

Riso Kyoiku Co., Ltd.

4714

Tokyo Stock Exchange Prime Market

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

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Summary

School TOMAS performing well, with FY2/25 results likely to beat Company forecasts

Riso Kyoiku Co., Ltd. <4714> (hereafter, “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 well-known 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. Overview of 1H FY2/25 results

In the 1H FY2/25 consolidated results (March–August 2024), net sales increased 4.1% year on year (YoY) to ¥16,587mn, operating profit increased 39.9% YoY to ¥1,458mn, ordinary profit increased 37.7% YoY to ¥1,456mn, and profit attributable to owners of parent increased 10.2% to ¥893mn. Consolidated net sales were driven by sales growth in the educational instruction school business and the in-school one-on-one instruction business on the back of an increase in student numbers. Profits reached a record high for an interim period, with the increase in net sales and a strategic review of expenses offsetting higher personnel costs. The Company did not disclose forecasts for 1H FY2/25, but we believe it exceeded its forecasts, led by the educational instruction school business and the in-school one-on-one instruction business.

2. FY2/25 forecasts

For the FY2/25 results, the Company maintained its initial forecast for net sales to increase 5.4% YoY to ¥33,960mn, operating profit to rise 1.6% to ¥2,670mn, ordinary profit to rise 0.5% to ¥2,670mn and profit attributable to owners of parent to rise 2.9% to ¥1,710mn. We await data on the Company’s winter semester courses and other information, but if business remains upbeat, we believe it could post record-high operating profit. Shingakai, which has been struggling amid intensifying competition for students, aims to attract new students by maintaining and raising the quality of its services and by releasing acceptance results for FY2025 entrance examinations (held in autumn 2024).

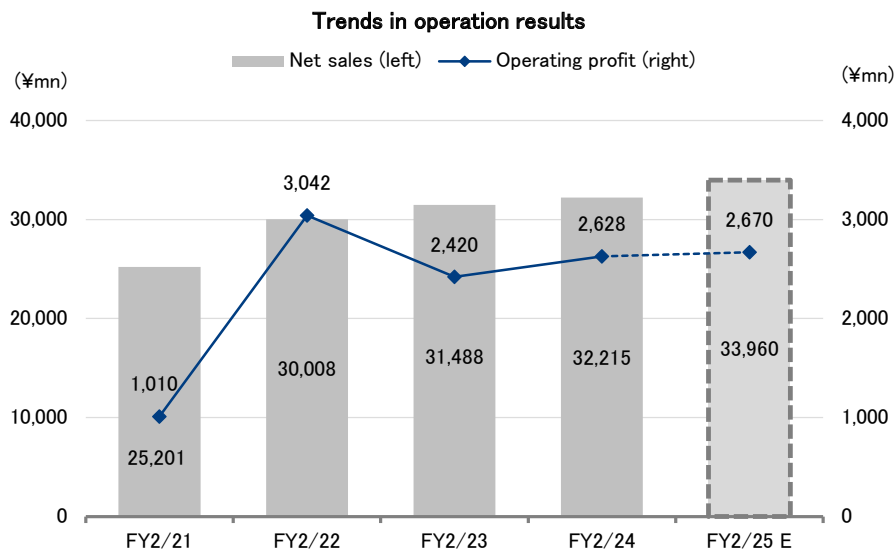
Summary

3. Progress of 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). 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 number of schools that have introduced its in-school one-on-one instruction service reached 88 by the end of August 2024. Demand for the service is expected to continue growing steadily, as it meets needs for improving student academic performance and reducing teacher workloads. The Company also aims to put the young child education business back on a growth trajectory through the development of its Kodomo Department Store joint project with Hulic Co., Ltd. <3003> and Konami Sports Co., Ltd. Specifically, it plans to open 2 Kodomo Department Store buildings in spring 2025 and expand the network to 20 buildings in the Tokyo metropolitan area by 2029. By providing group services such as TOMAS, Shinga's Club childcare and after-school care, and Shingakai in the same building, it aims to maximize customer lifetime value (LTV) and improve profitability to support further earnings growth. For shareholder returns, the Company plans a dividend per share of ¥10.0 for a dividend payout ratio of 97.3% in FY2/25, based on a basic policy of paying dividends with a dividend payout ratio of over 50%.

Key Points

- Profits up sharply in 1H FY2/25, led by educational instruction school business and in-school one-on-one instruction business
- On track to exceed FY2/25 Company forecasts and post record profits
- Seeks upper single-digit percentage annual earnings growth through expanding existing businesses and growing new businesses by collaborating with other industries



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

■ Company profile

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

1. Company history

Mitsugu Iwasa, currently a founder honorary chairperson, 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. Hulic subsequently acquired the Company's shares in several stages, becoming the parent company in May 2024 with a shareholding ratio of 50.5% through a tender offer and third-party allotment of new shares. Hulic decided to acquire the Company, as it has positioned educational services as one of the growth areas in its group strategy, but the Company will retain management independence.

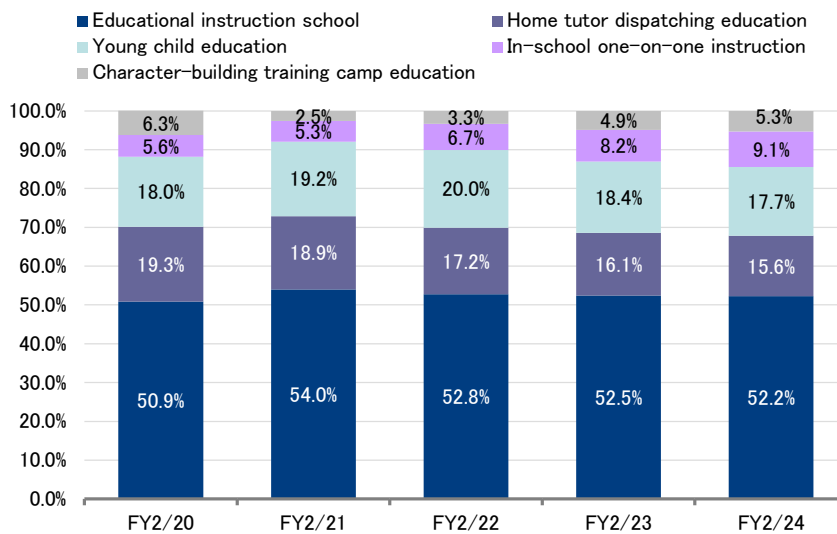
In the stock market, the Company registered its stock as an over-the-counter security with the Japan Securities Dealers Association in 1998, moved to the Second Section of the Tokyo Stock Exchange (TSE) in 2001, and then switched to TSE's First Section in June 2002. It moved to the Prime Market as a result of the market reclassification in April 2022.

