

Meiko Network Japan Co., Ltd.
Consolidated financial results for the
second quarter of the Year ending August
2020

April 10, 2020

Kazuhito Yamashita, President

Performance Report for the Second Quarter of the Year ending August 2020

Highlights of the 2Q of the year ending August 2020(consolidated)

(Unit: million yen)

	2Q of FY 2020	YoY		Against plan**		
		Change	Percentage	Planning	Change	Percentage
Sales	10,422	+ 329	+ 3.3%	10,600	△177	△ 1.7%
Operating income	1,280	△266	△ 17.2%	1,070	+210	+ 19.7%
Ordinary income	1,384	△223	△ 13.9%	1,130	+254	+ 22.5%
2Q Net income*	791	△179	△ 18.5%	590	+201	+ 34.2%

* 2Q Net income attributable to owners of the Company (The same applies to the remaining slides.) ** The plan was announced on October 10,2019.

- YoY : 【Sales】 Increase due to the acquisition of KMG 【Net income】 Decrease due to the cost increase of the expenses and labor cost.
- Against plan : 【Sales】 Slightly unachieved due to the decrease of the number of students
【Net income】 Achieved due to the cost control and timing lag of the investment.
- Meikogijyuku 【number of schools】 1,932 (YoY △88)
(Feb 2020) (MNJ △8 K.Line +1 FC △81) ※MAXIS・KMG ±0
【number of students】 112,064 (YoY △5,240)
(MNJ 15,070 MAXIS 7,078 K.Line 2,598 KMG 2,228 FC 85,090)

Financial summary of the 2Q of FY 2020 (consolidated P/L)

(Unit: million yen)

	2Q FY2019	2Q FY2020	YoY	
			Change	Percentage
Sales	10,092	10,422	329	+3.3%
Cost of sales	6,590	7,143	553	+8.4%
Cost of sales percentage (%)	65.3%	68.5%		+3.2pt
Gross profit	3,501	3,278	△223	△6.4%
Gross profit ratio (%)	34.7%	31.5%		△3.2pt
SGA	1,954	1,997	43	+2.2%
SGA percentage(%)	19.4%	19.2%		△0.2pt
Operating income	1,547	1,280	△266	△17.2%
Operating income ratio(%)	15.3%	12.3%		△3.0pt
Non-operating income	65	109	44	+68.1%
Non-operating expense	4	5	1	+41.7%
Ordinary income	1,608	1,384	△223	△13.9%
Ordinary income ratio(%)	15.9%	13.3%		△2.6pt
2Q Net Income	971	791	△179	△18.5%
Net Income ratio(%)	9.6%	7.6%		△2.0pt

■ Sales

- The increase of consolidated subsidiary of KMG + 460 million yen
- MNJ (due to the decrease of the number of students) △ 94 million yen

■ Cost of Sales

- Labor cost(Cost) + 324 million yen
 - Acquisition of KMG + 197 million yen
 - MNJ (Strength structure) + 109 million yen etc.
- Expense (Cost) + 168 million yen
 - Commission (recruitment・ICT cost) + 82 million yen
 - Rent (Acquisition of KMG) + 53 million yen
 - Traveling expense (KMG) + 20million yen etc.

■ SGA

- Advertising expense (Control of branding expense) △21 million yen
- Personnel expense (administration cost) (MNJ, increase of personnel; Increase due to consolidated subsidiary of KMG) + 34 million yen
- Deprecation of good will (KMG) +12 million yen
- Rental expense (KMG) +19 million yen

* KMG Corporation's statement of income is included in the scope of consolidation from the 3rd quarter, 2019)

Financial summary of the 2Q of FY 2020 (consolidated B/S)

(Unit: million yen)

