

Riso Kyoiku Co., Ltd.

4714

Tokyo Stock Exchange Prime Market

9-Dec.-2022

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

■ Index

■ Summary	01
1. Overview of 1H FY2/23 results	01
2. FY2/23 forecasts	01
3. Progress of medium-term management plan	02
■ Company profile	03
1. Company history	03
2. Business overview	04
3. Characteristics and strengths	07
■ Results trends	11
1. Overview of 1H FY2/23 results	11
2. Trends by business segment	13
3. Financial condition	14
■ Outlook	16
1. FY2/23 forecasts	16
2. Progress of medium-term management plan	17
■ Shareholder returns	22

Summary

Gradual materialization of cross-sector collaboration, aims for double-digit growth through provision of high value-added education services

Riso Kyoiku Co., Ltd. <4714> (hereinafter, “the Company”) is an educational service company that has established a unique high value-added business model by combining entirely 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 1H FY2/23 results

In the 1H FY2/23 consolidated results (March-August 2022), net sales increased 5.7% year on year (YoY) to ¥15,441mn and operating profit fell by 24.3% YoY to ¥1,007mn, with sales increasing but profit decreasing. The reemergence of COVID-19 around summer 2022 led to a spike in infections among teachers and students, causing disruption to scheduled lessons and negatively impacting sales by several hundred million yen. By contrast, student numbers steadily grew mainly at TOMAS which is entirely one-on-one instruction school and at School TOMAS, leading to record high sales. For profit, increases in personnel and recruitment advertising costs, increased costs for newly opened schools and existing school renewals, investment for new businesses, and higher utility bills resulted in a profit decrease.

2. FY2/23 forecasts

For the FY2/23 results, the Company maintained its initial forecast for net sales to increase 10.0% YoY to ¥33,000mn and operating profit to rise 19.1% YoY to ¥3,610mn. Although its progress rate up to 1H is slightly low, the Company aims to achieve its forecasts by implementing unfinished lessons due to COVID-19 from September onwards, and by holding down costs. September progress appears to be ahead of budget, and the Company expects profit to turn positive from 3Q onwards. The Company plans to raise its prices for each business by several percent from March 2023 to combat higher costs resulting from rising prices and utility bill hikes. For this reason, the price hike together with the increase in students will likely contribute to earnings from FY2/24.

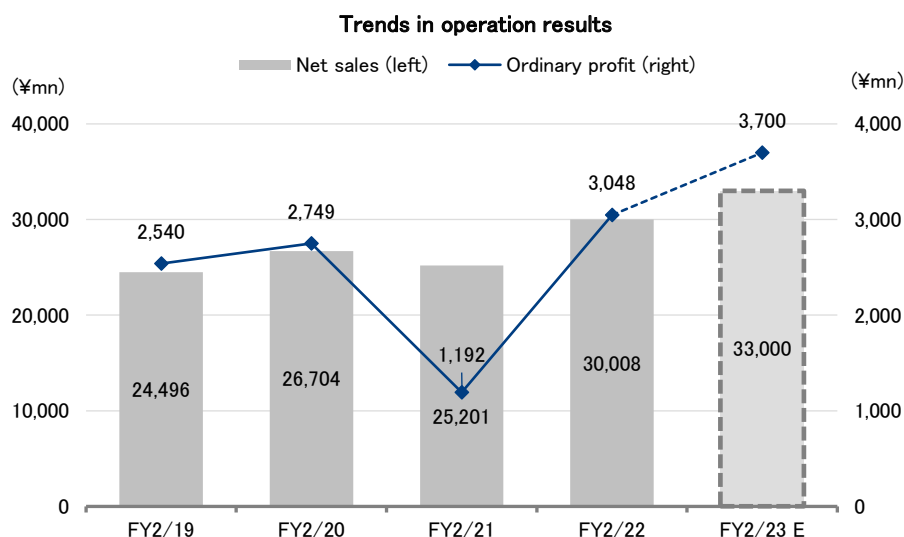
Summary

3. Progress of medium-term management plan

In its three-year medium-term management plan that started from FY2/23, the Company targets business growth through cross-sector business collaboration, and a customer retention policy. The plan's numerical targets for FY2/25 are net sales of ¥40,000mn and operating profit of ¥4,510mn, and the three-year compound annual growth rates (CAGR) are 10.1% for net sales and 14.2% for operating profit. Its cross-sector collaboration initiatives include the opening in April 2022 of Konami Sports Shinga's Academy Shinagawa School, a collaboration with Konami Sports Co., Ltd. This will be followed by the opening of three more schools in the Kansai region in 2023, and the Company currently plans to open 20 schools within Konami Sports locations. Another initiative is the educational building Kodomo Department Stores collaboration with Hulic Co., Ltd. <3003> and Konami Sports, with plans progressing to open seven buildings within the Tokyo metropolitan area. The strategy is to offer multiple educational services such as Shingakai, Shinga's Club and TOMAS within the same building to retain customers and boost customer lifetime value (LTV). The concept is to increase the number of buildings to 20 within the Tokyo metropolitan area by 2029, which is hoped will bolster sales and improve profitability in the medium term. The Company is making good progress in contracting schools to its School TOMAS collaboration with KDDI Matomete Office Co., Ltd. In its collaboration with Kids Smile Holdings Inc. <7084>, the Company's strategy is to retain customers by introducing services such as Shingakai, TOMAS and Meimonkai to Kids Smile Project members (approximately 4,000 members). Amid the steady shrinking of the youth population, the Company seeks to efficiently increase student numbers by offering high-quality educational services and cross-sector collaborations to achieve sustainable growth.

Key Points

- Student number growth drives record 1H FY2/23 results
- No change to initial FY2/23 results targets, aims for double-digit ordinary profit growth
- Targets net sales of ¥40.0bn and operating profit of ¥4.5bn in FY2/25 through efficient business expansion from cross-sector collaborations



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. When this business switched to an emphasis on selling educational equipment, he used the opportunity to establish 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, with classes organized by academic capabilities and 100% fulltime teachers. In March 1990, the Company developed and began providing a unique “entirely one-on-one individual instruction system” and changed the service name to Tokyo Man-to-man School. The Company subsequently changed the service name to TOMAS (initially adopted 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 as well. It opened the Meimonkai home tutor center and entered the home tutoring market in 1989 (in 2003, it spun off the business, operating it as Meimonkai). In 2000, it established Nihon Edunet Co., Ltd. (now, School TOMAS Co., Ltd.) which offers entirely one-on-one instruction in a real-time, interactive format utilizing internet teleconferencing, and School Tour Ship Co., Ltd. (now, Plus One Kyoiku Co., Ltd.), which provides character-building training camp education, in 2002. It also acquired shares of Shingakai, which offers entrance exam preparation for well-known kindergartens and elementary schools, making it into a subsidiary in 2003. In addition, the Company concluded a capital and business alliance with Surugadai Gakuen Educational Institute in 2019 and established Sundai TOMAS, a joint venture (with the Company owning a 51% stake), in an aim to further develop Spec. TOMAS, an individualized instruction school with focus on entrance exams for the most difficult schools.

Recently, the Company has also been actively progressing an alliance strategy. In September 2020, it announced a business collaboration with Hulic and Konami Sports for the joint development of the Kodomo Department Store, an educational building for children. Also, in June 2021, it announced a business collaboration with KDDI Matomete Office, in which they will jointly establish ICT environments for schools and introduce learning-support systems in schools. In addition, in March 2022, toward the further growth of the young child education business and other businesses, the Company announced a four-company business collaboration with Shingakai, Kids Smile Holdings and Kids Smile Project Inc. Subsequently, Hulic has been incrementally acquiring the Company’s shares, and at the end of August 2022, its share-holding ratio was 20.63%, making it the Company’s largest shareholder.

