

Riso Kyoiku Co., Ltd.

4714

Tokyo Stock Exchange Prime Market

4-Jun.-2024

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

■ Index

■ Summary	01
1. Aiming for aggressive expansion by strengthening ties with Hulic	01
2. Overview of FY2/24 results	01
3. FY2/25 forecasts	01
4. Medium-term management plan	02
■ Company profile	03
1. Company history	03
2. Business overview	05
3. Characteristics and strengths	09
■ Strengthening ties with Hulic	12
1. Overview of tender offer by Hulic and subscription of shares issued by third-party allotment to Hulic	12
2. Use of funds raised	13
■ Results trends	14
1. Overview of FY2/24 results	14
2. Trends by business segment	15
3. Financial condition	19
■ Outlook	21
1. FY2/25 forecasts	21
2. Medium-term management plan	23
■ Shareholder returns	26

Summary

Seeking further growth by strengthening ties with Hulic

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. The Company thus provides a diverse range of educational services for all age groups from early childhood to adults.

1. Aiming for aggressive expansion by strengthening ties with Hulic

On April 8, 2024, the Company expressed its agreement to a tender offer for its shares from capital and business alliance partner Hulic Co., Ltd. <3003>, and announced a subscription of shares issued by third-party allotment to Hulic. The number of shares to be purchased through the tender offer is 39,447,000 shares at a price of ¥320 per share. The tender offer period runs from April 9 to May 22, 2024, after which the subscription of shares by third-party allotment of 15,596,000 shares at an issue price of ¥218 per share will be implemented. After the subscription of shares, Hulic’s stake in Riso Kyoiku will increase to 51.0% from 20.6% at the end of FY2/24, making it the Company’s parent company. Riso Kyoiku will maintain its share listing. Fostering new business areas is one of Hulic’s growth strategies, and accordingly, Hulic plans to expand Riso Kyoiku as a core company of its education services business. The Company will progress the Kodomo Department Store educational building project in collaboration with Hulic and Konami Sports Co., Ltd. as well as push ahead with further business expansion by opening schools in properties owned and developed by Hulic and receiving M&A support to strengthen existing businesses.

2. Overview of FY2/24 results

In the FY2/24 consolidated results, net sales increased 2.3% year on year (YoY) to ¥32,215mn, operating profit increased 7.7% YoY to ¥2,586mn, ordinary profit increased 7.0% YoY to ¥2,614mn, and profit attributable to owners of parent increased 14.1% to ¥1,703mn. The Group’s student numbers fell slightly, down 1.7% YoY at the end of FY2/24, but net sales increased as a result of raising course fees at TOMAS, Meimonkai, and Shingakai schools to absorb the increase in personnel expenses. The Company turned profitable for the first time in two years due to the sales growth effect and strategic review of expenses (mainly advertising expenses). By business segment, the in-school one-on-one instruction school and home tutor dispatching education businesses contributed to profit growth.

3. FY2/25 forecasts

For FY2/25 consolidated results, the Company forecasts net sales to increase 5.4% YoY to ¥33,960mn, operating profit to rise 3.2% to ¥2,670mn, ordinary profit to rise 2.1% to ¥2,670mn and profit attributable to owners of parent to rise 0.4% to ¥1,710mn. The Company forecasts double-digit growth in net sales and profit of the in-school one-on-one instruction business driven by an increase in the number of schools and grades introducing the service. It also expects a turn to sales and profit growth for the mainstay educational instruction school business as a result of opening new schools and reducing the percentage of students leaving. Although the Company forecasts a slight drop in profit margin, we at FISCO think it is taking a conservative view, because we can identify no particular reason for this, and see potential upside for profit if net sales increase according to plan.

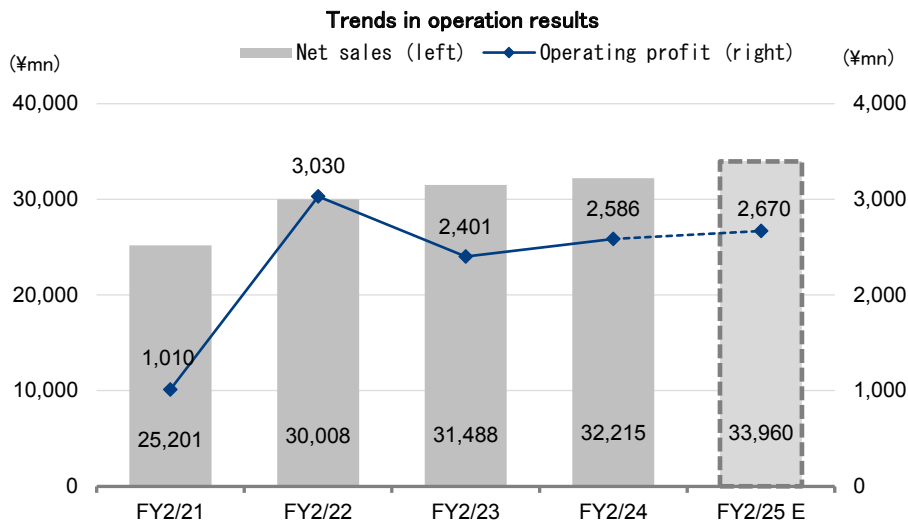
Summary

4. Medium-term management plan

The three-year medium-term management plan that started in FY2/25 targets net sales of ¥38,260mn and operating profit of ¥3,360mn in the final year (FY2/27) for a three-year CAGR of 5.9% for net sales and 9.1% for operating profit. The Company aims for solid growth despite the shrinking youth population and intensifying competition in the educational instruction school business by continuing to deliver quality services to differentiate itself. Growth drivers will be the educational instruction school and in-school one-on-one instruction businesses. The Company also aims to resume a growth trajectory in the young child education business by a management revamp of Shingakai and development of the Kodomo Department Store series. Two Kodomo Department Store projects are scheduled to open in spring 2025, and the Company plans to open up to 20 Kodomo Department Stores in the Tokyo area by 2029. For shareholder returns, the Company plans a dividend per share of ¥10.0 for a dividend payout ratio of 90.3% in FY2/25, based on a basic policy of paying dividends with a dividend payout ratio of over 50%.

Key Points

- Record net sales in FY2/24, with all profit lines increasing for the first time in 2 years due to expense cuts
- Sales and profit growth forecast in FY2/25, driven by educational instruction school and in-school one-on-one instruction businesses
- Seeks sustained, upper single-digit percentage annual growth through customer attraction and retention strategy to expand existing businesses and grow new businesses through collaboration with 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, and established Nihon Kyoiku Kosha K.K. in 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 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.

In September 2020, the Company entered into a three-company business collaboration with Hulic and Konami Sports, and announced that it will open the educational building Kodomo Department Store series. Thereafter, Hulic acquired shares in the Company in stages, and had a 20.66% stake as of February 29, 2024 to become its top shareholder. On April 8, 2024, the Company announced that it would proceed with a tender offer of shares by Hulic and a subscription of shares issued by third-party allotment to Hulic. If implemented as planned, Hulic will become the Company's parent company with a 51.0% stake.

