

Summary Report on Financial Results for Fiscal Year Ended August 2017 (Japanese Accounting Standards)

October 12, 2017

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 17, 2017
Scheduled date for commencement of dividend payment: November 20, 2017
Scheduled date for filing the securities report: November 24, 2017
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 2017 (September 1, 2016 through August 31, 2017)

(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 2017	19,383	3.8	2,615	20.2	2,806	20.7	2,042	116.4
Year ended August 2016	18,672	(0.5)	2,175	(38.8)	2,325	(38.8)	944	(60.2)

(Note) Comprehensive income:

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

Year ended August 2016: 1,054 million yen, (55.1%)

	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 2017	76.92	—	14.8	15.5	13.5
Year ended August 2016	35.25	—	6.8	13.0	11.7

(Reference) Profit or loss on equity method investments:

Year ended August 2017: 0 million yen

Year ended August 2016: (11) 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 2017	19,314	14,416	74.5	541.91
Year ended August 2016	16,970	13,209	77.4	494.44

(Reference) Shareholders' equity:

Year ended August 2017: 14,391 million yen

Year ended August 2016: 13,130 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 2017	3,088	1,136	(1,108)	7,306
Year ended August 2016	937	115	(2,486)	4,189

2. Dividends

	Dividends per share					Total dividends (for the year)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	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	million yen	%	%
Year ended August 2016	—	19.00	—	19.00	38.00	1,009	107.8	7.4
Year ended August 2017	—	20.00	—	20.00	40.00	1,062	52.0	7.7
Year ending August 2018 (estimate)	—	21.00	—	21.00	42.00		93.6	

3. Forecast of consolidated financial results for fiscal year ending August 2018 (September 1, 2017 through August 31, 2018)

(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)	10,054	(0.9)	924	(54.7)	968	(55.2)	525	(69.3)	19.78
Full-year	20,415	5.3	2,011	(23.1)	2,100	(25.2)	1,191	(41.7)	44.85

(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: None
- (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 2017: 27,803,600 shares
Year ended August 2016: 27,803,600 shares

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

Year ended August 2017: 1,246,573 shares
Year ended August 2016: 1,246,507 shares

(iii) Average number of shares during the year:

Year ended August 2017: 26,557,068 shares
Year ended August 2016: 26,782,591 shares

(Reference) Overview of non-consolidated financial results

1. Non-consolidated financial results for fiscal year ended August 2017 (September 1, 2016 through August 31, 2017)

(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 2017	13,660	(1.6)	2,295	15.7	2,470	14.9	1,956	84.6
Year ended August 2016	13,881	(2.4)	1,983	(37.4)	2,151	(37.1)	1,059	(50.0)

	Net income per share	Fully diluted net income per share
	yen	yen
Year ended August 2017	73.66	—
Year ended August 2016	39.56	—

(2) Non-consolidated financial situation

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
Year ended August 2017	16,856	14,048	83.3	528.99
Year ended August 2016	14,752	12,871	87.3	484.69

(Reference) Shareholders' equity:

Year ended August 2017: 14,048 million yen

Year ended August 2016: 12,871 million 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	32nd term		33rd term	
Consolidated Fiscal Year	From September 1, 2015 to August 31, 2016		From September 1, 2016 to August 31, 2017	
	Operating results	Operating results	Operating results	Same period the previous year
Number of Meiko Gijuku directly operated schools	230	+8	233	+3
Number of Meiko Gijuku directly operated schools (MAXIS)	93	+2	95	+2
Number of Meiko Gijuku franchised schools	1,779	(45)	1,746	(33)
Total number of Meiko Gijuku schools	2,102	(35)	2,074	(28)
Number of registered students of Meiko Gijuku directly operated schools	17,948	(225)	17,112	(836)
Number of registered students of Meiko Gijuku directly operated schools (MAXIS)	6,838	(485)	6,662	(176)
Number of registered students of Meiko Gijuku franchised schools	105,473	(5,921)	101,445	(4,028)
Total number of registered students of Meiko Gijuku schools	130,259	(6,631)	125,219	(5,040)
Sales from Meiko Gijuku directly operated schools (million yen)	10,123	(198)	9,647	(476)
Sales from Meiko Gijuku franchised schools ※1 (million yen)	5,597	(420)	5,586	(11)
Sales from Supplemental education (million yen)	689	+49	573	(116)
Sales from others (million yen)	2,260	+472	3,576	+1,315
Total Sales (million yen)	18,672	(96)	19,383	+711
Sales from Meiko Gijuku directly operated schools (million yen)	10,123	(198)	9,647	(476)
System-wide sales from Meiko Gijuku franchised schools (million yen)	35,998	(1,441)	34,131	(1,866)
Total system-wide sales from Meiko Gijuku schools ※2 (million yen)	46,122	(1,640)	43,778	(2,343)

