooms that would be chosen by customers amid the fierce competition <ul style="list-style-type: none"> ·To strive to improve the quality of classes and the service level, and pursue the improvement of students' academic performance. ·To advertise the unique value of Meiko through consistent marketing strategies.
Expansion and strengthening of the existing business	Creation of new values by clarifying growth strategies for businesses other than Meiko Gijuku
Creation of the new business	Creation of new values in collaboration with external enterprises that have new knowledge, ideas, and technologies
Reform of human resources and organizations	Development of personnel, promotion of diversity, systematization of training and educational systems, and thoroughgoing hospitality

3-3 Shareholder return and benefits

As for dividends, the company plans to pay an interim dividend of 15 yen/share and a term-end dividend of 15 yen/share for 30 yen/share (the estimated payout ratio: 94.8%).

Also, MEIKO NETWORK JAPAN has a "shareholder benefit program" annually for shareholders in order to express their gratitude for the continued support of their shareholders, make investment in the company shares more attractive, and increase shareholders who hold Company shares in the medium- and long-term. In detail, the company presents QUO cards to shareholders who hold one or more lots (100 shares/lot) written or recorded in the list of shareholders as of August 31 every year, according to the number of shares they hold and the number of years of shareholding.

Results and forecast for dividends

	FY 8/16	FY 8/17	FY 8/18	FY 8/19	FY 8/20 Est.
Dividend per share (Interim dividend per share included)	38.0(19.0) yen	40.0(20.0) yen	42.0(21.0) yen	30.0(15.0) yen	30.0(15.0) yen
Dividend payout ratio	107.8%	52.0%	169.8%	83.1%	94.8%

Shareholder benefits

	Continuous holding period of less than 3 years	Continuous holding period of 3 years or longer
100 shares or more but less than 500	Equivalent to 1,000 yen	Equivalent to 3,000 yen
500 shares or more but less than 1,000	Equivalent to 2,000 yen	Equivalent to 4,000 yen
1,000 shares or more	Equivalent to 3,000 yen	Equivalent to 5,000 yen

4. Interview with President Yamashita

“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.”

MEIKO NETWORK JAPAN has the above two management principles.

We asked President Yamashita about the business environment, intensive strategies, etc. for this term.



Kazuhito Yamashita, President

Born in Hokkaido on December 7, 1959.

Joined the company in March 2007.

After he had served as a Director and a Managing Director of the company, he assumed the post of Representative Director and President of the consolidated subsidiary, Tokyo Ishin Gakuin, in September 2009. After that, he served as Manager of the Kobetsu Shingakukan Business Division and Manager of Business Development, and then assumed the office of a Senior Managing Director in November 2014. In November 2015, he was assigned as Director and Vice President, and in November 2018, he became Representative Director and President. Currently, he also serves as the Manager of the Meiko Gijuku Business Division.

4-1 Business environment

It seems like the individual tutoring schools' market, of which Meiko Gijuku has the top share, has continued to grow regardless of the declining birthrate.

President Yamashita: Currently, the individual tutoring school market comprises about 46% of the cram schools and preparatory schools, and the share is increasing year by year and is approaching 50%. Aside from some group tutoring schools that specialize in preparations for exams for prestigious universities, many schools are shifting from group tutoring to individual tutoring. In addition, there are new comers that entered the individual tutoring market, they advertise that encouraging students to take initiative for their learning with ICT leads to promoting self-learning, thus we believe that the individual tutoring market share is expanding.

Does this mean that the individual tutoring market is growing, but at the same time, the competition is growing fiercer? Will we see a sharper contrast between individual tutoring schools in the future?

President Yamashita: Yes, that's right. Previously we have been paying attention to the ratio of teachers to the number of students and in most cases, we sought differentiation formally but in recent days, various self-learning and individual tutoring styles have been born thanks to the rapid advancement of digitalization and nobody would have thought a few years ago that the current situation could be achieved. Against this backdrop, we give utmost importance to accurately grasping our customers' needs and providing them with optimal services.