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

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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 Nihon 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
March 1990	Developed the unique "one-on-one individual instruction system" 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	Designated 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.
March 2011	Shingakai began Shinga's Club, a childcare and after-school care business
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.<3003> 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
April 2022	Transferred to the Tokyo Stock Exchange Prime Market

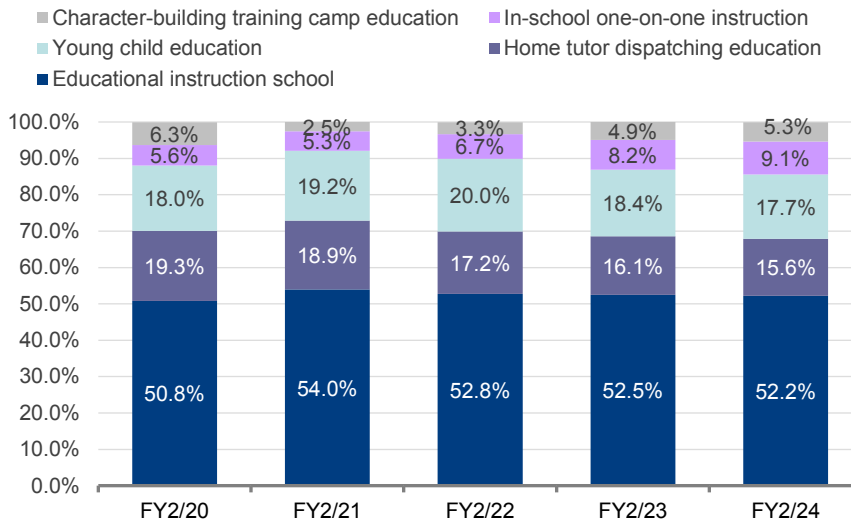
Source: Prepared by FISCO from the Company's securities report and press releases

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 FY2/20 to FY2/24, the percentage of the home tutor dispatching education business trended downward from 19.3% (FY2/20) to 15.6% (FY2/24), whereas that of the in-school one-on-one instruction school business increased from 5.6% (FY2/20) to 9.1% (FY2/24). Growing awareness of school instruction as a service that helps to resolve the problem of overworked school teachers and improve university entrance exam results has led to a forecast for expanded sales as more schools introduce the service, particularly private integrated middle and high schools.

Breakdown by business segments

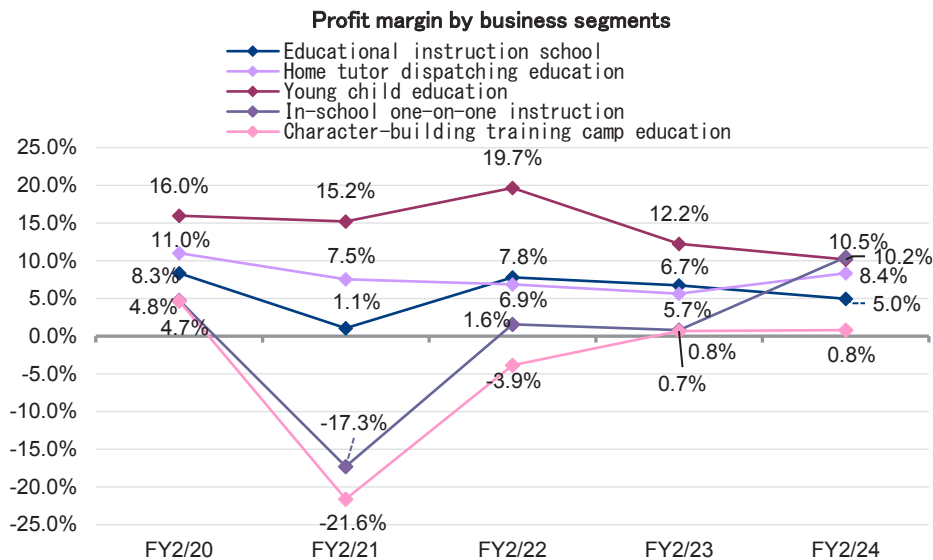


Note: Ratios are calculated excluding "other"

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

Company profile

Looking at the profit margin for the last five years from FY2/20 to FY2/24 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 of about 70 years as a pioneer for entrance exams for well-known kindergartens and elementary schools, has established overwhelming strong brand power. The profit margin has recently fallen, however, because of intensifying competition and a temporary decline in service quality amid a sharp increase in student numbers, which has become an ongoing challenge. The profit margin of the educational instruction school business has been stable in the upper single digit range except for FY2/21, when it was impacted by the COVID-19 pandemic and dipped below 2%. The home tutor dispatching education business has also maintained the upper single-digit range. The in-school one-on-one instruction school business has started to expand in scale, progressing from the upfront investment stage to investment recovery stage. Its operating margin in FY2/24 was the highest of all the business segments at 10.5%.



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

(1) Educational instruction school business

The educational instruction school business consists of 98 entirely one-on-one instruction TOMAS schools, which is its mainstay business, in the Tokyo metropolitan area (as of the end of February 2024, same below), 12 English conversation Inter TOMAS schools (for infants through to adults), 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.

Company profile

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 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. It implements an entrance exam and refers students who fail the exam to nearby TOMAS schools.

(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. As well as entirely one-on-one instruction by professional tutors, the schools provide a full support structure with curriculum supporters (general support for putting study plans into practice, including curriculum preparation), teaching assistants (support for students working on exam questions), and concierges (lifestyle management and mental health support) so that students can pass entrance exams to the schools of their choice. It also operates 10 TOMEIKAI schools as individualized instruction schools with service areas outside of the Tokyo metropolitan area (5 schools in the Kyushu area, 2 schools in the Tokai area, 2 schools in the Koshinetsu area and 1 school in the Kinki area) and provides Meimonkai Online, an interactive online teaching service.

(3) Young child education business

In the young child education business, Shingakai, which possesses top-class acceptance results as a pioneer in well-known kindergarten and elementary school entrance tests, operates 22 Shingakai schools mainly in the Tokyo metropolitan area (21 schools in the Tokyo metropolitan area and 1 school in the Kansai area). It produces some of the top-scoring candidates passing exams for prestigious schools as a result of study programs tailored to individual development and education that nurtures the imagination. It also runs Shinga's Club, a childcare and after-school care business, with 27 facilities (19 after-school care and 8 childcare facilities) in the Tokyo area. Childcare programs are offered for long hours, incorporating the Shingakai education method and preparing children for school entrance exams. The after-school care service is also offered for long hours and provides academic advancement instruction based on a unique study curriculum. Both services are popular among working mothers who combine careers with parenting. The Company also runs two Konami Sports Shinga's Academy in Konami Sports Clubs in Shinagawa-ku, Tokyo and Nishinomiya, Hyogo Prefecture, under a business alliance with Konami Sports Co., Ltd. favored by families who would like their children to excel in sports and academics.

Company profile

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

In the in-school one-on-one instruction business, School TOMAS provides an individual instruction service at contracted schools after normal class hours with teachers that it dispatches to the schools. Points of difference with competitors are permanent employees in schools engaged in administration and management as well as teachers, providing each student with appropriate advice based on an understanding of individual learning situations, and sharing information with schools and guardians, making it a service with high customer satisfaction ratings. Another strength of the Company is the wide range of services it offers to meet its customers' needs, including one-on-one instruction services in combination with the atama+ AI teaching material and "Sundai Satellite Network 21" video teaching material, in addition to question-based and curriculum-based one-on-one instruction. There were 82 contracting schools at the end of February 2024. The service usually starts with one grade in the first year and increases the number of grades each year thereafter.

(5) Character-building training camp education business

The character-building training camp education business consists of 11 schools for gymnastics, 5 schools for soccer, and 2 schools for ballschule 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.