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 education 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 in-school one-on-one instruction school business increased from 5.6% to 9.1%. 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 an increase in the number of schools introducing the service, particularly private integrated middle and high schools.

Breakdown by business segments



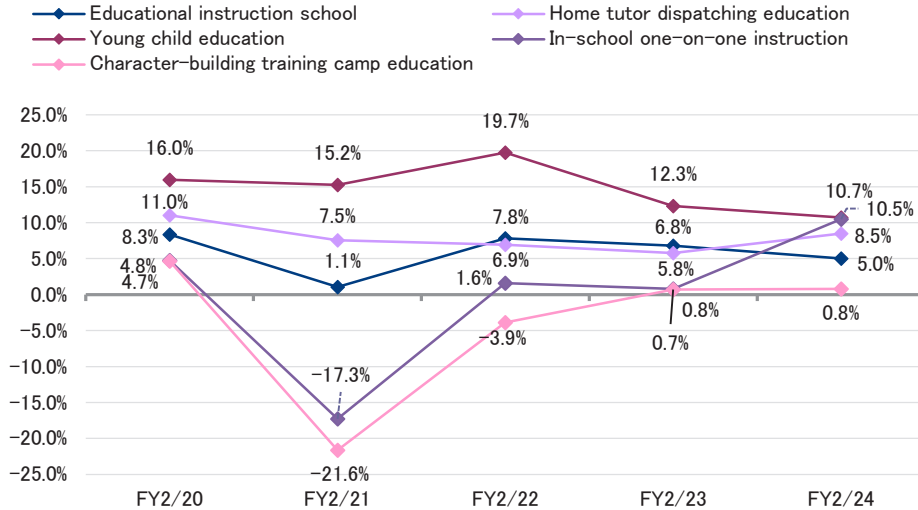
Note: Ratios are calculated excluding "other"

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

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 10% to 20%. This reflects the fact that Shingakai, a pioneer in well-known kindergarten and elementary school entrance tests for almost 70 years, has built a dominant brand in the field, underpinned by a solid acceptance track record that is highly valued by customers. However, profitability has declined since FY2/23 due to intensifying competition and a temporary deterioration in service quality caused by a surge in the number of students after the COVID-19 pandemic. The profit margin in the educational instruction business has remained stable in the high single-digit range, excluding FY2/21, when it fell to the 1% level due to expenses to respond to the COVID-19 pandemic. In the home tutor dispatching education business, the Company has also maintained the profit margin in the high single-digit range. The in-school one-on-one instruction business appears to have moved from the upfront investment phase into the investment recovery phase due to business expansion, with the operating margin reaching double digits in FY2/24 (10.5%).

Company profile

Profit margin by business segments



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 99 entirely one-on-one instruction TOMAS schools, which is its mainstay business, in the Tokyo metropolitan area (as of the end of August 2024, 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 41% elementary students, 26% middle school students, and 33% 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 refer students who fail the exam to nearby TOMAS schools.

Company profile

(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 plan 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 9 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, 1 school 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 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 Osaka). 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 three Konami Sports Shinga's Academy (a new brand in a business alliance with Konami Sports) schools favored by families who would like their children to excel in sports and academics.

(4) In-school one-on-one instruction 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 (for some locations, individual instruction is provided online). 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, in addition to question-based and curriculum-based one-on-one instruction. There were 88 contracting schools at the end of August 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 12 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.

Company profile

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 well-known 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 Kansai areas 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

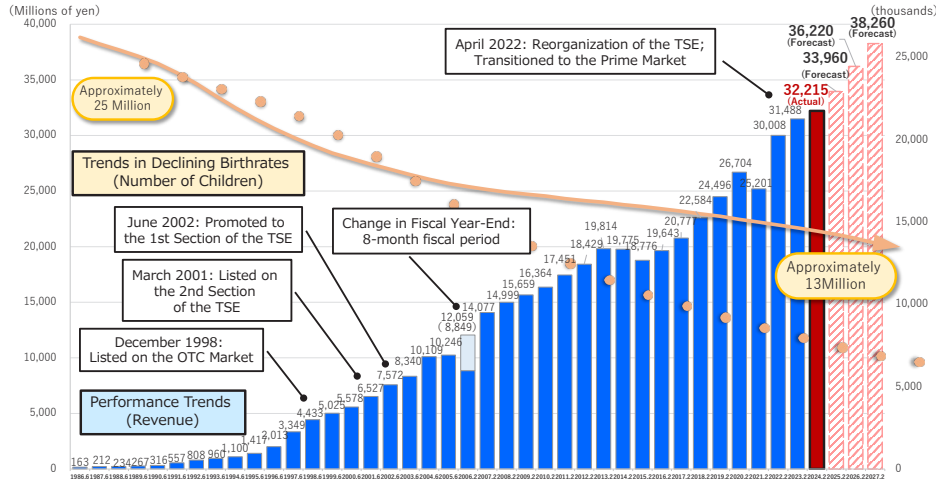
3. Characteristics and strengths

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.