[I see. That makes your company a pioneer in the growing market of individual tutoring schools.](#)

President Yamashita: About 60 years ago, Mr. Sasaki, who was a student of the University of Tokyo at the time, started the Sasaki cram school and it became the origin of individual tutoring. Our company's founder, Mr. Watanabe, took over Sasaki cram school and further developed the individual tutoring method. The advanced methods of individual tutoring and self-learning have made innovation for the tutoring market and a lot of companies have followed our footsteps, thus the market grew.

We do not drill students, but we guide them to learn how to study and the thorough application of this principle throughout the chain allowed us to achieve the growth you see now. Additionally, we also have the advantage of having nationwide classrooms in all 47 prefectures and we have the strength of holding the overwhelming No. 1 share for the number of classrooms.

[Your strengths are being a leading company, being highly renowned, and your overwhelming market share. Is there something wrong with teaching by drilling?](#)

President Yamashita: Well, in Meiko Gijuku, we do not drill students; instead, we show them how to study on their own. We give them the slightest hints and guide them on how to research autonomously. Of course, there are times when we explain. The person who could explain well used to be considered "a good teacher," but in Meiko Gijuku, "a good teacher" is the person who can bring out the children's abilities. About 80% of teachers in Meiko Gijuku are students, but since they're around children's age they can give students a sense of familiarity in their study and make them feel as though being taught by their elder brother or sister. Moreover, we have prepared a consistent manual to unify methods while utilizing teaching materials that foster independent learning.

[Is "teaching how to study" a characteristic of your company or is it a characteristic of individual tutoring schools in general?](#)

President Yamashita: The pedagogical concept of "To nurture creative, independently-minded human resources for 21st century society through an individual tutoring service that promotes self-motivated learning" is the origin of our company and hasn't changed since its foundation. There are individual tutoring schools that promote self-motivated learning, however, our company is differentiated as the school that thoroughly prioritizes guiding students to learn how to study and doesn't apply teaching by drilling.

["The students gain academic abilities because they can study on their own..." I can see that the philosophy of the founder still lives on. About the company's strengths, you mentioned the nationwide expansion and the overwhelming number of classrooms, do you think they were the results of franchise development?](#)

President Yamashita: One of the reasons behind the success of franchise development is that we had a solid pedagogical philosophy and franchisees were passionate about it. Additionally, I think that the business model of Meiko Gijuku per se is attractive. The franchisees appreciated that they didn't have to make an initial investment as well as the high profitability of the business. In fact, some franchisees have opened more than one classroom.

[I had the impression that the operation management of individual tutoring is harder than group tutoring schools.](#)

BRIDGE REPORT



President Yamashita: A teacher is in charge of teaching about 3 students at Meiko Gijuku, for example, the teacher can tutor a fifth-grade elementary student who studies math, a first-year junior high student who studies math, and a third-year junior high school student who studies English. We are able to do that like this. We do not use only one teacher for a student, we always allocate many teachers for only a student, so we can respond flexibly to students.

Moreover, Meiko Gijuku doesn't require a lot of space for classrooms and we operate by renting a place with an area of about 25 tsubo (82.5 m²), which makes classrooms inexpensive and allows easier relocation depending on the situation such as deteriorating properties, changes in the business region.

I see. I can see that your financial standing is good because of the fact that the cash flow of the tutoring business is advantageous, also thanks to the franchise development, not to mention the light investment burdens associated with directly operated businesses.

Trends in Financial Situation

	Aug. 2012	Aug. 2013	Aug. 2014	Aug. 2015	Aug. 2016	Aug. 2017	Aug. 2018	Aug. 2019
Cash and bank deposits	5,931	7,122	7,363	7,345	4,633	7,822	6,508	7,495
Current Assets	7,890	9,297	9,707	9,828	6,865	10,431	8,959	9,734
Noncurrent Assets	7,304	7,259	6,860	8,852	10,105	8,883	9,723	10,030
Total Assets	15,195	16,557	16,568	18,680	16,970	19,314	18,683	19,765
Interest-bearing liabilities	1,902	1,670	70	96	82	70	70	196
Liabilities	5,045	4,744	3,377	4,052	3,760	4,897	4,346	5,350
Net Assets	10,149	11,813	13,191	14,628	13,209	14,416	14,336	14,414
Capital-to-asset ratio	66.6%	71.2%	79.4%	78.0%	77.4%	74.5%	76.6%	72.9%

