

Summary Report on Financial Results for the First Quarter of the Year Ending August 2020 (Japanese Accounting Standards)

January 14, 2020

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: Kazuhito Yamashita, President
 Contact: Osamu Ogita, Executive officer
 , Director of the Corporate Headquarter

Tel: +81-3-5860-2111
 Scheduled date for filing the securities report: January 14, 2020
 Scheduled date for commencement of dividend payment: -
 Supplementary material development: None
 Financial results meeting: None

(Amounts less than one million yen are discarded)

1. Consolidated financial results for the First quarter of the year ending August 2020 (September 1, 2019 through November 30, 2019)

(1) Consolidated operating results (cumulative)

(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	%
First quarter of the year ending August 2020	4,743	3.3	327	(23.8)	398	(12.0)	195	(25.0)
First quarter of the year ended August 2019	4,591	4.1	430	7.2	453	5.9	261	13.5

(Note) Comprehensive income:

First quarter of the year ending August 2020: 708 million yen 98.5%
 First quarter of the year ended August 2019: 356 million yen (31.4%)

	Net income per share	Fully diluted net income per share
	yen	yen
First quarter of the year ending August 2020	7.37	—
First quarter of the year ended August 2019	9.83	—

(2) Consolidated financial situation

	Total assets	Net assets	Shareholders' equity ratio
	million yen	million yen	%
First quarter of the year ending August 2020	19,680	14,724	74.8
Year ended August 2019	19,765	14,414	72.9

(Reference) Shareholders' equity:

First quarter of the year ending August 2020: 14,713 million yen
 Year ended August 2019: 14,399 million yen

2. Dividends

	Yearly Dividends per share				
	End of the first quarter	End of the second quarter	End of the third quarter	End of the term	annual
	yen	yen	yen	yen	yen
Year ended August 2019	—	15.00	—	15.00	30.00
Year ending August 2020	—				
Year ending August 2020 (estimate)		15.00	—	15.00	30.00

(Note) Revision of dividend forecast in the current quarter: None

3. Forecast of consolidated financial results for fiscal year ending August 2020 (September 1, 2019 through August 31, 2020)

(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 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)	10,600	5.0	1,070	(30.8)	1,130	(29.7)	590	(39.3)	22.22
Full-year	21,000	5.2	1,570	(11.6)	1,690	(11.4)	840	(12.3)	31.63

(Note) Revision of consolidated earnings forecast' numerical values in the current quarter: None

(Notes)

(1) Changes of important subsidiaries during the period

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

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements: None

(3) 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: None
- (iv) Restatement: None

(4) Number of outstanding issues (common stock)

(i) Number of outstanding shares at the end of the period (including treasury stock)

First quarter of the year ending August 2020: 27,803,600 shares

Year ended August 2019: 27,803,600 shares

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

First quarter of the year ending August 2020: 1,246,574 shares

Year ended August 2019: 1,246,574 shares

(iii) Average number of shares during the period (accumulated consolidated quarter)

First quarter of the year ending August 2020: 26,557,026 shares

First quarter of the year ended August 2019: 26,557,026 shares

※ This financial summary falls outside the scope of quarterly review procedures.

※ Explanation of the 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 the information currently available and certain assumptions that the company thinks reasonable. Actual results may differ remarkably from the statements due to variety of different factors.