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	Runs home tutor dispatching education business Meimonkai and MEDIC Meimonkai, TOMEIKAI (one-on-one instruction schools outside Tokyo metropolitan area), and interactive online teaching service Meimonkai Online	Meimonkai nationwide TOMEIKAI offers services outside of the Tokyo metropolitan area MEDIC Meimonkai offers services in Kansai area (likely to expand in the future)
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 Shinga's Club after-school care runs Konami Sports Shinga's Academy in collaboration with Konami Sports	Shingakai has schools in Tokyo metropolitan and Osaka Shinga's Club runs schools in Tokyo metropolitan area; Konami Sports Shinga's Academy schools are in the Tokyo metropolitan and Kansai areas
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	-

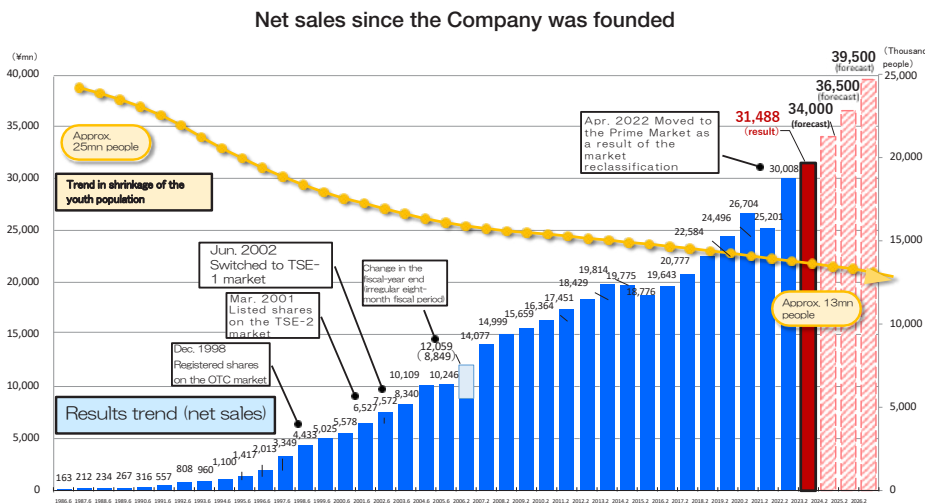
Source: Prepared by FISCO from the Company's securities report and results briefing materials and others

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 in several periods since FY2/14 when it revamped internal management operations on discovery of improper accounting issues and sales decline in FY2/21 due to the impact of the COVID-19 pandemic.



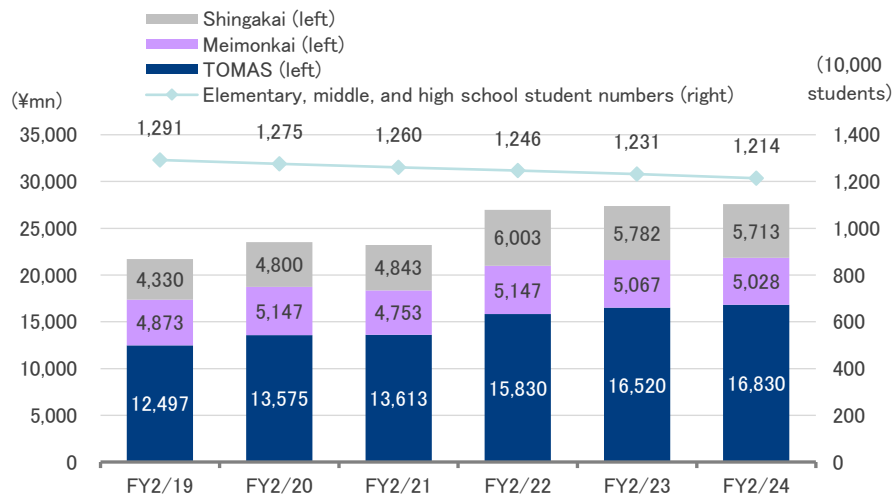
Source: From the Company's results briefing materials

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, the main businesses (TOMAS, Meimonkai, and Shingakai) have continued to grow. The number of elementary, middle, and high school students, who are the Company's main targets, trended downward by 1.2% per year, from 12.91mn students in FY2018 to 12.14mn students* in FY2023, but during the same period, net sales of the three main businesses grew by 4.6% per year. It is considered that the main factor behind this is the Company skillfully meeting the needs for exam preparation in response to changing market conditions, such as an increase in students applying to private 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

Company profile

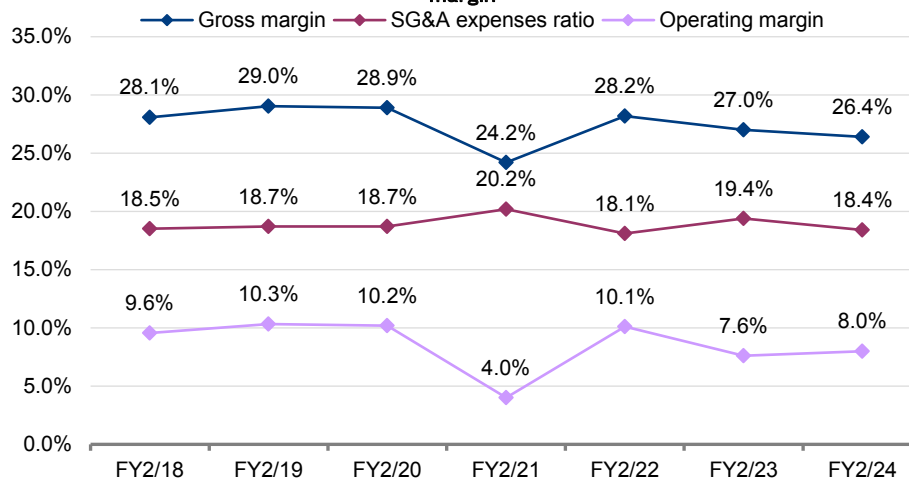
Trends in the main businesses' net sales and elementary, middle and high school student numbers



Source: Prepared by FISCO from the Company's financial results and the 2023 School Basic Survey by the Ministry of Education, Culture, Sports, Science and Technology

The level of operating margin has been stable at about 10% with the exception of FY2/21 when it was 4% because of the COVID-19 impact. 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 similar level operating margins.

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



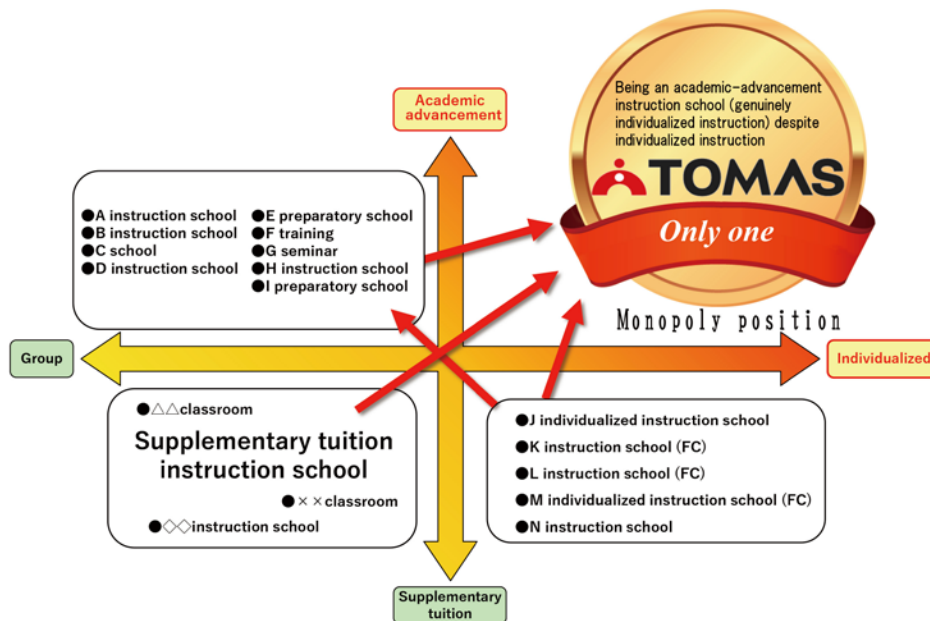
Source: Prepared By FISCO from the Company's financial results

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 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.

The Company's position in the market



Source: From the Company's results briefing materials

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Company profile

The Company's founding purpose was high-quality individualized instruction and thorough application of a mentality that the "educational instruction school industry is a service business," which led to 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, 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.

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.