*Unit: Million yen

Cash Flows

	FY 8/12	FY 8/13	FY 8/14	FY 8/15	FY 8/16	FY 8/17	FY 8/18	FY 8/19
Operating CF	2,443	2,269	2,294	2,443	937	3,088	405	2,505
Investing CF	-1,026	-293	262	-1,460	115	1,136	-505	-347
Free CF	1,416	1,976	2,556	982	1,052	4,224	-100	2,158
Financing CF	-1,158	-1,033	-2,427	-922	-2,486	-1,108	-1,088	-829
Cash at the end of the term, etc.	4,431	5,434	5,563	5,623	4,189	7,306	6,116	7,445

*Unit: Million yen

*The operating CF before taxes was 2,496 million yen for the term ended Aug. 2016 and 1,870 million yen for the term ended Aug. 2018.

4-2 Key strategies for Fiscal Year ending August 2020

I would like to ask you about the key strategies for this term. I see you've raised the 4 points, "redevelopment of the Meiko Gijuku business," "expansion and strengthening of the existing business," "creation of the new business," and "reform of human resources and organizations" as the key strategies. Firstly, could you elaborate on the first strategy, "redevelopment of the Meiko Gijuku business"?

President Yamashita: Implementing a strategy boils down to whether you can do what needs to be done thoroughly. We are working on revising the teaching and class management methods including the manual and we are thorough. We ensure this through training and study sessions as well as itinerant coaching by supervisors and area managers. We believe that the basic cycle of appropriately doing what needs to be done such as the right teaching method and grade management is important. It is also important to study how to incorporate new technologies such as ICT teaching materials.

In Meiko Gijuku, we have something called “the review notebook”, in which the students write “what they learned”, “what they understood and how they understood it”, etc. by myself. We have them keep a daily record of the results of their study so that they can refer back to what they became able to do and what they’re not and build on it. Since they write these records in their own words, they will not only remember the class content but also will improve their expression skills. “The review notebook” is linked to the learning management system, “Meiko EPO (electronic portfolio)”, and students can review it with their smartphones; also, students’ learning can be shared with family members and teachers.

Furthermore, while some kids do well at studying, other kids don’t. Similarly, there are kids who study diligently at home and others who don’t study. The tutoring methods vary, but we prepare the manual and train the teachers on it as our know-how. The teachers’ indiscriminating and high-quality teaching methods are indeed what defines the teaching methods that lead to even higher performance improvements. We plan to revolutionize the Meiko Gijuku business through grade management, student motivation management, teaching materials that incorporate ICT, and services assisting improving academic performance.

[So, firstly you are going to thoroughly establish the basics then integrate IT to hone the Meiko Gijuku business. I hear that as you proceed with the redevelopment of the Meiko Gijuku business, you have been focusing on a consistent marketing strategy.](#)

President Yamashita: Until now marketing in the tutoring school industry has been focused around TV commercials, mass advertising, newspaper inserts, and distributing pamphlets near schools as regional strategies, etc. Nowadays, as the Internet became mainstream, the inquiries we receive through smartphones have increased and we are analyzing this business area.

We also inform the franchisees of the analysis results for the business area and draft strategies with supervisors while looking at the data. Additionally, the franchisees approach marketing according to each region and each classroom, as such, they consider limiting online marketing costs to certain amounts, choosing pamphlets over online ads when they see that it will have a greater effect, etc. On the other hand, they are separated by blocks, so we also plan advertisements and such, which include a record of success cases compiled by the franchisees in each block and the directly operated branches.

However, the goal of marketing strategies is not to get students to register; what they do next is what matters. We aspire to make students who newly register get satisfied and go to our school for a long period of time. It is important that they get higher grades and pass the exams for their desired school. We will make sure to offer a service that is satisfactory to both students and parents. In order to achieve that, improving the students' academic performance and helping them get good grades at periodical exams is not enough; it is important that we make sure they don’t lose track of their goals by constantly reaffirming it, giving them adequate advice, and sharing necessary information with parents as needed. In other words, it is counseling. Meiko Gijuku is focusing on counseling and implements it regularly.