	The end of August 2019	The end of August 2020	YoY	
			Change	Percentage change
Current assets	9,734	10,189	+455	+4.7%
Property, plant and equipment	1,220	1,244	+23	+1.9%
Intangible assets	3,311	3,109	△202	△6.1%
Investments and other assets	5,497	5,822	+324	+5.9%
Total assets	19,765	20,366	+601	+3.0%
Current liabilities	4,506	4,260	△246	△5.5%
Non-current liabilities	843	994	+151	+17.9%
Total liabilities	5,350	5,254	△95	△1.8%
Total net assets	14,414	15,111	+696	+4.8%
Total liabilities and net assets	19,765	20,366	+601	+3.0%

■ Assets

(Current assets)

- An increase in cash and deposits + 416 million yen
- A decrease in Accounts receivable △ 276 million yen
- An increase in securities + 199 million yen
- A decrease in Allowance for bad debts + 49 million yen

(Intangible assets)

- A decrease in goodwill △ 236 million yen
 { MAXIS: 71million yen, K.Line: 29million yen, KMG: 12 million yen
 WASEDA EDU: 22million yen, Kokusai Jinzai Kaihatsu:61million yen
 KOTOH&Company: 37million yen)

(Investment and other assets)

- An increase in Investment securities + 312 million yen (An increase in valuation difference)

■ Liabilities

(Current liabilities)

- A decrease in advance received △ 361 million yen (due to the seasonal fluctuation of 2 Japanese languages)
- An increase in consumption tax payable + 112 million yen

(Non-Current liabilities)

- An increase in DTL + 144 million yen (An increase in valuation difference on available-for-sale securities)

■ Net assets

- An increase in valuation difference on available-for-sale securities + 309 million yen
 (Due to the price goes up of listed stock)

* KMG Corporation's balance sheet is included in the scope of consolidation at the end of February 28, (Statement of income will be included in the scope of consolidation from the end of 3rd quarter, 2019)

Financial summary of the 2Q of FY 2020 (consolidated C/F)

(Unit : million)

	2Q FY 2019	2Q FY 2020	Change from the same period of the previous year
Operating activities	1,903	1,031	△872
Investing activities	△13	△310	△296
Financing activities	△453	△404	+49
Net increase (decrease) in cash and cash	1,435	316	△1,119
Cash and cash equivalents at beginning of period	6,116	7,445	+1,328
Cash and cash equivalents at end of period	7,552	7,761	+209

■ Operating activities

- A decrease in 2Q net income △223 million yen
- An increase in payment of corporation tax △512 million yen

■ Investing activities

- Acquisition of the investment securities △163 million yen
- A decrease of the acquisition of subsidiary +227 million yen
※ acquisition of subsidiary KMG on 2Q FY 2019.
- An increase of deposit △399 million yen

■ Financing activities

- A decrease of the Increase in loans payable △210 million yen
- A decrease of decrease of repayment of debt +100 million yen
- A decrease of the dividend paid +159 million yen

■ Cash and cash equivalents at end of period

- 2Q FY 2020 +209 million yen

Sales and operating income by segment

(Unit: million)

		Meiko Gijuku directly operated schools	Meiko Gijuku franchised schools	Japanese language schools	Others※2	Corporate expense	Total
2Q FY 2020	Sales ※3	5,679	2,393	739	1,610	—	10,422
	(YoY)	+405	△174	+64	+34	—	+329
	Operating income	672	1,003	116	75	△586	1,280
	(YoY)	+14	△180	+10	△71	△39	△266
	Operating income margin	11.8%	41.9%	15.7%	4.7%	—	12.3%
2Q FY 2019	Sales ※3	5,273	2,568	674	1,575	—	10,092
	Operating income	657	1,184	105	146	△546	1,547
	Operating income margin	12.5%	46.1%	15.6%	9.3%	—	15.3%

※1 Considering the importance of Japanese language schools business which have been classified to “Others” so far, we have changed the presentation segment of Japanese language schools business as “Reportable segment”, and along with considering the decline of quantitative importance of Supplemental education business, we have included this as “Others”.

