

Summary Report on Financial Results for Fiscal Year Ended August 2018 (Japanese Accounting Standards)

October 11, 2018

Company name: MEIKO NETWORK JAPAN CO., LTD.
 Stock exchange listing: The First Section of the Tokyo Stock Exchange
 Stock code: 4668 (URL : <http://www.meikonet.co.jp>)
 Representative: Setsuro Tagami, President
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 Tel: +81-3-5860-2111
 Scheduled date for the ordinary general meeting of shareholders: November 22, 2018
 Scheduled date for commencement of dividend payment: November 26, 2018
 Scheduled date for filing the securities report: November 26, 2018
 Supplementary documents for financial results: Yes
 Financial results briefing: Yes (for analysts)

(Amounts less than one million yen are discarded)

1. Consolidated financial results for year ended August 2018 (September 1, 2017 through August 31, 2018)

(1) Consolidated operating results (Percentages represent increases or decreases from the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended August 2018	19,116	(1.4)	1,441	(44.9)	1,558	(44.5)	657	(67.8)
Year ended August 2017	19,383	3.8	2,615	20.2	2,806	20.7	2,042	116.4

(Note) Comprehensive income:

Year ended August 2018: 1,009 million yen, (56.2%)

Year ended August 2017: 2,303 million yen, 118.3%

	Net income per share	Fully diluted net income per share	Ratio of net income to shareholders' equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	yen	yen	%	%	%
Year ended August 2018	24.74	—	4.6	8.2	7.5
Year ended August 2017	76.92	—	14.8	15.5	13.5

(Reference) Profit or loss on equity method investments:

Year ended August 2018: (10) million yen

Year ended August 2017: 0 million yen

(2) Consolidated financial situation

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
Year ended August 2018	18,835	14,336	76.0	538.72
Year ended August 2017	19,314	14,416	74.5	541.91

(Reference) Shareholders' equity:

Year ended August 2018: 14,306 million yen

Year ended August 2017: 14,391 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	million yen	million yen	million yen	million yen
Year ended August 2018	405	(505)	(1,088)	6,116
Year ended August 2017	3,088	1,136	(1,108)	7,306

2. Dividends

	Dividends per share					Total dividends (for the year) million yen	Payout ratio (consolidated) %	Ratio of dividends to net assets (consolidated) %
	End of the first quarter yen	End of the second quarter yen	End of the third quarter yen	End of the term yen	annual yen			
Year ended August 2017	—	20.00	—	20.00	40.00	1,062	52.0	7.7
Year ended August 2018	—	21.00	—	21.00	42.00	1,115	169.8	7.8
Year ending August 2019 (estimate)	—	15.00	—	15.00	30.00		78.1	

3. Forecast of consolidated financial results for fiscal year ending August 2019 (September 1, 2018 through August 31, 2019)

(Percentages represent increases or decreases from the previous year for the full-year figures, and from the second quarter of the previous year for the consolidated second quarter figures.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Second quarter (cumulative)	10,240	4.8	1,240	4.5	1,280	1.5	690	1.0	25.98
Full-year	20,320	6.3	1,860	29.0	1,940	24.5	1,020	55.2	38.41

(Notes)

(1) Changes of important subsidiaries during the year

(Changes of specific subsidiaries in accordance with changes in the scope of consolidation): None

(2) Changes in accounting policies and changes or restatement of accounting estimates

- (i) Changes in accounting policies caused by revision of accounting standards: None
- (ii) Changes in accounting policies other than (i): None
- (iii) Changes in accounting estimates: Yes
- (iv) Restatement: None

(3) Number of outstanding issues (common stock):

(i) Number of outstanding shares at the year-end (including treasury stock):

Year ended August 2018: 27,803,600 shares
Year ended August 2017: 27,803,600 shares

(ii) Number of shares of treasury stock at the year-end:

Year ended August 2018: 1,246,573 shares
Year ended August 2017: 1,246,573 shares

(iii) Average number of shares during the year:

Year ended August 2018: 26,557,027 shares
Year ended August 2017: 26,557,068 shares

(Reference) Overview of non-consolidated financial results

1. Non-consolidated financial results for fiscal year ended August 2018 (September 1, 2017 through August 31, 2018)

(1) Non-consolidated operating results (Percentages represent increases or decreases from the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended August 2018	12,993	(4.9)	1,088	(52.6)	1,216	(50.8)	673	(65.6)
Year ended August 2017	13,660	(1.6)	2,295	15.7	2,470	14.9	1,956	84.6

	Net income per share	Fully diluted net income per share
	yen	yen
Year ended August 2018	25.35	—
Year ended August 2017	73.66	—

(2) Non-consolidated financial situation

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
Year ended August 2018	16,056	13,979	87.1	526.38
Year ended August 2017	16,856	14,048	83.3	528.99

(Reference) Shareholders' equity:

Year ended August 2018: 13,979 million yen

Year ended August 2017: 14,048million yen

※ This financial summary falls outside the scope of audit procedures.

