

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

July 10, 2020

Company name: MEIKO NETWORK JAPAN CO., LTD.
 Stock exchange listing: The First Section of the Tokyo Stock Exchange
 Stock code: 4668 (URL : <https://www.meikonet.co.jp>)
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 Scheduled date for filing the securities report: July 13, 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 Third quarter of the year ending August 2020 (September 1, 2019 through May 31, 2020)

(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	%
Third quarter of the year ending August 2020	13,365	(4.9)	37	(95.8)	181	(81.4)	(9)	—
Third quarter of the year ended August 2019	14,051	3.5	893	34.4	978	29.1	461	68.9

(Note) Comprehensive income:

Third quarter of the year ending August 2020: 312 million yen, (14.1%)

Third quarter of the year ended August 2019: 364 million yen, (55.7%)

	Net income per share	Fully diluted net income per share
	yen	yen
Third quarter of the year ending August 2020	(0.35)	—
Third quarter of the year ended August 2019	17.38	—

(2) Consolidated financial situation

	Total assets	Net assets	Shareholders' equity ratio
	million yen	million yen	%
Third quarter of the year ending August 2020	18,204	13,774	75.7
Year ended August 2019	19,765	14,414	72.9

(Reference) Shareholders' equity:

Third quarter of the year ending August 2020: 13,774 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	—	15.00	—		
Year ending August 2020 (estimate)				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.)

	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
Full-year	18,220	(8.8)	(80)	—	100	(94.8)	240	(75.0)	9.16

(Note) Revision of consolidated earnings forecast' numerical values in the current quarter: Yes

(Notes)

(1) Changes of important subsidiaries during the period

(Changes of specific subsidiaries in accordance with changes in the scope of consolidation): Yes

Exclusion of subsidiaries from consolidation: You Dec Co., Ltd

(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)

Third 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:

Third 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)

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

Third 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	Third quarter of the year ended August 2019		Third quarter of the year ending August 2020	
	From September 1, 2018 to May 31, 2019		From September 1, 2019 to May 31, 2020	
Fiscal Period	Operating results	Same period the previous year	Operating results	Same period the previous year
Number of Meiko Gijuku directly operated schools	221	(13)	243	+22
Number of Meiko Gijuku directly operated schools (MAXIS)	92	(1)	94	+2
Number of Meiko Gijuku directly operated schools (KLINE)	41	+41	42	+1
Number of Meiko Gijuku directly operated schools (KMG)	43	+43	42	(1)
Total number of Meiko Gijuku directly operated schools	397	+70	421	+24
Number of Meiko Gijuku franchised schools	1,549	(156)	1,450	(99)
Total number of Meiko Gijuku schools	1,946	(86)	1,871	(75)
Number of registered students of Meiko Gijuku directly operated schools	13,719	(217)	12,521	(1,198)
Number of registered students of Meiko Gijuku directly operated schools (MAXIS)	5,787	+169	5,406	(381)
Number of registered students of Meiko Gijuku directly operated schools (KLINE)	2,397	+2,397	2,217	(180)
Number of registered students of Meiko Gijuku directly operated schools (KMG)	1,944	+1,944	1,711	(233)
Total number of registered students of Meiko Gijuku directly operated schools	23,847	+4,293	21,855	(1,992)
Number of registered students of Meiko Gijuku franchised schools	74,591	(8,500)	64,335	(10,256)
Total number of registered students of Meiko Gijuku schools	98,438	(4,207)	86,190	(12,248)
Sales from Meiko Gijuku directly operated schools (million yen)	7,228	+782	7,211	(16)
Sales from Meiko Gijuku franchised schools ※1 (million yen)	3,620	(208)	3,264	(355)
Sales from Japanese language schools (million yen)	1,017	+36	970	(47)
Sales from others (million yen)	2,185	(131)	1,918	(266)
Total Sales (million yen)	14,051	+478	13,365	(686)
Sales from Meiko Gijuku directly operated schools (million yen)	7,228	+782	7,211	(16)
System-wide sales from Meiko Gijuku franchised schools (million yen)	21,414	(1,830)	19,402	(2,012)
Total system-wide sales from Meiko Gijuku schools ※2	28,643	(1,047)	26,614	(2,029)

※ 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 and examination fees, and the total sales of Meiko Gijuku franchised schools, including tuition. Materials 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 third quarter of the fiscal year (As of May 31, 2020)
Assets		
Current assets		
Cash and deposits	7,495	6,256
Accounts receivable - trade	1,294	529
Securities	200	399
Merchandise	391	152
Work in process	14	10
Supplies	12	11
Advance payments - trade	21	21
Prepaid expenses	280	282
Other	124	581
Allowance for doubtful accounts	(100)	(56)
Total current assets	9,734	8,189
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,537	1,608
Accumulated depreciation	(821)	(840)
Buildings and structures, net	715	768
Tools, furniture and fixtures	372	372
Accumulated depreciation	(313)	(323)
Tools, furniture and fixtures, net	59	49
Land	446	385
Leased assets	-	6
Accumulated depreciation	-	(0)
Leased assets, net	-	6
Total property, plant and equipment	1,220	1,209
Intangible assets		
Goodwill	3,046	2,692
Software	133	276
Software in progress	125	1
Telephone subscription right	5	5
Total intangible assets	3,311	2,975
Investments and other assets		
Investment securities	4,075	4,371
Long-term prepaid expenses	68	62
Deferred tax assets	138	160
Leasehold and guarantee deposits	978	999
Long-term time deposits	200	200
Other	36	36
Total investments and other assets	5,497	5,830
Total non-current assets	10,030	10,015
Total assets	19,765	18,204