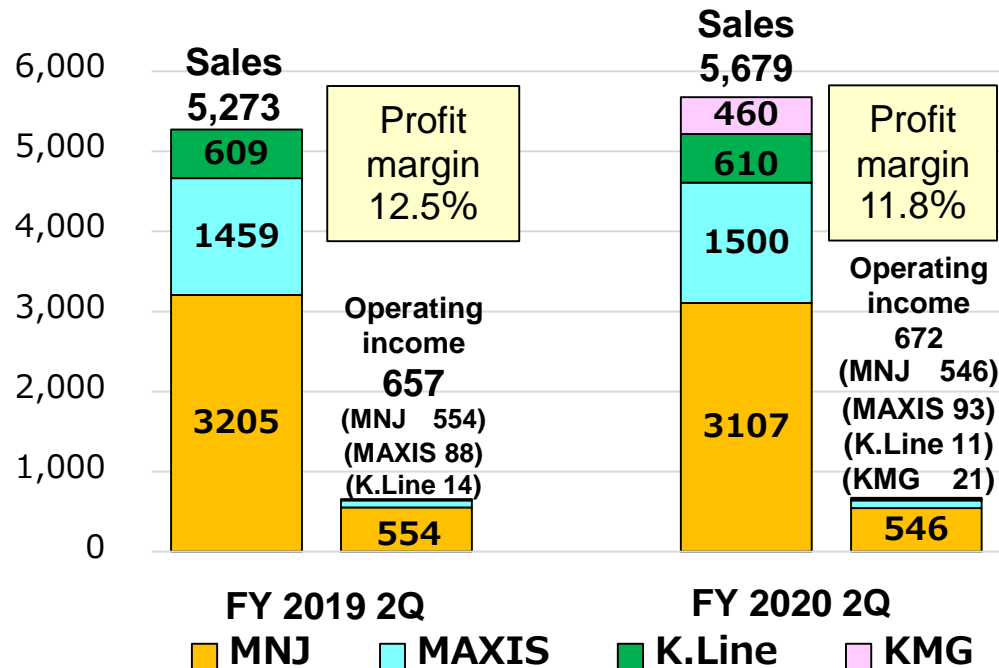
※2 Waseda Academy, Meiko Kids, Sports business and other businesses of consolidated subsidiaries(KOTOH&Company, You DEC, Tokoy Ishin Gakuin, Koyoh shobou, etc)

※3 Intra-group transactions are eliminated from sales amounts.

Deducted amounts are 387 million yen in Meiko jiyuku franchised (303 million yen year on year)、and 51 million yen in other segments (67 million yen year on year).

Meiko Gijuku directly operated school business

(Unit: million yen)



business

Number of Meiko Gijyuku Schools : 403(+ 36)

- MNJ : $\Delta 8$ MAXIS : ± 0 K.Line : +1 KMG : +43
- Due to the acquisition of Shares of KMG (PL is included in the scope of consolidation from 3Q FY2019)

Sales +405 million yen

- Increase due to the acquisition the shares of subsidiary KMG +460 million yen
- MNJ : $\Delta 98$ million yen MAXIS : +41 million yen K.Line : +1 million yen

Operating income +14 million yen

- Increase due to the acquisition the shares of KMG +21 million yen
- MNJ : $\Delta 8$ million yen MAXIS : +4 million yen K.Line : $\Delta 3$ million yen