Expansion and strengthening of the existing business and creation of the new business

[So, you have integrated the effective marketing thanks to digital advertisements with marketing tailored for each region and the various timings and seasons. Now I would like to ask you about “expansion and strengthening of the existing business” and “creation of the new business.” What do you think about expanding the Japanese language school business?](#)

President Yamashita: As for the Japanese language school business, we are currently operating 2 schools. They have characteristics that the Waseda Edu Language School has an art class, while the JCLI Japanese Language school organizes Japanese language teachers training as well as Japanese preparatory classes for the “Specified skills” visa status, so they are able to stand out from other schools. The profitability has increased and student recruitment is progressing well. For the Japanese language school business, it’s a school business where the number of students and the seating capacity are predetermined according to the school building’s facilities, thus we think of M&A as an option for expanding the business.

Furthermore, for the after-school childcare business, we currently have 25 facilities and the profit has been stable. Additionally, the inquiries from schools and municipalities have increased due to the increase of households where both parents are working and we plan to continue on expanding the business. Moreover, we have two initiatives to launch in the tutoring school business. We've already made a press release to announce that through alliances with other companies, we will start "Jiritsu Gakushu RED" with SPRIX Co., Ltd. (stock code: 7030) and deploy the new business type, "tyotto juku," with tyotto Inc. (Kawasaki-shi, Kanagawa, Representative Director: Koki Arai). We will start them this spring.

[I see... Regarding business alliances, are you trying to meet demand that you weren't able to capture before by offering a variety of teaching and studying methods? I see you already have some achievements with the Waseda Academy Kobetsu School.](#)

President Yamashita: We launched the Waseda Academy Kobetsu School in the winter of 2010. It currently has 48 classrooms. We believe that utilizing and combining our strengths, which are our know-how in individual tutoring and Waseda Academy's (stock code: 4718) know-how in exam preparation for highly selective schools will further expand the market and better meet the needs of our customers.

The company which we newly formed an alliance, SPRIX Co., Ltd., operates the individual tutoring school "Morijuku" which is specialized in improving students' academic performance and the IT education program "Jiritsu Gakushu RED." They had already started the franchise development for "Jiritsu Gakushu RED," but they were expecting to expand it more. That is when we decided to join forces to utilize our franchise know-how in order to deploy "Jiritsu Gakushu RED," together.

[What are the differentiating characteristics of "tyotto juku"?](#)

President Yamashita: "tyotto juku" does not hold classes. They manage the students' study progress and manage their motivation, which makes them an ideal independent learning school. That is also where our philosophies meet and what makes the business alliance compelling.

[So, it's important that your philosophies match.](#)

President Yamashita: It is important that this remains clear. We think about what is best for the future of our students and offer a variety of study methods to guide them so that they can be independent and have them choose the suitable one according to their needs. The concept is to provide study methods optimized for each individual.

[Now I understand well the reason for the alliance. You explained earlier how subsidiaries are engaged in the Japanese language school business, but please tell us if there are any group companies that you expect to grow in the future. For instance, I know that one of the affiliated companies accounted for by the equity method, the Meiko Culture and Education Ltd, is operating in Taiwan.](#)

President Yamashita: It has been only 3 years since we established business in Taiwan, but it's growing at a good pace and we're aiming to be the number one individual tutoring school.

The business in Taiwan is being operated through a joint-venture company, but they are a good partner. They are the No. 1 textbook company in Taiwan, Han Lin Group (Han Lin Publishing Co., Ltd.) and the group tutoring school, Baida Culture and Education Company Ltd. Group. The business condition in Taiwan where the company was established 3 years ago is the same as the condition when we first started individual tutoring in Japan 35 years ago. I wonder if we can call it the new era of individual tutoring; the shift from group to individual tutoring is underway.

We are paying attention to business growth in Taiwan. Now can you tell us about “creation of the new business”? What are your plans for expanding the business domain?