Company profile

Net sales since the Company was founded

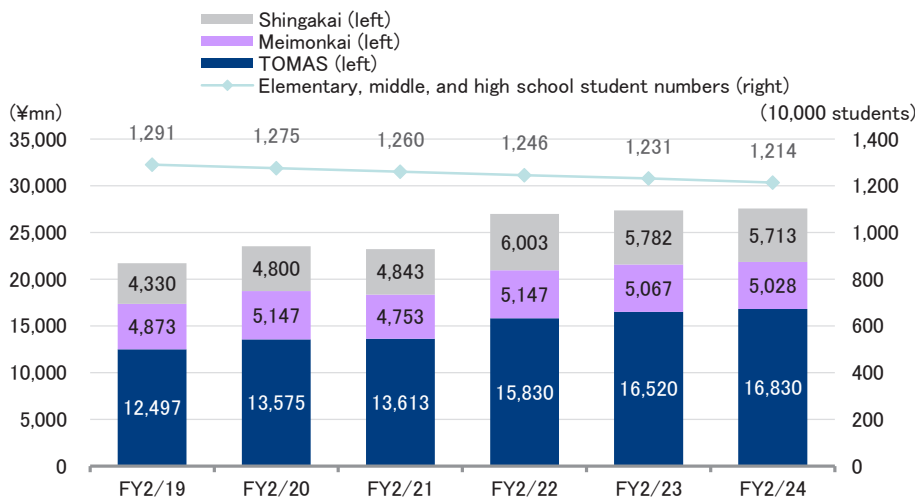


Source: The Company's results briefing materials

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 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 (educational instruction school, home tutor dispatching education, and young child education) grew by 4.9% per year. The main factor behind the sustained growth 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

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

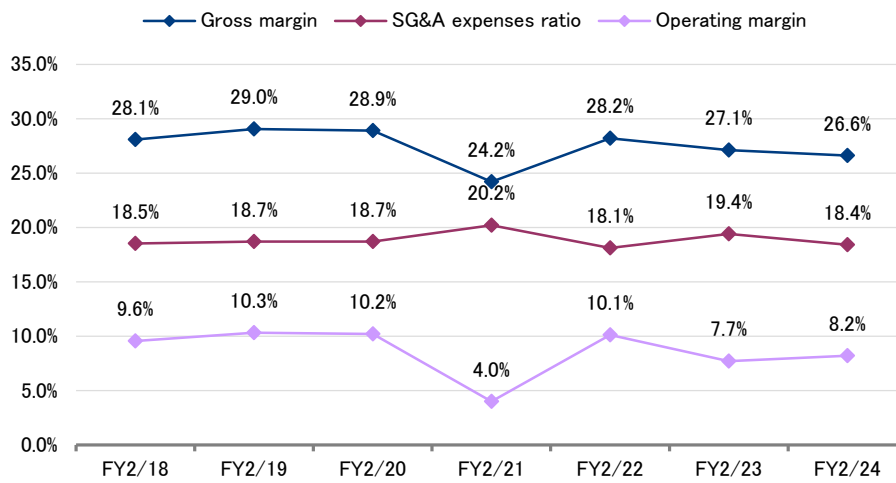


Source: Prepared by FISCO from the Company's financial results and the School Basic Survey by the Ministry of Education, Culture, Sports, Science and Technology

Company profile

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



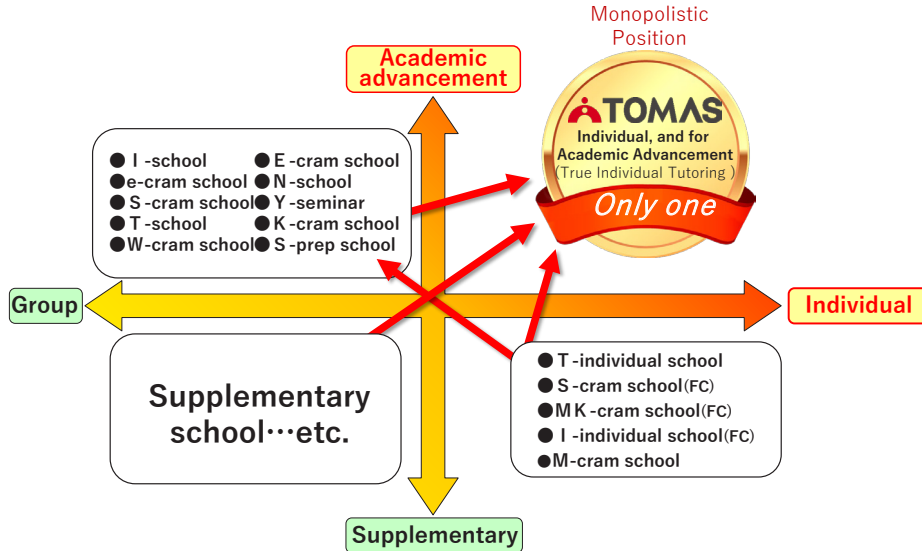
Source: Prepared by FISCO from the Company's financial results

Our understanding is that the same source drives the Company's strengths of stable sales growth and high profitability. When founding the Company, current founder honorary chairperson 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. Drawing on these insights, he built the Company's business model from the very start to turn the declining birthrate into a positive for the business, not a negative, helping to drive sustained growth in sales and generate high profit margins.

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: The Company's results briefing materials

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. 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 through individualized instruction is the third main characteristic and a strength.

Results trends

Profits up sharply in 1H FY2/25, led by educational instruction school business and in-school one-on-one instruction business

1. Overview of 1H FY2/25 results

In the 1H FY2/25 consolidated results, net sales increased 4.1% YoY to ¥16,587mn, operating profit increased 39.9% YoY to ¥1,458mn, ordinary profit increased 37.7% YoY to ¥1,456mn, and profit attributable to owners of parent increased 10.2% to ¥893mn. In 1H FY2/25, net sales reached another record high and all profit items rose for the second consecutive fiscal year, also hitting record highs.