※ 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, 2016	Year ended August 31, 2017
Assets		
Current assets		
Cash and deposits	4,633,718	7,822,906
Accounts receivable - trade	1,270,738	1,300,368
Securities	200,000	400,000
Merchandise	323,364	296,806
Work in process	11,217	10,241
Supplies	7,226	19,474
Advance payments - trade	30,713	40,161
Prepaid expenses	219,463	289,258
Deferred tax assets	201,757	246,274
Other	83,820	101,890
Allowance for doubtful accounts	(116,733)	(96,004)
Total current assets	6,865,287	10,431,378
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,278,674	1,339,922
Accumulated depreciation	(625,220)	(687,711)
Buildings and structures, net	653,454	652,210
Tools, furniture and fixtures	330,139	348,941
Accumulated depreciation	(267,852)	(283,054)
Tools, furniture and fixtures, net	62,286	65,886
Land	446,059	446,059
Total property, plant and equipment	1,161,800	1,164,156
Intangible assets		
Goodwill	3,466,039	3,058,517
Software	296,100	268,962
Telephone subscription right	20,737	20,737
Total intangible assets	3,782,877	3,348,217
Investments and other assets		
Investment securities	3,083,115	3,088,091
Long-term prepaid expenses	28,013	35,794
Deferred tax assets	150,512	60,293
Lease and guarantee deposits	779,610	849,188
Real estate for investment	968,462	—
Accumulated depreciation	(247,346)	—
Real estate for investment, net	721,115	—
Long-term time deposits	328,000	302,150
Other	70,279	35,322
Total investments and other assets	5,160,646	4,370,840
Total non-current assets	10,105,324	8,883,214
Total assets	16,970,611	19,314,592

	Year ended August 31, 2016	Year ended August 31, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	150,293	167,398
Short-term loans payable	70,000	70,000
Current portion of long-term loans payable	4,416	—
Accounts payable - other	48,003	86,057
Accrued expenses	914,355	973,531
Income taxes payable	230,111	1,000,176
Accrued consumption taxes	99,425	263,011
Advances received	1,095,231	1,155,960
Deposits received	47,781	63,126
Provision for bonuses	350,716	343,195
Provision for sales returns	24,990	23,800
Other	24,369	22,585
Total current liabilities	3,059,694	4,168,844
Non-current liabilities		
Long-term loans payable	8,248	—
Net defined benefit liability	42,850	49,938
Long-term accounts payable-other to employees	155,995	146,744
Long-term accounts payable-other to officers	178,980	177,980
Deferred tax liabilities	17,735	87,846
Asset retirement obligations	215,567	245,302
Long-term guarantee deposited	75,087	18,122
Other	6,684	3,161
Total non-current liabilities	701,148	729,095
Total liabilities	3,760,842	4,897,940
Net assets		
Shareholders' equity		
Capital stock	972,512	972,512
Capital surplus	915,503	909,768
Retained earnings	12,740,222	13,747,327
Treasury shares	(1,643,708)	(1,643,787)
Total shareholders' equity	12,984,528	13,985,821
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	135,328	392,014
Foreign currency translation adjustment	11,127	13,707
Total accumulated other comprehensive income	146,456	405,722
Non-controlling interests	78,783	25,109
Total net assets	13,209,769	14,416,652
Total liabilities and net assets	16,970,611	19,314,592