President Yamashita: Currently, our services are mainly targeted at students from elementary school to high school, and we are looking forward to doing businesses that are more relevant to targeting preschoolers as well as working adults. Although we are not at a stage where I can give more details if there is a chance, we will certainly go for it.

I see. I understand that you are planning some measures for reform of human resources and organizations. You have mentioned training personnel, promoting diversity, systematizing the training and education programs, incorporating thorough hospitality, etc.

President Yamashita: Although the recruitment environment in recent years is known to be difficult, our employment of new graduates is smooth. Many of the students who work as teachers at Meiko Gijuku apply to join our workforce. They comprise about 40% of new employees. However, mid-career recruitment seems difficult for them just like everyone.

As for diversity, we have hired a female wrestler on August 1 last year as an athlete employee. She was the first top athlete we’ve hired. I think it is a good stimulus for employees to see an athlete go after their goals with all their might, and I hope that we can promote a sense of unity among them and vitalize the workplace as they gather to cheer for their athlete colleagues. We try to promote diversity and contribute to promoting sports by providing an environment that enables athletes to be at ease and focus on the competition.

Moreover, about creating an environment suitable for females to work, we are aware that in order to utilize the full potential of female workers we need to provide the environment that enables them to work for longer. Promoting paid holidays is one of the measures we’re implementing. Furthermore, we are legally obligated to apply the shorter working hour system for female workers until their children turn three, but our company extends this period up to when the child is in the third year of primary school, according to each case. We also plan to increase female employees in managerial positions.

Implementing the policy for attractive dividends from capital

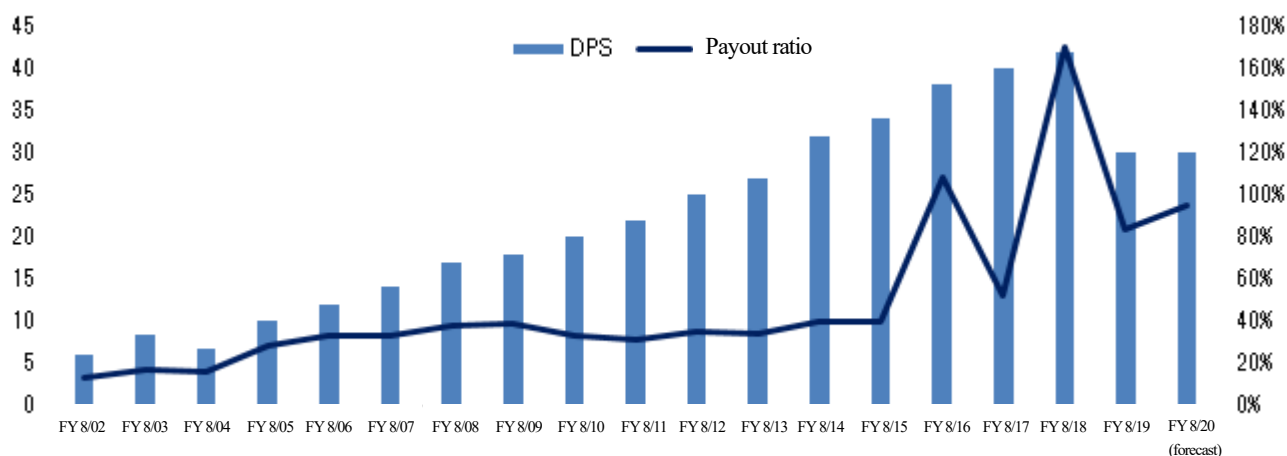
Since your company is engaged in the sports business such as soccer schools, having athlete employees fits the image of a corporation that promotes sport, doesn’t it? Additionally, I see that you are taking measures to utilize the capabilities of female employees. You also mentioned implementing attractive dividend policies as part of the process of improving the corporate value. In fact, you have been maintaining a high payout ratio.

President Yamashita: The basic concept is to give shareholders better returns through dividends. The consecutive dividend increase that has continued for 20 years has come to an end last year, however, I think that increasing dividends as the company grows is ideal, thus, for the shareholders' returns, we always keep it in mind to increase dividends.

The consecutive dividend increase has indeed stopped, but the dividend yield is still attractive. You also seem to have a shareholder benefit program.

