

# Riso Kyoiku Co., Ltd.

4714

Tokyo Stock Exchange First Section

29-Jul.-2021

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FISCO Ltd.

<https://www.fisco.co.jp>

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## Summary

### Resumption of opening new schools, headed for V-shaped recovery leveraging its strength of high-quality educational services

Riso Kyoiku Co., Ltd. <4714> (hereafter, also “the Company”) is an educational service company that has established a unique business model by combining “genuine one-on-one instruction” and “academic advancement” and is steadily broadening its scope. The Company’s subsidiaries include Shingakai Co., Ltd., which provides entrance exam preparation for kindergartens and elementary schools, Meimonkai Co., Ltd., which dispatches professional home tutors, School TOMAS Co., Ltd., which provides in-school one-on-one instruction, and Plus One Kyoiku Co., Ltd., which plans tour-style experiences and runs gymnastics classes.

#### 1. Overview of FY2/21 results

In FY2/21 consolidated results, the Company reported ¥25,201mn in net sales (-5.6% YoY) and ¥1,010mn in operating profit (-62.8% YoY). Downward pressures on sales were temporary closures of TOMAS, Meimonkai (only classroom instruction), Shingakai, and other facilities, temporary suspension of School TOMAS business amid school closures, and the temporary suspension of Plus One Kyoiku’s tour-style experiences related to the government’s state of emergency declaration to address the COVID-19 pandemic. TOMAS and Shingakai still achieved sales increases for the full year thanks to recovery in student volume from 3Q with the implementation of rigorous measures to prevent infections. In earnings, the Company faced setbacks of ¥500-600mn from spending on refurbishment of classrooms to prevent infections, special allowances for teachers, and other outlays, ¥300mn in related costs for closure of a business at the overseas subsidiary on a switch in implementation to full-fledged outsourcing of the online English conversation business, and upfront investments toward opening new school locations in spring 2021.

#### 2. FY2/22 forecast

The Company guides for higher sales and profits in FY2/22 consolidated results at ¥29,000mn in net sales (+15.1% YoY) and ¥2,510mn in operating profit (+148.4%). Student volume has risen in the three main businesses as end-April 2021 with increases of 11.3% YoY in TOMAS, 18.8% in Meimonkai, and 23.0% in Shingakai. The Company expects further gains in student volume with new school openings and also robust growth in School TOMAS business on increase in the number of contracted schools, driving higher net sales. In earnings, main improvement sources are the boost from higher sales, price revisions implemented from spring 2021 in TOMAS and Shingakai businesses, and curtailment of fixed costs at overseas subsidiaries booked in FY2/21 by roughly ¥100mn. Despite reissuance of a state of emergency declaration for six prefectures since April 2021, the Company has not incurred setback in results thus far due to the absence of school closures that occurred in FY2/21.

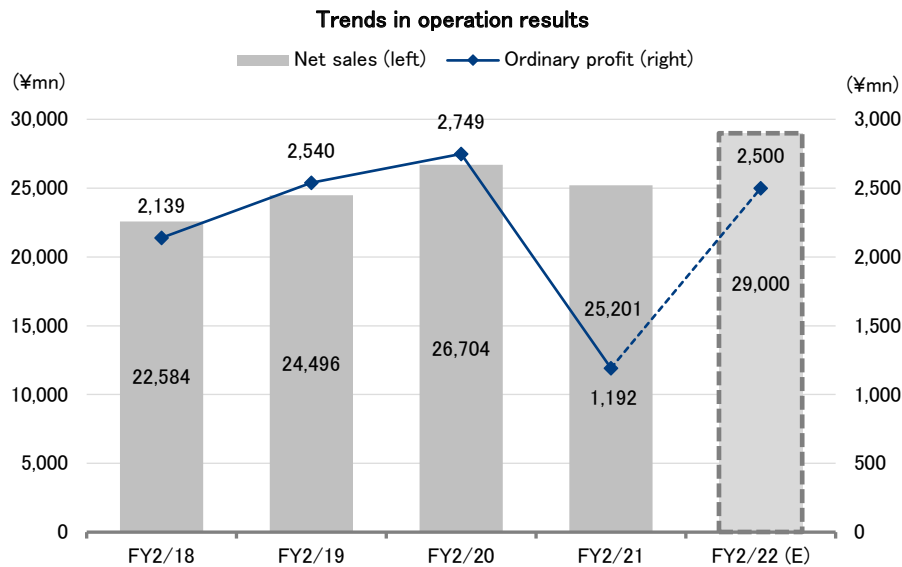
Summary

3. Medium-term management plan

The Company announced a new three-year medium-term management plan that targets ¥35,500mn in net sales and ¥3,710mn in operating profit in FY2/24. It aims to realize double-digit annual gains in sales and profits on completion of infrastructure development to prevent infections and sustained increase in student volume on provision of high-quality “authentic” education service and aggressive school openings. In School TOMAS business, it wants to expand the number of contracted schools from 73 schools at the end of March 2021 to 100 schools by FY3/23 while moving forward in collaboration with a major system integrator. In young child education business, it aims to accelerate growth through collaboration with companies in other industries. The Company announced a business alliance between Shingakai and Konami Sports in April 2021 and plans to open roughly 20 schools under the Konami Sports Shinga’s Academy format that delivers the Shinga’s Club After-School Care program at Konami Sports facilities over the next three years. It also disclosed a concept of developing “Kodomo Department Store (provisional name)” one-stop service buildings that specialize in educational services for children through business collaboration with Konami Sports and Hulic <3003>. It intends to open the first site in 2022 and expand to 20 buildings in the Tokyo metropolitan area through 2029. If the concept moves forward, the Company will be able to deliver multiple group educational services at a single location. This could contribute to increase in student volume and improved business efficiency, and developments in this area hence should be closely monitored.

Key Points

- Despite sales and profit declines in FY2/21 because of COVID-19 pandemic impact, the Company stood out with its early resumption of in-person instruction aided by rigorous measures to prevent infections
- Expects V-shaped recovery in FY2/22 on increase in student volume with resumption of new school openings
- Targeting strong growth from FY2/22 with an aggressive school-opening strategy that includes collaboration with companies in other industries



Source: Prepared by FISCO from the Company’s financial results

## ■ Company profile

### Established in 1985 for the purpose of delivering high-quality educational services

#### 1. Company history

Mitsugu Iwasa, currently a director and chairman, took over 14 classrooms from Kodomo Pia, a business in which he was part of the management team switched to an emphasis on selling educational equipment, and established Nihon Kyoiku Kosha K.K. in July 1985 for the purpose of delivering high-quality one-on-one educational services.

The Company initially started with a group learning format of classrooms under the name of Riso Kyoiku Kenkyusho (Risoken) that consisted of six students per class, classes organized by academic capabilities, and 100% full-time teachers. In March 1990, the Company developed and started provision of a unique “genuine one-on-one individual instruction system” and changed the service name to Tokyo Man-to-man School. Management subsequently changed the service name to TOMAS (initially as a nickname in 1997 and then as the official name in 2000), which has continued since then.

The Company has actively diversified educational services too. It opened the Meimonkai home tutor center and entered the home tutoring market in May 1989. In 2000, it established Nihon Edunet Co., Ltd. (now, School TOMAS Co., Ltd.) that offers genuine one-on-one instruction in a real-time interactive format utilizing internet teleconferencing. It also established School Tour Ship Co., Ltd., which provides character-building training camp education (now, Plus One Kyoiku Co., Ltd.), in 2002 and acquired shares of Shingakai, which offers entrance exam preparation for well-known kindergartens and elementary schools, and made it a subsidiary in 2003. In recent developments, the Company concluded a capital and business alliance with Surugadai Gakuen Educational Institute in July 2019 and established Sundai TOMAS, a joint venture (with the Company owning a 51% stake), in September 2019 aimed at broadening Spec. TOMAS, an individualized instruction school with focus on entrance exams for the most-difficult schools.

In the stock market, the Company registered its stock as an over-the-counter security with the Japan Securities Dealers Association in 1998, moved to the Second Section of the Tokyo Stock Exchange (TSE) in 2001, and then switched to TSE's First Section, where it is currently listed, in June 2002.

