

Summary Report on Financial Results for the Third Quarter of the Year Ending August 2018 (Japanese Accounting Standards)

July 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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 Scheduled date for filing the securities report: July 12, 2018
 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 2018 (September 1, 2017 through May 31, 2018)

(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 2018	13,573	(3.2)	664	(61.9)	757	(60.1)	273	(81.3)
Third quarter of the year ended August 2017	14,028	7.3	1,743	76.2	1,897	87.6	1,458	884.5

(Note) Comprehensive income:

Third quarter of the year ending August 2018: 822 million yen, (50.7%)
 Third quarter of the year ended August 2017: 1,667 million yen, 798.8%

	Net income per share	Fully diluted net income per share
	yen	yen
Third quarter of the year ending August 2018	10.29	—
Third quarter of the year ended August 2017	54.90	—

(2) Consolidated financial situation

	Total assets	Net assets	Shareholders' equity ratio
	million yen	million yen	%
Third quarter of the year ending August 2018	18,502	14,150	76.3
Year ended August 2017	19,314	14,416	74.5

(Reference) Shareholders' equity:

Third quarter of the year ending August 2018: 14,118 million yen
 Year ended August 2017: 14,391 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 2017	—	20.00	—	20.00	40.00
Year ending August 2018	—	21.00	—		
Year ending August 2018 (estimate)				21.00	42.00

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

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.)

	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	19,120	(1.4)	1,280	(51.1)	1,390	(50.5)	730	(64.3)	27.49

(Note) Revision of consolidated earnings projections' numerical values in the current quarter: Exist

4. Others

(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)

Third quarter of the year ending August 2018: 27,803,600 shares

Year ended August 2017: 27,803,600 shares

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

Third quarter of the year ending August 2018: 1,246,573 shares

Year ended August 2017: 1,246,573 shares

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

Third quarter of the year ending August 2018: 26,557,027 shares

Third quarter of the year ended August 2017: 26,557,082 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 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	Third quarter of the year ending August 2017		Third quarter of the year ending August 2018	
	From September 1, 2016 to May 31, 2017		From September 1, 2017 to May 31, 2018	
Fiscal Period	Operating results	Same period the previous year	Operating results	Same period the previous year
Number of Meiko Gijuku directly operated schools	233	+3	234	+1
Number of Meiko Gijuku directly operated schools (MAXIS)	95	+2	93	(2)
Number of Meiko Gijuku franchised schools	1,747	(32)	1,705	(42)
Total number of Meiko Gijuku schools	2,075	(27)	2,032	(43)
Number of registered students of Meiko Gijuku directly operated schools	14,836	(573)	13,936	(900)
Number of registered students of Meiko Gijuku directly operated schools (MAXIS)	5,851	(252)	5,618	(233)
Number of registered students of Meiko Gijuku franchised schools	88,838	(3,168)	83,091	(5,747)
Total number of registered students of Meiko Gijuku schools	109,525	(3,993)	102,645	(6,880)
Sales from Meiko Gijuku directly operated schools (million yen)	6,846	(245)	6,446	(400)
Sales from Meiko Gijuku franchised schools ※1 (million yen)	4,062	+28	3,829	(232)
Sales from Supplemental education (million yen)	418	(56)	313	(104)
Sales from others (million yen)	2,702	+1,228	2,984	+282
Total Sales (million yen)	14,028	+955	13,573	(455)
Sales from Meiko Gijuku directly operated schools (million yen)	6,846	(245)	6,446	(400)
System-wide sales from Meiko Gijuku franchised schools (million yen)	24,492	(1,429)	23,245	(1,247)
Total system-wide sales from Meiko Gijuku schools ※2 (million yen)	31,338	(1,674)	29,691	(1,647)

※ 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

(Thousand yen)