※ Explanation about appropriate use of the forecasts of financial results, and other noteworthy matters

- Forward-looking statements in the document, such as earnings forecasts, are based on current information in the possession of the company and certain assumptions the company thinks reasonable. Actual results may differ remarkably from the statements due to a variety of different factors.

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

Term Consolidated Fiscal Year	33rd term		34th term	
	From September 1, 2016 to August 31, 2017		From September 1, 2017 to August 31, 2018	
	Operating results	Operating results	Operating results	Same period the previous year
Number of Meiko Gijuku directly operated schools	233	+3	233	-
Number of Meiko Gijuku directly operated schools (MAXIS)	95	+2	93	(2)
Number of Meiko Gijuku directly operated schools (K.LINE)	-	-	42	+42
Number of Meiko Gijuku franchised schools	1,746	(33)	1,661	(85)
Total number of Meiko Gijuku schools	2,074	(28)	2,029	(45)
Number of registered students of Meiko Gijuku directly operated schools	17,112	(836)	15,942	(1,170)
Number of registered students of Meiko Gijuku directly operated schools (MAXIS)	6,662	(176)	6,552	(110)
Number of registered students of Meiko Gijuku directly operated schools (K.LINE)	-	-	2,765	+2,765
Number of registered students of Meiko Gijuku franchised schools	101,445	(4,028)	91,115	(10,330)
Total number of registered students of Meiko Gijuku schools	125,219	(5,040)	116,374	(8,845)
Sales from Meiko Gijuku directly operated schools (million yen)	9,647	(476)	9,530	(116)
Sales from Meiko Gijuku franchised schools ※1 (million yen)	5,586	(11)	5,242	(344)
Sales from Supplemental education (million yen)	573	(116)	443	(129)
Sales from others (million yen)	3,576	+1,315	3,899	+323
Total Sales (million yen)	19,383	+711	19,116	(266)
Sales from Meiko Gijuku directly operated schools (million yen)	9,647	(476)	9,530	(116)
System-wide sales from Meiko Gijuku franchised schools (million yen)	34,131	(1,866)	32,106	(2,025)
Total system-wide sales from Meiko Gijuku schools ※2 (million yen)	43,778	(2,343)	41,637	(2,141)

※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 entrance fees, tuition, materials fees, and examination fees, and the total sales of Meiko Gijuku franchised schools, including entrance fees and tuition. Materials fees, and examination fees of franchised schools are excluded.

Consolidated financial statements
(1) Consolidated balance sheets

(Thousand yen)