1H FY2/25 results

	1H FY2/24		1H FY2/25		YoY
	Results	Ratio to sales	Results	Ratio to sales	
Net sales	15,940	-	16,587	-	4.1%
Cost of sales	11,794	74.0%	12,012	72.4%	1.8%
SG&A expenses	3,103	19.5%	3,117	18.8%	0.4%
Operating profit	1,042	6.5%	1,458	8.8%	39.9%
Ordinary profit	1,057	6.6%	1,456	8.8%	37.7%
Extraordinary gains/losses	-3	-	-96	-	-
Profit attributable to owners of parent	810	5.1%	893	5.4%	10.2%

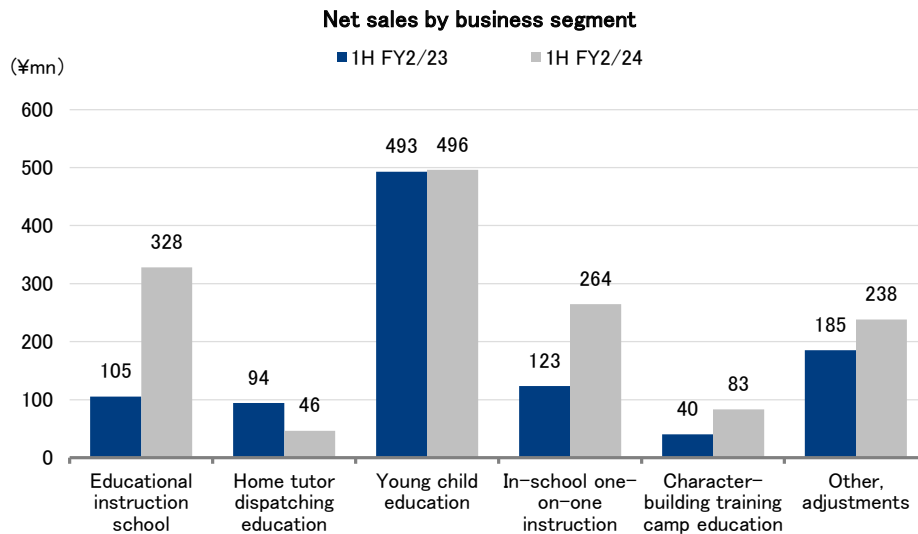
Source: Prepared by FISCO from the Company's financial results

Net sales fell slightly in the home tutor dispatching education business, but all other businesses reported higher sales, led by the educational instruction business and the in-school one-on-one instruction business. Growth in net sales was also driven by an increase in student numbers and revisions to course fees in some businesses. Specifically, fees were raised by roughly 3% for TOMAS from March 2024 and by around 17% for Shingakai from November 2023.

The cost of sales ratio declined 1.6 percentage points YoY to 72.4%, mainly reflecting an increase in student numbers and price hikes. The SG&A expenses ratio also declined 0.7 of a percentage point YoY following a strategic review of expenses, centered on advertising costs, while SG&A expenses were flat in absolute terms, edging up 0.4%. Looking at the main cost items, personnel expenses increased 1.5% YoY for full-time employees and 2.8% for instructors, while advertising costs declined 10.0% and utilities costs fell 4.3%. Except for the home tutor dispatching education business, which saw profits decline, operating profit rose in all business segments, led by the educational instruction business and the in-school one-on-one instruction business. In extraordinary gains and losses, the main items were a gain of ¥44mn on the sale of parent company shares and losses of ¥37mn on the retirement of fixed assets and ¥95mn* for tender offer-related expenses. The Company did not disclose forecasts for 1H FY2/25, but it appears to have exceeded its forecasts for all profit items. In terms of performance by business segment, the educational instruction school business and the in-school one-on-one instruction business both beat forecasts.

* Expenses related to Hulic's tender offer in Apr-May 2024

Results trends



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

Educational instruction school business moves into profit, in-school one-on-one instruction business continues to grow rapidly

2. Trends by business segment

(1) Educational instruction school business

In 1H FY2/25, the educational instruction school business reported net sales of ¥8,389mn, up 4.7% YoY, and operating profit of ¥328mn, up 211.3%. Growth in net sales was driven by a 2.5% YoY rise in student numbers as of the end of August 2024, an average 3% hike to course fees from March 2024 in response to rising prices and other factors, and steady enrollment in summer semester courses. Revisions to course fees lifted net sales per student 2.8% YoY. The increase in student numbers likely reflected efforts to maintain rigorous customer service levels*1, including interviews and phone calls for students at certain priority schools*2 to prevent contract cancellations.

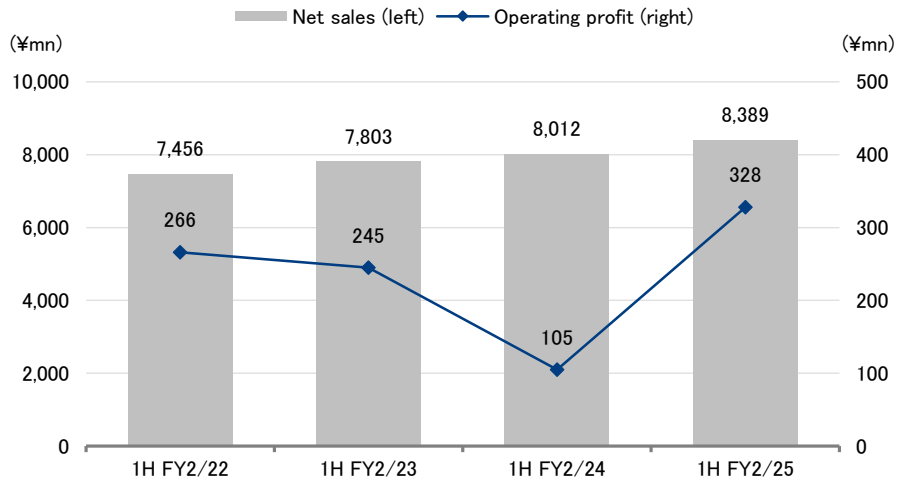
*1 Schools where the number of students acquired is lower than expected relative to potential demand in the local area.

*2 Improved communication with students, parents and other related parties through interviews and phone calls to report progress and share issues.