Liabilities		
Current liabilities		
Accounts payable - trade	199	123
Short-term borrowings	132	—
Accounts payable - other	146	69
Accrued expenses	1,209	802
Lease obligations	—	1
Income taxes payable	618	141
Accrued consumption taxes	179	149
Advances received	1,480	1,541
Deposits received	124	135
Provision for bonuses	352	536
Provision for sales returns	28	—
Other	35	22
Total current liabilities	<u>4,506</u>	<u>3,524</u>
Non-current liabilities		
Long-term borrowings	64	—
Lease obligations	—	5
Retirement benefit liability	94	105
Long-term accounts payable-other to employees	111	108
Long-term accounts payable-other to officers	117	117
Deferred tax liabilities	136	259
Asset retirement obligations	300	306
Long-term guarantee deposits	17	1
Total non-current liabilities	<u>843</u>	<u>905</u>
Total liabilities	<u>5,350</u>	<u>4,429</u>
Net assets		
Shareholders' equity		
Share capital	972	972
Capital surplus	909	909
Retained earnings	13,317	12,363
Treasury shares	(1,643)	(1,643)
Total shareholders' equity	<u>13,556</u>	<u>12,602</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	830	1,161
Foreign currency translation adjustment	12	11
Total accumulated other comprehensive income	<u>843</u>	<u>1,172</u>
Non-controlling interests	15	—
Total net assets	<u>14,414</u>	<u>13,774</u>
Total liabilities and net assets	<u>19,765</u>	<u>18,204</u>

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

(Million yen)

	Third quarter of the previous consolidated term (From September 1,2018 to May 31, 2019)	Third quarter of the consolidated term (From September 1,2019 to May 31, 2020)
Net sales	14,051	13,365
Cost of sales	10,027	10,302
Gross profit	4,024	3,063
Selling, general and administrative expenses	3,131	3,025
Operating profit	893	37
Non-operating income		
Interest income	12	11
Dividend income	15	19
Share of profit of entities accounted for using equity method	—	3
Rental income	14	15
Reversal of allowance for doubtful accounts	24	79
Other	25	22
Total non-operating income	93	151
Non-operating expenses		
Interest expenses	0	0
Rental expenses	4	4
Other	2	1
Total non-operating expenses	8	6
Ordinary profit	978	181
Extraordinary income		
Gain on sales of investment securities	—	71
Total extraordinary income	—	71
Extraordinary losses		
Loss on retirement of property, plant and equipment	1	1
Loss on sales of shares of subsidiaries and associates	—	53
Total extraordinary losses	1	55
Profit before income taxes	977	197
Income taxes - current	541	266
Income taxes - deferred	(16)	(53)
Total income taxes	524	213
Profit (loss)	452	(15)
Loss attributable to non-controlling interests	(9)	(6)
Profit (loss) attributable to owners of parent	461	(9)

Consolidated statements of comprehensive income

	(Million yen)	
	Third quarter of the previous consolidated term (From September 1,2018 to May 31,2019)	Third quarter of the consolidated term (From September 1,2019 to May 31,2020)
Profit (loss)	452	(15)
Other comprehensive income		
Valuation difference on available-for-sale securities	(87)	329
Share of other comprehensive income of entities accounted for using equity method	(0)	(1)
Total other comprehensive income	(87)	328
Comprehensive income	364	312
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	373	319
Comprehensive income attributable to non-controlling interests	(9)	(7)

Segment Information

I Six months ended May 31, 2019(From September 1, 2018 to May 31, 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	7,228	3,620	1,017	11,866	2,185	14,051
Intersegment sales	—	453	—	453	90	543
Total	7,228	4,073	1,017	12,320	2,275	14,595
Segment income(loss)	188	1,373	81	1,643	83	1,727

(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	1,643
Income (Loss) for “Others” category	83
Corporate expenses*	(833)
Operating income reported on quarterly statements of income	893

(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.

3. Due to the K.M.G Corporation which is included in the scope of consolidation by acquisition of its all shares at the end of second quarter, the increase of goodwill is 255 million in the segment of Meiko Gijuku directly operated schools.

II Six months ended May 31, 2020 (From September 1, 2019 to May 31, 2020)

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	7,211	3,264	970	11,447	1,918	13,365
Intersegment sales	4	527	—	531	63	595
Total	7,216	3,792	970	11,979	1,981	13,961
Segment income(loss)	(84)	1,045	119	1,081	(158)	922

(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	1,081
Income (Loss) for "Others" category	(158)
Corporate expenses*	(885)
Operating income reported on quarterly statements of income	37

(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 the 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 third quarter of the previous fiscal year ended 2019 has been presented as the new classification.