	End of previous fiscal year (As of August 31, 2017)	End of third quarter of the fiscal year under review (As of May 31, 2018)
Assets		
Current assets		
Cash and deposits	7,822,906	5,725,983
Accounts receivable - trade	1,300,368	1,003,690
Securities	400,000	200,000
Merchandise	296,806	384,479
Work in process	10,241	6,329
Supplies	19,474	17,388
Advance payments - trade	40,161	24,929
Prepaid expenses	289,258	266,406
Deferred tax assets	246,274	213,088
Other	101,890	521,090
Allowance for doubtful accounts	(96,004)	(96,178)
Total current assets	10,431,378	8,267,206
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,339,922	1,492,968
Accumulated depreciation	(687,711)	(793,404)
Buildings and structures, net	652,210	699,563
Tools, furniture and fixtures	348,941	378,717
Accumulated depreciation	(283,054)	(313,178)
Tools, furniture and fixtures, net	65,886	65,539
Land	446,059	446,059
Total property, plant and equipment	1,164,156	1,211,162
Intangible assets		
Goodwill	3,058,517	3,362,737
Software	268,962	221,156
Telephone subscription right	20,737	20,737
Total intangible assets	3,348,217	3,604,631
Investments and other assets		
Investment securities	3,088,091	4,015,105
Long-term prepaid expenses	35,794	93,784
Deferred tax assets	60,293	115,904
Lease and guarantee deposits	849,188	956,876
Long-term time deposits	302,150	202,200
Other	35,322	36,064
Total investments and other assets	4,370,840	5,419,936
Total non-current assets	8,883,214	10,235,729
Total assets	19,314,592	18,502,936

	(Thousand yen)	
	End of previous fiscal year (As of August 31, 2017)	End of third quarter of the fiscal year under review (As of May 31, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	167,398	181,971
Short-term loans payable	70,000	70,000
Accounts payable - other	86,057	113,534
Accrued expenses	973,531	705,269
Deferred tax liabilities	-	597
Income taxes payable	1,000,176	126,143
Accrued consumption taxes	263,011	55,405
Advances received	1,155,960	1,426,526
Deposits received	63,126	93,030
Provision for bonuses	343,195	493,005
Provision for sales returns	23,800	23,800
Other	22,585	37,914
Total current liabilities	4,168,844	3,327,198
Non-current liabilities		
Net defined benefit liability	49,938	71,441
Long-term accounts payable-other to employees	146,744	134,530
Long-term accounts payable-other to officers	177,980	176,980
Deferred tax liabilities	87,846	358,864
Asset retirement obligations	245,302	265,557
Long-term guarantee deposited	18,122	17,132
Other	3,161	877
Total non-current liabilities	729,095	1,025,384
Total liabilities	4,897,940	4,352,583
Net assets		
Shareholders' equity		
Capital stock	972,512	972,512
Capital surplus	909,768	909,768
Retained earnings	13,747,327	12,931,821
Treasury shares	(1,643,787)	(1,643,787)
Total shareholders' equity	13,985,821	13,170,315
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	392,014	934,436
Foreign currency translation adjustment	13,707	14,002
Total accumulated other comprehensive income	405,722	948,439
Non-controlling interests	25,109	31,598
Total net assets	14,416,652	14,150,353
Total liabilities and net assets	19,314,592	18,502,936

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

(Thousand yen)

	First nine-month period of previous fiscal year (September 1, 2016 - May 31, 2017)	First nine-month period of the fiscal year under review (September 1, 2017 - May 31, 2018)
Net sales	14,028,747	13,573,262
Cost of sales	9,331,894	9,517,813
Gross profit	4,696,852	4,055,448
Selling, general and administrative expenses	2,953,267	3,390,805
Operating income	1,743,585	664,643
Non-operating income		
Interest income	21,129	16,858
Dividend income	25,188	24,704
Share of profit of entities accounted for using equity method	6,605	3,266
Rent income	53,436	13,484
Reversal of allowance for doubtful accounts	38,580	24,084
Other	20,732	16,799
Total non-operating income	165,673	99,199
Non-operating expenses		
Interest expenses	404	394
Rent expenses	9,113	4,584
Other	2,396	1,187
Total non-operating expenses	11,915	6,166
Ordinary profit	1,897,343	757,676
Extraordinary income		
Gain on sales of non-current assets	544,907	—
Total extraordinary income	544,907	—
Extraordinary losses		
Loss on retirement of property, plant and equipment	—	4,284
Total extraordinary losses	—	4,284
Profit before income taxes	2,442,250	753,391
Income taxes - current	984,071	395,153
Income taxes - deferred	(11,678)	78,430
Total income taxes	972,393	473,583
Profit	1,469,857	279,807
Profit attributable to non-controlling interests	11,857	6,475
Profit attributable to owners of the parent	1,458,000	273,332