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

Term	First quarter of the year ended August 2019		First quarter of the year ending August 2020	
	From September 1, 2018 to November 30, 2018		From September 1, 2019 to November 30, 2019	
Fiscal Period	Operating results	Same period the previous year	Operating results	Same period the previous year
Number of Meiko Gijuku directly operated schools	231	(2)	223	(8)
Number of Meiko Gijuku directly operated schools (MAXIS)	93	(2)	92	(1)
Number of Meiko Gijuku directly operated schools (KLINE)	42	+42	41	(1)
Number of Meiko Gijuku directly operated schools (KMG)	—	—	43	43
Number of Meiko Gijuku directly operated schools	366	+38	399	+33
Number of Meiko Gijuku franchised schools	1,655	(86)	1,530	(125)
Total number of Meiko Gijuku schools	2,021	(48)	1,929	(92)
Number of registered students of Meiko Gijuku directly operated schools	16,069	(1,007)	15,636	(433)
Number of registered students of Meiko Gijuku directly operated schools (MAXIS)	6,712	(57)	7,008	+296
Number of registered students of Meiko Gijuku directly operated schools (KLINE)	2,815	+2,815	2,709	(106)
Number of registered students of Meiko Gijuku directly operated schools (KMG)	—	—	2,351	+2,351
Number of registered students of Meiko Gijuku directly operated schools	25,596	+1,751	27,704	+2,108
Number of registered students of Meiko Gijuku franchised schools	96,108	(11,114)	89,293	(6,815)
Total number of registered students of Meiko Gijuku schools	121,704	(9,363)	116,997	(4,707)
Sales from Meiko Gijuku directly operated schools (million yen)	2,215	+189	2,392	+177
Sales from Meiko Gijuku franchised schools ※1 (million yen)	1,192	(6)	1,101	(90)
Sales from Japanese language schools (million yen)	343	+14	381	+37
Sales from others (million yen)	839	(18)	867	+28
Total Sales (million yen)	4,591	+179	4,743	+151
Sales from Meiko Gijuku directly operated schools (million yen)	2,215	+189	2,392	+177
System-wide sales from Meiko Gijuku franchised schools (million yen)	7,405	(578)	6,911	(493)
Total system-wide sales from Meiko Gijuku schools ※2 (million yen)	9,620	(388)	9,303	(316)

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

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

Summary of consolidated financial statements
(1) Consolidated balance sheets

	(Million yen)	
	End of previous fiscal year (As of August 31, 2019)	End of first quarter of the fiscal year (As of November 30, 2019)
Assets		
Current assets		
Cash and deposits	7,495	6,806
Accounts receivable - trade	1,294	1,114
Securities	200	300
Merchandise	391	380
Work in process	14	10
Supplies	12	13
Advance payments - trade	21	14
Prepaid expenses	280	318
Other	124	177
Allowance for doubtful accounts	(100)	(48)
Total current assets	9,734	9,086
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,537	1,558
Accumulated depreciation	(821)	(836)
Buildings and structures, net	715	722
Tools, furniture and fixtures	372	375
Accumulated depreciation	(313)	(319)
Tools, furniture and fixtures, net	59	56
Land	446	446
Total property, plant and equipment	1,220	1,224
Intangible assets		
Goodwill	3,046	2,928
Software	133	266
Software in progress	125	-
Telephone subscription right	5	5
Total intangible assets	3,311	3,200
Investments and other assets		
Investment securities	4,075	4,731
Long-term prepaid expenses	68	62
Deferred tax assets	138	153
Leasehold and guarantee deposits	978	984
Long-term time deposits	200	200
Other	36	36
Total investments and other assets	5,497	6,168
Total non-current assets	10,030	10,593
Total assets	19,765	19,680

Liabilities

Current liabilities		
Accounts payable - trade	199	159
Short-term borrowings	132	132
Accounts payable - other	146	96
Accrued expenses	1,209	907
Income taxes payable	618	264
Accrued consumption taxes	179	245
Advances received	1,480	1,309
Deposits received	124	180
Provision for bonuses	352	558
Provision for sales returns	28	28
Other	35	24
Total current liabilities	<u>4,506</u>	<u>3,908</u>
Non-current liabilities		
Long-term borrowings	64	61
Retirement benefit liability	94	97
Long-term accounts payable-other to employees	111	110
Long-term accounts payable-other to officers	117	117
Deferred tax liabilities	136	339
Asset retirement obligations	300	302
Long-term guarantee deposits	17	17
Total non-current liabilities	<u>843</u>	<u>1,047</u>
Total liabilities	<u>5,350</u>	<u>4,955</u>
Net assets		
Shareholders' equity		
Share capital	972	972
Capital surplus	909	909
Retained earnings	13,317	13,115
Treasury shares	(1643)	(1643)
Total shareholders' equity	<u>13,556</u>	<u>13,353</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	830	1,347
Foreign currency translation adjustment	12	11
Total accumulated other comprehensive income	<u>843</u>	<u>1,359</u>
Non-controlling interests	<u>15</u>	<u>11</u>
Total net assets	<u>14,414</u>	<u>14,724</u>
Total liabilities and net assets	<u>19,765</u>	<u>19,680</u>

(2) Consolidated statements of income and comprehensive income
Consolidated statements of income