(2-1) Consolidated statements of income

	(Thousand yen)	
	Year ended August 31, 2016	Year ended August 31, 2017
Net sales	18,672,016	19,383,312
Cost of sales	12,165,110	12,696,324
Gross profit	6,506,906	6,686,988
Selling, general and administrative expenses		
Advertising expenses	565,374	495,939
Promotion expenses	1,574,608	1,047,232
Provision of allowance for doubtful accounts	61,192	32,656
Bad debts expenses	6	—
Directors' compensations	332,997	367,142
Salaries and allowances	318,662	368,190
Bonuses	42,179	42,979
Provision for bonuses	38,259	42,010
Retirement benefit expenses	3,311	3,371
Commission fee	326,785	195,465
Depreciation	24,444	30,960
Rent expenses	221,204	264,517
Amortization of goodwill	259,315	407,521
Other	562,807	773,010
Total selling, general and administrative expenses	4,331,149	4,070,999
Operating profit	2,175,756	2,615,988
Non-operating income		
Interest income	31,153	27,943
Dividend income	33,389	36,390
Share of profit of entities accounted for using equity method	—	578
Rent income	92,547	57,747
Reversal of allowance for doubtful accounts	19,269	45,152
Penalty income	30,000	—
Other	19,342	43,082
Total non-operating income	225,700	210,895
Non-operating expenses		
Interest expenses	889	536
Share of loss of entities accounted for using equity method	11,115	—
Rent expenses	38,114	14,918
Other	25,376	4,464
Total non-operating expenses	75,496	19,920
Ordinary profit	2,325,961	2,806,963
Extraordinary income		
Gain on sales of non-current assets	—	539,299
Gain on change in equity	10,897	—
Gain on sales of investment securities	45,469	2,953
Gain on extinguishment of asset retirement obligations	2,282	—
Compensation for transfer	8,640	—
Total extraordinary income	67,289	542,252
Extraordinary losses		
Loss on retirement of property, plant and equipment	12,961	1,281
Loss on valuation of investment securities	50,212	—
Adjustment for tutors' salary	408,502	—
Loss on liquidation of subsidiaries and associates	104,321	—
Impairment loss	—	7,845
Total extraordinary losses	575,998	9,127
Profit before income taxes	1,817,252	3,340,088
Income taxes - current	816,382	1,293,875
Income taxes - deferred	37,267	2,411
Total income taxes	853,650	1,296,287
Profit	963,602	2,043,801
Profit attributable to non-controlling interests	19,537	969
Profit attributable to owners of the parent	944,064	2,042,831

(2-2) Consolidated statements of comprehensive income

	(Thousand yen)	
	Year ended August 31, 2016	Year ended August 31, 2017
Profit	963,602	2,043,801
Other comprehensive income		
Valuation difference on available-for-sale securities	96,237	256,806
Share of other comprehensive income of entities accounted for using equity method	(4,940)	2,580
Total other comprehensive income	91,297	259,386
Comprehensive income	1,054,899	2,303,188
Comprehensive income attributable to		
Owners of the parent	1,035,458	2,302,097
Non-controlling interests	19,440	1,091

(3) Statements of changes in shareholders' equity

Year ended August 31, 2016

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earning	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	972,512	915,503	12,770,002	(143,612)	14,514,405
Changes of items during the period					
Dividends from surplus			(973,845)		(973,845)
Net income attributable to owners of the parent			944,064		944,064
Purchase of treasury stock				(1,500,096)	(1,500,096)
Change in ownership interest of parent due to transactions with non-controlling interests					—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	—	(29,780)	(1,500,096)	(1,529,876)
Balance at the end of current period	972,512	915,503	12,740,222	(1,643,708)	12,984,528

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	38,994	16,068	55,063	59,342	14,628,811
Changes of items during the period					
Dividends from surplus					(973,845)
Net income attributable to owners of the parent					944,064
Purchase of treasury stock					(1,500,096)
Change in ownership interest of parent due to transactions with non-controlling interests					—
Net changes of items other than shareholders' equity	96,334	(4,940)	91,393	19,440	110,834
Total changes of items during the period	96,334	(4,940)	91,393	19,440	(1,419,042)
Balance at the end of current period	135,328	11,127	146,456	78,783	13,209,769

Year ended August 31, 2017

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earning	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	972,512	915,503	12,740,222	(1,643,708)	12,984,528
Changes of items during the period					
Dividends from surplus			(1,035,726)		(1,035,726)
Net income attributable to owners of the parent			2,042,831		2,042,831
Purchase of treasury stock				(78)	(78)
Change in ownership interest of parent due to transactions with non-controlling interests		(5,734)			(5,734)
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(5,734)	1,007,105	(78)	1,001,292
Balance at the end of current period	972,512	909,768	13,747,327	(1,643,787)	13,985,821

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	135,328	11,127	146,456	78,783	13,209,769
Changes of items during the period					
Dividends from surplus					(1,035,726)
Net income attributable to owners of the parent					2,042,831
Purchase of treasury stock					(78)
Change in ownership interest of parent due to transactions with non-controlling interests					(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 the period	256,685	2,580	259,265	(53,674)	1,206,883
Balance at the end of current period	392,014	13,707	405,722	25,109	14,416,652