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 in June 2002. It moved to the Prime Market as a result of the market reclassification in April 2022.

Riso Kyoiku Co., Ltd.
4714 Tokyo Stock Exchange Prime Market

9-Dec.-2022

<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 name of Riso Kyoiku Kenkyusho.
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. (99.99% 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 Surugadai Gakuen Educational Institute
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 Cocokara 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.
April 2021	Shingakai Co., Ltd., and Konami Sports Co., Ltd., announced a business collaboration aiming for the joint development of Konami Sports Shinga's Academies
June 2021	School TOMAS Co., Ltd., and KDDI Matomete Office Co., Ltd., announced a business collaboration to jointly advance the establishment of ICT environments for schools and introductions of an in-school learning-support system
March 2022	Announced a business collaboration with Kids Smile Holdings <7084> and Kids Smile Project Inc., including in order to strengthen the mutual provision of each other's services
April 2022	Changed its listing to the TSE Prime Market

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

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

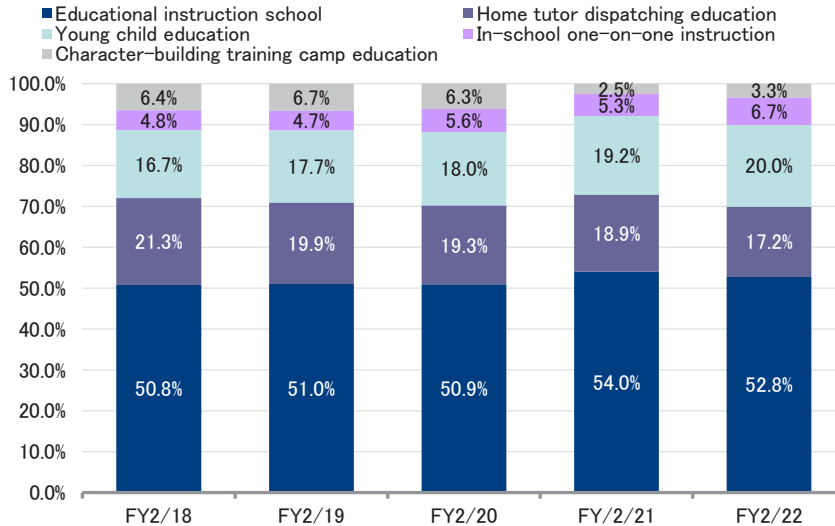
2. Business overview

The Company and its five major subsidiaries are developing educational services mainly focused on educational instruction schools. In terms of business segments, it discloses information on the educational instruction school business, home tutor dispatching education business, young child education business, in-school one-on-one instruction school business, and character-building training camp education business. For the percentages of total net sales by business segments in the most recent five years, the educational instruction school business provided more than 50% of net sales, while the three main businesses of the educational instruction school business, home tutor dispatching educational business and young child education business provided roughly 90% of total net sales. Also, looking at how the percentages changed from FY2/18 to FY2/22, the percentage of the home tutor dispatching education business declined, but the percentages of the young child education business, the educational instruction school business, and the in-school one-on-one instruction business all increased.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Company profile

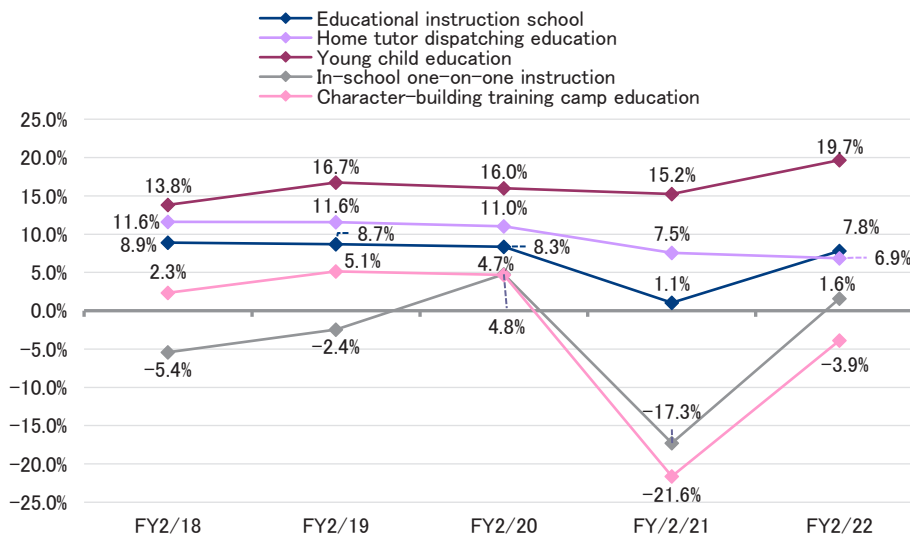
Breakdown by business segments



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

Looking at the profit margin by business segments, the highest is the young child education business at 15% to 20%. It is considered that the background to this is the fact that Shingakai, which has a track record established over 66 years as a pioneer for entrance exams for well-known kindergartens and elementary schools, has established overwhelming strong brand power. The profit margins of the educational instruction school business and the home tutor dispatching education business trend at around the 10% level. Sales in the in-school one-on-one instruction school business are still small scale and it is still at the upfront investment stage, so its profitability is comparatively low and profit fluctuations are large. But at FISCO, we think that if its sales scale grows beyond a certain level, it can maintain a profit margin of at least 10%.

Profit margin by business segments



Note: Calculations include internal sales
Source: Prepared by FISCO from the Company's financial results

We encourage readers to review our complete legal statement on "Disclaimer" page.

Company profile

(1) Educational instruction school business

The educational instruction school business consists of 91 entirely one-on-one instruction TOMAS schools, which is its mainstay business, in the Tokyo metropolitan area (as of the end of August 2022, same below), 12 English conversation Inter TOMAS schools, and 4 one-on-one instruction MEDIC TOMAS schools for medical school exam preparation. Additionally, it operates 1 Spec. TOMAS (a school located in Jiyugaoka), a provider of one-on-one instruction that specializes in entrance exams for the most difficult schools, under subsidiary Sundai TOMAS.

TOMAS, an entirely one-on-one instruction school for elementary students to high school students, has been the most successful at getting students accepted to the most difficult schools as an individual instruction school thanks to preparation and provision of a curriculum that works out a path to passing exams for individuals tailored to the skills of each student, according to the Company. With university 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. The student numbers consist of 45% elementary students, 25% junior high students, and 30% high school students. 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 grade 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 them.

(2) Home tutor dispatching education business

In the home tutor dispatching education business, Meimonkai operates 35 Meimonkai 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 candidates accepted for the most difficult schools each year, including particularly high acceptance results to medical schools, and in 2022, opened 2 MEDIC Meimonkai schools specializing in medical school entrance exam preparation in Osaka and Kobe as part of a new initiative. It also operates 12 TOMEIKAI schools as individualized instruction schools with service areas outside of the Tokyo metropolitan area (6 schools in the Kyushu area, 3 schools in the Tokai area, 2 schools in the Koshinetsu area and 1 school in the Kinki area). TOMEIKAI schools hire university student teachers and thus seek locations near medical universities or other universities that have many talented students nearby.