**Riso Kyoiku Co., Ltd.**  
4714 Tokyo Stock Exchange First Section

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<https://www.riso-kyoikugroup.com/en/ir/>

Company profile

Company history

Date	History
July 1985	Established Nihon Kyoiku Kosha K.K. to accommodate the acquisition of 14 classrooms from Kodomo Pia with the purpose of providing high-quality one-on-one educational instruction services and started opening classrooms under the Riso Kyoiku Kenkyusho name
May 1989	Established the Meimonkai home tutor center and entered the home tutor market, began individual instruction with a professional tutor group that differs from student tutors
March 1990	Developed the unique "one-on-one individual instruction system (each equipped with a whiteboard)" and changed the service name to "Tokyo Man-to-man School."
October 1998	Renamed from Nihon Kyoiku Kosha K.K. to Riso Kyoiku Co., Ltd.
December 1998	Conducted OTC registration of shares with the Japanese Securities Dealers Association
July 2000	Established Nihon Edunet Co., Ltd. with the aim of conducting genuine one-on-one instruction in an interactive environment utilizing Internet video conferencing
March 2001	Listed shares on the Tokyo Stock Exchange Second Section (TSE-2)
June 2002	Reassigned to the Tokyo Stock Exchange First Section (TSE-1)
December 2002	Established School Tour Ship Co., Ltd. with the aim of conducting character-building training camp education
January 2003	Established Meimonkai Co., Ltd. as a spin-off of the home tutor dispatching business, acquired Shingakai Co., Ltd., which provides kindergarten and elementary school entrance exam preparation, as a wholly owned subsidiary
July 2005	Transferred the student recruitment business division to School Tour Ship Co., Ltd. and renamed it as Riso Kyoiku Kikaku Co., Ltd.
October 2013	Established Inter TOMAS Co., Ltd. as a spin-off of the English school division, established Plus One Kyoiku Co., Ltd. as a spin-off of the character-building training camp education business, renamed Nihon Edunet Co., Ltd. as School TOMAS Co., Ltd., renamed Riso Kyoiku Kikaku Co., Ltd. as TOMAS Kikaku Co., Ltd.
November 2016	Established TOMAS ENGLISH TRAINING CENTER, INC. (99.9% owned by School TOMAS), an online English conversation business for school operators, in Cebu IT Park
September 2019	Established joint-venture company Sundai TOMAS (owns a 51% stake) based on a capital and business alliance with Sundai Preparatory School
February 2020	Opened the first school for Spec. TOMAS, a new brand, in Jiyugaoka under Sundai TOMAS. Absorbed Inter TOMAS Co., Ltd. and TOMAS Kikaku Co., Ltd.
August 2020	Established Kokokara Teachers Co., Ltd. as a firm specializing in hiring, training and placing teachers to Group companies
September 2020	Formed a capital and business alliance with Hulic Co., Ltd. and is involved in a business alliance with Hulic and Konami Sports.

Source: Prepared by FISCO from the Company's securities report and press releases

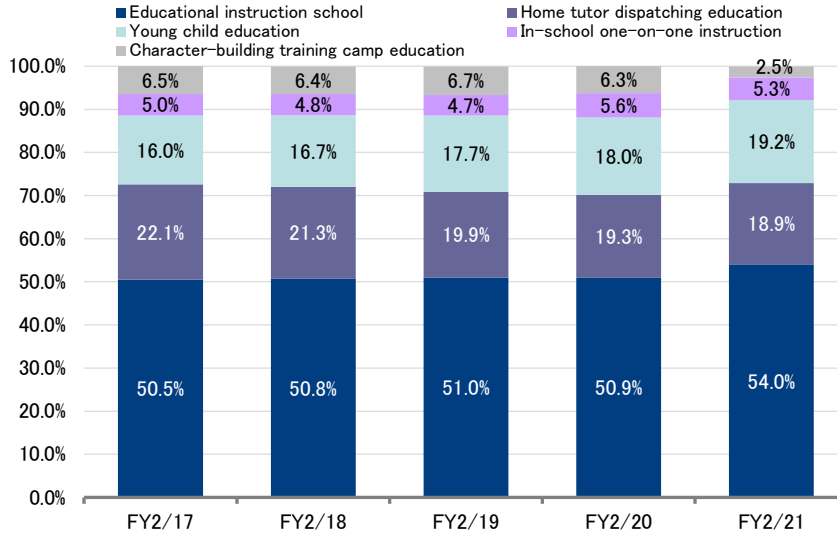
## Building educational service businesses mainly through TOMAS, Meimonkai, and Shingakai

### 2. Business overview

The Company and its five major subsidiaries are steadily building educational services mainly driven by educational instruction schools. As business segments, the Company provides disclosure for the educational instruction school business, home tutor dispatching education business, young child education business, in-school one-on-one instruction business, and character-building training camp education business. In sales breakdown by business in the past five years, the educational instruction school business has stayed at just over 50% of total net sales, and the three main businesses, including the home tutor dispatching educational business and young child education business, are at roughly 90% of sales.

Company profile

Breakdown by business segments



Note: Ratios are calculated excluding "other"  
Source: Prepared by FISCO from the Company's financial results

The educational instruction school business consists of 86 mainstay genuine one-on-one instruction TOMAS schools in the Tokyo metropolitan area (as of the end of May 2021, same below), 11 English conversation Inter TOMAS schools, and 4 one-on-one instruction MEDIC TOMAS schools for medical school exam preparation. Additionally, it opened Spec. TOMAS (Jiyugaoka school), a provider of one-on-one instruction that specializes in entrance exams for the most difficult schools, in February 2020 under subsidiary Sundai TOMAS.

TOMAS, an entirely one-on-one instruction school for elementary students to high school students, is the leader in student acceptance to the most-difficult schools as an individual instruction school thanks to preparation and provision of curriculum that works backward from acceptance for individuals tailored to the skills of each student, according to the Company. With student and adult part-time instructors as the majority of teaching staff, and full-time employees in charge of academic consultation and support, the Company is capable of delivering trusted, reliable service with a high level of customer satisfaction. Additionally, Spec. TOMAS schools implement an entrance exam and refer students who fail the exam to nearby TOMAS schools. The Jiyugaoka school focuses on 1st–6th year elementary students with the aim of preparing them to pass exams for the toughest middle schools and hires teachers as full-time employees to support this process.

In the home tutor dispatching education business, Meimonkai operates 33 schools in major cities nationwide. Professional adult teachers provide service as home tutors, and the Company asserts that it is the only home tutor center capable of disclosing advancement results. It has many accepted candidates each year, including particularly high acceptance results to medical schools. It also operates 11 TOMEIKAI schools as individualized instruction schools with service areas outside of the Tokyo metropolitan area (5 schools in the Kyushu area, 3 schools in the Tokai area, 2 school in the Koshinetsu area and 1 school in the Kinki area). TOMEIKAI schools hire student teachers and thus seek locations near medical universities or other universities that have many talented students nearby.

## Company profile

In young child education business, Shingakai, which possesses top-class acceptance results as a pioneer in well-known kindergarten and elementary school entrance tests, operates 24 schools mainly in the Tokyo metropolitan area (Tokyo metro 21 schools, Keihanshin 3 schools). Furthermore, as after-school care and childcare services with robust demand, this business has 23 locations under the Shinga's Club brand (16 after-school care sites, 7 childcare sites). Childcare sites operate extended-length childcare with activities related to entrance exam skills that utilize the Shingakai educational method. These sites receive strong support from working mothers who want to successfully manage work and child-rearing duties and remain highly popular with available spots filling up once schools open. After-school care sites similarly conduct activities that include advancement instruction incorporating unique educational curriculum. These sites are very popular, similar to the childcare facilities.

In the in-school one-on-one instruction school business, School TOMAS provides individual instruction service at contracted schools after normal class hours with teachers that it dispatches to the schools and using the atama+ AI learning assistance system and "Sundai Satellite Network 21" video teaching material system from 2020. It has been steadily increasing the number of contracted schools, particularly at private schools that cover middle and high school years faced with a management challenge in recruiting sufficient student volume amid the shrinking child population. The Company was operating 74 schools at the end of May 2021, increase of nine schools versus a year earlier.

The character-building training camp education business consists of seven schools each for soccer and gymnastics run by Plus One Kyoiku and planning and provision of School Tour Ship, an experience-type educational program using weekend days, summer vacation and other extended holidays. This program aims to cultivate action-taking and decision-making capabilities through participation in various experiences provided by School Tour Ship. The Company does not emphasize profits in this business because of its positioning as an added-value service for students at TOMAS and other main businesses.