President Yamashita: All our individual investors appreciate the shareholder benefit program.

Variations in dividend per share (DPS) and payout ratio [yen, %]



4-3 Forecast for Fiscal Year ending August 2020

I would like to talk about the business performance for FY ending August 2020. The financial statement for the first quarter has been announced. Did the term ending August 2020 start as you expected?

President Yamashita: It is as expected, but we are not satisfied. For our mainstay the Meiko Gijuku business, the number of students in September last year, which is the start of this term, started below the same period last year and we couldn't make up for the gap within the first quarter.

As for full-year performance, recruiting students in the spring and summer seminars will be important, however, judging from the first quarter's results, we expect the full-year to go according to our predictions.

By the way, this term, the investments of 400 million yen will affect the profit; Will it affect the performance from the 2nd quarter onwards?

President Yamashita: The focus will be on the 2nd and 3rd quarters, but it is according to the current plan.

The first quarter has generally performed as forecasted and the business alliances are progressing well. However, I realize that you still have student recruitments in the spring and summer seminars, which will have a great impact on the full-year financial performance.

4-4 Message to investors

Our time is almost over. Lastly, to wrap up this interview, what do you have to say to shareholders and investors?

President Yamashita: It is true that competition is increasing and the market conditions are becoming harsh, but I believe that the individual tutoring schools' market will continue to grow in the future. We will continue to hone what we have been building and will improve the quality of the services that we provide to our customers. Additionally, we will provide optimized studying methods tailored for each student thanks to utilizing alliances to develop various new brands. I wish that you expect good results from our new initiative.

So, you will hone your strengths that you've been building up, further increase customers' satisfaction, and expand the business by new approaches in the individual tutoring school market. Through these measures, you plan to continue to grow as the No. 1 Corporation in the individual tutoring school market while keeping the shareholders' returns in mind. Thank you for taking your valuable time to finish this long interview and for this interesting conversation. I sincerely wish for your success and more prosperity for MEIKO NETWORK JAPAN CO., LTD.

5. Conclusions

The private tutoring school market is growing, but the competition is getting fierce, and the needs for private tutoring are becoming diverse. In this situation, the performance of the company, too, is on a plateau, as it stopped increasing dividends in the term ended August 2019. In order to survive the competition, the company needs to fortify new educational services for changes in needs. Accordingly, the company formed alliances with SPRIX Co., Ltd. and tyotto Inc. in October last year. These two companies and Meiko Gijuku share the ethos of self-learning. SPRIX pursues a classroom operation system for private tutoring based on educational IT that does not rely on lecturers, and is excellent in developing systems for boosting academic performance and the production of educational texts suited for those systems. On the other hand, tyotto Inc. pursues the management of study progress and students' motivation, and is excellent in coaching know-how, ICT contents, and active learning contents. Under the shared management policy, the three companies plan to fuse the know-how to operate private tutoring schools and conduct the franchise business, which is a strength of Meiko Gijuku, and the strengths of the two companies, and expand the share in the promising private tutoring school market.

Also, in October last year, the company added the worker introduction business to Article 2 of the Articles of Incorporation (through the partial revision to the Articles of Incorporation). "The creation of the new business" is one of intensive strategies for the term ending August 2020. We would like to expect from their future developments as well as the above-mentioned collaborative business and the redevelopment of the Meiko Gijuku business, which is the management base.

<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	3 auditors, including 3 outside auditors

◎ Corporate governance reports

Last updated on Nov. 19, 2019.

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.

<http://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 3-1 [Enhancement of Information Disclosure]

(4) The number of directors on the board of directors is up to ten. Furthermore, the appointment and dismissal of senior management and the nomination of candidates for directors are exclusive prerogatives of the board of directors. The representative director presents these matters to the board of directors and they review them. Proposals for director candidates are discussed by the general meeting of shareholders as proposals for the general meeting of shareholders.

(5) The reasons for the appointment and dismissal of senior management and the reasons for nominating candidates for directors and auditors are disclosed in the notice of convocation of the general meeting of shareholders "Business Report."

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.

This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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