(3) Young child education business

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 Shingakai schools mainly in the Tokyo metropolitan area (21 schools in the Tokyo metropolitan area and 3 schools in the Keihanshin area). Furthermore, as after-school care and childcare services in the Tokyo metropolitan area, the company operates the Shinga's Club brand (19 after-school care sites, 8 childcare sites) in 27 locations. Childcare sites feature the operation of extended-length childcare with activities related to entrance exam that utilize the Shingakai educational method, while after-school care sites are characterized by extended-length operation that includes learning instruction for school advancement. These sites receive strong support from working mothers who want to successfully manage work and child-rearing duties and remain highly popular with all available spots filling up once schools open.

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

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. Also, since 2020, it has been offering one-on-one instruction services in combination with the atama+ AI learning assistance system and "Sundai Satellite Network 21" video teaching material system. It has been steadily increasing the number of contracted schools, particularly at private schools that cover middle and high school years faced with the management challenges of recruiting sufficient student numbers and long working hours for instructors. There were 110 contracting schools (of which it operates 82) at the end of August 2022.

Company profile

(5) Character-building training camp education business

The character-building training camp education business consists of 6 schools for soccer and 10 schools for 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 and develop intellectual curiosity 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 entirely one-on-one instruction schools as well as MEDIC TOMAS medical department entrance exam individualized instruction schools and Inter TOMAS English conversation 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 and MEDIC Meimonkai that dispatches home tutors and TOMEIKAI one-on-one instruction schools in regional areas (outside of the Tokyo metropolitan area)	Meimonkai 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

Continuing to develop high-quality education service that utilizes an approach of entirely individual instruction as a differentiation strategy

3. Characteristics and strengths

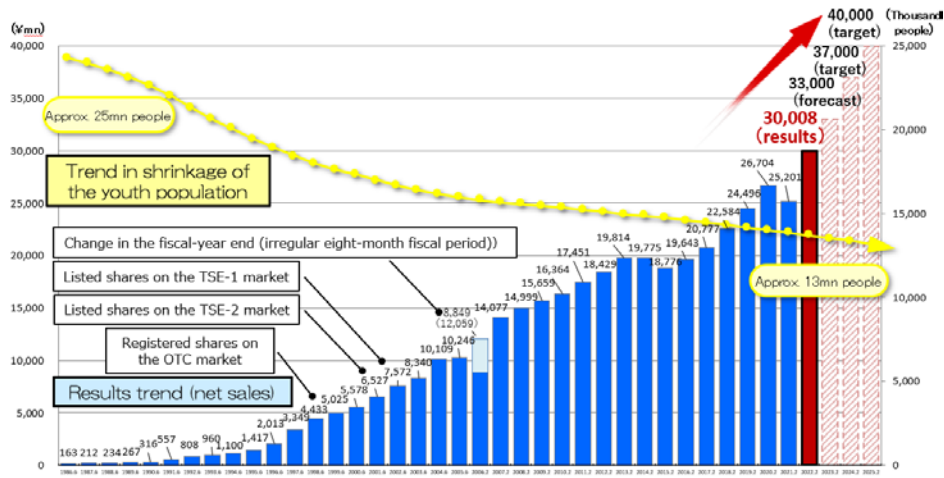
While the Company has a variety of characteristics and strengths, at FISCO, we think the following two are particularly important: 1) consistently increasing income over the long term and 2) realizing high profitability. We think the advantageous business model built by the Company is the source of these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

The Company recorded ¥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 an actual 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 in mid-2013 and sales decline in FY2/21 due to the impact of the COVID-19 pandemic.

Trends in net sales since the Company's foundation

We encourage readers to review our complete legal statement on "Disclaimer" page.

Company profile

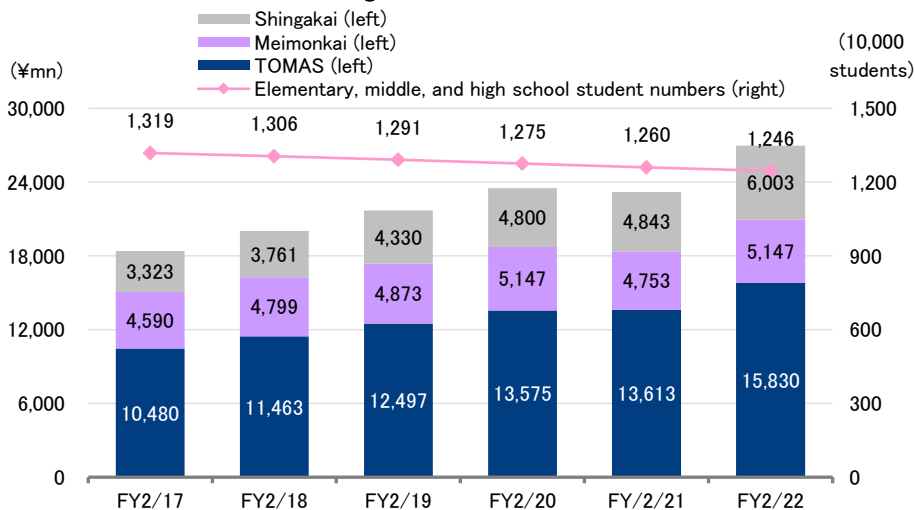


Source: From the Company's results briefing materials

What is important here is that even in a situation in which competition to acquire students is intensifying due to the shrinkage of Japan's youth population and the increase in companies entering the market, student numbers have still been increasing in all of the main businesses of TOMAS, Meimonkai, and Shingakai, and they have continued to grow. The number of elementary, middle, and high school students, who are the Company's main targets, trended downward by 1.1% per year, from 13.32mn students in FY2015 to 12.46mn students* in FY2021, but during the same period, net sales of the three main businesses grew by 8.0% per year. It is considered that the main factor behind this is the Company skillfully meeting the needs for exam preparation amid an increase in students taking exams for private elementary and middle schools and increased spending on education per child in a situation in which the future is increasingly uncertain.

* The total value of the number of students attending elementary, middle and high schools in the School Basic Survey by the Ministry of Education, Culture, Sports, Science and Technology (FY2016, FY2021).

Trends in the main businesses' net sales and elementary, middle, and high school student numbers



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)

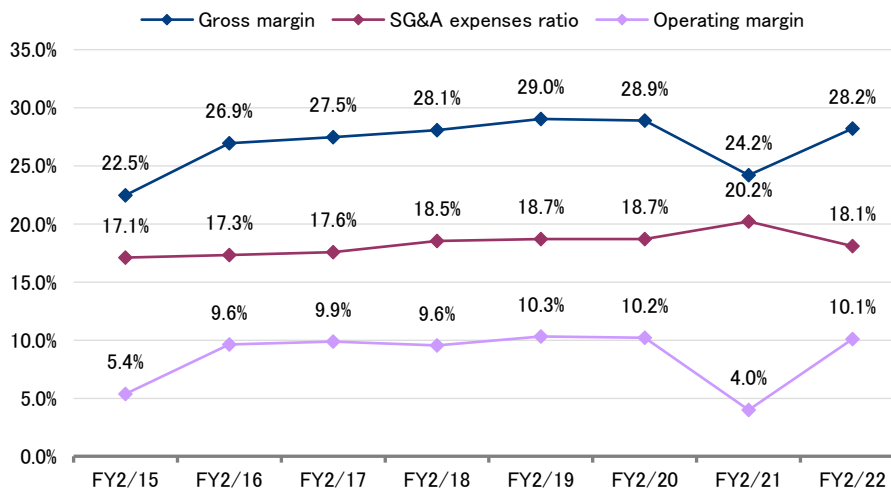
In operating margin, despite temporary decline in FY2/21 because of COVID-19 impact, the level has been stable

We encourage readers to review our complete legal statement on "Disclaimer" page.