(4) Consolidated statements of cash flows

	(Thousand yen)	
	Year ended August 31, 2016	Year ended August 31, 2017
Cash flows from operating activities		
Profit before income taxes	1,817,252	3,340,088
Depreciation	217,715	218,386
Impairment loss	—	7,845
Amortization of intangible assets	32,004	2,340
Amortization of goodwill	259,315	407,521
Increase (decrease) in allowance for doubtful accounts	21,995	(20,728)
Increase (decrease) in provision for bonuses	6,300	(7,521)
Increase (decrease) in provision for sales returns	(40)	(1,190)
Increase (decrease) in net defined benefit liability	3,829	7,088
Interest and dividend income	(64,542)	(64,334)
Interest expenses	889	536
Share of (profit) loss of entities accounted for using equity method	11,115	(578)
Rent income	(92,547)	(57,747)
Rent expenses	38,114	14,918
Adjustment for tutors' salary	408,502	—
Gain on extinguishment of asset retirement obligations	(2,282)	—
Loss on retirement of non-current assets	12,961	1,281
Loss (gain) on sales of investment securities	(45,469)	(2,953)
Loss (gain) on valuation of investment securities	50,212	—
Loss on liquidation of subsidiaries and associates	104,321	—
Decrease (increase) in notes and accounts receivable - trade	38,859	(29,630)
Decrease (increase) in inventories	(15,419)	15,286
Increase (decrease) in notes and accounts payable - trade	(45,501)	17,647
Loss (gain) on sales of non-current assets	—	(539,299)
Increase (decrease) in accrued consumption taxes	(192,925)	163,586
Increase (decrease) in accrued expenses	(82,258)	60,613
Decrease (increase) in other assets	(55,822)	(93,099)
Increase (decrease) in other liabilities	69,714	187,854
Subtotal	2,496,296	3,627,914
Interest and dividend income received	64,619	64,214
Interest expenses paid	(889)	(530)
Adjustment for tutors' salary paid	(408,502)	—
Income taxes paid	(1,214,344)	(602,952)
Net cash provided by (used in) operating activities	937,179	3,088,646

	Year ended August 31, 2016	Year ended August 31, 2017
Cash flows from investing activities		
Purchase of securities	(200,000)	—
Proceeds from redemption of securities	300,000	—
Purchase of property, plant and equipment	(86,422)	(82,747)
Proceeds from sales of property, plant and equipment	380	—
Purchase of intangible assets	(172,802)	(91,303)
Purchase of investment securities	(237,821)	(335,538)
Proceeds from sales of investment securities	140,000	5,997
Proceeds from redemption of investment securities	300,000	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	(1,528,961)	—
Payments of loans receivable	(48,700)	—
Collection of loans receivable	63,732	—
Payments for guarantee deposits	(59,264)	(89,319)
Proceeds from collection of guarantee deposits	20,680	25,821
Decrease (increase) in time deposits	1,549,293	(46,615)
Other, net	75,262	(49,980)
Net cash provided by (used in) investing activities	115,377	1,136,314
Cash flows from financing activities		
Repayments of loans payable	(13,386)	(12,664)
Purchase of treasury shares	(1,500,096)	(78)
Cash dividends paid	(973,449)	(1,034,995)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(60,500)
Net cash provided by (used in) financing activities	(2,486,932)	(1,108,237)
Net increase (decrease) in cash and cash equivalents	(1,434,375)	3,116,722
Cash and cash equivalents at beginning of period	5,623,734	4,189,359
Cash and cash equivalents at end of period	4,189,359	7,306,082

Segment Information

1. Information about Segment Sales and Income (Loss)

Year ended August 31, 2016

(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	10,123,645	5,597,810	689,604	16,411,060	2,260,956	18,672,016
Intersegment sales	—	546,375	—	546,375	144,296	690,671
Total	10,123,645	6,144,185	689,604	16,957,435	2,405,253	19,362,688
Segment income(loss)	1,331,640	2,147,777	119,313	3,598,731	(176,488)	3,422,242
Other items						
Depreciation	63,899	61,594	13,158	138,652	62,784	201,436
Amortization of goodwill	143,835	—	—	143,835	95,318	239,153

(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, 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.

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, 2016	Year ended August 31, 2017
Reportable segment total	16,957,435	16,321,956
Sales for "Others" category	2,405,253	3,722,216
Intersegment eliminations	(690,671)	(660,861)
Net sales in financial statements	18,672,016	19,383,312

(Thousand of Yen)

Income(Loss)	Year ended August 31, 2016	Year ended August 31, 2017
Reportable segment total	3,598,731	3,850,750
Income(Loss) for "Others" category	(176,488)	83,958
Amortization of goodwill	(20,161)	(20,161)
Corporate expenses	(1,226,324)	(1,298,558)
Operating income in financial statements	2,175,756	2,615,988

(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 total		Others		Reconciliations		Amount in consolidated financial statements	
	Year ended August 31, 2016	Year ended August 31, 2017	Year ended August 31, 2016	Year ended August 31, 2017	Year ended August 31, 2016	Year ended August 31, 2017	Year ended August 31, 2016	Year ended August 31, 2017
Depreciation	138,652	135,159	62,784	68,837	16,279	14,389	217,715	218,386

(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.