MAXIS · K.Line · KMG

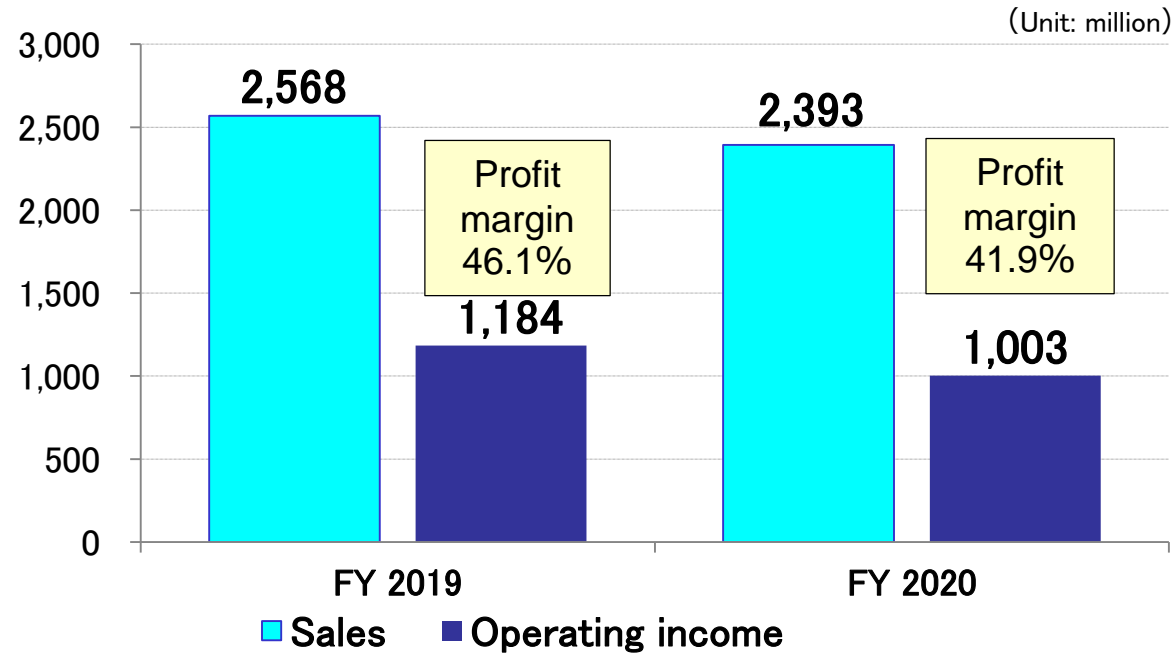
(Unit: schools, people, thousand yen)

(The cost of MAXIS, K.Line and KMG included the Royalty and amortization of goodwill)

MNJ			
	(Unit: schools, people, thousand yen)		
	FY 2019 2Q	FY 2020 2Q	Change
Number of schools (as of Feb.)	231	223	$\Delta 8$
Number of students (average of the term)	15,933	15,536	$\Delta 397$
Average number of students per school (average of the term)	68.9	69.6	+0.6
Average sales per students	201.2	200.0	$\Delta 1.2$

	FY 2019 2Q MAXIS	FY 2020 2Q MAXIS	Change	FY 2019 2Q K.Line	FY 2020 2Q K.Line	Change	FY 2020 2Q KMG
Number of schools (as of Feb.)	94	94	0	42	43	1	43
Number of students (average of the term)	6,672	7,025	+353	2,791	2,688	$\Delta 103$	2,312
Average number of students per school (average of the term)	71.6	76.1	+4.5	66.5	65.0	$\Delta 1.4$	53.8
Average sales per students	218.7	213.6	$\Delta 5.1$	218.2	227.2	+9.0	199.3

Meiko Gijuku franchised school business



■ Number of schools : 1,529 (△124)

- New open/ Renewal open + 7
- Transfer from directly operated school + 4
- Transfer to directly operated school △ 10
- Closed/Cancellation △ 82
- Acquisition of Shares of KMG △ 43

■ Sales △ 174 million yen

- Royalty income △113 million yen
- FC contract deposit income △ 33 million yen
- FC material income △ 19 million yen

(Unit: schools, people)

FC Business	2Q FY 2019	2Q FY 2020	Percentage change	Change
Number of schools (as of Feb.)	1,653	1,529	-7.5%	△124
Number of students (Average)	95,115	88,407	-7.1%	△6,708
Average number of students per school (Average of term)	57.5	57.8	0.5%	0.3
Royalty revenues (million yen)	1,651	1,537	-6.9%	△113
Average royalty revenues per school (thousand yen)	997.7	1,004.8	0.7%	7.1