**Overview of business segments and main companies**

Business segments	Company name	Business description	Service regions
Educational instruction school business	Riso Kyoiku	Educational instruction school business. Mainly operates TOMAS genuine one-on-one instruction schools as well as Inter TOMAS English conversation schools and MEDIC TOMAS medical department entrance exam individualized instruction schools	Tokyo metropolitan area
	Sundai TOMAS	Operates Spec. TOMAS one-on-one instruction schools that specialize in entrance exams for the most difficult schools	Tokyo metropolitan area (likely to expand in the future)
Home tutor dispatching education business	Meimonkai	Operates Meimonkai that dispatches home tutors and TOMEIKAI one-on-one instruction schools in regional areas (outside of Tokyo and the three surrounding prefectures)	Dispatches home tutors nationwide TOMEIKAI offers services outside of the Tokyo metropolitan area
Young child education business	Shingakai	Operates Shingakai, a school that handles entrance exam instruction for top kindergartens and elementary schools, and Shinga's Club, a childcare and after-school care business	Shingakai has schools in the Tokyo metropolitan area and Keihanshin Shinga's Club has locations in the Tokyo metropolitan area
In-school one-on-one instruction business	School TOMAS	Offers in-school one-on-one instruction	Nationwide
Character-building training camp education business	Plus One Kyoiku	Operates a school business with a soccer school and gymnastics school and a tour business that cultivates action-taking and decision-making capabilities through various experiences	-

Source: Prepared by FISCO from the Company's securities report and results briefing materials and others

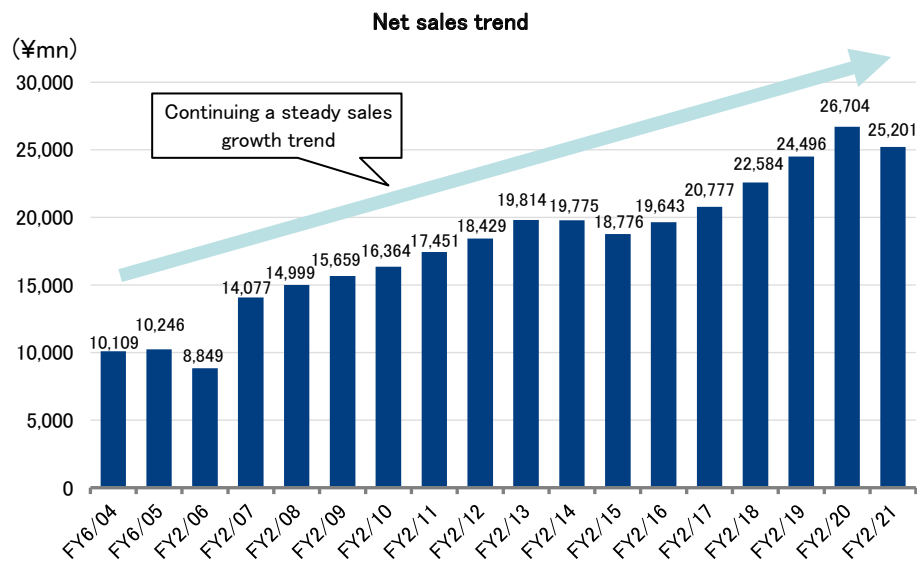


## Is expanding student volume with high-quality education service that utilizes an approach of entirely individual instruction as a differentiation strategy

### 3. Characteristics and strengths

While the Company has a variety of characteristics and strengths, we think the following two are particularly important: 1) consistently increasing income over the long term and 2) realizing high profitability. We think the advantageous business model built by the Company is the source of these two characteristics, and grasping them is likely to improve understanding and certainty of the medium- to long-term growth scenario.

The Company reported ¥163mn in net sales in FY6/86, its founding year, and sustained steady sales growth through FY2/13 (although sales dropped in FY2/06 with its abnormal 8-month period due to the fiscal year change, they were higher on a real basis that converts sales to a 12-month format). Since then, the Company has sustained a growth trend over the long term, excluding temporary sluggishness when it revamped internal management operations on discovery of improper accounting issues and sales decline in FY2/21 due to pandemic impact.



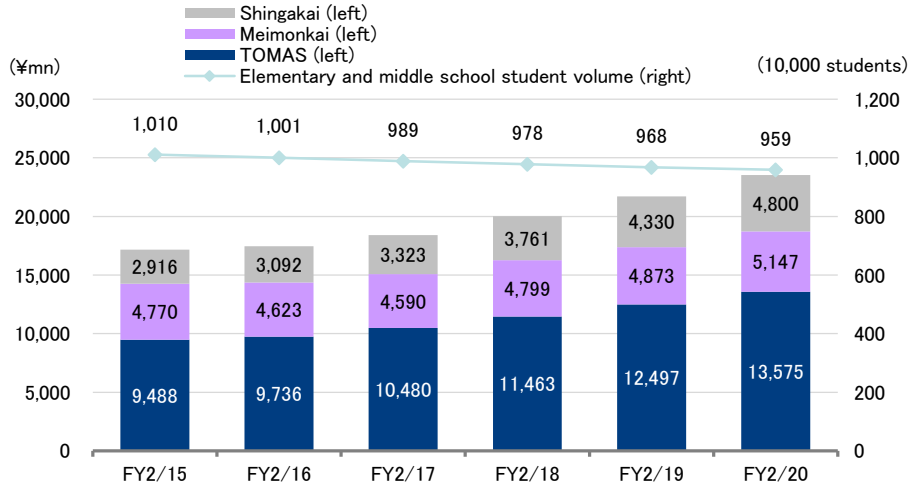
Note: FY2/06 was an eight-month fiscal year

Source: Prepared by FISCO from the Company's financial results, securities reports, and results briefing materials

We think an important point is the Company's success in increasing student volumes in all major businesses (TOMAS, Meimonkai, and Shingakai) and sustaining growth despite a tough industry environment with fierce competition to acquire students amid peaking of the educational advancement and preparatory school market because of a shrinking youth population and increase in market participants. Even though the number of domestic elementary and middle school students, the main target segment, fell 1.0% annually from 10.1mn students in FY2/15 to 9.59mn students in FY2/20, the Company's net sales in its three main businesses increased 6.5% annually from ¥17,176mn in FY2/15 to ¥23,523mn in FY2/20, with mainstay TOMAS growing by 7.4%.

Company profile

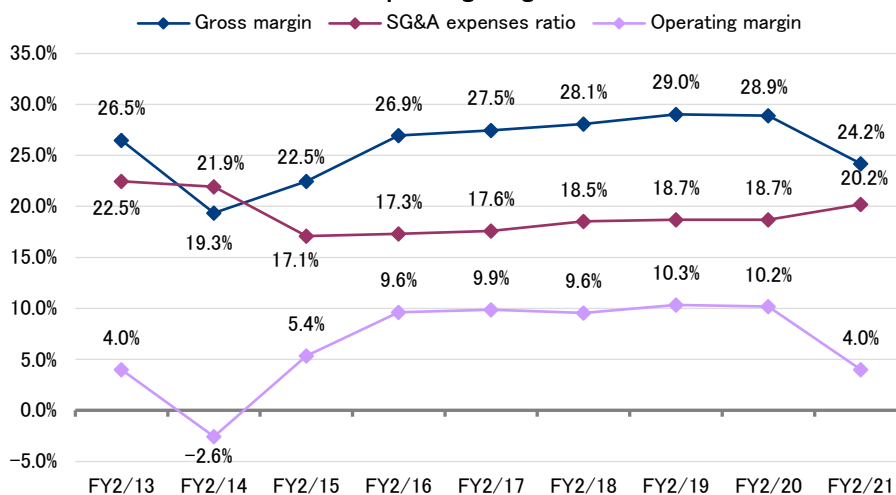
Main business net sales and elementary and middle school student volume trends



Source: Prepared by FISCO from the Company's securities reports and the Ministry of Education, Culture, Sports, Science and Technology's Statistical Abstract 2020 (Education, Culture, Sports, Science and Technology)

In operating margin, despite temporary decline in FY2/21 because of COVID-19 impact, the level was stable at about 10% from FY2/16 through FY2/20. The 10% margin level is higher than the industry average for educational advancement and preparatory schools. While multiple listed peers realize higher operating margins than the Company, these firms either use group instruction as the core business model or acquire royalty income through franchise businesses. Very few peers that mainly conduct one-on-one instruction only in directly run schools, such as the Company, or utilize a mix of group and individualized instruction have double-digit operating margins.