Company profile

at about 10% since FY2/16. 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 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



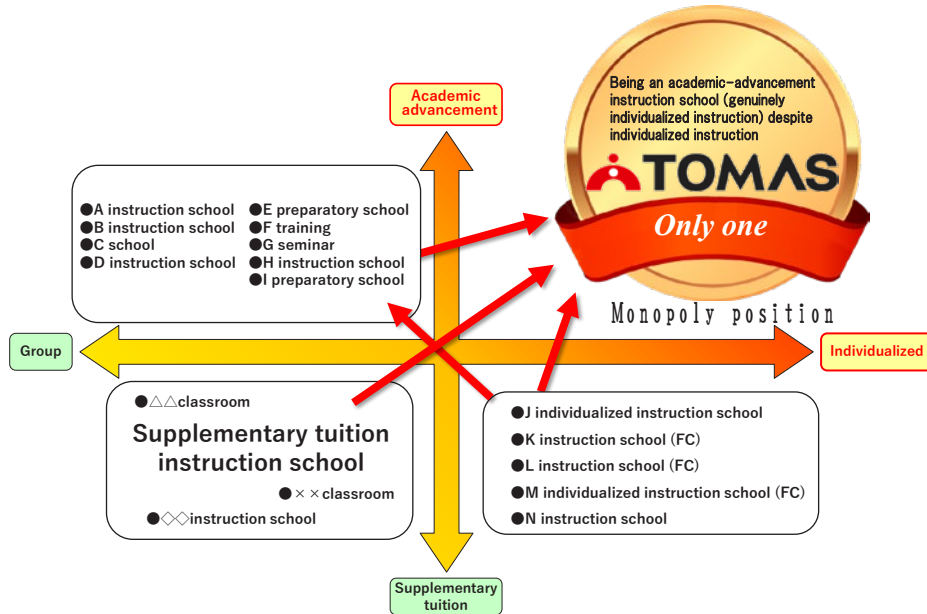
Source: Prepared by FISCO from the Company's financial results

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 perceived two major implications from 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. Constructing a business model by anticipating the shrinkage of the youth population from the beginning based on this implication has led to its growth up to this point. By forecasting increases in the amount spent per child on education costs as well, the Company has no doubt 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 typical model in the individual instruction market at this point is a quasi-approach with a ratio of one teacher to a few students (two to three) for the purpose of supplementing school coursework. We think the major reason why other companies do not adopt this model is clear, which is high business risk. Since service fees must be higher in order to achieve profitability through entirely one-on-one instruction, supplementing coursework is not enough to justify these fees. The tough reality is that only academic advancement results for the most difficult schools 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 strength and position as a one-on-one educational advancement and preparatory school.

Company profile

The Company's position in the market



Source: From the Company's results briefing materials

While the Company's founding purpose was high-quality individualized instruction, it initially started with a small group learning format that consisted of six students per class with classes organized by academic capabilities. It was not until 1990, five years after its founding, that the Company began providing the entirely one-on-one individualized teaching system envisioned by Mr. Iwasa. While it is thought that 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 mentality, 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 to this day, 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. It is considered that 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 TOMAS business utilizes part-time university 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 true 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 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 at FISCO, we have high expectations for it to maintain them within a timeframe of 5 to 10 years. Firstly, consistent existence of a certain amount of demand for the Company's business model (high-priced, high-quality service) has been shown even amid steady shrinkage of the youth 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 the 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

Student number growth drives record 1H FY2/23 results

1. Overview of 1H FY2/23 results

In the 1H FY2/23 consolidated results, net sales increased 5.7% YoY to ¥15,441mn, operating profit decreased 24.3% to ¥1,007mn, ordinary profit decreased 24.7% to ¥1,034mn, and profit attributable to owners of parent decreased 27.2% to ¥636mn, with sales increasing but profit decreasing.

1H FY2/23 results

	1H FY2/22		1H FY2/23		YoY
	Results	Ratio to sales	Results	Ratio to sales	
Net sales	14,612	-	15,441	-	5.7%
Cost of sales	10,490	71.8%	11,290	73.1%	7.6%
SG&A expenses	2,790	19.1%	3,143	20.4%	12.6%
Operating profit	1,331	9.1%	1,007	6.5%	-24.3%
Ordinary profit	1,373	9.4%	1,034	6.7%	-24.7%
Extraordinary income and loss	45	-	-3	-	-
Profit attributable to owners of parent	874	6.0%	636	4.1%	-27.2%

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

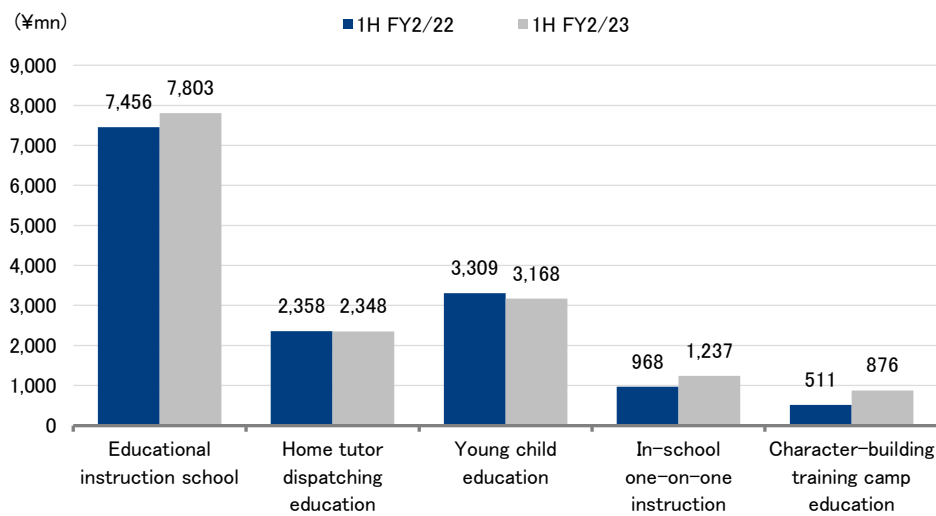
The seventh wave of the COVID-19 pandemic around summer 2022 led to a spike in infections among teachers and students, with the result that some lessons scheduled for the summer term were postponed to after September. However, a steady increase in TOMAS and School TOMAS students boosted 1H sales to a record high (the overall group had 26,599 students as of August 31, 2022, a 1.4% YoY increase). The Company believes the postponement of lessons caused by the COVID-19 pandemic negatively impacted sales by several hundred million yen.

Factors that weighed on profit include costs for newly opened schools and existing school renewals investment for new businesses, higher personnel costs and recruitment advertising costs to secure excellent personnel, rising prices caused by inflation, and higher utility bill resulting from surging energy prices. By category, personnel costs increased by ¥380mn, advertising costs by ¥97mn, and utility bills by ¥86mn, respectively. Another negative profit factor was the Company recording share-based payment costs of ¥30mn in 2Q (recorded in 3Q in FY2/22).