Consolidated statements of comprehensive income

(Thousand yen)

	First nine-month period of previous fiscal year (September 1, 2016 - May 31, 2017)	First nine-month period of the fiscal year under review (September 1, 2017 - May 31, 2018)
Profit	1,469,857	279,807
Other comprehensive income		
Valuation difference on available-for-sale securities	194,428	542,437
Share of other comprehensive income of entities accounted for using equity method	3,557	294
Total other comprehensive income	197,986	542,731
Comprehensive income	1,667,844	822,538
Comprehensive income attributable to		
Owners of the parent	1,655,903	816,049
Non-controlling interests	11,940	6,489

Segment Information

I Nine months ended May 31, 2017 (From September 1, 2016 to May 31, 2017)

1. Information about Segment Sales and Income (Loss)

(Thousand of Yen)

	Reportable segment				Others*	Total
	Meiko Gijuku directly operated schools	Meiko Gijuku franchised schools	Supplemental education	Total		
Net sales						
Sales to third party	6,846,559	4,062,025	418,001	11,326,586	2,702,161	14,028,747
Intersegment sales	—	378,330	—	378,330	106,164	484,495
Total	6,846,559	4,440,356	418,001	11,704,917	2,808,325	14,513,243
Segment income(loss)	586,957	1,873,817	42,656	2,503,430	152,601	2,656,032

(Note)* “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. 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)

(Thousand of Yen)

Income(Loss)	Amount
Reportable segment total	2,503,430
Income(Loss) for “Others”category	152,601
Amortization of goodwill	(15,121)
Corporate expenses*	(897,325)
Operating income reported on quarterly statements of income	1,743,585

(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 Nine months ended May 31, 2018 (From September 1, 2017 to May 31, 2018)

1. Information about Segment Sales and Income (Loss)

(Thousand of Yen)

	Reportable segment				Others*	Total
	Meiko Gijuku directly operated schools	Meiko Gijuku franchised schools	Supplemental education	Total		
Net sales						
Sales to third party	6,446,094	3,829,073	313,652	10,588,820	2,984,442	13,573,262
Intersegment sales	1,029	336,239	—	337,268	104,220	441,488
Total	6,447,123	4,165,312	313,652	10,926,088	3,088,662	14,014,750
Segment income(loss)	265,500	1,115,646	(36,430)	1,344,717	211,813	1,556,531

(Note)* “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. 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)

(Thousand of Yen)

Income(Loss)	Amount
Reportable segment total	1,344,717
Income(Loss) for "Others" category	211,813
Corporate expenses*	(891,887)
Operating income reported on quarterly statements of income	664,643

(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.

Revision of Earnings Projections' Numerical Values

(Consolidated) the full-year for fiscal year ending August 2018

(September 1, 2017 through August 31, 2018)

(Million yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Net income per share
The previous announcement (A)	20,415	2,011	2,100	1,191	44.85 yen
This time announcement (B)	19,120	1,280	1,390	730	27.49 yen
Change of amount (B-A)	(1,295)	(731)	(710)	(461)	—
Percentage change (%)	(6.3)	(36.4)	(33.8)	(38.7)	—
(Reference) Year ended August 2017	19,383	2,615	2,806	2,042	76.92 yen