■ Operating income △180 million yen

- Due to the sales decrease of acquisition of KMG.
- Due to the increase of personnel cost of reinforcement of personnel structure

Japanese language school business/Other Business

(Unit: million)

		FY 2019	FY 2020			
			Results	YoY		Special notes():YoY
				Change	Percentage change	
	Sales (2 schools total)	674	739	+64	+9.6%	WASEDA EDU Number of students 744 (+101) Kokusai Jinzai Kaihatsu(JCLI) Number of students 1,252 (+21)
	Operating income (2 schools total)	105	116	+10	+10.1%	
O t h e r s	Sales	1,575	1,610	+34	+2.2%	
	•Waseda Academy Kobetsu School	265	313	+47	+17.9%	Number of schools : 13(MAXIS 5)、Waseda Academy directly operated 25、 F C 10、 Number of students : 3,918 (+1,341)
	•Meiko Kids	167	196	+29	+17.4%	Number of schools 25、 Number of students 1,263 (+254)
	•Meiko Soccer School	65	55	△9	△14.9%	Number of schools 16 (FC 1) 、 Number of students 786 (△120)
	•KOTOH&Company	416	438	+21	+5.2%	Business relating to university education Both sales and profit are proceeding according to the plan.
	•You DEC	276	254	△21	△7.8%	Sales for inside school cram school, sales of mock tests The sales of mock tests has been decreased.
	•Tokyo Ishin Gakuin	216	164	△52	△24.1%	Number of schools 2 Number of students 63 (△16)
	•Koyoshobou	116	121	+5	+4.5%	Sales of Academic books.
	•Others	50	64	+14	+28.9%	ESLClub, overseas business, Study club, etc
	Operating income	146	75	△71	△48.8%	Profit decrease due to the prior investment to new business (Jiritsugakusyu RED、 tyotto jyuku、 Meiko Kids e, etc)

※ (Note) Sales amounts exclude intra-group transactions

※ Number of schools ・ students are based on the data at the end of February, 2020.

Performance and dividend forecast for FY August 2020

Performance forecast for FY 2020

(Unit: million)

	2Q (Total)				Full year
	Plan*	Results	Against plan		Plan
Net sales	10,600	10,422	△ 177	△1.7%	-
Operating income	1,070	1,280	210	+19.7%	-
Ordinary income	1,130	1,384	254	+22.5%	-
2Q Net income*	590	791	201	+34.2%	-

■ Cram school business · Sports business

- March 2th to 15th (All schools are closed) : The influence by COVID 19
- April 8th to May 6th (859 schools are closed in 7 prefecture) : Emergency situation announced by government
- Change of the customer behavior
⇒ existing student leaving school and also the influence to the new customer

■ Japanese language school business

- More than 500 international students are going to enter school on April (2 schools)
⇒ School entrance will slip in to the July due to the immigration restrictions

- Include above influence, as it is difficult to estimate earning forecast of full year, we disclosure the earning forecast as undecided. Once it becomes capable to estimate, we will disclosure promptly.

Dividend forecast for FY 2020

		Dividend per share of stock			Payout ratio
		Cut off date	2Q of FY 2020	Yen end	
2 0 F Y 2 0	Dividend estimate		15 Yen	30 Yen	94.8%
	Dividend Actual	15 Yen			
FY 2019 (Actual)		15 Yen	15 Yen	30Yen	83.1%

- For the dividend per share of stock of FY 2020, though we keep the dividend as last year, 30 yen(interim 15 yen, yen end 15 yen) and payout ratio 94.8% at the current stage. If we decided to change the amount of the dividend, Once the impact to the COVID 19 infections and earnings estimate by emergency situation is getting clear, we will do announce promptly.

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