Results trends

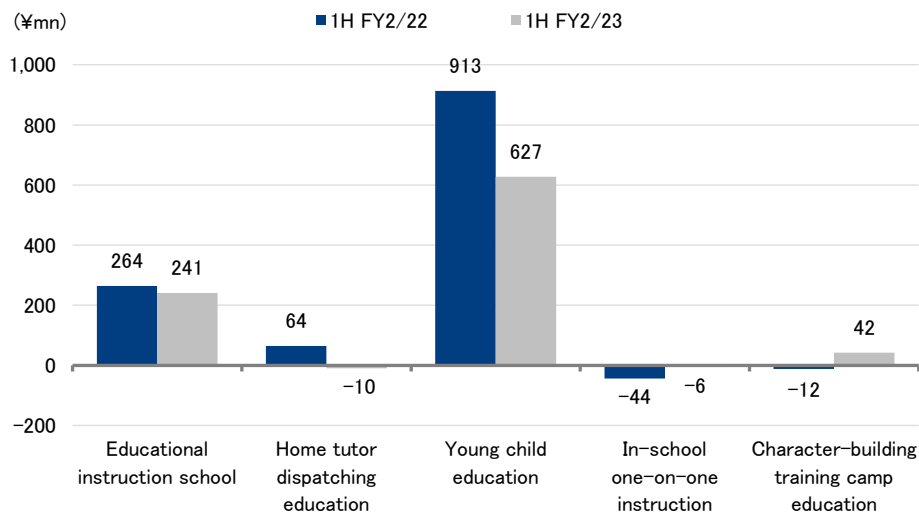
By business segment, sales improved in the educational instruction school business, the in-school one-on-one instruction business and the character-building training camp education business, but declined slightly in the home tutor dispatching education business and the young child education business. The operating loss for the in-school one-on-one instruction business narrowed, and returned to the black for the character-building training camp education business, but declined for the three core businesses of educational instruction school business, home tutor dispatching education business and the young child education business, with the young child education business in particular seeing a widening profit decline.

Net sales by business segment



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

Earnings deterioration in the young child education business due to temporary factors, number of contracting School TOMAS schools increased steadily

2. Trends by business segment

(1) Educational instruction school business

In the educational instruction school business, net sales increased 4.7% YoY to ¥7,803mn, while operating profit decreased 8.5% YoY to ¥241mn. The opening of new schools and renewals of existing schools to expand floor space has steadily increased student numbers, pushing sales to a record high, but factors such as higher personnel costs and utility bills weighed on profit.

3 new TOMAS schools were opened in FY3/22 and a renewal conducted to expand floor space at 1 school a month in each of March, May and August. 1 new Inter TOMAS was opened in May, bringing the number of educational instruction schools (TOMAS, MEDIC TOMAS, Spec.TOMAS) to 96 (a YoY increase of 3 schools). The number of English conversation schools Inter TOMAS increased by 2 schools to 12 schools. The Company's approach of ensure safe and secure learning environments by thoroughly implementing infection-prevention measures and providing high-quality educational services through one-on-one tuition is supported by many students as well as their parents and guardians, helping steady growth of student numbers at newly opened schools. Unfinished lessons due to the impact of teacher and student infections during the seventh wave of the COVID-19 pandemic will be implemented between September and December.

(2) Home tutor dispatching education business

In the home tutor dispatching education business, sales were flat, declining 0.4% YoY to ¥2,348mn, and operating loss was ¥10mn (¥64mn operating profit in 1H FY2/22). In addition to the capacity of one Meimonkai school being renewed in April 2022, the main Osaka school of the new MEDIC Meimonkai brand was opened in March, as well as another school in Kobe. As of August 2022, the number of Meimonkai schools had reached 35 and the number of TOMEIKAI had reached 12, both flat YoY, while 2 new MEDIC Meimonkai were opened.

The number of enrolling students at MEDIC Meimonkai surpassed expectations, but enrolling student numbers at Meimonkai and TOMEIKAI were sluggish, due partially to student recruitment activity resources being concentrated on MEDIC Meimonkai, leading to a slight reduction in student numbers YoY. Upfront investment costs for MEDIC Meimonkai weighed on profit. MEDIC Meimonkai is an entirely one-on-one instruction school for high school students to prepare them to take medical school entrance exams, and in addition to support for study as a whole, also provides services that are thoroughly backed up by a full-support system for students to pass the entrance exams of their school of choice, including a fully equipped student dormitory, lifestyle management and mental health support through a concierge and a motivation follow-up service.

(3) Young child education business

In the young child education business, net sales fell 4.3% YoY to ¥3,168mn, and operating profit declined 31.3% YoY to ¥627mn. 1 Shinga's Club after-school care school was opened in April 2022 (Konami Sports Shinga's Academy Shinagawa School) and another in August (Harumi Triton School). As of August 2022, the number of Shingakai schools stood unchanged YoY at 24, the number of Shinga's Club after-school care schools increased by 3 to 19, and the number of Shinga's Club childcare schools increased by 1 to 8.

Results trends

Although student numbers grew steadily at Shinga's Clubs, a fall in the Shingakai student number resulted in a slight reduction overall. The reduction in Shingakai student number with its high unit value per student pulled down both sales and profit. The fall in the Shingakai student number appears to have been caused by the reemergence of the COVID-19 pandemic during the enrollment season*, and the absence of key personnel to direct and manage recruitment activities. As key personnel have now returned to work and the normal operation structure restored, it is expected that a student numbers recovery in 2H will return sales to positive territory. The Konami Sports Shinga's Academy opened in April 2022 reached capacity soon after it opened, and has been extremely popular with students and their parents and guardians alike. For this reason, the Company plans to expanding floor space in April 2023.

| * Kindergarten entrance exams are held in October and November, so the enrollment season is in 4Q (December-February). |

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

In the in-school one-on-one instruction school business, net sales increased 27.7% YoY to ¥1,237mn, while operating loss narrowed from ¥44mn to ¥6mn in 1H FY2/22. The number of contracting schools steadily increased, rising from 82 in 1H FY2/22 to 110 schools (of which it operates 82), and higher students numbers resulting from the expansion in the number of applicable school grades for which the school offers instruction at existing schools, both helped boost net sales.

The impact of the collaboration with KDDI Matomete Office Co., Ltd. in June 2021 is also believed to have contributed to the increase in contracting schools. KDDI Matomete Office has introduced ICT education solutions that combine ICT devices, such as tablets and communication network devices, with intangible services such as online educational services, into approximately 250 schools nationwide, and is moving forward with proposals to introduce School TOMAS as one such educational service. In the case of School TOMAS, its ability to provide AI-based teaching materials such as "atama+" or online one-on-one English conversation classes in combination with internet-based teaching materials services is a strength in addition to the entirely one-on-one individualized instruction services within schools, and inquiries from private schools have increased.

(5) Character-building training camp education business

In the character-building training camp education business, net sales increased 71.3% YoY to ¥876mn and operating profit was ¥42mn (a loss of ¥12mn in 1H FY2/22). In the previous period, this business held only a few experiential tours for character building due to COVID-19, but in 1H FY2/23, the number of tours returned to a certain extent, boosting sales. Net sales have now recovered to roughly 80% of their pre-COVID 19 level. TOMAS Gymnastics Schools and TOMAS Soccer Schools sales were firm. 1 TOMAS Gymnastics School opened in July 2022, bring the total number to 10. There were no new openings of TOMAS Soccer Schools, which still numbers 6.