	Year ended August 31, 2017	Year ended August 31, 2018
Assets		
Current assets		
Cash and deposits	7,822,906	6,508,431
Accounts receivable - trade	1,300,368	1,286,469
Securities	400,000	200,000
Merchandise	296,806	369,207
Work in process	10,241	11,243
Supplies	19,474	11,151
Advance payments - trade	40,161	107,098
Prepaid expenses	289,258	263,893
Deferred tax assets	246,274	210,551
Other	101,890	269,891
Allowance for doubtful accounts	(96004)	(67450)
Total current assets	<u>10,431,378</u>	<u>9,170,487</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,339,922	1,397,571
Accumulated depreciation	(687711)	(769684)
Buildings and structures, net	<u>652,210</u>	<u>627,886</u>
Tools, furniture and fixtures	348,941	365,048
Accumulated depreciation	(283054)	(304705)
Tools, furniture and fixtures, net	<u>65886</u>	<u>60,342</u>
Land	446,059	446,059
Total property, plant and equipment	<u>1,164,156</u>	<u>1,134,288</u>
Intangible assets		
Goodwill	3,058,517	3,251,028
Software	268,962	178,875
Telephone subscription right	20,737	6,824
Total intangible assets	<u>3,348,217</u>	<u>3,436,728</u>
Investments and other assets		
Investment securities	3,088,091	3,724,989
Long-term loans receivable from subsidiaries and associates	—	20,000
Long-term prepaid expenses	35,794	85,344
Deferred tax assets	60,293	90,011
Lease and guarantee deposits	849,188	937,901
Long-term time deposits	302,150	200,000
Other	35,322	36,075
Total investments and other assets	<u>4,370,840</u>	<u>5,094,322</u>
Total non-current assets	<u>8,883,214</u>	<u>9,665,339</u>
Total assets	<u>19,314,592</u>	<u>18,835,827</u>
Liabilities		
Current liabilities		
Accounts payable - trade	167,398	184,059
Short-term loans payable	70,000	70,000
Accounts payable - other	86,057	145,764
Accrued expenses	973,531	1,018,658
Deferred tax liabilities	—	597
Income taxes payable	1,000,176	209,272
Accrued consumption taxes	263,011	68,587
Advances received	1,155,960	1,379,990
Deposits received	63,126	83,826
Provision for bonuses	343,195	350,544
Provision for sales returns	23,800	29,470
Other	22,585	23,575
Total current liabilities	<u>4,168,844</u>	<u>3,564,345</u>
Non-current liabilities		
Net defined benefit liability	49,938	72,797
Long-term accounts payable-other to employees	146,744	130,602
Long-term accounts payable-other to officers	177,980	176,980
Deferred tax liabilities	87,846	263,616
Asset retirement obligations	245,302	273,375
Long-term guarantee deposited	18,122	17,132
Other	3,161	116
Total non-current liabilities	<u>729,095</u>	<u>934,620</u>
Total liabilities	<u>4,897,940</u>	<u>4,498,965</u>
Net assets		
Shareholders' equity		
Capital stock	972,512	972,512
Capital surplus	909,768	909,768
Retained earnings	13,747,327	13,315,513
Treasury shares	(1643787)	(1643787)
Total shareholders' equity	<u>13,985,821</u>	<u>13,554,007</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	392,014	738,497
Foreign currency translation adjustment	13,707	14,241
Total accumulated other comprehensive income	<u>405,722</u>	<u>752,738</u>
Non-controlling interests	25,109	30,115
Total net assets	<u>14,416,652</u>	<u>14,336,861</u>
Total liabilities and net assets	<u>19,314,592</u>	<u>18,835,827</u>

(2-2) Consolidated statements of comprehensive income

	(Thousand yen)	
	Year ended August 31, 2017	Year ended August 31, 2018
Profit	2,043,801	662,013
Other comprehensive income		
Valuation difference on available-for-sale securities	256,806	346,500
Share of other comprehensive income of entities accounted for using equity method	2,580	533
Total other comprehensive income	<u>259,386</u>	<u>347,033</u>
Comprehensive income	<u>2,303,188</u>	<u>1,009,047</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,302,097	1,004,041
Comprehensive income attributable to non-controlling interests	1,091	5,006

(2-1) Consolidated statements of income

(Thousand yen)

	Year ended	
	August 31, 2017	August 31, 2018
Net sales	19,383,312	19,116,595
Cost of sales	12,696,324	13,020,061
Gross profit	6,686,988	6,096,534
Selling, general and administrative expenses		
Advertising expenses	495,939	446,794
Promotion expenses	1,047,232	1,597,738
Provision of allowance for doubtful accounts	32,656	21,438
Bad debts expenses	—	481
Directors' compensations	367,142	360,898
Salaries and allowances	368,190	367,982
Bonuses	42,979	43,799
Provision for bonuses	42,010	42,425
Retirement benefit expenses	3,371	6,233
Commission fee	195,465	213,531
Depreciation	30,960	54,840
Rent expenses	264,517	287,352
Amortization of goodwill	407,521	402,228
Other	773,010	808,910
Total selling, general and administrative expenses	4,070,999	4,654,654
Operating profit	2,615,988	1,441,879
Non-operating income		
Interest income	27,943	22,374
Dividend income	36,390	46,993
Share of profit of entities accounted for using equity method	578	—
Rent income	57,747	18,347
Reversal of allowance for doubtful accounts	45,152	23,562
Penalty income	—	3,197
Other	43,082	18,763
Total non-operating income	210,895	133,238
Non-operating expenses		
Interest expenses	536	435
Share of loss of entities accounted for using equity method	—	10,435
Rent expenses	14,918	6,119
Other	4,464	21
Total non-operating expenses	19,920	17,012
Ordinary profit	2,806,963	1,558,105
Extraordinary income		
Gain on sales of non-current assets	539,299	—
Gain on sales of investment securities	2,953	—
Total extraordinary income	542,252	—
Extraordinary losses		
Loss on retirement of property, plant and equipment	1,281	23,362
Loss on retirement of software	—	13,055
Impairment loss	7,845	49,673
Total extraordinary losses	9,127	86,091
Profit before income taxes	3,340,088	1,472,014
Income taxes - current	1,293,875	711,913
Income taxes - deferred	2,411	98,087
Total income taxes	1,296,287	810,001
Profit	2,043,801	662,013
Profit attributable to non-controlling interests	969	4,989
Profit attributable to owners of parent	2,042,831	657,024