Strengthening ties with Hulic

To maintain share listing while seeking to expand business as Hulic Group company

1. Overview of tender offer by Hulic and subscription of shares issued by third-party allotment to Hulic

On April 8, 2024, Riso Kyoiku expressed its agreement to a tender offer for its shares from capital and business alliance partner Hulic, and announced a subscription of shares issued by third-party allotment to Hulic. The number of shares to be purchased through the tender offer is 39,447,000 shares at a price of ¥320 per share. The tender offer period runs from April 9 to May 22, 2024, after which the subscription of shares by third-party allotment of 15,596,000 shares at an issue price of ¥218 per share will be implemented. After the subscription of shares, Hulic's stake in Riso Kyoiku will increase to 51.0% from 20.6% at the end of FY2/24, making it the Company's parent company. Riso Kyoiku will maintain its share listing while seeking further business expansion as a Hulic Group company. Fostering new business areas is one of the growth strategies of Hulic, which operates a real estate business. Hulic plans to expand Riso Kyoiku as a core company of its education services business.

Strengthening ties with Hulic

Hulic decided against making Riso Kyoiku a wholly owned subsidiary, because it concluded that keeping it a listed company would help increase its corporate value. The Company's business targets households with children, which makes maintaining stock market listing a big advantage in terms of name recognition. As well, the Company could leverage the high profile and credit standing of a listed company to attract talented personnel.

The Company announced its business and capital alliance with Hulic in September 2020, opening new schools in properties owned and developed by Hulic as well as progressing the Kodomo Department Store (an educational building) project in collaboration with Hulic and Konami Sports. The latest move to strengthen its capital will enable the Company to make capital investments to expand existing businesses, invest in DX, and engage in aggressive M&A to achieve further growth.

Funds raised by share subscription to be used for capital investment, including Kodomo Department Store, DX investment, and M&A

2. Use of funds raised

The funds raised by the third-party allotment (net proceeds of ¥3,323mn) will be used for five main purposes. A total of ¥1,291mn has been allocated to capital investment associated with the opening of Kodomo Department Store facilities (such as rental deposits paid for opening new classrooms, acquisition cost of classroom equipment and furniture, upfront investments), ¥710mn to capital investment for creative culture and education facilities (art gallery, library, etc.) in MITAKE Link Park* in Shibuya to be opened by the Hulic Group in 2026 (rental deposit, interior decorating work, design fees, upfront expenses, etc.), ¥697mn to DX strategy promotion expenses (cost of integrating Group companies' customer databases, development of applications that will be customer touchpoints, and providing classroom IT networks), ¥200mn to install security cameras in all Group companies' classrooms, and a ¥425mn strategic M&A fund to acquire operating companies that will contribute to strengthening and expanding existing businesses. With regard to funds for capital investment in Kodomo Department Store projects totaling ¥2,291mn for 10 buildings scheduled to open by spring 2028 (including those under consideration), the allocated amount of ¥1,291mn is the total minus the ¥1,000mn already procured.

* 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 total floor space of 50,000 m², and it is scheduled to consist of various areas including offices, stores, rental housing, creative culture and education facilities and a multi-purpose hall.

Use of funds raised

Use	Amount	Period
Capital investment associated with opening Kodomo Department Store facilities	¥1,291mn	December 2024 to May 2028
Creative culture and education facilities in Shibuya (rental deposit, interior decorating work, design fees, etc.)	¥710mn	December 2024 to January 2027
DX strategy promotion expenses (customer database integration, application development, classroom networks, etc.)	¥697mn	June 2024 to February 2026
Installation of security cameras in classrooms	¥200mn	June 2024 to July 2024
Investment funds for strategic M&A	¥425mn	June 2024 to May 2028

Source: Prepared by FISCO from the Company's news release

Results trends

FY2/24 net sales hit a record high, and each profit line increased for first time in two years due to reduction in expenses

1. Overview of FY2/24 results

In the FY2/24 consolidated results, net sales increased 2.3% YoY to ¥32,215mn, operating profit increased 7.7% YoY to ¥2,586mn, ordinary profit increased 7.0% YoY to ¥2,614mn, and profit attributable to owners of parent increased 14.1% to ¥1,703mn, with sales and profit increasing. Net sales increased for the third consecutive year, hitting a record high, and each profit line also increased for the first time in two years.

FY2/24 results

	FY2/23		Forecast	FY2/24			
	Results	Ratio to sales		Results	Ratio to sales	YoY	Ratio to plan
Net sales	31,488	-	34,000	32,215	-	2.3%	-5.2%
Cost of sales	22,980	73.0%	-	23,698	73.6%	3.1%	-
SG&A expenses	6,106	19.4%	-	5,929	18.4%	-2.9%	-
Operating profit	2,401	7.6%	3,000	2,586	8.0%	7.7%	-13.8%
Ordinary profit	2,442	7.8%	3,000	2,614	8.1%	7.0%	-12.8%
Extraordinary gains (losses)	-113	-	-	-186	-	-	-
Profit attributable to owners of parent	1,492	4.7%	2,060	1,703	5.3%	14.1%	-17.3%

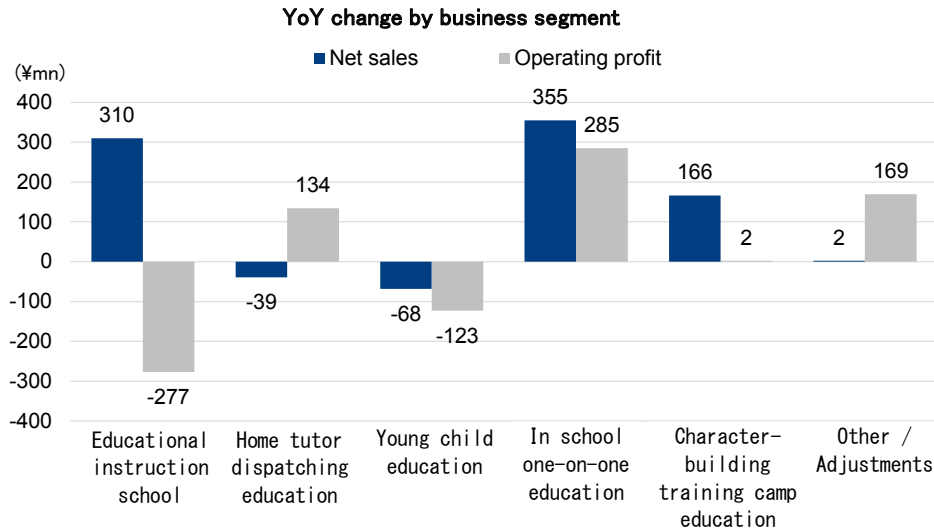
Source: Prepared By FISCO from the Company's financial results

Growth of the educational instruction school, in-school one-on-one instruction, and character-building training camp education businesses contributed to the net sales increase. The Riso Kyoiku Group's student numbers at the end of FY2/24 fell slightly, down 1.7% YoY to 26,677, but this was offset by raising course fees for TOMAS and Meimonkai by 5–7% from March 2023 and Shingakai increasing summer course fees by 20% and other course fees by 17% from November 2023.

The cost of sales ratio went up 0.6pt to 73.6%. The Company absorbed the increase in personnel expenses from improving teachers' compensation by raising course fees, but higher capital investment in opening new schools, floor space expansion, and building renovations raised the cost of sales ratio. Gross profit was flat YoY due to the higher cost of sales ratio, but a ¥176mn reduction in SG&A expenses as a result of a strategic expense review (mainly advertising expenses) contributed to an increase in operating profit. Looking at operating profit by segment, profit was down in the educational instruction school and young child education businesses, but this was absorbed by increases in the home tutor dispatching education and in-school one-on-one instruction businesses. We note that the Company recorded as an extraordinary loss part of its advisory expenses related to the tender offer by Hulic totaling ¥53mn.

Net sales and all profit lines fell short of the initial Company forecast, mainly due to student numbers at TOMAS, Meimonkai, and Shingakai being lower than expected. The initial Company forecast called for a small increase in student numbers for the whole Group.