Abundant cash on hand from debt-free management, financial condition is sound

3. Financial condition

Looking at the Company's financial condition at the end of 1H FY2/23, total assets had decreased ¥1,400mn on the end of the previous fiscal period to ¥17,645mn. The main change factors were that in current assets, cash and deposits decreased ¥1,751mn due to dividends paid, etc. In non-current assets, there were increases of ¥230mn in property, plant and equipment due to new school openings and other factors and ¥50mn in leasehold and guarantee deposits.

Results trends

Total liabilities were up ¥509mn on the end of the previous fiscal period to ¥9,041mn. In current liabilities, income taxes payable decreased ¥350mn, but accounts payable increased by ¥444mn and advances received and contract liabilities increased by ¥484mn. In non-current liabilities, retirement benefit liabilities increased ¥111mn. Net assets declined ¥1,910mn to ¥8,603mn. The Company recorded quarterly profit attributable to owners of parent of ¥636mn, but the dividend payout of ¥2,461mn was a negative factor.

Looking at cash flow conditions, net cash provided by operating activities was ¥1,153mn, a decrease compared to ¥2,279mn in the same period of the previous fiscal year due to the fall in profit. Net cash used in investing activities was ¥444mn due to the purchase of property, plant and equipment for new school openings, and net cash used in financing activities was ¥2,462mn due to dividend payment and other factors. As a result, cash and cash equivalents at the end of the period decreased ¥1,751mn on the end of the previous period to ¥6,259mn.

Looking at management indicators, the equity ratio declined from 54.8% at the end of the previous period to 48.1%, but this was due to the dividend payment, and is an increase of 41.5% in 1H FY2/22. The Company's financial condition can be judged to be highly sound as it practices debt-free management and has cash on hand of more than ¥6.0bn. Its policy for the accumulated cash is to allocate it to capital investment, including for new school openings, and to M&A, while it also continues to actively return profits to shareholders.

Consolidated balance sheet

	(¥mn)				
	End of FY2/20	End of FY2/21	End of FY2/22	End of 1H FY2/23	Change amounts
Current assets	6,644	7,018	10,997	9,267	-1,729
(Cash and deposits)	4,837	3,963	8,011	6,259	-1,751
Non-current assets	6,531	6,922	8,048	8,377	329
Total assets	13,214	13,940	19,045	17,645	-1,400
Total liabilities	7,056	7,365	8,531	9,041	509
(Interest-bearing debt)	-	-	-	-	-
Net assets	6,157	6,575	10,513	8,603	-1,910
[Management indicators]					
Equity ratio	45.9%	46.7%	54.8%	48.1%	-6.7pt

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

Cash flow statements

	(¥mn)		
	1H FY2/21	1H FY2/22	1H FY2/23
Cash flows from operating activities	-623	2,279	1,153
Cash flow from investing activities	-354	-674	-444
Cash flow from financing activities	-211	-1,398	-2,462
Cash and cash equivalents at end of period	3,649	4,170	6,259

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

■ Outlook

No change to initial FY2/23 results targets, aims for double-digit ordinary profit growth

1. FY2/23 forecasts

For the FY2/23 consolidated results, the Company made no change to its forecast that sales and profits will continue to increase for all businesses, with net sales to rise 10.0% YoY to ¥33,000mn, operating profit to grow 19.1% to ¥3,610mn, ordinary profit to climb 21.4% to ¥3,700mn, and profit attributable to owners of parent to increase 2.8% to ¥2,500mn. Student numbers and sales and profits are forecast to increase in every business. The increase rate for profit attributable to owners of parent will only be a single digit because the recording of deferred tax assets is not expected, and the effective tax rate will rise.

1H progress versus the Company's full-year forecasts was 46.8% for net sales and 27.9% for operating profit, slightly lower than the average of the past three years (net sales: 47.3%, operating profit: 30.1%), but the Company is aiming to reach its full-year targets by implementing unfinished lessons postponed due to COVID-19 pandemic as noted above in September-December, focusing on increasing student numbers for businesses such as Meimonkai and Shingakai that were sluggish in 1H, and reducing costs. The ¥30mn of share-based payment costs recorded in 2Q will not apply to 2H, making it another positive factor. Monthly results for September appear to have exceeded the plan as a result of these initiatives, and a reversion to profits is expected from 3Q onward. The Company plans to raise its prices for each business by several percent from April 2023 to combat higher costs resulting from rising prices and utility bill hikes.

FY2/23 consolidated forecasts

	FY2/22		FY2/23		YoY	1H progress	Three-year average progress rate *
	Results	Ratio to sales	Company's target	Ratio to sales			
Net sales	30,008	-	33,000	-	10.0%	46.8%	47.3%
Operating profit	3,030	10.1%	3,610	10.9%	19.1%	27.9%	30.1%
Ordinary profit	3,048	10.2%	3,700	11.2%	21.4%	28.0%	30.4%
Profit attributable to owners of parent	2,431	8.1%	2,500	7.6%	2.8%	25.4%	22.9%
Earnings per share (¥)	16.22		16.20				

* Three-year average progress rate = 1H total over past three years ÷ full-year total
 Source: Prepared by FISCO from the Company's financial results

In 2H, the core educational instruction school business will focus on increasing student numbers by opening 1 new TOMAS school in 3Q and renewed to expand floor space in 2 schools. In the home tutor dispatching education business, the Company wants to achieve the customer goal of acceptance results to the desired medical school at MEDIC Meimonkai, which has made a strong start, and link this to the opening of more schools. Student numbers per school are low at around 10 to 20 students, but the unit price per student is the highest in the Group at ¥5mn to ¥6mn, and net sales are expected to be roughly ¥100mn in FY2/23. The plan is to open at least 10 schools over three years. There are no new Meimonkai or TOMEIKAI schools scheduled to open in 2H, and the Company will focus on boosting student numbers at existing schools.

Outlook

In the young child education business, the Company will take steps to restore student numbers at Shingakai. The key will be the extent to which the Company is able to increase numbers when students enroll in 4Q. In the in-school one-on-one instruction business, the plan is to bolster the personnel structure and increase the number of schools it operates. Of the 110 contracting schools as of August 2022, 28 were not operated, and operating these is expected to further boost sales and improve the profit margin. In the character-building training camp education business, the Company expects the positive sales trend to continue in 2H, including due to the recovery in the number of tours scheduled to be held.

Targeting net sales of ¥40.0bn and operating profit of ¥4.5bn in FY2/25 through efficient business expansion from cross-sector collaborations

2. Progress of medium-term management plan

(1) Overview of the medium-term management plan

In its three-year medium-term management plan that started from FY2/23, the results targets for FY2/25, the plan's final fiscal year, are net sales of ¥40,000mn, operating profit of ¥4,510mn, ordinary profit of ¥4,500mn, and profit attributable to owners of parent of ¥3,000mn. For the three-year CAGR, the forecasts are for double-digit growth of 10.1% for net sales and 14.2% for operating profit. As noted above, results have made a slightly sluggish start to FY2/23 due to factors such as the impact of COVID-19 and higher costs, but FISCO believes the Company hiking prices in FY2/24 and other factors will allow results to catch up to forecasts.