Long-term trends in gross margin, SG&A expenses ratio, and operating margin



Source: Prepared by FISCO from the Company's financial results

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## Company profile

Our understanding is that the same source drives the Company's strengths of stable sales growth and high profitability. When founding the Company, current director and chairman Iwasa took into account the implications of China's one-child policy, which include the prospect of a shrinking youth population and increased spending per child on education costs as a result. In other words, the Company held a relatively advantageous position from the outset thanks to launching the business in anticipation of a shrinking youth population and building a business model from this perspective. With its insight into likely increases in the amount spent per child on education costs too, the Company succeeded in transforming the headwind of a shrinking segment into a tailwind.

Key points in harnessing shrinkage of the youth population as a tailwind are provision of high-quality educational services with genuine individualized instruction using a one-on-one format and focus on advancement instruction as the goal. These two are common aspects of the Company's TOMAS service and other business formats. The Company is currently the only firm actively promoting individual instruction that combines both aspects. The most typical model in the individual instruction market at this point is a quasi-approach with a ratio of one teacher to a few students (2–3) for the purpose of supplementing school coursework. We think high business risk is a major reason other companies do not adopt this model. Since service fees must be higher in order to implement truly individual instruction, supplementing coursework is not enough to justify these fees. The tough reality is that only academic advancement results are capable of justifying high course fees. Almost no newcomers are entering the market with the same business model as the Company for this reason, and this has solidified the Company's strong brand presence as a one-on-one educational advancement and preparatory school.

While the Company's founding purpose was high-quality individualized instruction, it initially started with a group learning format that consisted of six students per class with classes organized by academic capabilities. It was not until five years later in 1990 that the Company started provision of the "genuine one-on-one personalized teaching system" envisioned by Mr. Iwasa. While we think executive opinions and policy aims clashed internally during this period, adoption and thorough application of a mentality that the "educational instruction school industry is a service business" ultimately led to realization of genuine individual instruction. Based on this understanding, the Company focused on delivering high customer satisfaction. High customer satisfaction in the educational instruction and preparatory school industry means getting into the desired school. Since its founding and through to today, the Company has always retained the awareness of being a service business and sees pursuit of academic advancement results as its management goal as a service company. We think the business model of "pursuing academic advancement results" is a factor in the Company's strength and supports the two characteristics of stable sales growth and high profitability mentioned above.

An example of the Company's management approach with high awareness as a service company is its style of having full-time employees focus on management. As explained above, the mainstay TOMAS business utilizes part-time students and adults as instructors and has full-time employees assigned to each classroom site serve as coordinators between instructors and children and students and their guardians. Specifically, they engage in the following tasks: 1) identify genuine aims and goals of students and guardians, 2) develop curriculum with the instructor based on this information, and 3) explain progress updates, subsequent instruction policy, and other details to guardians after lessons begin. Repetition of this cycle maintains a high level of customer satisfaction on a normal basis and contributes to the biggest customer satisfaction of getting into the desired school.

## Company profile

Whether the Company is capable of sustaining stable growth and high profitability in the future depends on the time horizon and scale of investments, but we have high expectations for it to achieve these goals with a time line of 5–10 years. First is consistent existence of a certain amount of demand for the Company's business model (high-priced, high-quality service) even amid steady shrinkage of the child population. Next is the issue of entry by other companies into this market. As mentioned earlier, risk of excess competition is low. This is because of significant business risk involved in copying or recreating the business model that the Company has built over many years since its founding. The high barrier to entry for the Company's business model that focuses on advancement results is the third main characteristic and a strength.

## Results trends

### Despite sales and profit declines in FY2/21, stood out with early resumption of in-person instruction aided by rigorous measures to prevent infections

#### 1. Overview of FY2/21 results

In FY2/21 consolidated results, the Company reported ¥25,201mn in net sales (-5.6% YoY), ¥1,010mn in operating profit (-62.8%), ¥1,192mn ordinary profit (-56.6%), and ¥555mn in profit attributable to owners of parent (-71.6%). Downward pressures on sales were temporary closures in April and May 2020, during the government's state of emergency declaration to address the COVID-19 pandemic, of mainstay businesses TOMAS, Meimonkai (only classroom instruction), and Shingakai; temporary suspension of School TOMAS business amid school closures, and suspension of many experience-type tours planned and operated by the Plus One Kyoiku business. Sales dropped by a total of ¥1,503mn, including ¥1,034mn from Plus One Kyoiku. Nevertheless, it should be noted that the mainstay TOMAS business still achieved sales increases for the full year, albeit modest, thanks to a rise in student volume as its classroom refurbishment during the closure period and implementation of rigorous measures to prevent infections enabled quick resumption of lessons and garnered positive reaction as a new educational service format in the "With Corona" era.

#### FY2/21 consolidated results

	FY2/20		Company plan*	FY2/21			
	Results	Ratio to sales		Results	Ratio to sales	YoY	Versus plan targets
Net sales	26,704	-	26,000	25,201	-	-5.6%	-3.1%
Cost of sales	18,997	71.1%	-	19,096	75.8%	0.5%	-
SG&A expenses	4,990	18.7%	-	5,094	20.2%	2.1%	-
Operating profit (loss)	2,716	10.2%	1,510	1,010	4.0%	-62.8%	-33.1%
Ordinary profit (loss)	2,749	10.3%	1,500	1,192	4.7%	-56.6%	-20.5%
Extraordinary income (loss)	-103	-	-	-35	-	-	-
Profit (loss) attributable to owners of parent	1,953	7.3%	1,000	555	2.2%	-71.6%	-44.5%

\* Company plan uses values announced in October 2020

Source: Prepared by FISCO from the Company's financial results

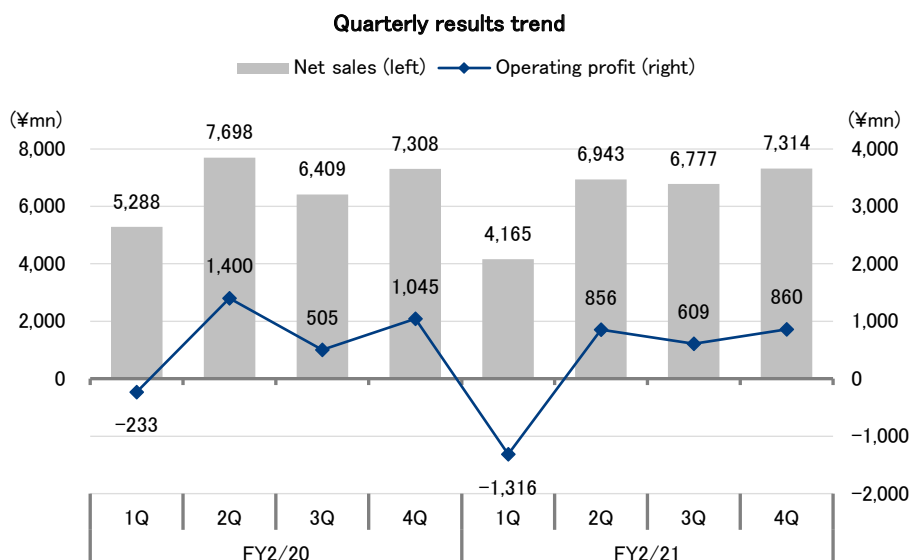
Results trends

In operating profit, besides profits decline from lower sales, the Company faced setbacks of ¥200-300mn from spending on measures to prevent infections (refurbishment of classrooms and cost of purchases for products used in various types of countermeasures), ¥300mn in supplemental and special allowances for teachers, and ¥300mn\* in related costs for closure of a business operated at School TOMAS' overseas subsidiary (TOMAS ENGLISH TRAINING CENTER, INC.) on a decision to adopt full-fledged outsourcing for implementation of the online English conversation business (including employee extra retirement payments).

\* Related to the business closure at the overseas subsidiary, the Company also booked ¥20mn amortization of business commencement expenses under non-operating expenses and ¥40mn provision for loss on liquidation of subsidiaries and associates under extraordinary losses.

Despite ¥149mn YoY improvement in non-operating income, the main driver was ¥214mn in subsidies related to compliance with the school closure request due to the pandemic. Furthermore, the decline rate in profit attributable to owners of parent was larger than the ordinary profit setback because of conservative calculation of deferred tax accounting at multiple subsidiaries (postponement of booking deferred tax assets).