(3) Statements of changes in shareholders' equity

Year ended August 31, 2017

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	972,512	915,503	12,740,222	(1,643,708)	12,984,528	135,328	11,127	146,456	78,783	13,209,769
Changes of items during period										
Dividends of surplus			(1,035,726)		(1,035,726)					(1,035,726)
Profit attributable to owners of parent			2,042,831		2,042,831					2,042,831
Purchase of treasury shares				(78)	(78)					(78)
Change in ownership interest of parent due to transactions with non-controlling interests		(5,734)			(5,734)					(5,734)
Net changes of items other than shareholders' equity						256,685	2,580	259,265	(53,674)	205,590
Total changes of items during period	—	(5,734)	1,007,105	(78)	1,001,292	256,685	2,580	259,265	(53,674)	1,206,883
Balance at end of current period	972,512	909,768	13,747,327	(1,643,787)	13,985,821	392,014	13,707	405,722	25,109	14,416,652

Year ended August 31, 2018

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	972,512	909,768	13,747,327	(1,643,787)	13,985,821	392,014	13,707	405,722	25,109	14,416,652
Changes of items during period										
Dividends of surplus			(1,088,838)		(1,088,838)					(1,088,838)
Profit attributable to owners of parent			657,024		657,024					657,024
Purchase of treasury shares					—					—
Change in ownership interest of parent due to transactions with non-controlling interests					—					—
Net changes of items other than shareholders' equity						346,483	533	347,016	5,006	352,023
Total changes of items during period	—	—	(431,813)	—	(431,813)	346,483	533	347,016	5,006	(79,790)
Balance at end of current period	972,512	909,768	13,315,513	(1,643,787)	13,554,007	738,497	14,241	752,738	30,115	14,336,861

(4) Consolidated statements of cash flows

(Thousand yen)

	Year ended August 31, 2017	Year ended August 31, 2018
Cash flows from operating activities		
Profit before income taxes	3,340,088	1,472,014
Depreciation	218,386	237,847
Impairment loss	7,845	49,673
Amortization of intangible assets	2,340	3,564
Amortization of goodwill	407,521	402,228
Increase (decrease) in allowance for doubtful accounts	(20728)	(28553)
Increase (decrease) in provision for bonuses	(7521)	(1191)
Increase (decrease) in provision for sales returns	(1190)	5,670
Increase (decrease) in net defined benefit liability	7,088	(2890)
Interest and dividend income	(64334)	(69367)
Interest expenses	536	435
Share of loss (profit) of entities accounted for using equity method	(578)	10,435
Rent income	(57747)	(18347)
Rent expenses	14,918	6,119
Loss on retirement of non-current assets	1,281	36,419
Loss (gain) on sales of investment securities	(2953)	—
Decrease (increase) in notes and accounts receivable - trade	(29630)	13,899
Decrease (increase) in inventories	15,286	(65079)
Increase (decrease) in notes and accounts payable - trade	17,647	16,660
Loss (gain) on sales of non-current assets	(539299)	—
Increase (decrease) in accrued consumption taxes	163,586	(201045)
Increase (decrease) in accrued expenses	60,613	16,042
Decrease (increase) in other assets	(93099)	(49528)
Increase (decrease) in other liabilities	187,854	35,409
Subtotal	<u>3,627,914</u>	<u>1,870,415</u>
Interest and dividend income received	64,214	71,160
Interest expenses paid	(530)	(435)
Income taxes paid	(602952)	(1536109)
Net cash provided by (used in) operating activities	<u>3,088,646</u>	<u>405,031</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(82747)	(198618)
Proceeds from sales of property, plant and equipment	—	53
Purchase of intangible assets	(91303)	(42685)
Purchase of investment securities	(335538)	(449360)
Proceeds from sales of investment securities	5,997	—
Proceeds from redemption of investment securities	500,000	500,000
Proceeds from sales of investments in real estates	1,300,000	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(519275)
Payments of loans receivable	—	(20850)
Collection of loans receivable	—	51
Payments for guarantee deposits	(89319)	(79827)
Proceeds from collection of guarantee deposits	25821	63,013
Decrease (increase) in time deposits	(46615)	227,295
Other, net	(49980)	14,753
Net cash provided by (used in) investing activities	<u>1,136,314</u>	<u>(505448)</u>
Cash flows from financing activities		
Repayments of loans payable	(12664)	—
Purchase of treasury shares	(78)	—
Cash dividends paid	(1034995)	(1088913)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(60500)	—
Net cash provided by (used in) financing activities	<u>(1108237)</u>	<u>(1088913)</u>
Net increase (decrease) in cash and cash equivalents	<u>3,116,722</u>	<u>(1189330)</u>
Cash and cash equivalents at beginning of period	4,189,359	7,306,082
Cash and cash equivalents at end of period	<u>7,306,082</u>	<u>6,116,751</u>

Segment Information

1. Information about Segment Sales and Income (Loss)

Year ended August 31, 2017

(Thousand of Yen)

	Reportable segment				Others ※1	Total
	Meiko Gijuku directly operated schools	Meiko Gijuku franchised schools	Supplemental education	Total		
Net sales						
Sales to third party	9,647,123	5,586,727	573,016	15,806,867	3,576,444	19,383,312
Intersegment sales	—	515,089	—	515,089	145,771	660,861
Total	9,647,123	6,101,817	573,016	16,321,956	3,722,216	20,044,173
Segment income(loss)	1,135,031	2,644,157	71,561	3,850,750	83,958	3,934,708
Other items						
Depreciation	60,426	62,024	12,708	135,159	68,837	203,996
Amortization of goodwill	143,835	—	—	143,835	243,524	387,359

(Note)

- * 1. "Others" consists of the operating segments not included in reportable segments. It includes Meiko Soccer Business, Waseda Academy Kobetsu schools, Kids Business, and other businesses of consolidated subsidiaries.

Year ended August 31, 2018

(Thousand of Yen)

	Reportable segment				Others ※1	Total
	Meiko Gijuku directly operated schools	Meiko Gijuku franchised schools	Supplemental education	Total		
Net sales						
Sales to third party	9,530,928	5,242,363	443,438	15,216,730	3,899,864	19,116,595
Intersegment sales	1,029	527,726	—	528,755	140,824	669,580
Total	9,531,957	5,770,090	443,438	15,745,486	4,040,689	19,786,176
Segment income(loss)	865,035	1,729,641	(21,274)	2,573,403	151,944	2,725,348
Other items						
Depreciation	61,413	64,088	10,694	136,195	88,860	225,056
Amortization of goodwill	158,703	—	—	158,703	243,524	402,228

(Note)

- * 1. "Others" consists of the operating segments not included in reportable segments. It includes Meiko Soccer Business, Waseda Academy Kobetsu schools, Kids Business, and other businesses of consolidated subsidiaries.

2. Reconciliation of Difference Between Reportable Segment Totals and Consolidated Financial Statement Totals (Matters relating to reconciliation of differences)

(Thousand of Yen)

Sales	Year ended August 31, 2017	Year ended August 31, 2018
Reportable segment total	16,321,956	15,745,486
Sales for "Others" category	3,722,216	4,040,689
Intersegment eliminations	(660,861)	(669,580)
Net sales in financial statements	19,383,312	19,116,595

Income(Loss)	Year ended August 31, 2017	Year ended August 31, 2018
Reportable segment total	3,850,750	2,573,403
Income(Loss) for " Others "	83,958	151,944
category		
Amortization of goodwill	(20,161)	—
Corporate expenses	(1,298,558)	(1,283,468)
Operating income in financial statements	2,615,988	1,441,879

(Note) Corporate expenses are mainly expenses that relate to the General Affairs section of the parent company that are not attributable to the reportable segment.

(Thousand of Yen)

Other Items	Reportable segment		Others		Reconciliations		Amount in consolidated financial statements	
	total							
	Year ended August 31, 2017	Year ended August 31, 2018	Year ended August 31, 2017	Year ended August 31, 2018	Year ended August 31, 2017	Year ended August 31, 2018	Year ended August 31, 2017	Year ended August 31, 2018
Depreciation	135,159	136,195	68,837	88,860	14,389	12,790	218,386	237,847

(Note) The reconciliation for depreciation is mainly depreciation for assets that relate to the General Affairs section of the parent company that are not attributable to the reportable segment.