FY2/23 – FY2/25 Medium-term management plan (values announced in April 2022)

	FY2/22 Results	FY2/23 Target	FY2/24 Target	FY2/25 Target	Compound annual growth rates
Net sales	30,008	33,000	37,000	40,000	10.1%
Operating profit	3,030	3,610	4,010	4,510	14.2%
Operating margin	10.1%	10.9%	10.8%	11.3%	-
Ordinary profit	3,048	3,700	4,000	4,500	13.9%
Profit attributable to owners of parent	2,431	2,500	2,700	3,000	7.3%

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

There has been no change to the growth strategy, and the Company is continuing with its basic strategy of a thorough differentiation strategy through continuously providing high quality "authentic" education services and actively opening schools with the aim of continuously increasing student numbers even in the situation of the shrinkage of Japan's youth population. The Company plans to progress cross-sector collaborations in order to efficiently implement this strategy, School TOMAS is already seeing the number of contracting schools increase thanks to its collaboration with KDDI Matomete Office, and will continue to progress this initiative, while also progressing its strategy of retaining customers by operating Konami Sports Shinga's Academy through its collaboration with Konami Sports, Kodomo Department Stores through its collaboration with Hulic and Konami Sports, and collaboration with Kids smile project. These cross-sector collaborations not only help it efficiently increase student numbers, but also improves customer LTV, and so attention will be given to it as an initiative to improve profitability.

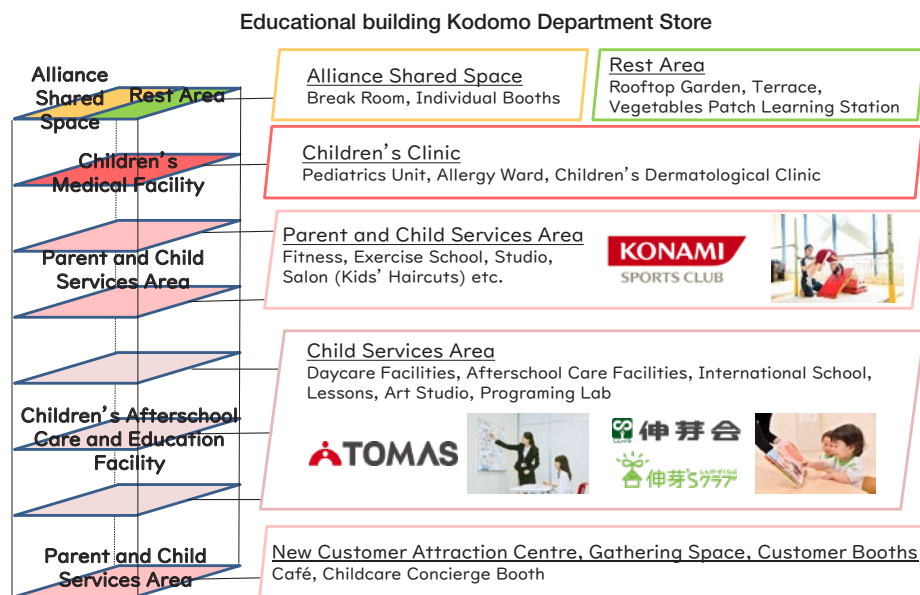
Outlook

(2) Growth strategy

a) Opening of the Kodomo Department Store, an educational building

In September 2020, the Company entered into a three-company business collaboration with Hulic and Konami Sports, and they have announced the Kodomo Department Store concept, in which they will provide services within the educational building being developed by Hulic in the Tokyo metropolitan area. These services will include the Riso Kyoiku Group’s education services, such as Shinga’s Club childcare and after-school care, Shingakai, TOMAS, and Inter TOMAS, and also the exercise schools* provided by Konami Sports. Needs are strong for children’s education that provides a good balance between study and exercise, and this building will capture these needs by providing various services in a good location. For the Company, it will widen opportunities to provide multiple services to students ranging from infants to high school students, and it is aiming to maximize customer LTV through its “retention strategy,” and is a noteworthy effort.

* Exercise schools for children with 140 locations nationwide.



Source: From the Company’s results briefing materials

The Company is currently simultaneously progressing a total of seven projects (Tokyo Shibuya Ward, Meguro Ward, Minato Ward, Shinagawa Ward, Nakano Ward and Koto Ward, and Ichikawa City in Chiba). The Company’s concept is to expand to up to 20 buildings by 2029 at locations near to terminal station in the Tokyo metropolitan area.

Hulic has agreed to the opening of a Kodomo Department Store within the MITAKE Link Park (provisional name)*, which is a multi-purpose building in Shibuya scheduled to be completed in 2026. The Company also plans to open a Shinga’s Club childcare and after-school care and Shingakai schools within it. It is also involved in the operation of a creative culture educational facility to open at the same location.

* Hulic was selected as the development company for the Urban Renewal Step-up Project (Shibuya Area), Shibuya 1-Chome Area Joint Development Project implemented by Tokyo and Shibuya Ward, and it is progressing the development of a multi-purpose building with 2 underground floors and 14 above-ground floors. The building has a site area of 9,670m² and it is scheduled to consist of various areas including offices, stores, rental housing, children’s educational facilities and a multi-purpose hall.

Outlook

For Shinga's Club, despite the strong demand, it has been difficult to find properties that satisfy the conditions, and the increase in the number of bases has been sluggish. However, with the opportunity provided by the Kodomo Department Store concept, it is possible that the number will continuously increase. For Shingakai also, the "school entrance exams" for well-known kindergartens and elementary schools are a niche market involving famous teachers who have special expertise, and in many cases, parents want their child to take classes with such teachers. Therefore, since the past the Company has adopted a cautious approach to increasing school numbers, but it seems that it will be possible to develop Shingakai for the Kodomo Department Store business through strengthening the training of teachers. Due to the shrinkage of Japan's youth population, competition to acquire students is expected to further intensify in the young child education market. The Company's strategy is to maintain its competitive advantages by providing value-added services, such as for entrance-exam preparation and for academic advancement, so the young child education business is forecast to continue its high growth in the medium term through the realization of the Kodomo Department Store concept.

b) Opening of Konami Sports Shinga's Academy

Konami Sports Shinga's Academy opened in April 2022 through collaboration with Konami Sports will continue to draw attention as an initiative for contributing to the growth of the young child education business. It was also decided to expand in April 2023 the number of members at the Konami Sports Shinga's Academy opened in April 2022 which reached capacity soon after opening. The Company will also open the Nishinomiya school in Hyogo Prefecture in April 2023, with one school to also be opened in both the Osaka and Kobe areas. The reason for the large number of openings in the Kansai area is believed to be due to the number of properties with large areas, making it easy to establish a new learning space, as well as the large number of prospective students. In the case of the Shinagawa school, Konami Sports members number around 1,000, and given that it quickly reached full capacity, it is likely that student numbers at new schools will rise smoothly with hardly any costs incurred for acquiring students, and this will contribute to higher sales and improve profitability. The Company's target is to open about 20 Konami Sports Shinga's Academies, and double the number of the current after-school care sites.

c) Collaboration with Kids Smile Holdings

In March 2022, the Company and Shingakai concluded a business collaboration with Kids Smile Holdings and its subsidiary Kids Smile Project, which operate certified childcare facilities mainly in Tokyo, Kanagawa Prefecture and Aichi Prefecture. In 2015, Shingakai and Kids Smile Project began a business collaboration with the aim of jointly developing the KID'S PREP. PROGRAM, an original educational program, and the current business collaboration has been expanded to include the parent company with the aim of further strengthening business relations.

In summary of the business collaboration, Shingakai and Kids Smile Project mutually dispatch executives to each other and effectively provide mutual support for the other's services. At the same time, the business scheme constructed in the main business collaboration will be expanded to childcare facilities and certified centers for early childhood education nationwide. This collaboration also aims to strengthen the base for future growth by securing excellent personnel through the establishment of a hiring system and training system intended to recruit childcare workers, and strengthening content and brand power, and customer-attraction capabilities. The two companies will also promote KID'S PREP. PROGRAM nationwide to childcare facilities and kindergartens from 2023 onward.