(Million yen)

	First quarter of the previous consolidated term (September 1, 2018 - November 30, 2018)	First quarter of the consolidated term (September 1, 2019 - November 30, 2019)
Net sales	4,591	4,743
Cost of sales	3,227	3,482
Gross profit	1,364	1,260
Selling, general and administrative expenses	933	932
Operating profit	430	327
Non-operating income		
Interest income	3	2
Dividend income	—	6
Rental income	4	5
Reversal of allowance for doubtful accounts	10	55
Other	5	3
Total non-operating income	24	73
Non-operating expenses		
Interest expenses	0	0
Rental expenses	1	1
Other	0	0
Total non-operating expenses	1	2
Ordinary profit	453	398
Profit before income taxes	453	398
Income taxes - current	256	246
Income taxes - deferred	(58)	(39)
Total income taxes	198	206
Profit	254	191
Loss attributable to non-controlling interests	(6)	(3)
Profit attributable to owners of parent	261	195

Consolidated statements of comprehensive income

	(Million yen)	
	First quarter of the previous consolidated term (September 1, 2018 - November 30, 2018)	First quarter of the consolidated term (September 1, 2019 - November 30, 2019))
Profit	254	191
Other comprehensive income		
Valuation difference on available-for-sale securities	101	517
Share of other comprehensive income of entities accounted for using equity method	0	0
Total other comprehensive income	101	516
Comprehensive income	356	708
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	363	711
Comprehensive income attributable to non-controlling interests	(6)	(3)

Segment Information

I Three months ended November 30, 2018(From September 1, 2018 to November 30, 2018)

1. Information about Segment Sales and Income (Loss)

(Million of Yen)

	Reportable segment				Others*	Total
	Meiko Gijuku directly operated schools	Meiko Gijuku franchised schools	Japanese language schools	Total		
Net sales						
Sales to third party	2,215	1,192	343	3,751	839	4,591
Intersegment sales	—	150	—	150	37	187
Total	2,215	1,342	343	3,901	877	4,778
Segment income(loss)	(7)	561	28	582	123	706

(Note)* “Others” consists of the operating segments not included in reportable segments. It includes Kids Business (Afterschool), Sports Business (Meiko Soccer School), Waseda Academy Kobetsu Schools and other businesses of consolidated subsidiaries.

2. Difference between the Total of the Reportable Segments’ Measures of Profit or Loss and Income according to Consolidated Quarterly Statements of Income, and the Main Components of the Difference (Matters related to Adjustment of Difference)

(Million of Yen)

Income(Loss)	Amount
Reportable segment total	582
Income(Loss) for “Others”category	123
Corporate expenses*	(275)
Operating income reported on quarterly statements of income	430

(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.

II Three months ended November 30, 2019 (From September 1, 2019 to November 30, 2019)

1. Information about Segment Sales and Income (Loss)

(Million of Yen)

	Reportable segment				Others*	Total
	Meiko Gijuku directly operated schools	Meiko Gijuku franchised schools	Japanese language schools	Total		
Net sales						
Sales to third party	2,392	1,101	381	3,875	867	4,743
Intersegment sales	—	188	—	188	27	216
Total	2,392	1,290	381	4,064	895	4,959
Segment income(loss)	(30)	498	43	511	117	629

(Note)* “Others” consists of the operating segments not included in reportable segments. It includes Kids Business (Afterschool), Sports Business (Meiko Soccer School), Waseda Academy Kobetsu Schools and other businesses of consolidated subsidiaries.

2. Difference between the Total of the Reportable Segments' Measures of Profit or Loss and Income according to Consolidated Quarterly Statements of Income, and the Main Components of the Difference (Matters related to Adjustment of Difference)

(Million of Yen)

Income(Loss)	Amount
Reportable segment total	511
Income(Loss) for "Others" category	117
Corporate expenses*	(301)
Operating income reported on quarterly statements of income	327

(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.

*Matters related to changes in presentation of reportable segment

From first quarter of the fiscal year ending August 2020, in order to represent appropriate reportable segment based on real business segment and activity, and considering the importance of Japanese language schools business (consolidated subsidiaries Waseda EDU and Kokusai Jinzai Kaihatsu) 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".

Also the segment information of the first quarter of the previous fiscal year ended 2019 has been presented as the new classification.