Results trends



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

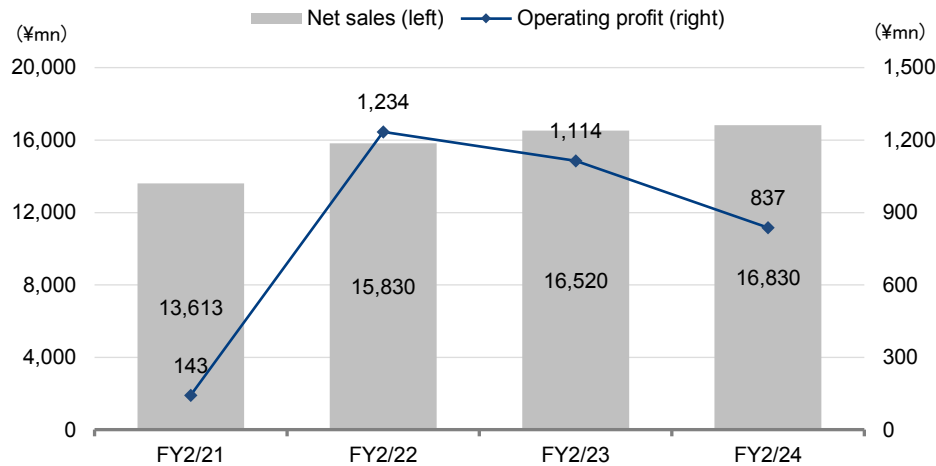
New record high for in-school on-on-one instruction business results

2. Trends by business segment

(1) Educational instruction school business

In the educational instruction school business, net sales increased 1.9% YoY to ¥16,830mn, a record high, but operating profit decreased 24.9% to ¥837mn due to increases in expenses for opening new schools and school building renovation costs. In terms of opening new schools, the Company opened one TOMAS school (Nakameguro school) in 1Q, 3 in 3Q (Kachidoki, Jiyugaoka No. 2 school, and Ochanomizu schools), and one in 4Q (Funabashi school). It also increased floor space and renovated 3 schools in 1Q and 2 schools in 2Q. The number of schools at the end of FY2/24 was up by 5 YoY to 98 for TOMAS and unchanged at 12 for Inter TOMAS, 4 for MEDIC TOMAS, and 1 for Spec. TOMAS.

Results trends

Results of educational instruction school business


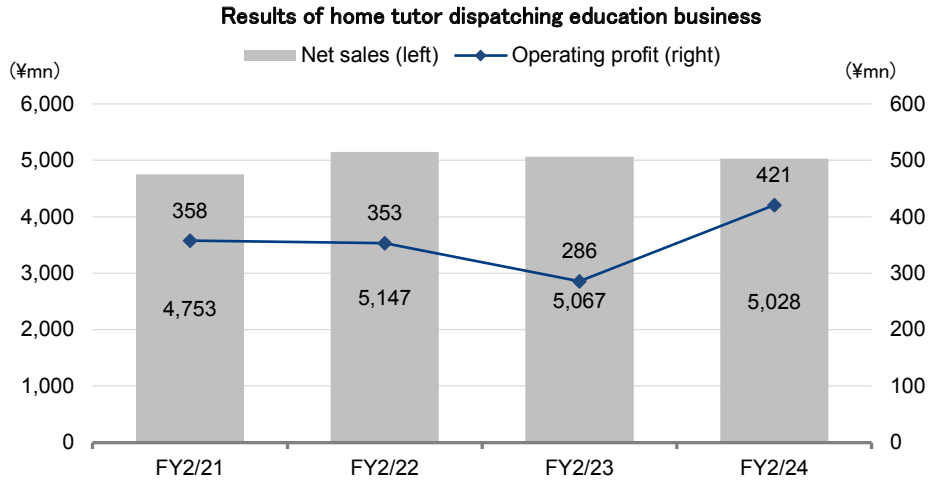
Source: Prepared By FISCO from the Company's financial results

Total student numbers at the end of FY2/24 were down 0.3% YoY, continuing to decline slightly, but net sales increased as a result of raising course fees from March 2023. The weightings of elementary, junior high, and senior high school students were unchanged, while sales per student increased 2.1% YoY. As a sales strengthening measure, the Company selected focus schools for intensive sales activities to increase student numbers. Focus schools are those that have attracted fewer students than expected based on the potential demand of the trade area. The Company took specific actions to improve customer satisfaction, such as interviewing guardians in person or by telephone to achieve closer communication with them, as a way to reduce the percentage of students leaving. These actions are gradually taking effect. The rate of decline of student numbers has been slowing from 2.1% at the end of 1H FY2/24; the Company expects number to turn positive from spring 2024 onward.

(2) Home tutor dispatching education business

Net sales of the home tutor dispatching education business declined slightly, down 0.8% YoY to ¥5,028mn, but operating profit was up by 47.1% to ¥421mn due to efforts to review advertising and promotional expenses and various expenses, turning positive for the first time in four years. Net sales were static due to a 9.4% YoY decline in student numbers, impacted by the shrinking youth population in the regions. Sales per student in FY2/24 increased 9.6% YoY due to raising course fees and higher student numbers at MEDIC Meimonkai schools, which have a higher average unit value per student.

Results trends



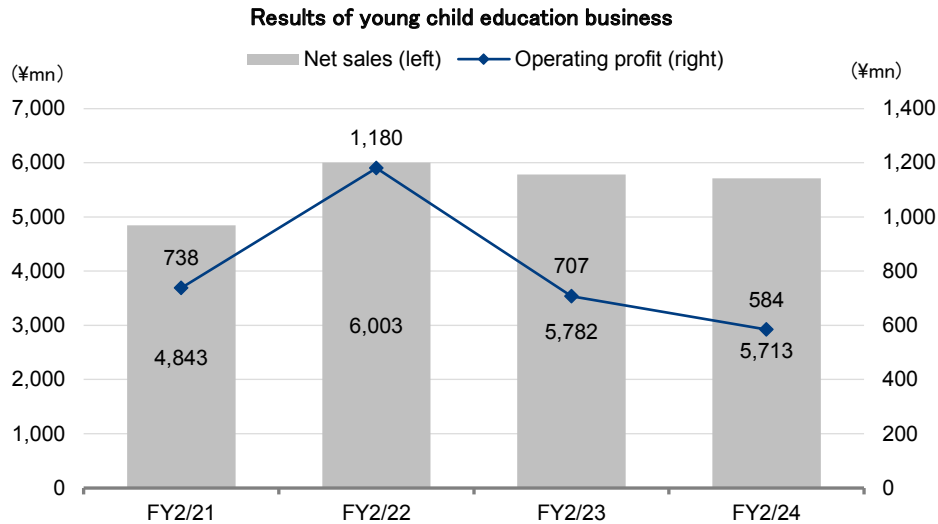
Source: Prepared By FISCO from the Company's financial results

In terms of new schools, the Company opened one Meimonkai school in April 2023 (Kyoto Ekimae No. 2 school) and consolidated 6 schools into 3. TOMEIKAI closed one school (Hamamatsu school) in 4Q. As a result, at the end of FY2/24, Meimonkai had 35 schools (down 2 YoY), TOMEIKAI had 11 (down 1), and MEDIC Meimonkai had 2 (unchanged). The Company plans to concentrate on major cities (Tokyo, Osaka, Nagoya, and Fukuoka) and continue management focused on profitability, because the youth population is forecast to continue shrinking in the regional bases.

(3) Young child education business

In the young child education business, net sales were down 1.2% YoY to ¥5,713mn and operating profit fell 17.4% to ¥584mn, recording lower YoY net sales and operating profit for two years in a row. The main reason for this is the ongoing decline in student numbers, which were down 2.4% YoY at the end of FY2/24. Shinga's Club student numbers showed a steady increase, mainly for after-school care, but the core Shingakai business was a drag on earnings, recording around 14% drop in student numbers. Sales per student in February 2024 increased 1.6% YoY, due in part to raising Shingakai course fees.

Results trends



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

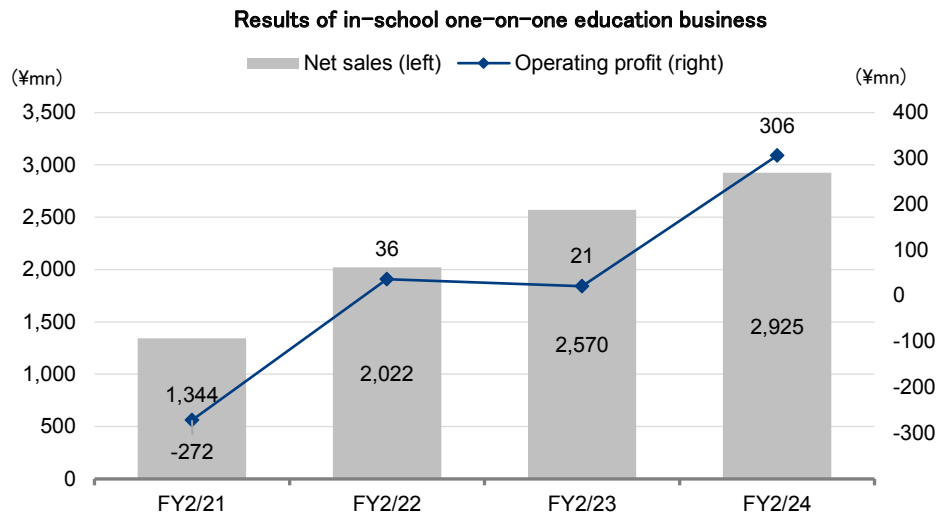
It appears that Shingakai's market share is shrinking, although needs related to private kindergarten and elementary school entrance exam preparation remain brisk. In FY2/22, the Company experienced a labor shortage due to a sharp increase in student numbers, resulting in lower customer satisfaction, which it believes led to the decline in market share. In FY2/24, the Company worked on improving customer satisfaction by ensuring it held interviews with students and their guardians and conducting sales activities in classrooms. However, these measures did not have the effect that the Company expected amid the intensifying competition for students. In FY2/25, the Company is making further improvements under a new management team, including an in-depth review of existing processes.

In 1Q, the Company opened Shinga's Club after-school care school (Futakotamagawa school) and Konami Sports Shinga's Academy (Nishinomiya school), renovated and relocated one Shingakai school, and increased the floor space and renovated Konami Sports Shinga's Academy (Shinagawa school), which had reached capacity. The Company also closed 2 Shingakai schools in 3Q (Shijo Karasuma and Nishinomiya-Kitaguchi schools). The number of facilities at the end of FY2/24 was 22 for Shingakai (down 2 YoY), 19 for Shinga's Club (up 1), 8 for Shinga's Club childcare sites (unchanged), and 2 for Konami Sports Shinga's Academy (up 1).

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

Net sales of the in-school one-on-one instruction business grew 13.8% YoY to ¥2,925mn and operating profit increased 14 times to ¥306mn, both reaching record highs. The number of contracted schools was down by 4 YoY to 82 as a result of consolidation of 10 unprofitable schools, but the number of students at existing schools increased due to the contribution of newly contracted schools and the addition of grades at existing schools. Monthly sales per school increased 16.0% YoY to around ¥2.8mn, contributing to profit margin improvement. The number of contracted schools reaching monthly sales of ¥3mn (a target set by the Company for making a fair profit) increased by 8 from a year ago to 38, or 46% of the total (35% a year ago), of which the number of schools that attained monthly sales of ¥5mn increased by 1 to 9. These results reflect a steady increase in the number of students using the Company's service.

Results trends



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

(5) Character-building training camp education business

Net sales of the character-building training camp education business grew 10.9% YoY to ¥1,699mn, and operating profit was up 26.1% to ¥13mn. The number of tour-style experiences held and the number of participants recovered as the pandemic subsided, while the TOMAS Gymnastics Schools and TOMAS Soccer Schools performed strongly. As a result, net sales finally exceeded pre-pandemic levels (FY2/20 net sales were ¥1,669mn) and reached a new record high. The Company opened 1 new TOMAS Gymnastics School, bringing the total to 11, and had 5 TOMAS Soccer Schools and 2 schools for ballschule.

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 FY2/24, total assets had increased ¥5mn from the end of the previous fiscal period to ¥18,257mn. The main change factors were that in current assets, cash and deposits decreased ¥1,847mn due to dividends paid, etc., and trade accounts receivable increased ¥1,114mn. The increase in trade accounts receivable is due to consolidating factoring companies that the Company does business with into one company and the settlement date being one day later than previously. There were increases of ¥246mn in property, plant and equipment due to new school openings and renovations, as well as ¥236mn in deferred tax assets, ¥92mn in deposits and guarantees, and ¥86mn in investment securities.

Total liabilities were up ¥703mn from the end of the previous fiscal period to ¥9,604mn. In current liabilities, there were increases of ¥335mn in income taxes payable. In non-current liabilities, retirement benefit liabilities increased ¥280mn. Net assets decreased ¥698mn to ¥8,653mn. The Company recorded profit attributable to owners of parent of ¥1,703mn, but retained earnings decreased due to dividends paid of ¥2,469mn.

Results trends

Looking at cash flow conditions, net cash provided by operating activities was ¥1,653mn, a decrease of ¥1,125mn compared to the same period of the previous fiscal year. The increase in trade accounts receivable (negative factor) was the main reason. Net cash used by investing activities was ¥1,028mn due to new school openings and renovations. Net cash used by financing activities was ¥2,466mn due to dividends paid and other factors. As a result, cash and cash equivalents at the end of FY2/24 decreased ¥1,847mn to ¥5,460mn.

Looking at management indicators, the equity ratio declined from 50.7% at the end of the previous period to 46.8%, mainly due to the decrease in retained earnings. However, the Company's financial condition can be judged to be sound as it practices debt-free management and has cash on hand of more than ¥5.0bn. In addition, as previously stated, the Company raised approximately ¥3.3bn through a third-party allocation of new shares, which will be used to fund future business investments and M&A. We at FISCO believe that by Hulic becoming the parent company it will further strengthen the Company's management base.

Consolidated balance sheet

	(¥mn)				
	FY2/21	FY2/22	FY2/23	FY2/24	YoY
Current assets	7,018	10,997	9,660	8,934	-725
(Cash and deposits)	3,963	8,011	7,308	5,460	-1,847
Non-current assets	6,922	8,048	8,591	9,323	731
Total assets	13,940	19,045	18,252	18,257	5
Total liabilities	7,365	8,531	8,900	9,604	703
(Interest-bearing debt)	-	-	-	-	-
Net assets	6,575	10,513	9,351	8,653	-698
[Management indicators]					
Equity ratio	46.7%	54.8%	50.7%	46.8%	-3.9pt
Operating margin	4.0%	10.1%	7.6%	8.0%	0.4pt
ROE	8.8%	28.7%	15.2%	19.1%	3.9pt

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

Cash flow statements

	(¥mn)			
	FY2/21	FY2/22	FY2/23	FY2/24
Cash flows from operating activities	-36	3,607	2,779	1,653
Cash flow from investing activities	-655	-1,011	-1,016	-1,028
Cash flow from financing activities	-182	1,450	-2,465	-2,466
Cash and cash equivalents at end of period	3,963	8,011	7,308	5,460

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

■ Outlook

Net sales and profit growth expected in FY2/25, driven by educational instruction school and in-school one-on-one instruction businesses

1. FY2/25 forecasts

For FY2/25 consolidated results, the Company forecasts continued increases in sales and profits, expecting net sales to increase 5.4% YoY to ¥33,960mn, operating profit to rise 3.2% to ¥2,670mn, ordinary profit to rise 2.1% to ¥2,670mn and profit attributable to owners of parent to rise 0.4% to ¥1,710mn. The Company will work toward attaining its targets by improving customer satisfaction so that Group student numbers recover, as well as reducing expenses. It sees the educational instruction school and in-school one-on-one instruction segments as the growth drivers.

Although the Company forecasts a slight drop in profit margin, we at FISCO think it is taking a conservative view, because we can identify no particular reason for this, and see potential upside for profit if net sales increase according to plan as a result of a recovery in student numbers. We note that in 1Q, the Company plans to record expenses related to the tender offer by Hulic and third-party allotment of shares to Hulic as an extraordinary loss or non-operating expense.

FY2/25 consolidated forecasts

	FY2/24		FY2/25		
	Results	Ratio to sales	Company's target	Ratio to sales	YoY
Net sales	32,215	-	33,960	-	5.4%
Operating profit	2,586	8.0%	2,670	7.9%	3.2%
Ordinary profit	2,614	8.1%	2,670	7.9%	2.1%
Profit attributable to owners of parent	1,703	5.3%	1,710	5.0%	0.4%
Earnings per share (¥)	11.04		11.08		

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

(1) Educational instruction school business

In the educational instruction school business, the Company expects net sales growth in the upper single digit range and operating profit to increase YoY for the first time in 3 years. It forecasts a continuing upward trend in student numbers from spring 2024 onward due to opening new schools and measures to prevent students leaving beginning to take effect at existing focus schools. Resuming spring and summer residential courses (which had been suspended due to the COVID-19 pandemic) in 2024 will also be a positive factor for net sales growth.

The Company opened the MEDIC TOMAS Shibuya school in March 2024. It plans to open 4–5 schools in FY2/25, including the TOMAS Yoga school in June 2024, as well as increase floor space and renovate around 3 schools.

Outlook

As a new initiative, in November 2023, the Company launched a membership-based study room staffed by current University of Tokyo students, who are available to answer students' questions, in the same building as TOMAS Shimokitazawa school. It fulfills demand for advice in answering difficult exam questions that exists even among students who do not need to attend educational instruction schools. Although its contribution to earnings is minor at this early stage, it will provide additional earnings opportunities, because TOMAS one-on-one instruction is offered to students as an option.

(2) Home tutor dispatching education business

The Company forecasts flat earnings of the home tutor dispatching education business. The key to earnings growth is student numbers, which have been on a downward trend, because the effect of increasing fees of Meimonkai in March 2023 will fade. The Company has no plans to open new schools and closed one TOMEIKAI school (Niigata school) in March 2024. Although it has completed consolidation of TOMEIKAI facilities, the remaining schools are running at a small loss, which the Company aims to turn around by optimizing expenses. The Company will be focusing on expanding Meimonkai Online, whose student numbers are increasing due to growing demand in Japan and overseas. The service allows students and tutors anywhere in the world to see each other's faces as well as the tutor's whiteboard and students' hands, providing Meimonkai's quality one-on-one instruction.

(3) Young child education business

The Company forecasts Shingakai to perform at about the same level as the previous fiscal year, and modest net sales and profit growth for Shinga's Club in the young child education business. Although it raised Shingakai course fees by 17% in November 2023, this was offset by a decrease in student numbers. The key to attaining its target will be whether it can reverse the downward trend in student numbers. The Company will continue to focus on interviews with guardians for closer communication with them as a way to reduce the percentage of students leaving.

With regard to new facilities, the Company opened one Konami Sports Shinga's Academy school in Musashikosugi in April 2024 and has no immediate plans to open or close schools. That being said, the opening of new Shingakai and Shinga's Club schools will likely continue to increase in FY2/26 onward as Kodomo Department Stores open.

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

The Company expects strong growth to continue in the in-school one-on-one instruction business, projecting double-digit net sales and profit growth. It forecasts an increase of 7 contracted schools to 89 in FY2/25. Although contracts with 3 schools were canceled at the start of FY2/25, the number of students using the Company's services is expected to continue on an upward trend due to an increase in the number of schools and grades introducing the service. Despite the emergence of competing services (mainly teacher dispatch services), the Company thinks it can differentiate itself by providing high value-added services that leverage its know-how in one-on-one instruction for students preparing for entrance exams.

(5) Character-building training camp education business

The Company forecasts steady net sales growth of the character-building training camp education business due to an increase in the number of tour-style experiences held.

Seeks sustained, upper single-digit percentage annual growth through customer attraction and retention strategy to expand existing businesses and growing new businesses through collaboration with other industries

2. Medium-term management plan

(1) Understanding of market conditions and main initiatives

The Company announced its three-year medium-term management plan starting in FY2/25. Its understanding of market conditions is that trends in the number of children in the Tokyo metropolitan area, which is its main business area, remain firm despite the overall trend of a shrinking youth population, and demand for educational instruction schools for children taking entrance exams for private elementary and junior high schools is also robust amid insecurities about public education services. However, competition for students remains fierce in the educational instruction school business and industry consolidation is gaining momentum.

The Company is promoting initiatives such as measures to increase student numbers, reviewing areas where it opens schools or demolishes and rebuilds school buildings, fostering new businesses through collaboration with other industries, and DX strategies to maintain earnings growth under these conditions. Measures to increase student numbers are improving customer satisfaction through closer communication with students and guardians to reduce the percentage of students leaving, and taking steps to recruit and train skilled teachers and employees to improve students' exam pass rates for the most difficult schools.

(2) Numerical management targets

For FY2/27, the Company targets net sales of ¥38,260mn, operating profit of ¥3,360mn, ordinary profit of ¥3,360mn, and profit attributable to owners of parent of ¥2,000mn. Three-year CAGRs are 5.9% for net sales and 9.1% for operating profit. The Company aims to raise the operating margin, which was 8.0% in FY2/24, to 8.8% in FY2/27. It plans to absorb the expected increase in personnel expenses (compensation of teachers and full-time employees) and inflation by optimizing expenses (including advertising expenses) and improving business efficiency by promoting DX. Although ROE is forecast to drop somewhat from 19.1% in FY2/24 to 14.5% in FY2/27, the Company intends to keep it above 10%.

FY2/25 – FY2/27 Medium-term management plan (values announced in April 2023)

	FY2/24 Results	FY2/25 Target	FY2/26 Target	FY2/27 Target	(¥mn) Compound annual growth rates
Net sales	32,215	33,960	36,220	38,260	5.9%
Operating profit	2,586	2,670	3,120	3,360	9.1%
Operating margin	8.0%	7.9%	8.6%	8.8%	-
Ordinary profit	2,614	2,670	3,120	3,360	8.7%
Profit attributable to owners of parent	1,703	1,710	1,850	2,000	5.5%
ROE	19.1%	16.3%	15.3%	14.5%	

Source: Prepared by FISCO from the Company's news release

Outlook

(3) Outlook by segment**a) Educational instruction school business**

The Company plans CAGR of around 7% for net sales of the educational instruction school business. The number of new schools planned is 3–5 per year. The Company also plans to renew existing schools by expanding floor space or relocation and renovation of schools that have become crowded due to rising student numbers. The Company plans to open Inter TOMAS and MEDIC TOMAS schools in areas where it runs TOMAS schools if it estimates that there is sufficient demand. It aims to increase student numbers not only by expanding the number of schools, but also by providing meticulous customer service at existing schools to minimize the percentage of students leaving. With regard to attracting new students, the Company plans cost-effective advertising by replacing advertising in print media with online ads to boost student numbers.

b) Home tutor dispatching education business

The Company plans CAGR in the lower single digit range for net sales of the home tutor dispatching education business. For its home tutor dispatching service Meimonkai, the Company plans to concentrate on schools in major cities and progress demolition and rebuilding of schools. It plans no new TOMEIKAI schools because of the shrinking youth population in regional areas and difficulty in recruiting university students working as tutors, focusing on improving the performance of existing schools.

Under these conditions, the Company aims to resume net sales growth of the home tutor dispatching education business in FY2/26 by attracting more students of its interactive online teaching service Meimonkai Online. The service started during the COVID-19 pandemic. Although the number of students is still small at around 180 or just under 6% of the total in FY2/24, numbers are on the rise because of the advantages of receiving one-on-one instruction from professional teachers and current students of the most difficult schools such as the University of Tokyo, even if the student is based in a regional area or overseas. The service has potential to drive net sales going forward.

c) Young child education business

The Company plans CAGR of around 5% for net sales of the young child education business. It plans to open one school a year for Shingakai, Shiga's Club after-school care, and Shinga's Club childcare (Shinga's Club after-school care includes Konami Sports Shinga's Academy schools). The Company aims to strengthen sales to attract students of new and renovated schools, as well as hold scheduled interviews with students and guardians and strengthen communication with them to lower the percentage of students leaving.

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

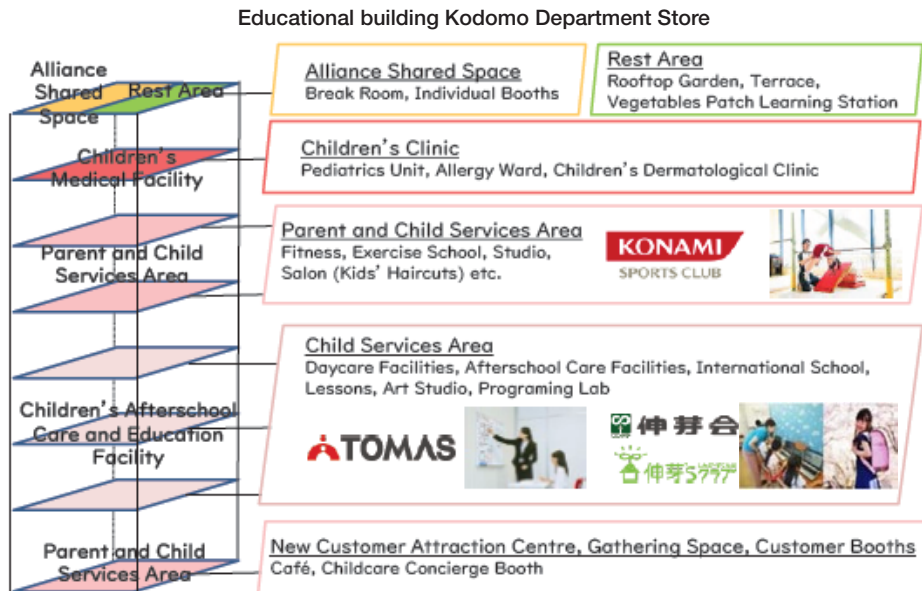
The Company targets CAGR of 10% in net sales of the in-school one-on-one instruction business. The service is becoming better known as one that helps schools improve their students' entrance exam results as well as resolve the problem of teachers' excessive working hours. This has resulted in many inquiries from private schools (mainly those with integrated junior high and senior high schools). The Company targets strong growth at a pace of 10 new contracted schools per year.

Outlook

(4) Opening of the Kodomo Department Store series, an educational building

In September 2020, the Company entered into a three-company business collaboration with Hulic and Konami Sports, and it has announced that it will open the educational building Kodomo Department Store series to be developed by Hulic in the Tokyo metropolitan area. The buildings will include the Riso Kyoiku Group's Shinga's Club childcare and after-school care, Shingakai, TOMAS, and Inter TOMAS, and also the exercise schools* provided by Konami Sports, which will widen opportunities to provide multiple services to students ranging from infants to high school students. 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, this is a noteworthy effort that will enable it to maximize customer LTV and demonstrate group synergies by attracting and retaining customers from infancy.

* Exercise schools for children with 140 locations nationwide.



Source: From the Company's results briefing materials

Six Kodomo Department Store projects in Tokyo's Jonan area, Yokohama, and Chiba have been confirmed so far, of which two (Kodomo Department Store Nakano (tentative name) in Nakano-ku, Tokyo, and Kodomo Department Store Tama Plaza (tentative name) in Yokohama, Kanagawa Prefecture) are scheduled to open in spring 2025. They will all be newly built.

The Company has also confirmed that a Kodomo Department Store will open in MITAKE Link Park, a multi-use commercial building in Shibuya scheduled for completion in 2026 by Hulic. It plans to offer Shingakai and Shinga's Club (childcare and after-school care) (existing Shingakai and TOMAS schools in the same area will relocate and reopen with increased floor space). Hulic's plan is to open up to 20 Kodomo Department Stores in the Tokyo metropolitan area, which means several new facilities per year from 2026 onward until 2029. Advantages include not having to search independently for properties in convenient locations near rail stations and capacity to open multiple education services in the same building, and there are significant benefits from a business standpoint, so these efforts are attracting attention for their potential to make a large contribution to earnings growth in FY2/26 and beyond.

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

Outlook

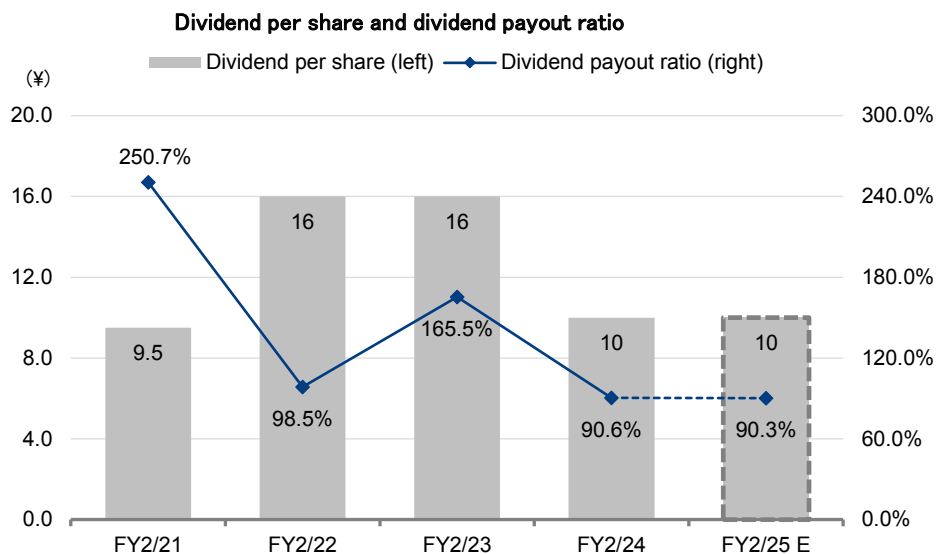
(5) Promoting DX strategy

The Company began promoting a groupwide DX strategy in FY2/24 to strengthen its earnings structure and increase net sales. Specific initiatives include integration of customer databases of group companies, providing a system that allows teachers to use information terminals to input reports that are currently handwritten, develop a smartphone app as a customer touchpoint, and strengthen network equipment that connects classrooms and facilities. Total DX investment of ¥697mn is planned through FY2/26. The Company aims to improve customer satisfaction and streamline work processes by using DX to reduce the administrative workload of teaching staff, who can allocate the time freed up to following up students and guardians and making sales proposals, and reducing costs by going paperless. Integration of group companies' databases is scheduled for completion in 2027. This is expected to streamline expenses by integrating duplicated functions and accelerate the Company's strategy of customer attraction and retention through a cross-brand approach.

Shareholder returns

Dividend policy targets consolidated dividend payout ratio of 50% or more

The Company considers returning profits to shareholders to be one of its most important management issues. Its dividend policy is based on a consolidated dividend payout ratio of 50% or more, taking into consideration the level of retained earnings and operating conditions. From FY2/24, the Company aims to pay out at a dividend payout ratio of 50% or more, resulting in a dividend per share of ¥10.0 (dividend payout ratio 90.6%). For FY2/25 it plans a dividend per share at the same amount of ¥10.0 (dividend payout ratio 90.3%) for a yield of 3.6% based on the closing share price on April 15, 2024. Going forward, this means that a dividend increase is likely if the dividend payout ratio dips below 50%. Other than the payment of dividends, the Company plans to use retained earnings and other funds for capital investment and IT investment to move forward with management DX, as well as reserves to prepare for a spike in expenses to respond to an unexpected event like the COVID-19 pandemic.



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

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