In terms of new schools, the Company opened 1 MEDIC TOMAS school (Shibuya) in 1Q and 1 TOMAS school (Yoga) in 2Q, while 1 school (Minami Urawa) was relocated and expanded in 1Q (compared with 1 new school opened and 5 schools relocated and expanded in 1H FY2/24). The number of schools at the end of August 2024 was up by 5 YoY to 99 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

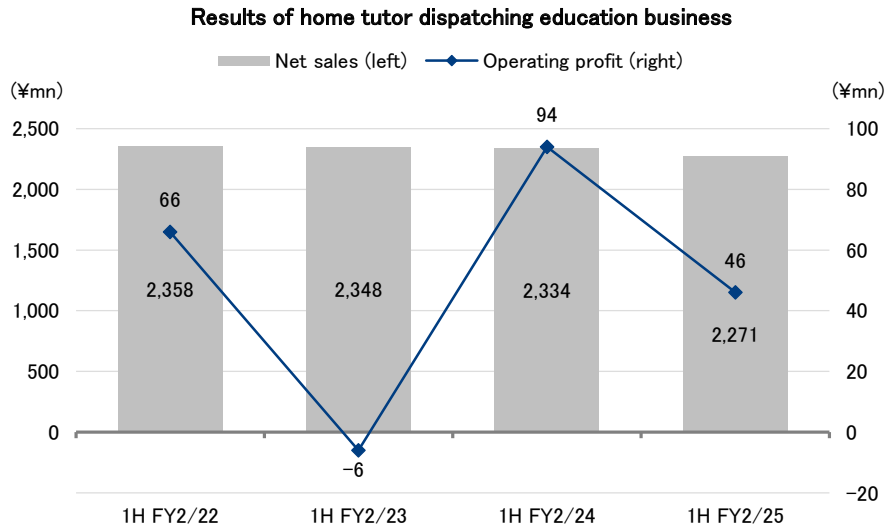
(2) Home tutor dispatching education business

Net sales in the home tutor dispatching education business declined 2.7% YoY to ¥2,271mn and operating profit fell 50.9% to ¥46mn. The decline in net sales and profits was due to a 2.8% YoY drop in student numbers as of the end of August 2024, reflecting the consolidation and closure of unprofitable schools. However, the drop in student numbers has almost halted, with the pace of decline slowing sharply from the end of FY2/24. Net sales per student was broadly flat, edging up 0.1% YoY.

There were no new school openings in 1H. The number of Meimonkai locations declined by 1 school YoY to 35, while the number of TOMEIKAI locations fell by 3 schools to 9. The number of MEDIC Meimonkai locations was unchanged at 2. In terms of regional schools, the Company plans to make decisions on whether to keep schools open while monitoring the situation in these markets, as the youth population is projected to shrink. It aims to drive a recovery in earnings by developing Meimonkai schools in major cities (Tokyo, Osaka, Nagoya, Fukuoka) and by stepping up marketing of Meimonkai Online, which was launched during the pandemic.

Meimonkai Online is an interactive teaching tool that allows the instructor and student to see not only each other's faces but also their hands. Students can also access Meimonkai Online's high-quality, one-on-one tutoring anywhere in the world where there is an internet connection. Although the number of registered students is still low, at only a few percent of total Meimonkai registrations, it grew at a steady pace of 27.0% YoY in 1H. At the current pace, Meimonkai Online is on track to account for more than 10% of total registrations in 1-2 years.

Results trends



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

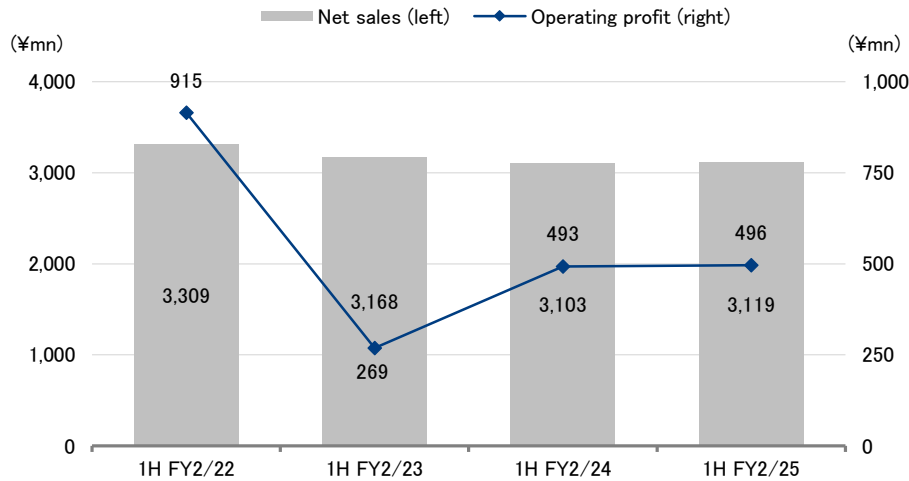
(3) Young child education business

In the young child education business, sales and profits turned up YoY, albeit slightly, with net sales rising 0.5% to ¥3,119mn and operating profit increasing 0.8% to ¥496mn. Student numbers at the mainstay Shingakai schools continued to contract due to intensifying competition and the lingering impact of a temporary deterioration in service quality. The impact on Shingakai net sales from lower student numbers was almost fully offset by fee increases from November 2023.

In 1Q, the Company opened 1 new Konami Sports Shinga's Academy (Musashi Kosugi), and renovated 1 Shingakai (Kichijoji) and 1 Shinga's Club after-school care school (Kichijoji). As of the end of August 2024, there were 22 Shingakai schools (down 2 YoY), 22 Shinga's Club after-school care schools (up 3; includes 3 Konami Sports Shinga's Academy schools), and 8 Shinga's Club childcare facilities (unchanged).

Results trends

Results of young child education business

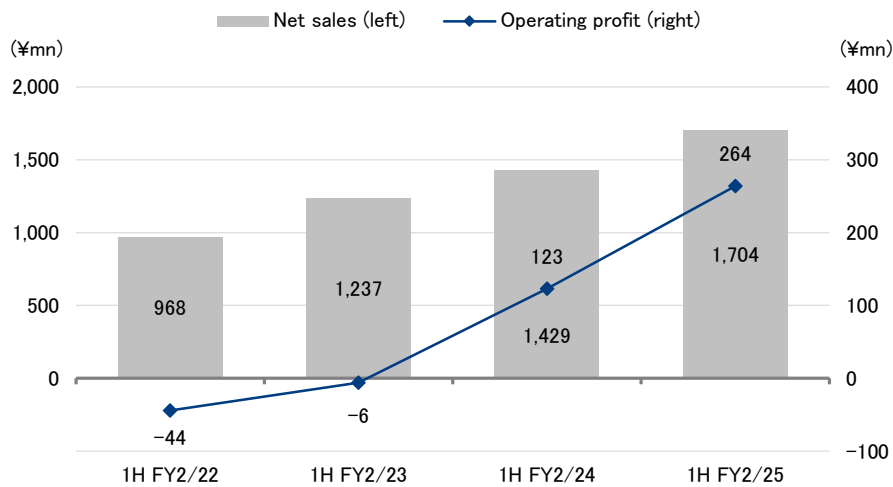


Source: Prepared by FISCO from the Company's financial results

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

The in-school one-on-one instruction business reported record 1H earnings, with net sales increasing 19.2% YoY to ¥1,704mn and operating profit rising 114.3% to ¥264mn. There were 88 contracted schools as of the end of August 2024, up 7 YoY, and the number of users at contracted schools continues to increase each year, driving growth in net sales. The operating margin improved from 8.6% in 1H last year to 15.5%, reflecting growth in average net sales per school and an increase of 14.8% YoY in the number of students enrolled in high-value-added tutoring services. Tangible results from one-on-one instruction, such as improved academic performance and success in passing entrance exams to chosen schools, is leading to growth in enrollments.

Results of in-school one-on-one instruction business



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

Results trends

(5) Character-building training camp education business

The character-building training camp education business reported net sales of ¥1,093mn, up 3.9% YoY, and operating profit of ¥83mn, up 103.8%. Net sales and operating profit both recovered to above pre-pandemic levels, supported by strong sales for experience-type tours, TOMAS Gymnastics Schools and TOMAS Soccer Schools. The Company opened 1 new TOMAS Gymnastics School, bringing the total to 12, and there were 5 TOMAS Soccer Schools (unchanged) and 2 school for ballschule.

Plans to use funds raised through third-party allotment for Kodomo Department Stores and DX investment

3. Financial condition

As of the end of 1H FY2/25, total assets were ¥21,406mn, up ¥3,309mn from the end of the previous fiscal year, mainly reflecting ¥3,383mn raised through a third-party allotment of new shares. Looking at other key changes in assets, in current assets, cash and deposits increased ¥4,715mn and trade accounts receivable decreased ¥1,567mn. In non-current assets, property, plant and equipment increased ¥151mn, reflecting new school openings, relocations and renovations, lease and guarantee deposits rose ¥81mn, and investment securities decreased ¥160mn due to the sale of parent company shares.

Total liabilities were up ¥585mn from the end of the previous fiscal period to ¥10,197mn. Income taxes payable decreased ¥207mn, but accounts payable and contract liabilities increased ¥568mn and ¥186mn, respectively. Net assets increased ¥2,723mn to ¥11,208mn. Dividends paid totaled ¥1,538mn, but the Company recorded profit attributable to owners of parent of ¥893mn, and the third-party allotment of new shares and other factors increased capital stock by ¥1,700mn and retained earnings by ¥1,708mn.

Looking at management indicators, the equity ratio rose to 52.0% from 46.3% at the end of the previous fiscal year, partly due to the third-party allotment of new shares. The Company's financial position has improved further. It is debt-free and now has more than ¥10bn in cash on hand. Funds raised through the third-party allotment will mainly be used for 1) capital investment associated with its new business opening Kodomo Department Store facilities (security deposits for the opening of new classrooms, classroom facility and equipment acquisition costs, initial investment costs, etc.); 2) capital investment for creative culture and education facilities (museum, library, etc.) for the MITAKE Link Park (Shibuya) building* to be opened by the Hulic group in 2026 (rental deposit, interior decorating work, design fees, initial costs, etc.); and 3) expenses for DX strategy promotion (integration of customer databases in each business group, development of apps for communicating with customers, installation of classroom IT networks, etc.). It has budgeted capital expenditures of ¥2,291mn to open 10 Kodomo Department Stores (some locations not yet finalized) by spring 2028, of which ¥1,000mn has already been used to source locations.

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

Results trends

Consolidated balance sheet

	(¥mn)			
	FY2/23	FY2/24	1H FY2/25	Change amounts
Current assets	9,660	8,954	12,211	3,256
Cash and deposits	7,308	5,460	10,176	4,715
Non-current assets	8,465	9,141	9,194	53
Total assets	18,125	18,096	21,406	3,309
Total liabilities	8,900	9,611	10,197	585
Interest-bearing debt	-	-	-	-
Net assets	9,225	8,484	11,208	2,723
Management indicators				
Equity ratio	50.4%	46.3%	52.0%	5.7pp

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

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

■ Outlook

On track for record earnings in FY2/25

1. FY2/25 forecasts

For the FY2/25 results, the Company maintained its initial forecast for net sales to increase 5.4% YoY to ¥33,960mn, operating profit to rise 1.6% to ¥2,670mn, ordinary profit to rise 0.5% to ¥2,670mn and profit attributable to owners of parent to rise 2.9% to ¥1,710mn. Progress rates against forecasts for 1H were 48.8% for net sales and 54.6% for operating profit, well above average progress rates for the last three years (49.1% for net sales, 42.0% for operating profit), particularly operating profit. The Company reiterated its forecasts, citing the need to assess the situation regarding students enrolling in winter semester courses and the number of new enrollments in Shingakai. However, we think the Company is well on track to exceed record operating profit of ¥3,042mn posted in FY2/22, provided sales remain steady in 2H.

Outlook

FY2/25 consolidated forecasts

	FY2/24		FY2/25			1H progress	Three-year average progress rate*
	Results	Ratio to sales	Company's target	Ratio to sales	YoY		
Net sales	32,215	-	33,960	-	5.4%	48.8%	49.1%
Operating profit	2,628	8.2%	2,670	7.9%	1.6%	54.6%	42.0%
Ordinary profit	2,655	8.2%	2,670	7.9%	0.5%	54.5%	42.6%
Profit attributable to owners of parent	1,661	5.2%	1,710	5.0%	2.9%	52.2%	42.1%
Earnings per share (¥)	10.76		10.28				

* Three-year average progress rate = 1H total over past three years ÷ full-year total

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

(1) Educational instruction school business

For the educational instruction school business, it forecasts net sales growth in the single digits and a return to profit growth, supported by a recovery in student numbers. It relocated and renovated 2 TOMAS schools (Shiki and Fuchu) in 3Q and plans to open 1 school (Ichigao) in 4Q. It also plans to open a second Spec.TOMAS school (Kachidoki) in February 2025. It expects the school to rapidly reach its student capacity, as the Kachidoki area is seeing an increase in the youth population due to a boom in condominium construction. The Company will also continue efforts to prevent contract cancellations at priority schools. Supported by these factors, it expects student numbers to continue rising at a single-digit pace in 2H.

(2) Home tutor dispatching education business

The Company forecasts earnings in the home tutor dispatching education business will trend flat YoY, but it underperformed slightly in 1H. Trends in student numbers in 2H will be key to full-year earnings performance. The pace of decline is gradually slowing, with student numbers down 1.9% as of the end of September 2024. The Company assumes the decline will come to a halt by the end of FY2/25, with student numbers flat YoY. The consolidation of TOMEIKAI schools is largely complete, but the Company plans to continue optimizing expenses. It is also considering investing in overseas advertising in 2H for Meimonkai Online, which is seeing steady growth in student numbers, to focus on attracting new students.

(3) Young child education business

In the young child education business, the Company assumes flat net sales and profits for Shingakai and modest growth in net sales and profits for Shinga's Club. The boost from fee increases for its mainstay Shingakai schools from November 2023 is set to fade from 4Q, so progress with attracting new students from November this year holds the key to the earnings outlook, including in FY2/26. Service quality has already returned to previous levels, but the outlook is uncertain, partly due to intensifying competition for students. The Company therefore aims to sign up more students by using online channels to solicit more requests for information materials and consultation sessions from prospective students. In addition, it will continue efforts to prevent contract cancellations by conducting thorough and systematic individual interviews with parents, aiming to rapidly drive a recovery in student numbers.

While the Company is not opening any new schools in 2H, it plans to open 1 Shingakai school, 2 Shinga's Club after-school care facilities and 1 Shinga's Club childcare facility in 2 Kodomo Department Store buildings (Nakano and Tama Plaza), which are scheduled to open in spring 2025. It also plans to open 1 Shinga's Club childcare facility (Kichijoji) in the same period. We think these new sites are likely to support a return to growth in student numbers in the young child education business from FY2/26.

Outlook

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

The Company forecasts the in-school one-on-one instruction business will continue to perform well in 2H, with net sales and profits both growing at a double-digit pace. It does not expect the number of contracted schools to change significantly from the current 88 in 2H, but it sees potential for growth to nearly 100 schools from spring 2025. It assumes double-digit earnings growth over the medium term, as contracted schools extend the service to more student grades. Competing services have emerged on the market, but the Company's core business is the dispatch of instructors, which we think will give it a competitive advantage with schools seeking high-value-added services by leveraging its expertise in one-on-one instruction for academic advancement.

(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 experience-type tours held.

Seeks upper single-digit percentage annual earnings growth through expanding existing businesses and grow new businesses through collaboration with other industries

2. Medium-term management plan

(1) Understanding of market conditions and main initiatives

At the beginning of FY2/25, the Company announced its three-year medium-term management plan ending in FY2/27. 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 middle 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 sustained growth under these conditions. Measures to increase student numbers are opening new schools in areas where demand is expected and 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 8.5% for operating profit. The Company aims to raise the operating margin, which was 8.2% in FY2/24, to 8.8% in FY2/27 (these figures do not include the impact of the new Kodomo Department Store business). 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. However, with profits likely to exceed its forecasts for FY2/25, we expect the Company to revise up profit targets for FY2/26 and beyond when it releases FY2/25 results. Although projected FY2/27 ROE is 14.5%, slightly below the 19.0% level achieved in FY2/24, it aims to maintain ROE above 10%.

Outlook

FY2/25 – FY2/27 Medium-term management plan

	FY2/24 Results	FY2/25 Target	FY2/26 Target	FY2/27 Target	Compound annual growth rates
Net sales	32,215	33,960	36,220	38,260	5.9%
Operating profit	2,628	2,670	3,120	3,360	8.5%
Operating margin	8.2%	7.9%	8.6%	8.8%	-
Ordinary profit	2,655	2,670	3,120	3,360	8.2%
Profit attributable to owners of parent	1,661	1,710	1,850	2,000	6.4%
ROE	19.0%	16.3%	15.3%	14.5%	

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

(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 to focus on 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. Against this backdrop, it aims to return net sales to a growth trend from FY2/26 by stepping up the acquisition of new students for its interactive online classes, Meimonkai Online. The features of the service are proving popular, supporting steady growth in student numbers: the use of web cams allows instructors and students to see not only each other's faces, but also their hands, ensuring the interactive lessons are of similar quality to face-to-face tutoring, and students in regional areas or overseas can also access entirely one-to-one online tutoring from professional instructors or current university students from Tokyo University and other elite schools. We expect the service to play a key role in future earnings growth.

c) Young child education business

The Company plans CAGR of around 5% for net sales of the young child education business. The Company currently plans to open 1 Shingakai, 1 Shinga's Club after-school care facility and 1 Shinga's Club childcare facility each year (Shinga's Club after-school care also includes Konami Sports Shinga's Academies), but with Kodomo Department Stores starting from spring 2025, the pace of facility openings is likely to accelerate. The Company aim for earnings growth by strengthening marketing to attract students of new and renovated schools, as well as holding scheduled interviews with students and guardians and strengthening communication with them to lower the percentage of students leaving.

Outlook

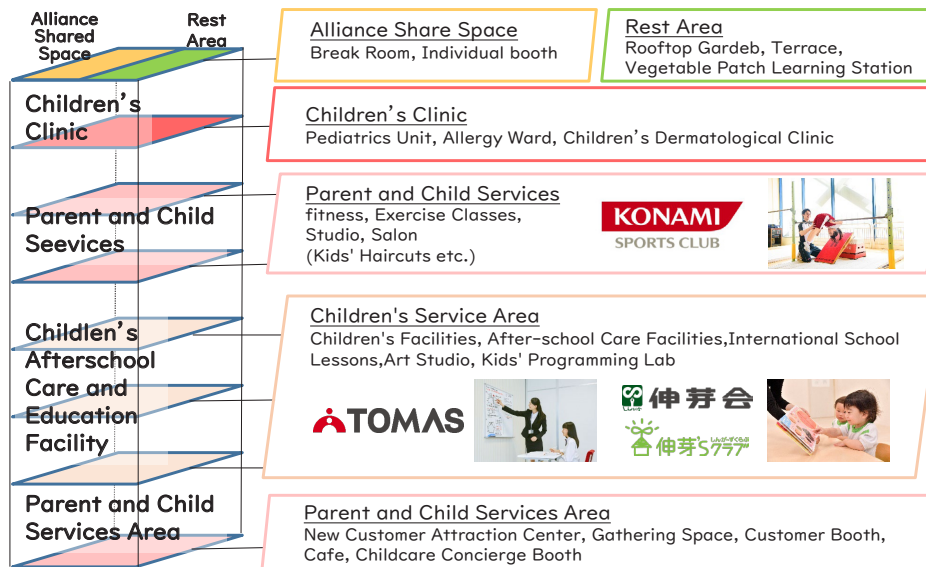
d) In-school one-on-one instruction business

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 middle and senior high schools). The Company expects strong growth to continue at a pace of 10 new contracted schools per year.

(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 will open the educational building Kodomo Department Store series 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 Konami Sports, which will make it possible to provide multiple services to students ranging from infants to high school students. The availability of children's services in the same building will also reduce the burden on parents to pick up and drop off their children. 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 initiative is expected to maximize customer LTV and demonstrate group synergies by attracting and retaining customers from infancy, thereby leading to further earnings growth.

Educational building Kodomo Department Store



Source: The Company's results briefing materials

In terms of current progress, a total of six projects are now taking shape in the Tokyo Jonan area, Yokohama and Chiba. Two locations (Kodomo Department Store Nakano [Nakano Ward, Tokyo] and Kodomo Department Store Tama Plaza [Yokohama, Kanagawa Prefecture]) are scheduled to open in spring 2025, while another is scheduled to open inside the MITAKE Link Park (Shibuya) multi-use commercial building in 2027. Hulic envisions 20 Kodomo Department Store buildings by 2029, primarily near major stations in the Tokyo metropolitan area, but this target may not be achieved due to challenges securing the necessary instructors and staffing resources to run the school buildings and classrooms. Nevertheless, the Company will not need to search for prime locations near stations by itself, and simultaneously launching multiple educational services from the same location has major advantages from the standpoint of business efficiency. As such, we believe the business has the potential to drive earnings growth over the medium term.

Outlook

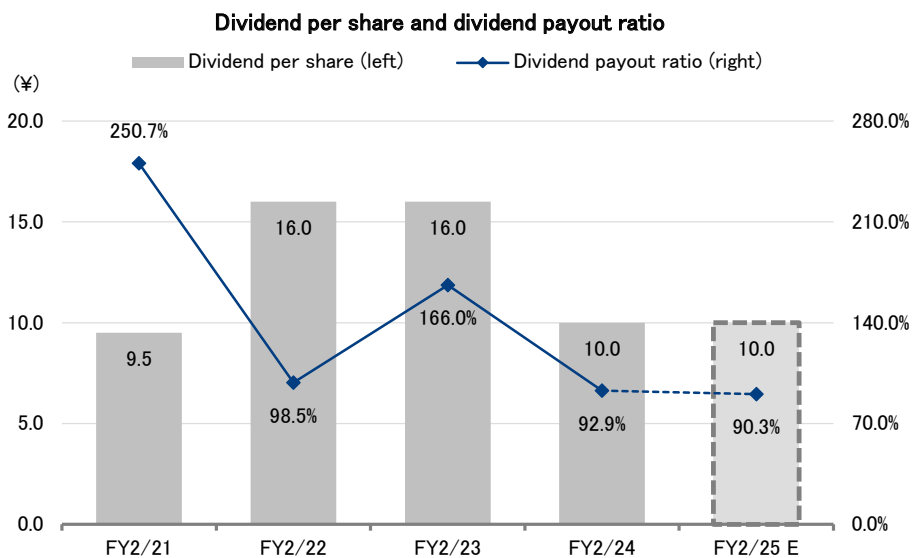
(5) Promoting DX strategy

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 for FY2/24 and beyond is based on a consolidated dividend payout ratio of 50% or more, taking into consideration the level of retained earnings and operating conditions. Based on this policy, in FY2/25, the Company forecasts dividend per share of ¥10.0 per share (dividend payout ratio of 90.3%), the same amount as the previous fiscal year, for dividend yield of 3.7% based on the closing share price on October 25, 2024. Other than the payment of dividends, the Company plans to use retained earnings and other funds for capital investment, IT investment to move forward with management DX, and M&A investment, 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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