Compared to plan targets announced in October 2020, the Company missed by 3.1% in net sales and 33.1% in operating profit. In net sales, it encountered sluggish sales growth in TOMAS and other core businesses and an ongoing slump in Plus One Kyoiku sales due to the third wave of COVID-19 infections in 4Q FY2/21 and issuance of the second state of emergency declaration in the Tokyo metropolitan area in January 2021. In operating profit, the ¥500mn shortfall consisted mainly of ¥300mn in costs related to the business closure at an overseas subsidiary mentioned above and ¥180mn in costs for securing high-quality sites to facilitate aggressive school openings from March 2021 and costs for hiring and training personnel as part of new school operations. Despite return to downturn in operating profit in 4Q FY2/21 at a 17.7% YoY decline to ¥860mn (profit only rose YoY in 3Q FY2/21), profits actually increased excluding one-time factors such as costs for business closure at the overseas subsidiary.

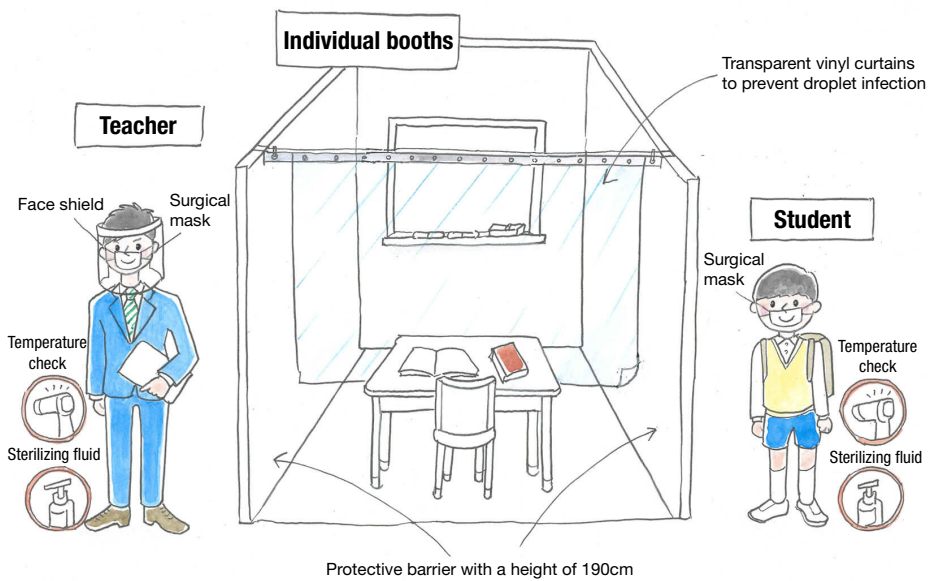


Source: Prepared by FISCO from the Company's financial results

Results trends

A key measure to prevent infection spread at TOMAS was installing vinyl curtains measuring at a height of over 190cm as a separation barrier between the student and teacher in all classrooms. Students and teachers sterilize their hands and have their temperature taken when entering and exiting the classrooms and wear surgical masks. Teachers also wear a face shield in class. After the class finishes, the teacher handles sterilization inside the booth. For teachers, the Company has paid a special allowance to reflect an increase in work load versus the previous level and factored it into the hourly wage as regular activity from spring 2021. Besides TOMAS, it also implemented rigorous measures to prevent COVID-19 infections in Meimonkai and Shingakai operations in accordance with their respective situations.

Conceptual diagram of measures to prevent COVID-19 infections at TOMAS



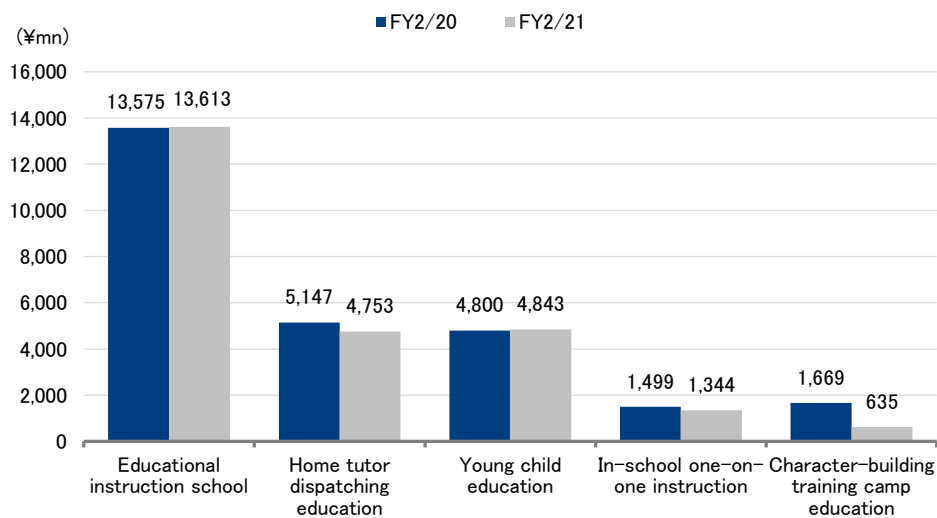
Source: Prepared by FISCO from the TOMAS website

Results trends

## Increased student volume and sales in TOMAS and Shingakai businesses on positive reaction to proactive measures to prevent infection spread

### 2. Segment trends

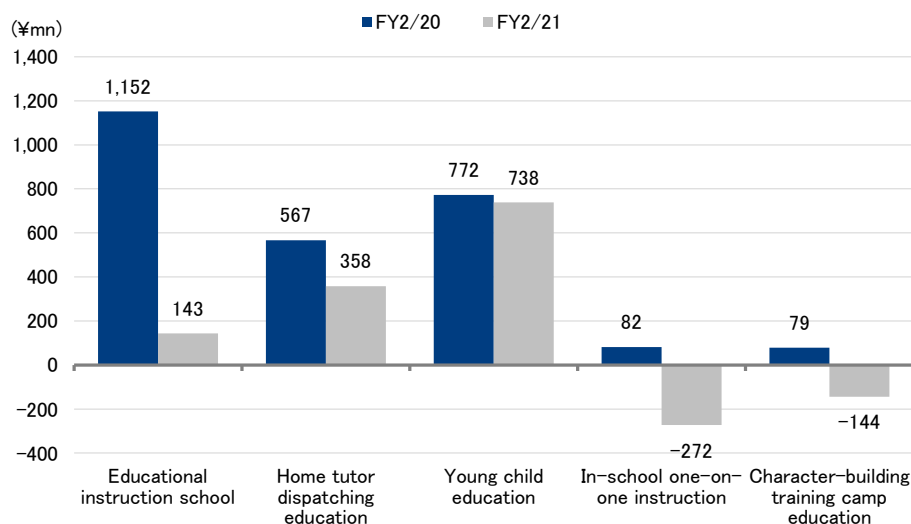
Net sales by business segment



Note: Excluding internal transactions

Source: Prepared by FISCO from the Company's financial results

Operating profit (loss) by business segment



Source: Prepared by FISCO from the Company's financial results

## Results trends

**(1) Educational instruction school business**

The educational instruction school business posted ¥13,613mn in net sales (+0.3 YoY) and ¥143mn in operating profit (-87.5% YoY). While net sales slumped through 2Q FY2/21 because of impact from complete shutdown of schools for two weeks in April 2020 in response to the COVID-19 pandemic, positive reaction to the Company's rigorous measures to prevent infections spurred a rebound to sales increase on recovery in student volume from 3Q and modest rise in full-year sales. In earnings, setback factors included costs related to prevention measures, higher personnel costs from special allowance payments to instructors, and upfront booking of preparatory costs for new school openings and new sites following moves in spring 2021.

New openings in FY2/21 were just one Inter TOMAS school (Sakura-shinmachi school in March 2020) and two TOMAS schools as a move or reopening with larger space to accommodate more students (Fujisawa schools in August, Narimasu school in November). Additionally, student volume was up 2% versus the previous year-end at end-FY2/21.

**(2) Home tutor dispatching education business**

The home tutor dispatching education business recorded ¥4,753mn in net sales (-7.7% YoY) and ¥358mn in operating profit (-36.8% YoY). Meimonkai and TOMEIKAI declines in student volume and it factored in reduced sales, including the impact of stopping classroom instruction for about two weeks in April 2020 in response to the pandemic situation. Earnings, meanwhile, fell on decline in profit accompanying weaker sales and booking costs for measures to prevent infections. Recovery in student volume modestly trailed the TOMAS pace, and it took until the fiscal year-end to restore volume to the level from the end of the previous fiscal year.

New school openings in FY2/21 were two TOMEIKAI schools (Nagoya Gokiso school in May 2020 and Shijyo Karasuma school in February 2021) and one Meimonkai school as a reopening in a new location (Fujisawa Ekimae school in April). The Company also started interactive online instruction, in addition to existing in-person instruction, for students who do not want to come to the physical school and students who are unable to come to the physical school because of distance issues.

**(3) Young child education business**

The young child education business reported ¥4,843mn in net sales (+0.9% YoY) and ¥738mn in operating profit (-4.4%). Despite impact from full shutdown of schools for roughly a month in April–May 2020 in the Shingakai business, sales improved thanks to quick recovery in student volume in 2Q 2021, the peak period for results in this business, and a sustained upward trend in Shinga's Club volume even with the pandemic. Nevertheless, earnings weakened due to booking costs for measures to prevent infection spread.

This business did not have any new school openings in FY2/21, though conducted a relocation opening of a Shinga's Club After-School Care accompanying increase in student volume (Fujisawa school in July 2020). Period-end student volume, including Shingakai and Shinga's Club Childcare, continued to expand with a 12% increase versus the end of the previous fiscal year.

**(4) In-school one-on-one instruction business**

The in-school one-on-one instruction business booked ¥1,344mn in net sales (-10.3% YoY) and a ¥272mn operating loss (vs. a ¥82mn profit a year earlier). Sales declined due to suspension of School TOMAS accompanying closures of host schools from Mar–May 2020. In earnings, profit declined to a loss due to lower sales and booking the cost of a business closure at the overseas subsidiary following the switch to outsourcing of online English conversation business.



## Results trends

Contracted school volume steadily increased from 65 schools at the end of the previous fiscal-year to 70 schools. Furthermore, the Company anticipates continued rise in contracted schools thanks to increase in inquiries, considering its knowhow in online instruction and individual optimized instruction, amid pick-up in initiatives to realize the GIGA School concept promoted by the government during the pandemic.

**(5) Character-building training camp education business**

The character-building training camp education business posted ¥635mn in net sales (-61.9% YoY) and a ¥144mn operating loss (vs. a ¥79mn profit a year earlier). Sales and profits dropped on suspending experience-style tours that foster emotional development for a certain period and fully closing TOMAS Gymnastics School and TOMAS Soccer School for two months during April and May 2020 due to the COVID-19 situation.

New school openings in FY2/21 were three TOMAS Soccer schools (Toyocho and Suidobashi in April 2020 and Tachikawa in September 2020) and one TOMAS Gymnastics school (Futako Tamagawa in July 2020).

## Sound financial position with debt-free operations

### 3. Financial situation

Looking at the financial situation at end-FY2/21, total assets increased by ¥725mn versus the end of the previous fiscal year to ¥13,940mn. Main changes were a decline of ¥873mn in cash and deposits and an increase of ¥1,320mn in trade accounts receivable under current assets and increases of ¥124mn in investment securities and ¥141mn in leasehold and guarantee deposits related to opening new schools under non-current assets.

Total liabilities were ¥7,365mn, an increase of ¥308mn compared the end of the previous fiscal year. Despite a decrease of ¥100mn in income taxes payable, there were increases of ¥150mn in advances received, which contribute to future sales, ¥108mn in accounts payable - other under current liabilities and ¥181mn in retirement benefit liability under non-current liabilities. Net assets were ¥6,575mn, an increase of ¥417mn compared to the end of the previous fiscal year. Retained earnings increased by ¥114mn due to booking ¥555mn in profit attributable to owners of parent offset by ¥440mn dividends paid, and capital surplus increased by ¥282mn on treasury share disposal.

Looking at management indicators, while the equity ratio trended lower from FY2/17 because of aggressive shareholder return, including dividend payments and share buybacks, it moved upward for the first time in five fiscal years in FY2/21 from 45.9% at the end of the previous fiscal year to 46.7%, including impact of reduced dividend payments. Cash flow from operating activities dropped substantially from the FY2/20 level and had a deficit because of weaker profit. While cash and deposits dropped for the first time in four fiscal years, the Company maintained a level close to ¥4bn and continues to operate without debt. These points indicate healthy financial content. In profitability, despite declines versus previous fiscal-year levels to 4.0% in operating margin and 8.8% each in ROA and ROE, the main factors in this were temporary costs, such as booking costs for measures to prevent infections and costs related to the closure of a business at an overseas subsidiary, and FISCO believes that profitability of the Company's business itself has not declined and expects an upturn in profitability from FY2/22 when the COVID-19 pandemic impact will have run its course.

## Results trends

**Consolidated balance sheet**

						(¥mn)
	FY2/17	FY2/18	FY2/19	FY2/20	FY2/21	Change amounts
Current assets	5,598	6,052	6,318	6,644	7,018	373
(Cash and deposits)	3,866	4,171	4,716	4,837	3,963	-873
Non-current assets	5,577	5,602	6,138	6,531	6,922	390
Total assets	11,250	11,724	12,510	13,214	13,940	725
Current liabilities	3,162	3,430	3,861	4,498	4,600	101
Non-current liabilities	1,786	2,019	2,385	2,557	2,764	206
Total liabilities	4,949	5,450	6,247	7,056	7,365	308
(Interest-bearing debt)	-	-	-	-	-	-
Net assets	6,301	6,273	6,263	6,157	6,575	417
Management indicators						
Equity ratio	56.0%	53.5%	49.9%	45.9%	46.7%	0.8pt
Operating margin	9.9%	9.6%	10.3%	10.2%	4.0%	-6.2pt
ROE	18.1%	22.0%	25.2%	31.7%	8.8%	-22.9pt
ROA	17.1%	18.6%	21.0%	21.4%	8.8%	-12.6pt

Source: Prepared by FISCO from the Company's financial results

**Cash flow statement**

						(¥mn)
	FY2/17	FY2/18	FY2/19	FY2/20	FY2/21	
Cash flow from operating activities	2,481	2,278	2,707	2,911	-36	
Cash flow from investing activities	-527	-593	-731	-652	-655	
Cash flow from financing activities	-2,603	-1,377	-1,433	-2,138	-182	
Cash and cash equivalents at end of period	3,866	4,171	4,716	4,837	3,963	

Source: Prepared by FISCO from the Company's financial results

## ■ Outlook

### Expects V-shaped recovery in FY2/22 on increase in student volume with resumption of new school openings

#### 1. FY2/22 forecast

The Company guides for higher sales and profits in FY2/22 consolidated results for the first time in two fiscal years at ¥29,000mn in net sales (+15.1% YoY), ¥2,510mn in operating profit (+148.4%), ¥2,500mn in ordinary profit (+109.7%), and ¥1,700mn in profit attributable to owners of parent (+206.2%). It aims to achieve V-shaped recovery in financial results on completion of setting up measures to prevent infections and expansion of students with plans to actively open new schools after freezing this activity in FY2/21.

## Outlook

Despite the prospect of higher personnel costs due to raising the hourly wage for part-time instructors and additional headcount related to opening new schools, the Company revised prices in TOMAS and Shingakai businesses as updates covering costs for measures to prevent infections (average hikes of about 5%) in spring 2021 and should receive a profit boost from the price revision effect and elimination of ¥300mn in costs related to closure of a business at the overseas subsidiary booked in FY2/21 and contraction of roughly ¥100mn in fixed costs (personnel expenses, rent, etc.) from the switch to outsourcing were factors in the increase in profit. The profit attributable to owners of parent target has a higher profit increase rate than ordinary profit because of decline in the effective tax rate on shift to a profit at a subsidiary that booked a loss in FY2/21. In recent conditions, while Japan is currently experiencing a fourth wave of COVID-19 infections and this situation raises concern about impact on the Company's business, FISCO thinks downside impact should be limited, unless the pandemic causes more serious impact on societal activities, because of the absence of requests to close schools as happened in FY2/21 and continued normal operation of classes.

**FY2/22 consolidated forecast**

	FY2/21 Results	FY2/22 (¥mn)		
		Forecast	Ratio to sales	YoY
Net sales	25,201	29,000	-	15.1%
Operating profit	1,010	2,510	8.7%	148.4%
Ordinary profit	1,192	2,500	8.6%	109.7%
Profit attributable to owners of parent	555	1,700	5.9%	206.2%
Earnings per share (¥)	3.79	11.61		

Source: Prepared by FISCO from the Company's financial results

In the outlook by business segments, the Company expects the mainstay educational instruction school business to deliver an increase of over 10% YoY in sales and rapid earnings recovery, including contribution from the price revision effect. This business is having a good start with an increase of 11.3% YoY in student volume at the end of April 2021, and the Company intends to raise volume further with new school openings and relocations to expand capacity. In school initiatives, during the two months through April 2021, it opened four new schools with one TOMAS school (Ageo), one Inter TOMAS school (Tamachi), and two MEDIC TOMAS schools (Kichijoji, Omiya), relocated one TOMAS school to expand capacity (Tamachi), and expanded one TOMAS school (Omiya). During May to July, it plans to open three new TOMAS schools (Ofuna, Tsukishima, and Nagareyama Otakanomori) and expand two TOMAS schools (Kinshicho, Kaihin Makuhari). The Company intends to open two year's worth of schools in FY2/22 and might even add a few more if it finds attractive locations.

The Company forecasts double-digit earnings growth in the home tutor dispatching education business. This segment is having an upbeat start, including an 18.8% YoY rise in the number of students at the end of April 2021. In Meimonkai business, it planned to relocate an existing school (Tenjin Ekimae school) to expand capacity in May 2021 but does not intend to open new schools because it already has schools in major cities nationwide. In TOMEIKAI business, an individual instruction school, the Company plans to actively open schools. It opened the Kagoshima satellite school in March 2021 and Niigata school in April and plans to open the Tenjin school in Fukuoka prefecture in June. It aims to open new schools in the upper single-digit range in FY2/22 and will be looking for spots suited to its requirements mainly in major regional cities. The Company might increase the number of TOMEIKAI schools from nine schools at the end of the previous fiscal year at a pace of a few schools a year.

## Outlook

The Company projects sharply higher profit in young child education business with support from the price revision effect. This segment is having a healthy start with a 23.0% YoY rise in student volume at the end of April 2021. In school initiatives, the Company opened Shinga's Club Childcare (Ogikubo) and Shinga's Club After-School Care (Kichijoji) in April 2021 and Shingakai (Kichijoji classroom) in May and plans to open one Shinga's Club After-School Care (Omiya) in September. These openings put operations at 24 Shingakai classrooms, seven Shinga's Club Childcare schools, and 17 Shinga's Club After-School Care schools. The Shinga's Club After-School Care (Ogikubo) took over a childcare facility operated by Konami Sports with which the Company announced a business alliance in April 2021. Meanwhile, through the alliance with Konami Sports, the Company plans to open roughly 20 schools over a period of three years from 2021 under the Konami Sports Shinga's Academy brand that offers the learning program provided by Shinga's Club After-School Care at facilities run by Konami Sports through the business alliance. Despite robust demand for Shinga's Club, the Company was not making sufficient progress with new openings because of difficulty finding suitable spots. The business alliance should support progress in expansion of business scale. Openings are likely to focus on major terminal stations in Tokyo, Kanagawa, and other areas.

The Company expects to reach profitability in the in-school one-on-one instruction business. It forecasts higher sales in FY2/22 on normal operation of School TOMAS service from 1Q in the absence of school closure requests and increase in the number of students at existing contracted schools and recruitment of new contract schools. In earnings, main improvement drivers are the positive effect of higher sales and reduction of fixed costs following the shift in online English conversation business to outsourcing. While the number of contracted schools at the end of March 2021 was up three schools versus end-FY2/21 to 73 schools, it might increase even more if the Company finalizes a business alliance with a major system integrator that is currently being discussed.

The Company expects recovery in net sales but only to just over ¥1bn and not back to the FY2/20 level (¥1,669mn) in character-building training camp education business because of the inability to conduct sufficient tour planning and other activities amid continuation of the pandemic. Nevertheless, this prospect should not have much impact on overall results because the Company is not emphasizing profits in this business.

## Targeting strong growth from FY2/22 with an aggressive school-opening strategy that includes collaboration with companies in other industries

### 2. Growth strategy

#### (1) Overview of the medium-term management plan

The Company announced a three-year medium-term management plan that starts in FY2/22. It hopes to realize double-digit annual growth in sales and profit through continued expansion of TOMAS, Meimonkai, and Shingakai as existing main businesses and further ramp-up of School TOMAS, Shinga's Club, and other businesses. It intends to expand student volume with a robust differentiation strategy through provision of high-quality "authentic" education services and aggressive school initiatives and thereby achieve growth in the learning instruction school industry that continues to exhibit fierce competition as the child population shrinks.

## Outlook

Specific plan goals for FY2/24 are ¥35,500mn in net sales, ¥3,710mn in operating profit, ¥3,700mn in ordinary profit, and ¥2,500mn in profit attributable to owners of parent. These values worked out to three-year average annual growth rates of 12.1% in net sales and 54.3% in operating profit. While operating profit growth rate is higher because of the low previous-year earnings level, the Company projects double-digit sales and profit growth rates from FY2/23 too. The 10.5% operating margin target is on par with 10.2% in FY2/20 and should be attained if net sales expand in line with the plan. The Company hopes to improve overall profitability through growth in young child education business with strong profitability and in-school one-on-one instruction business with large growth potential.

**Medium-term management plan (values announced in April 2021)**

	(¥mn)				
	FY2/21 Results	FY2/22 Forecasts	FY2/23 Plan	FY2/24 Plan	Average annual growth rates
Net sales	25,201	29,000	32,000	35,500	12.1%
Operating profit	1,010	2,510	3,210	3,710	54.3%
Operating margin	4.0%	8.7%	10.0%	10.5%	-
Ordinary profit	1,192	2,500	3,200	3,700	45.9%
Profit attributable to owners of parent	555	1,700	2,100	2,500	65.1%

Source: Prepared by FISCO from the Company's results briefing materials

**(2) Growth strategy in the various businesses**
**a) Young child education business**

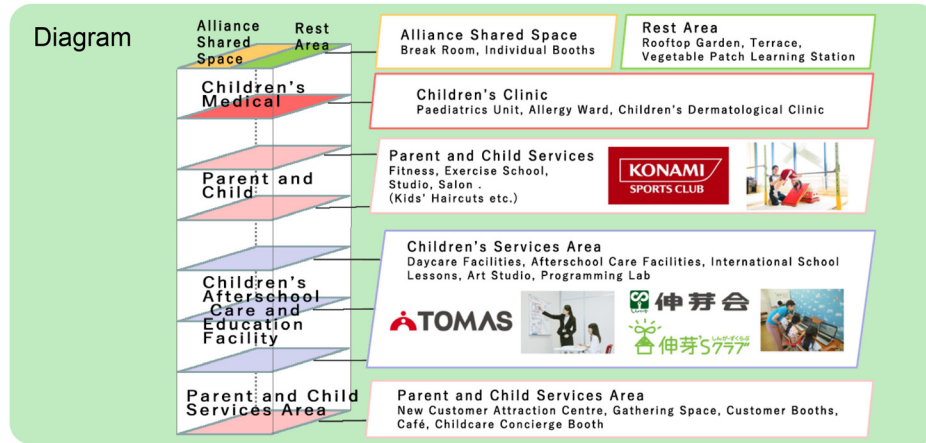
In the young child education business, the Company concluded a three-way business alliance with Konami Sports and Hulic (and further capital alliance\*1 with Hulic) as new initiatives in September 2020. This initiative seeks to expand business by encompassing young child education business through joint provision of the Company's Shinga's Club, Shingakai, TOMAS, and other educational services and "exercise schools" operated by Konami Sports\*2 at one-stop service buildings focused on educational services for children being developed in the Tokyo metropolitan area by Hulic. It targets demand for balanced development of children in learning and exercise with enhanced convenience by offering these services at a single location. The first building is slated to open in 2022, and the outlook calls for expansion to 20 buildings in the Tokyo metropolitan area through 2029. If this concept ramps up smoothly, the Company has the potential to expand sales and boost profitability through retention of students from a young age through high school and better efficiency in promotional costs to recruit students.

\*1 Hulic acquired 5.01% of the Company's shares and has become a major shareholder.

\*2 Exercise schools for children with roughly 400 locations nationwide and over 80,000 members.

Outlook

“Kodomo Department Store (provisional name)” educational building concept



Source: From the Company's results briefing materials

In particular, despite robust demand for Shinga's Club Childcare and After-School Care, difficulty finding properties with suitable facilities had been an issue in expanding business. This business alliance resolves the issue and is an initiative that attracts attention as it could accelerate growth in the young child education business. Expansion of the young child education business supports application of its customer base to subsequent educational services, such as TOMAS and Meimonkai, and could further enhance group synergies.

Regarding increase in Shingakai classroom volume, meanwhile, the Company opened one classroom in FY2/22 but intends to fundamentally continue a cautious stance. This approach reflects the situation surrounding well-known kindergarten and elementary school entrance tests as a niche market with famous teachers who have special knowhow and pursuit of classes with such teachers. The Company hence addresses the rising number of students by increasing floor pace of existing classrooms and relocating schools to add space. It positions Shingakai as a cash-cow business because of its high profitability and stable demand annually.

**b) Educational instruction school business**

The educational instruction school business consists of one-on-one advancement instruction at TOMAS, English conversation classes at Inter TOMAS, and one-on-one instruction focused on medical school exams at MEDIC TOMAS. In February 2020, it added Spec. TOMAS as a provider of one-on-one instruction that specializes in entrance exams for the most difficult schools. The Company aims to achieve sales growth of just over 10% annually through expansion of school and student volumes from FY2/22.

The Company intends to continue promoting a “strategy of satellite schools in the Tokyo metropolitan area,” which it has been implementing since FY2/18, as the TOMAS school initiative. While it previously deployed schools at terminal train stations with about 495–661m<sup>2</sup> of floor space that could accommodate 200–400 students, the satellite strategy deploys schools at mid-sized train stations around terminal sites with about 165–198m<sup>2</sup> of floor space that can accommodate 100–150 students. The Company operated 84 schools in the Tokyo metropolitan areas as of end-FY2/21 and has a goal of 120 schools through opening satellite schools at a pace of 5-10 schools a year from FY2/22. It also plans to steadily expand floor space and implement renovation of existing schools that have become crowded due to rising student volume.

## Outlook

In Inter TOMAS and MEDIC TOMAS business, the Company intends to open schools in areas where it already has TOMAS schools and determines that demand opportunities exist. In Spec. TOMAS business, a new brand that it has ramped up, the Company initially planned to open a second school in FY2/21 but delayed the addition because of COVID-19 pandemic impact. Instead, it decided to focus on monetizing the existing school (Jiyugaoka). A key characteristic of Spec. TOMAS business is guiding students interested in the most difficult schools to achieve admission to their desired school by integrating know-how accumulated by Surugadai Gakuen Educational Institute and the Company to create original curriculum and provide genuine one-on-one instruction with professional teachers. We expect numerous synergies from the alliance with Surugadai Gakuen Educational Institute by utilizing its teacher personnel and enhancing the quality of original materials in production and publishing. Since admission results are the main barometer for student recruitment at academic advancement schools, the Company hopes to solidify Spec. TOMAS as the brand for one-on-one instruction that specializes in entrance exams for the most difficult schools by building a track record of admission results.

**c) Home tutor dispatching education business**

In home tutor dispatching education business, the Company reached 33 Meimonkai (home tutor dispatching) schools at the end of FY2/21 on steady rollout of sites in the Tokyo metropolitan areas, other major cities such as Osaka and Nagoya, and main regional cities. It plans to accommodate increase in student volume with additions to floor space and relocation openings and take a cautious stance toward opening new schools. In TOMEIKAI business, meanwhile, it intends to open schools at a pace of a few sites per year in major cities outside of the Tokyo metropolitan area with the aim of increasing net sales at a just over 10% annual rate. While it only had 11 schools as of end-May 2021 with five in the Kyushu area, three in the Tokai area, two in the Koshinetsu area, and one in the Kinki area, the Company wants to actively open schools mainly in the Keihanshin area and Nagoya, Fukuoka, and other major urban areas. The TOMEIKAI business has potential for one school per prefecture and thus could surpass 40 schools. It should be a growth driver.

**d) In-school one-on-one instruction business**

The Company hopes to achieve double-digit growth in School TOMAS business over the medium term through expansion of contracted school volume. With its one-on-one personal instruction of interested school students and focus on entrance exam instruction rather than supplemental studies as course content, this service contributes to student recruitment for schools by boosting the acceptance results of their students. The Company benefits from avoiding real estate costs and advertising and promotional costs to recruit students and cites potential to theoretically reach 15-20% operating margin for School TOMAS.

School TOMAS was deployed at 73 schools as of the end of March 2021 and is expanding annually. Since the conclusion of a capital and business alliance with Surugadai Gakuen in 2019, the Company has been hiring Sundai Preparatory School graduates as part-time teachers. Through establishment of a format for dispatching instructors to contracted schools, it is also capable of expanding the number of contracted schools. As explained above, it might also be possible to add even more contracted schools via collaboration with a system integrator. While the Company has a goal of 100 contracted schools by FY2/23 for the time being, there is room to expand to about 300 schools, mainly private schools, as latent demand. School TOMAS could also grow into a significant income source over the medium term by solidifying the brand with a steady track record of acceptance results.

## Outlook

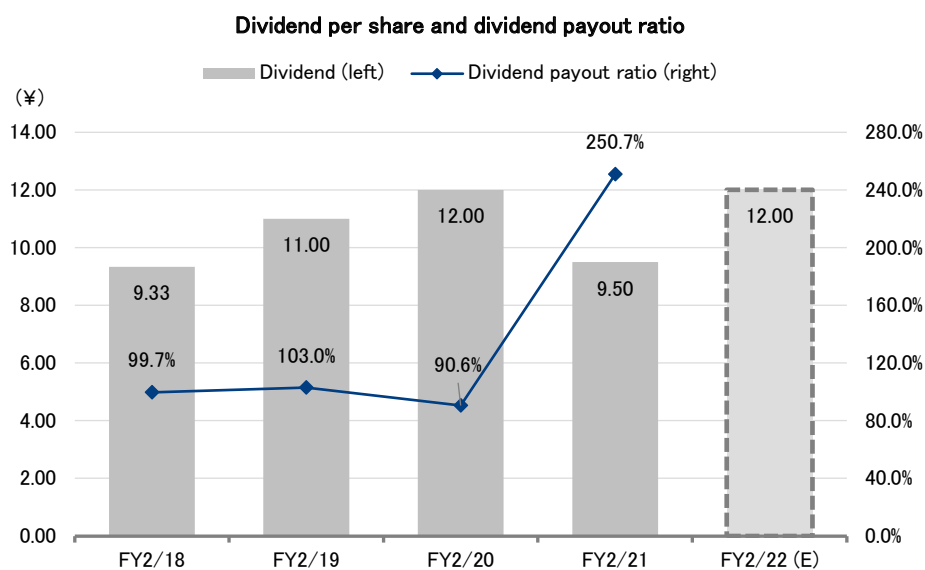
**e) Founded a specialty subsidiary to improve the efficiency of hiring teachers**

Hiring and training high-quality teachers is a key factor in the ability to expand the number of schools at Group companies. As explained above, teacher recruitment is often an issue for school rollout in regional areas. To address this challenge, the Company established Cocokara Teachers Co., Ltd. that specializes and will consolidate hiring, training, and placing of teachers, and will build a framework for appropriately placing teachers at Group companies. TOMAS, meanwhile, hires teachers independently too, and the Company intends to continue parallel hiring for the time being. Besides improvement in hiring and training cost efficiencies from conducting integrated hiring and training for the overall Group, this initiative might lead to faster growth by the Group by effectively allocating instructors to the right spots and supporting regional rollout in the TOMEIKAI business.

## Shareholder returns

### Plans to pay ¥12 dividend per share in FY2/22

The Company considers profit return to shareholders as an important management issue and has paid a quarterly dividend based on earnings with a consolidated payout ratio indicator since FY2/17. However, it discovered that the past four dividend payments exceeded the allowable distribution value because of an inadequate internal check. The Company formed external and internal investigation committees to determine the cause and devise measures to prevent recurrence, and announced the outcome in September 2020. As a result, it decided to pay a bulk dividend of ¥9.5 at the period-end in FY2/21. The dividend payment totaled ¥1,404mn, putting the dividend payout ratio above 100% at 250.7%. The Company funded this payment with retained earnings and ¥29mn in difference arising from the disposal of treasury shares during FY2/21. For the FY2/22 dividend, it plans to pay a ¥12.0 bulk dividend per share at period-end.



Note: Implemented a three-for-one stock split on December 1, 2018. Retroactively revised dividend values  
 Source: Prepared by FISCO from the Company's financial results





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