Outlook

In addition, by introducing the Group's services (including Shingakai, TOMAS, and Meimonkai) to the approximately 4,000 members of the childcare facilities operated by the Kids Smile Project and the customers of the above-described business (customers wanting to take entrance exams for elementary and middle schools), the Company will progress its "retention strategy" on a nationwide scale. The scheme involves the payment of a referral fee when obtaining a student via the Kids Smile Project, and attention will be given to it as an initiative that will increase the Group's student numbers in the future. The effects of these business collaborations have not been incorporated into the medium-term results targets, so they may be a factor behind results exceeding the targets.

d) Educational instruction school business

The educational instruction school business consists of one-on-one instruction school TOMAS, English conversation school Inter TOMAS, and one-on-one instruction focused on medical school exams at MEDIC TOMAS. In February 2020, it launched Spec. TOMAS as a provider of one-on-one instruction that specializes in entrance exams for the most difficult middle schools. From FY2/23 onwards, the Company is targeting annual sales growth of between 6% and 10% through the increases in the numbers of schools and students.

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 495–660m² of floor space that could accommodate 200-400 students, the strategy of satellite schools in the Tokyo metropolitan area deploys schools at mid-sized train stations around terminal train station sites with 165–198m² of floor space that can accommodate 100-150 students. The Company operated 91 schools in the Tokyo metropolitan areas as of end of August 2022 and has a goal of between 150 and 180 schools through opening satellite schools at a pace of 5-10 schools a year. It also plans to renew existing schools by steadily expanding floor space or relocation of schools that have become crowded due to rising student numbers.

The Company is opening Inter TOMAS and MEDIC TOMAS schools in areas in which a TOMAS school has been opened, if it judges that demand can be expected in these areas. Also, for Spec. TOMAS, which is a newly launched brand, the effects of COVID-19 are still being felt, so for the time being its policy is to work toward the existing school (Jiyugaoka) becoming profitable.

e) Home tutor dispatching education business

Within the home tutor dispatching education business, for the Meimonkai service of dispatches of professional home tutors, in addition to the Tokyo metropolitan area, the Company is developing the service for other major cities, such as Osaka and Nagoya, and for the main regional cities, and by the end of August 2022, the number of schools had reached 35 schools. Going forward, its policy is to respond to the increase in student numbers through renewals of existing schools by steadily expanding floor space or relocations, and also to open new schools in regions where demand is expected. For MEDIC Meimonkai, which was launched in 2022, it is aiming to open at least 10 schools in the next three years.

For TOMEIKAI, the Company plans to open new schools at a pace of several schools a year in the main cities other than the Tokyo metropolitan area. Within these areas, its policy is to focus on the Keihanshin area, and the Nagoya, Fukuoka, and North Kanto areas as key areas. An issue going forward will be improving the brand power of TOMEIKAI, but the same as it did for TOMAS, the Company intends to improve its brand power by accumulating a track record of excellent acceptance results through providing high-quality educational services. For this reason, it is focusing on securing excellent personnel in these key areas.

Outlook

f) In-school one-on-one instruction business

Attention is being paid to School TOMAS as a business that has the potential to grow in the future. In the situation of the advance of the declining birthrate, a business problem for private schools is acquisitions of students, while at the same time, another problem is teachers working long hours. Demand is expected to continue to grow for the School TOMAS service as a solution to these problems. The merit for the Company is that real estate costs and advertising costs to recruit students are not required.

The number of contracting schools had increased from 35 schools in February 2019 to 110 schools at the end of August 2022. The number of contracting schools has risen over the past 1-2 years due to the effect of the collaboration with KDDI Matomete Office and the increased use of ICT in schools due to the government's GIGA school concept. The strengthening of its personnel structure has been an issue, but through its joint-venture with Surugadai Gakuen Educational Institute since 2019, a structure has been established in which the graduates of Sundai Preparatory School are recruited as part-time teachers and then dispatched to contracting schools, enabling the business to cover a wide area from Hokkaido to Kyushu. In terms of potential demand, it seems there is room to grow to around 300 schools, centered on private schools, and the high growth is expected to continue in the medium term, while the Company will further attempt to bolster the personnel structure.

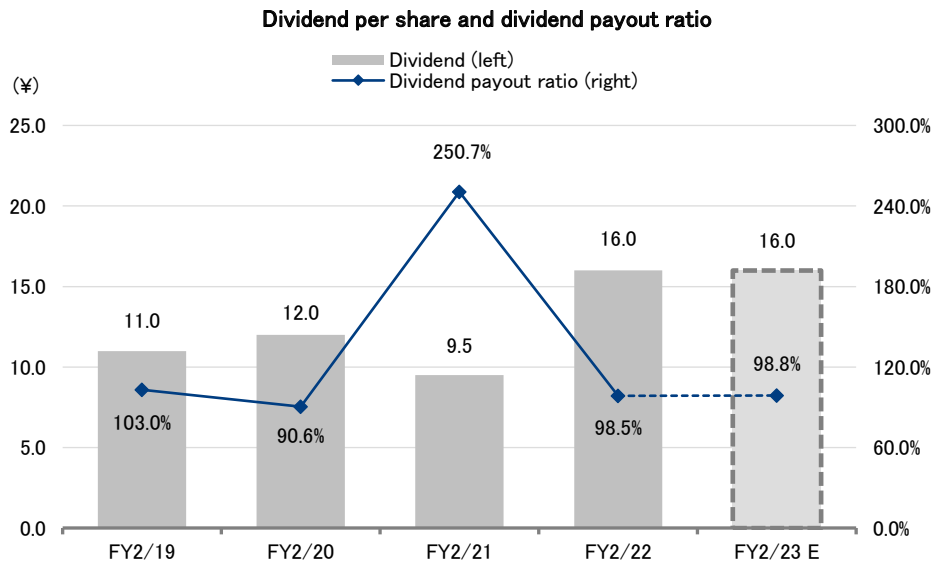
g) Strategy to hire and train teachers

Hiring and training high-quality teachers is a key factor in the ability to expand the number of schools at Group companies. Therefore, in August 2020, the Company established Cocokara Teachers Co., Ltd., as a subsidiary to hire, train, and place teachers in Group companies. This subsidiary conducts all of the hiring and training of teachers and deploys them to the various Group companies depending on their aptitude. TOMAS, meanwhile, also hires teachers independently, and the Company intends to continue hiring on its own in parallel with Cocokara Teachers Co., Ltd. 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. For the hiring of part-time teachers as well, the Group offers favorable conditions within the industry, so it seems it is able to hire them relatively smoothly without too much problem.

Shareholder returns

Continuing the policy of a dividend payout ratio of 100% and actively returning profits to shareholders

The Company considers returning profits to shareholders to be one of its most important management issues, and since FY2/17, it has stably paid dividends targeting a consolidated dividend payout of 100%. In FY2/23, it targets a dividend per share of ¥16.0 (flat YoY) for a dividend payout ratio of 98.8%. We can expect it to increase the dividend if results are higher than forecast. Since FY2/21, it has paid a lump sum dividend at the end of the period.



Note: On December 1, 2018, the Company conducted a 3-for-1 share split of ordinary shares. Therefore, the dividend for each of the periods from FY2/19 1Q to 3Q of ¥7.5 have been calculated as ¥2.5.

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



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp