

# FY Ending February 2017 (FY2/17), 2Q Presentation

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October 5, 2016

Tokyo Individualized Educational Institute, Inc.  
(TSE 1st Section, Securities Code 4745)

Katsuki Saito, President and Representative Director



## **I . President's Message**

## **II . FY 2/17 2Q Results and FY 2/17 Forecast**

## **III . Progress and Future Development of Dynamic Challenge 2017**

# I . President's Message

Katsuki Saito, President and Representative Director

# Net Sales vs. Initial Forecast/Previous Fiscal Year

## Increase in number of students based on teaching ability

(Millions of yen)

Net sales

Actual

Initial  
forecast

Change

% Change

Six months  
ended Aug. 2016

8,294

8,388

-93

-1.1%

Previous  
FY

Change

% Change

7,906

+387

+4.9%

### Main Factors

- Steady growth in number of new/enrolled students
- Impact of cancelled classes due to inclement weather in summer

### Main Factors

- Record highs for both cumulative number of inquiries and number of new students
- Number of enrolled students set new record high of 30,958 as of end of August; 5.3% YoY increase

(Millions of yen)

Net sales

Revised  
forecast

Initial  
forecast

Change

% Change

FY 2/17

18,000

18,000

±0

±0.0%

Previous  
FY

Change

% Change

17,094

+905

+5.3%

### Main Factors

- Steady growth in number of new/enrolled students
- Classes cancelled in the summer rescheduled to September

### Main Factors

- Steady growth in number of new/enrolled students

# Operating Income vs. Initial Forecast/Previous Fiscal Year

## Investment for sustainable growth

(Millions of yen)

Operating income	Actual	Initial forecast	Change	% Change
Six months ended Aug. 2016	50	200	-149	-74.7%
		Previous FY	Change	% Change
		160	-109	-68.4%

### Main Factors

- Operating income fell short because net sales fell short of initial forecast
- Strengthened upfront investment in employees and teachers (recruiting, training, etc.)
- Capital investment for relocation and renewal, etc. of existing schools

### Main Factors

- Increase in income due to increase in sales
- Strengthened upfront investment in employees and teachers (recruiting, training, etc.)
- Capital investment for relocation and renewal, etc. of existing schools

(Millions of yen)

Operating income	Revised forecast	Initial forecast	Change	% Change
FY 2/17	2,400	2,600	-200	-7.7%
		Previous FY	Change	% Change
		2,217	+182	+8.2%

### Main Factors

- Strengthened upfront investment in employees and teachers (recruiting, training, etc.)
- Increase in land rent (expansion to deal with growth in number of students, etc.)
- Further cost reductions

### Main Factors

- Increase in income due to increase in sales
- Strengthened upfront investment in employees and teachers (recruiting, training, etc.)
- Increase in land rent (new school openings, expansion, etc.)

# Revised Forecast for FY 2/17

Forecast of Business Results for FY 2/17

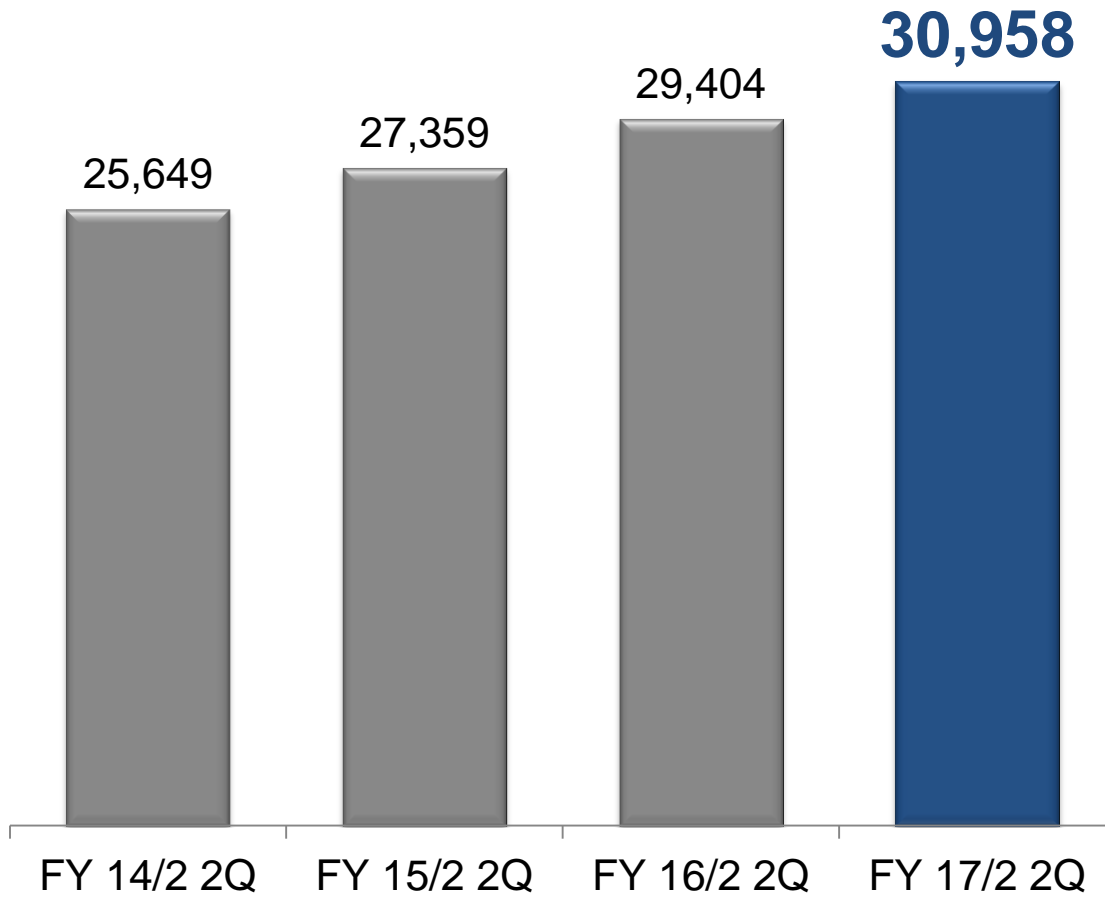
(Millions of yen)

	Net sales	Operating income	Operating margin	Ordinary income	Net income
Revised forecast	18,000	2,400	13.3%	2,403	1,533
Initial forecast	18,000	2,600	14.4%	2,603	1,665
Change	±0	-200	-1.1 pts.	-199	-132
% Change	±0.0%	-7.7%	—	-7.7%	-8.0%
Previous results	17,094	2,217	13.0%	2,223	1,383
Change	+905	+182	+0.3 pts.	+179	+149
% Change	+5.3%	+8.2%	—	+8.1%	+10.8%

## Ⅱ . FY 2/17 2Q Results and FY 2/17 Forecast

Shoichi Funato, Director

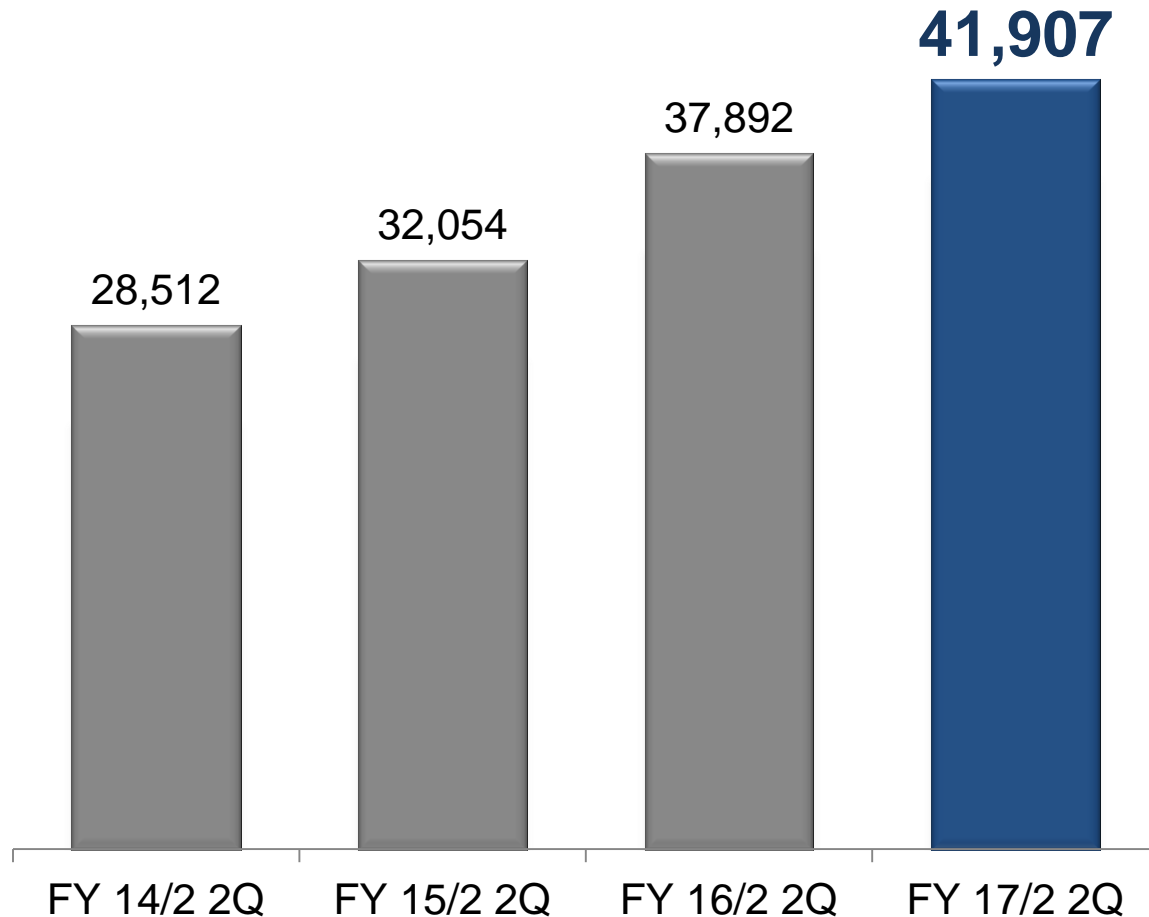
# Number of Students Enrolled at End of Period



**5.3%** increase  
from previous fiscal  
year

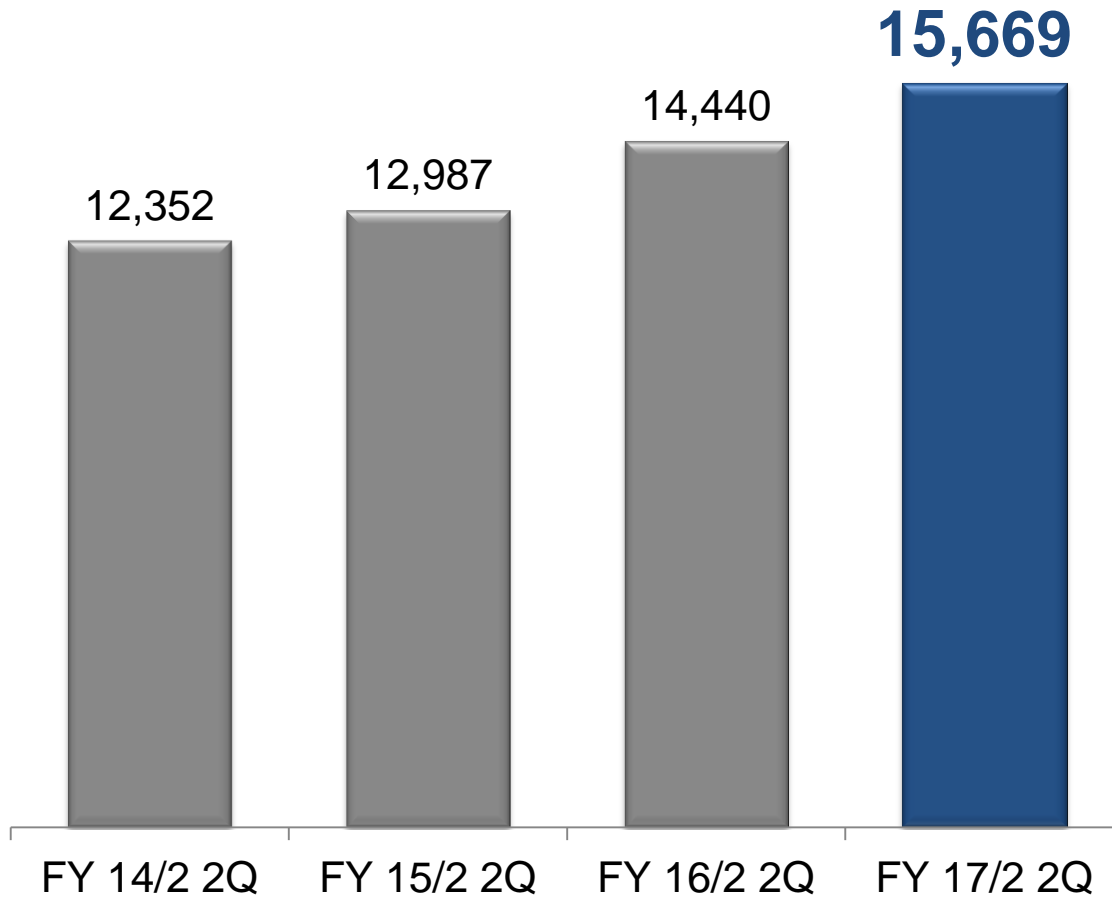
Achieved a  
**record high**

# Cumulative Number of Inquiries



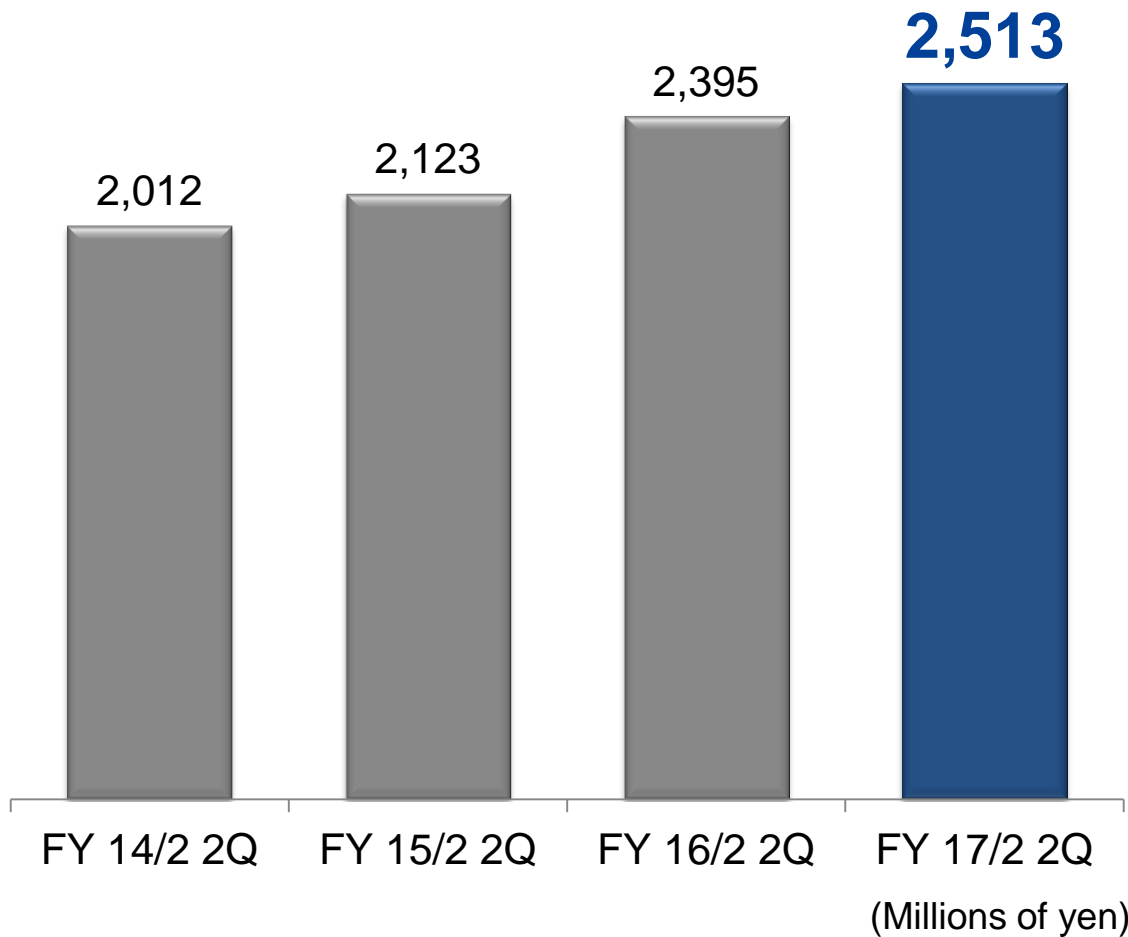
Achieved a  
**record high**  
due to ongoing  
marketing reforms

# Cumulative Number of New Students



**8.5%** increase  
from previous  
fiscal year  
Achieved a  
**record high**

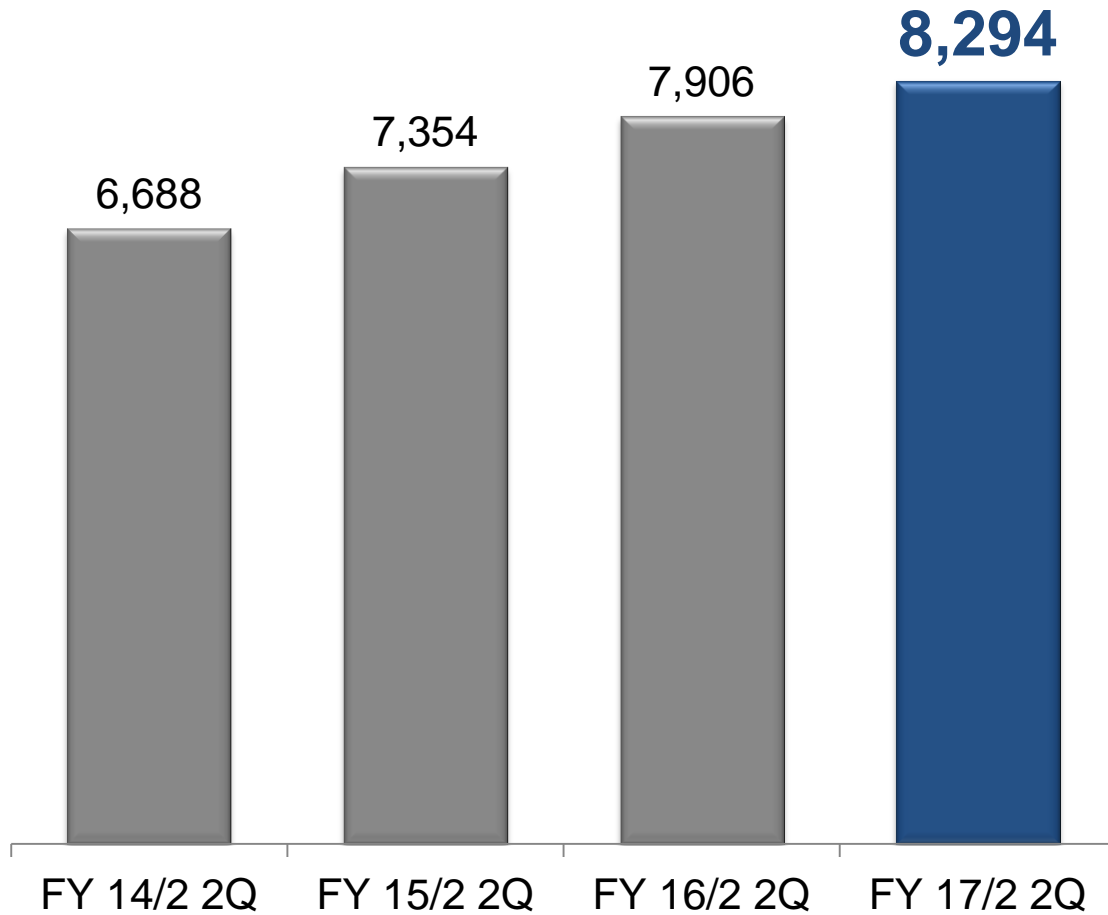
# Sales of Short Courses



**4.9%** increase  
from previous fiscal  
year

Achieved a  
**record high**

## FY 2/17 2Q Net Sales



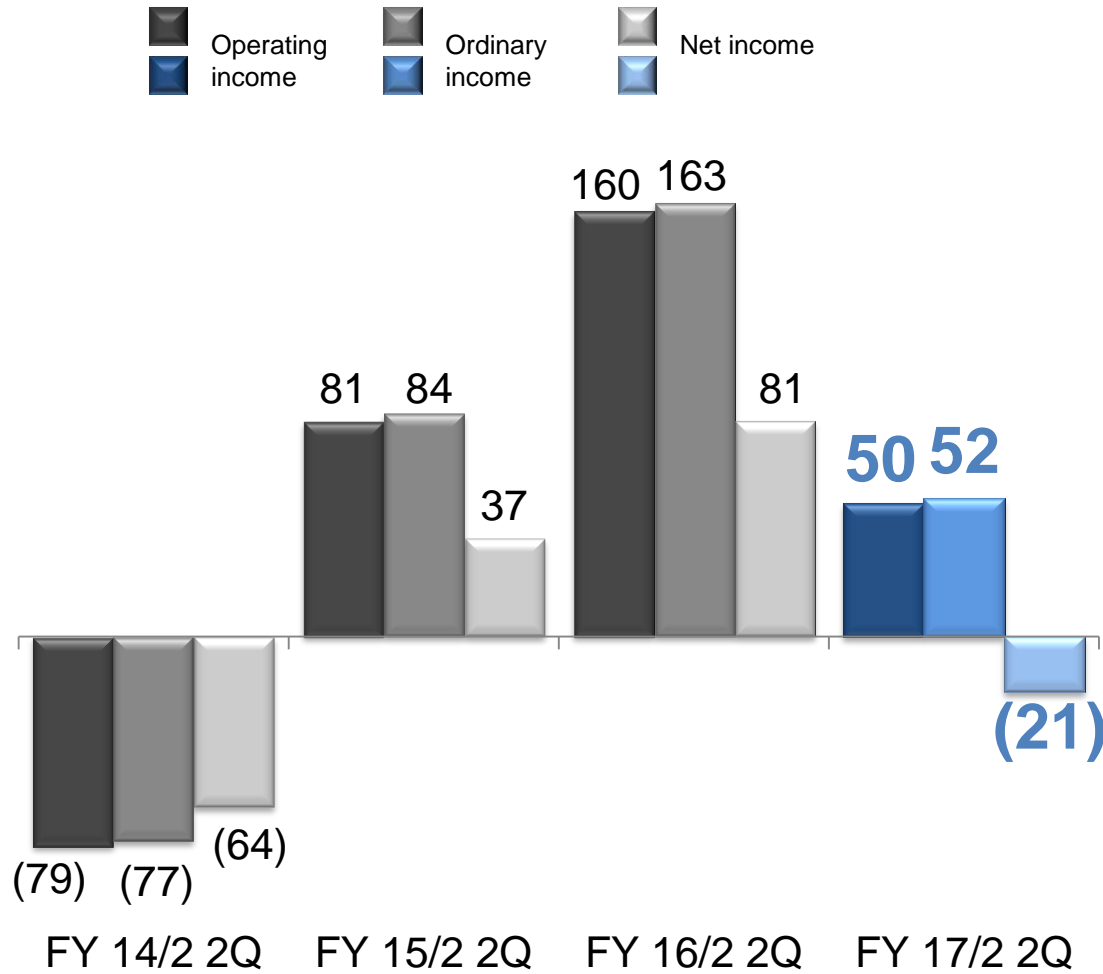
(Millions of yen)

**4.9%** increase from  
previous fiscal year

**5** consecutive years of  
sales growth

Achieved a  
**record high**

# FY 2/17 2Q Profit



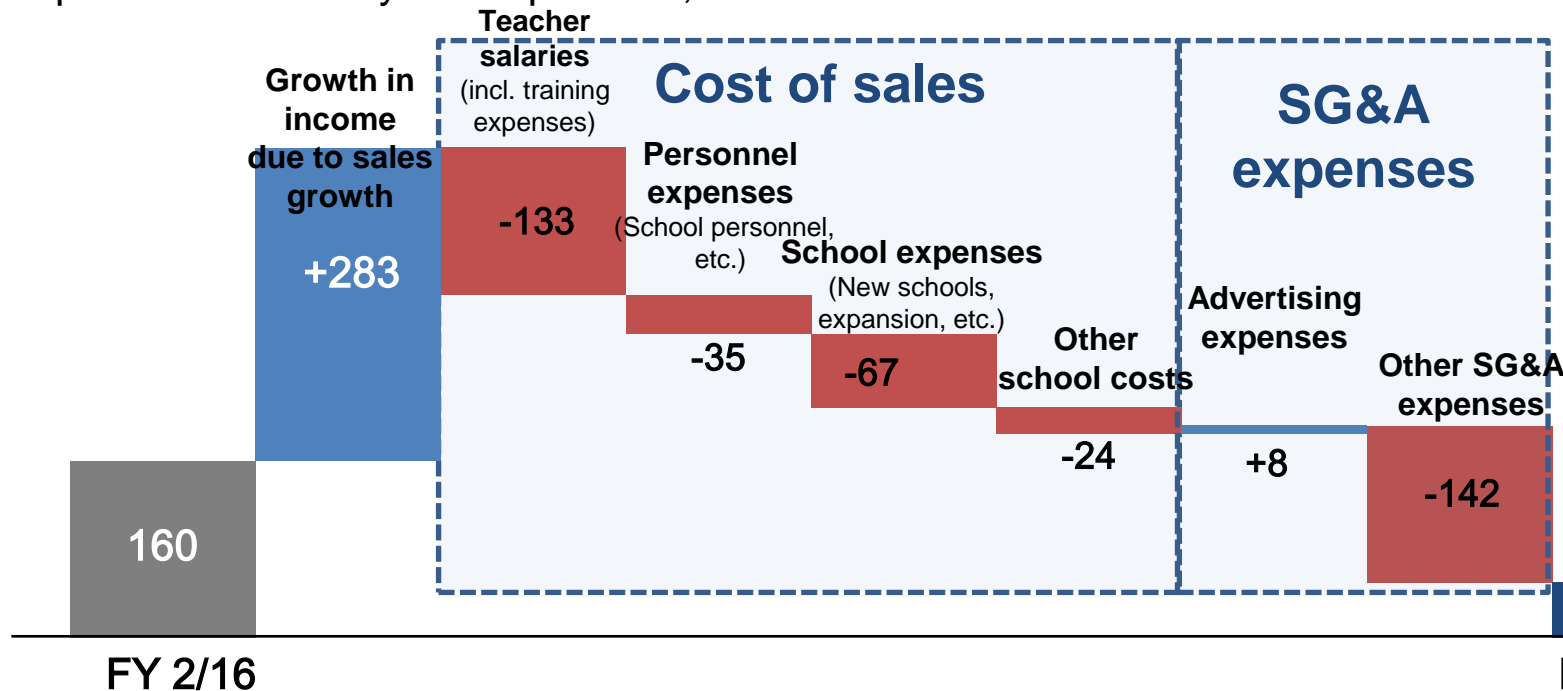
Investment for  
growth

# Operating Income: Analysis of Changes from Previous Fiscal Year

## Investment to increase the number of enrolled students

- (1) Growth in income from sales growth due to increases in numbers of new and enrolled students
- (2) Increase in teacher salaries and personnel expenses for school operation
- (3) Increase in school expenditures for new school openings, relocations and renewals
- (4) SG&A expenses ratio unchanged from previous fiscal year, despite increase in depreciation expenses for new system operation, etc.

(Millions of yen)



# FY 2/17 2Q Cumulative Results

(Millions of yen)

	FY 2/16 2Q Result	FY 2/17 2Q Result	Change	% Change	FY 2/17 2 Q Initial Forecast
Net sales	7,906	8,294	387	+4.9%	8,388
Cost of sales	5,029	5,393	363	+7.2%	—
<i>Cost of sales ratio</i>	63.6%	65.0%	+1.4 pts.	—	—
Gross profit	2,877	2,901	23	+0.8%	—
<i>Gross profit margin</i>	36.4%	35.0%	-1.4 pts.	—	—
SG&A expenses	2,716	2,850	133	+4.9%	—
<i>SG&amp;A expenses ratio</i>	34.4%	34.4%	0.0 pts.	—	—
Operating income	160	50	-109	-68.4%	200
<i>Operating income margin</i>	2.0%	0.6%	-1.4 pts.	—	—
Ordinary income	163	52	-110	-67.8%	201
<i>Ordinary income margin</i>	2.1%	0.6%	-1.4 pts.	—	—
Net income (loss)	81	(21)	-102	—	101
<i>Net income margin</i>	1.0%	—	—	—	—

# Balance Sheet and Cash Flow Statement

(Millions of yen)

	FY 2/16 Result	FY 2/17 2Q Result
Current assets	8,168	7,167
Fixed assets	2,247	2,321
Total assets	10,415	9,488
Current liabilities	2,234	1,984
Long-term liabilities	9	5
Total liabilities	2,244	1,990
Net assets	8,171	7,498
Total liabilities and net assets	10,415	9,488

(Millions of yen)

	FY 2/16 2Q Result	FY 2/17 2Q Result
Operating cash flow	(1,857)	(1,999)
Investment cash flow	181	3,790
Financing cash flow	(217)	(651)
Increase (decrease) in cash & cash equivalents	(1,893)	1,140
Cash & cash equivalents at beginning of year	3,136	3,399
Cash & cash equivalents at end of 2Q	1,243	4,539

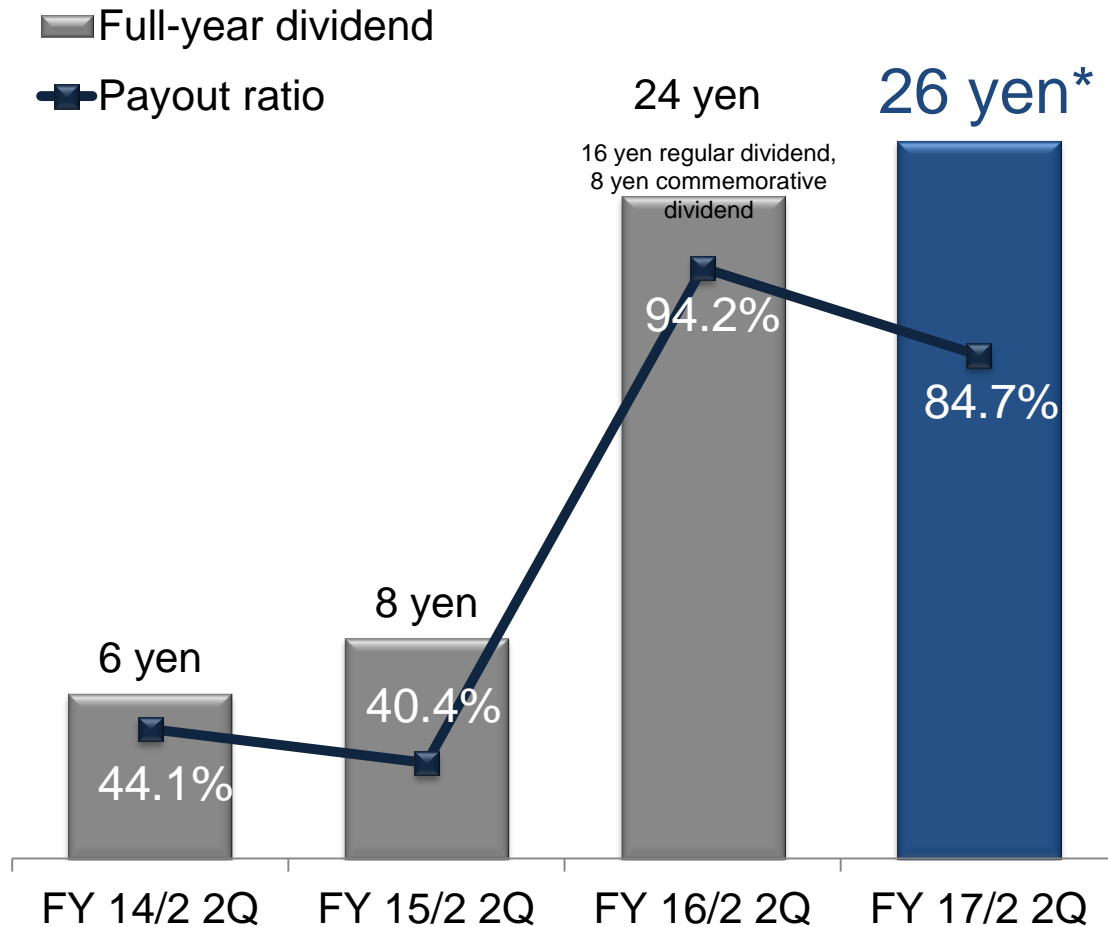
# Forecast for FY 2/17

(Millions of yen)

	FY 2/16 Result	FY 2/17 Revised Forecast*	Change	% Change	FY 2/17 Initial Forecast
Net sales	17,094	18,000	905	+5.3%	18,000
Operating income	2,217	2,400	182	+8.2%	2,600
<i>Operating income margin</i>	13.0%	13.3%	+0.3 pt.	—	14.4%
Ordinary income	2,223	2,403	179	+8.1%	2,603
<i>Ordinary income margin</i>	13.0%	13.4%	+0.4 pt.	—	14.5%
Net income	1,383	1,533	149	+0.8%	1,665
<i>Net income margin</i>	8.1%	8.5%	+0.4 pt.	—	9.3%

\* Figures announced on September 28, 2016

# Dividend Outlook



3 consecutive years of dividend increases (planned) with no change in dividend forecast

\*Forecast announced on October 5, 2016

# Ⅲ. Progress and Future Development of Dynamic Challenge 2017

Katsuki Saito, President and Representative Director

# Dynamic Challenge 2017 (Reprint)

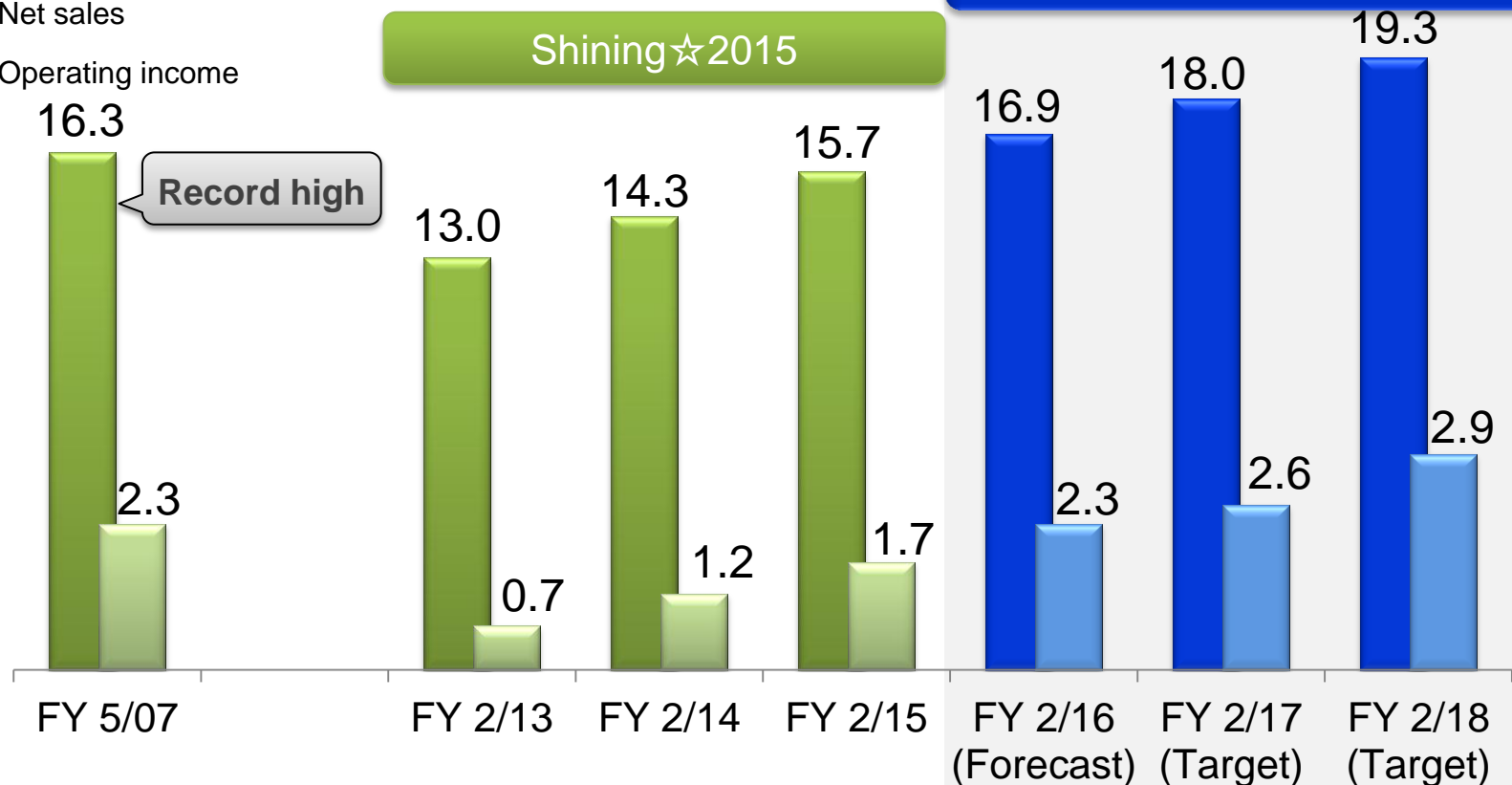
Aiming for sustained growth

Target payout ratio of 50% or higher

(Billions of yen)

■ Net sales

■ Operating income



Note: Reprint of targets announcement in "Notice Concerning the New Medium-Term Management Plan," dated April 8, 2015.

# Outline of Medium-Term Management Plan

## Dynamic Challenge 2017

Increase our corporate social value through sustained growth

Growth strategy

**Area dominance  
and  
service portfolio**

Growth strategy

**Enhancement of  
educational  
capabilities**

Growth strategy

**Collaboration  
with Benesse to  
increase  
added value**

**Building a stronger, more efficient operating foundation**

# Enhancing Teaching Ability as a Team



Raise awareness of targets and results and increase teaching ability through team growth



▲ Overview of yearly school plan (cover)



▲ Yearly school plan (sample)



▲ Teachers' meeting



▲ Teachers' Summit (West Japan) held in March 2016

# Openings of New Schools with Dominance

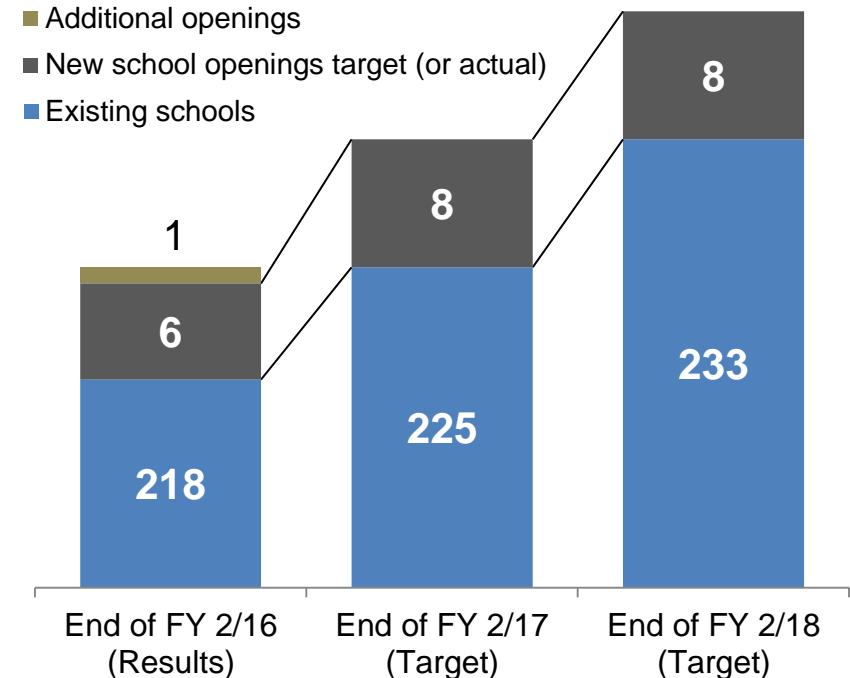


Expand customer contact in high-need areas

Togoshi School (March 2016)	Nishi Kokubunji School (June 2016)
Soshigaya-Okura School (March 2016)	Decision to open new school in Tokyo (February 2017)
Tenjin School (March 2016)	Pending
Higashi Nakano School (May 2016)	Pending

## Progress of Yearly Plans for School Openings

(Individualized instruction schools only)

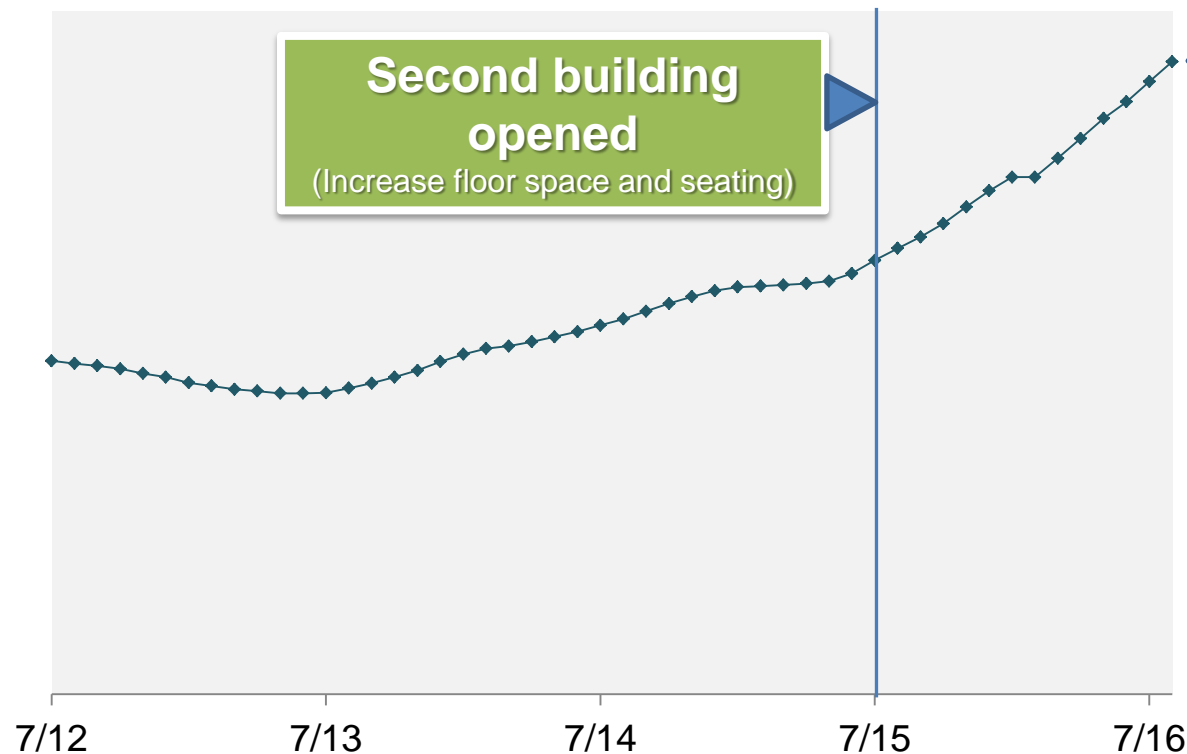


# Measures to Deal with Capacity at Existing Schools



## Optimize the size of the existing school to handle the increasing number of students

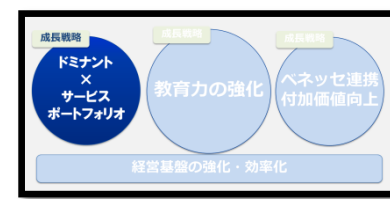
Monthly number of students at Omiya School  
(Saitama Prefecture) in rolling plan



October 2016  
**Further expansion scheduled**

Substantial growth through timely increases in floor space and seating

# Service Portfolio Expansion



## Opening of Benesse Writing Classes at four schools in March 2016

### Opening at existing **individualized instruction schools** with high customer needs

A program for elementary school children that improves their ability to think logically and to communicate with others by enriching their vocabulary and enhancing their listening skills to give them abilities that will help them make their way in the future.

Jiyugaoka School  
(March 2016)

Oimachi School  
(September 2016)

Hiroo School  
(March 2016)

Kawasaki School  
(September 2016)

Totsuka School  
(March 2016)

Azabu Juban School  
(September 2016)

Class Benesse  
Sengawa School  
(March 2016)

Seijo Corty School  
(September 2016)



▲ Writing Class Toyosu School

# Growth in Number of Students Enrolled in Science and Writing Classes at End of Period



## Science Classes

Year-on-year growth

**+14.0%**

## Writing Classes

Year-on-year growth

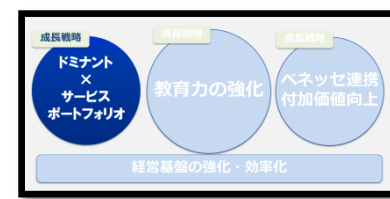
**+36.8%**

Together with  
growth in  
total number of students



▲ Writing Class

# Rollout of Science and Writing Classes



## Step up school visits for Science Classes and Writing Classes

### Special Saturday classes at 3 elementary schools in Minato-ku, Tokyo

Holding special Saturday classes at 3 elementary schools in Minato-ku every other Saturday from June 2016 to March 2017.

**Benesse® サイエンス教室**  
**Benesse® 文章表現教室**

### Event at Ota Science Festival in July 2016

TIEI made a presentation at the Ota Science Festival held on the Ookayama Campus of Tokyo Institute of Technology.

**Benesse® サイエンス教室**

### Event at Nihombashi Mitsukoshi Main Store in July 2016

Presented Science Classes and Writing Classes at the Culture Salon in Nihombashi Mitsukoshi.

**Benesse® サイエンス教室**  
**Benesse® 文章表現教室**



▲ Science Class

# Collaboration with Benesse to Increase Added Value ①



## Group collaboration on measures for 4 English skills toward entrance exam system reforms in 2020

### Hold an “Eiken Preparation Course” in Cooperation with Berlitz Japan<sup>1</sup>

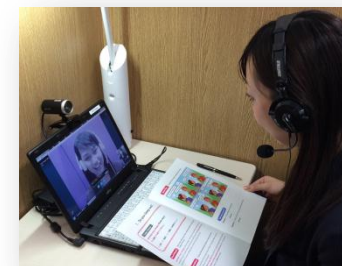
- Program using native-language-speaking teachers based on the Berlitz Method **combined with individualized instruction know-how**
- Holding a special 10-lesson course in the fall at 9 individualized instruction schools for students aiming to pass the “Grade Pre-2” or “Grade 2” test



1. Berlitz Japan, Inc. operates approximately 70 language centers in Japan. Based on a network of approximately 500 language centers worldwide, the company provides services including instruction and overseas study in more than 10 languages as well as global leadership development.

### Progress in trial introduction of online English conversation service

- **Measures for 4 English skills** toward the entrance exam system reforms in 2020
- Start of service at 5 Tokyo schools with the introduction of Benesse Corporation’s “Online Speaking Training”<sup>2</sup> in mid-September 2016



▲ Taking a lesson

2. “Online Speaking Training” is a one-to-one course specially developed by Benesse for junior and senior high school students in an educational setting.

# Collaboration with Benesse to Increase Added Value ②



## Increase added value for Shinkenzemi members

### End of service at 2 Class Benesse schools

- End of service as of March 31, 2017
- “Shinkenzemi Individualized Support Classroom” services will continue at all 230 individualized instruction schools. Support will continue for children using Shinkenzemi.



▲ Academic consultation

#### Features of “Shinkenzemi Individualized Support Classroom”

- Learning plan consultation so students understand study methods that suit them
- Use of “self-study cubicles” so students master learning styles
- Academic and study consultation to create a strategy up to test-taking
- Individualized instruction classes on pre-test measures and measures for weak points

### Direct mail information about TIEI for current and former Shinkenzemi members

- Promote Group-wide study support for current and former Shinkenzemi members

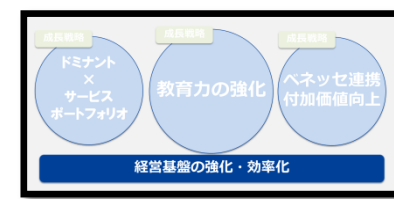


Example of direct mail ▶

### Ongoing collaboration with Call Center Offer multiple proposals through the Group

- Creation of new customer contacts by former Shinkenzemi members among those considering prep schools
- Tests held from February 1 (targeting elementary and junior high school students in the Tokyo area)

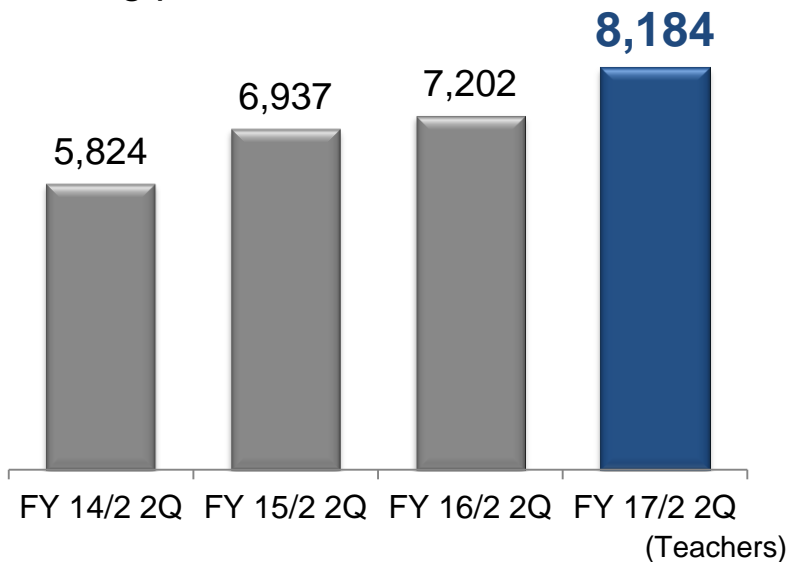
# Strengthening the Management Foundation



Promote engagement with personnel who share our philosophy

## Steady Teacher Recruiting

- The number of teachers is steadily increasing amid difficult conditions for hiring part-time workers



Number of Part-Time Teachers

## New System in Operation from June 2016

- Aiming for a stronger, more efficient management foundation

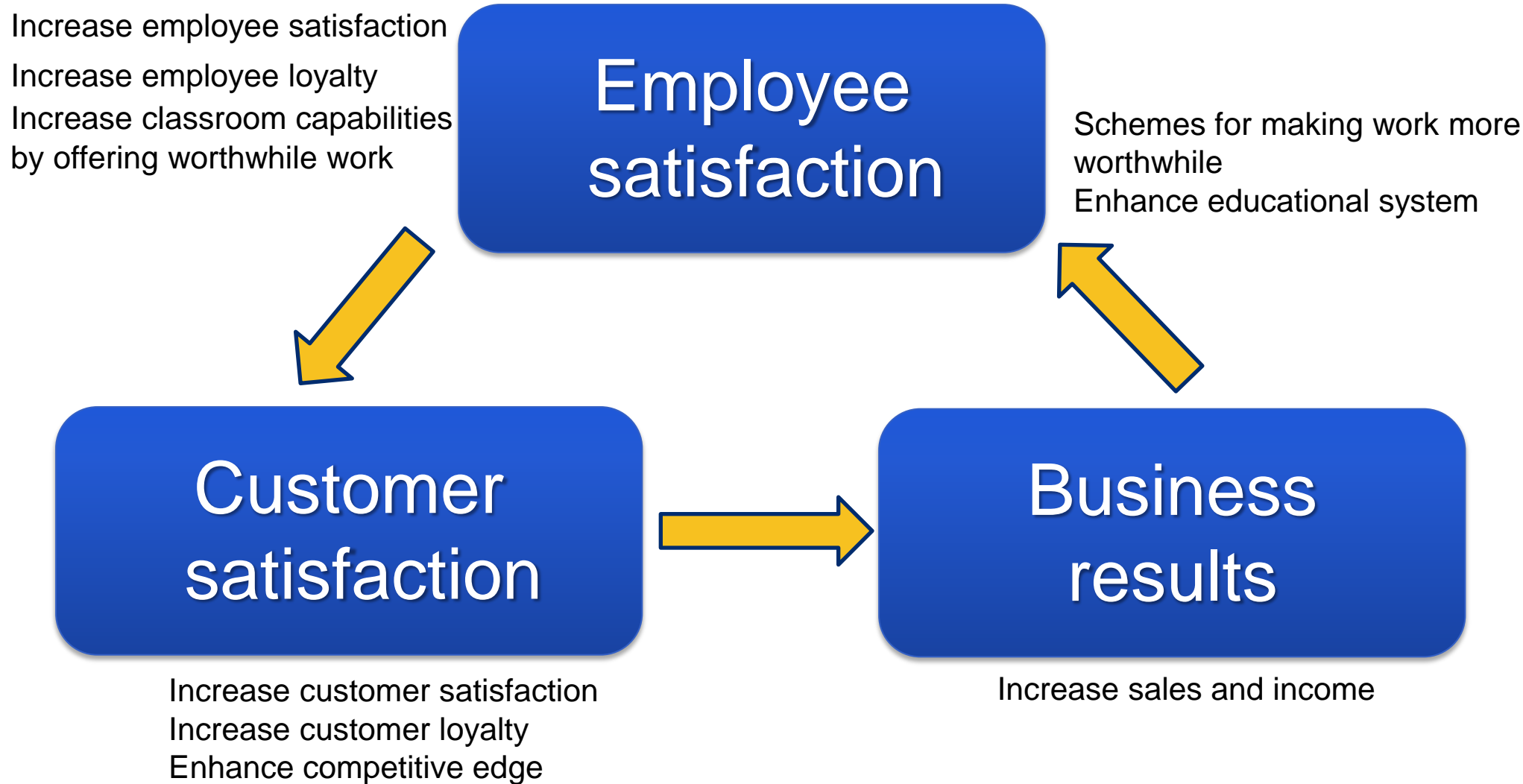
Increase productivity  
Business process improvement

IT

Customer service improvement

Increase customer satisfaction



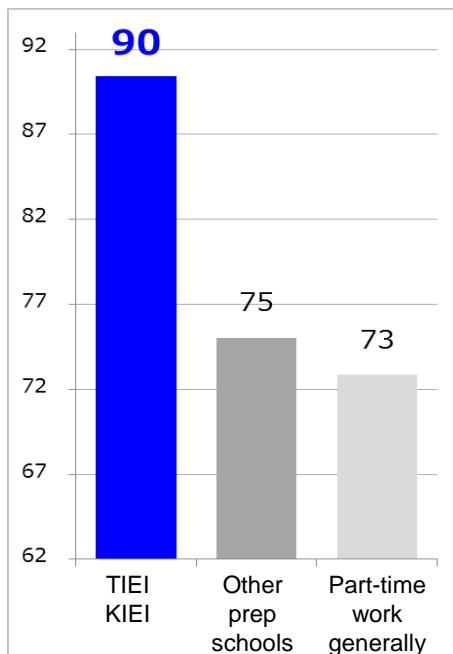


# External Evaluation of Teacher Satisfaction

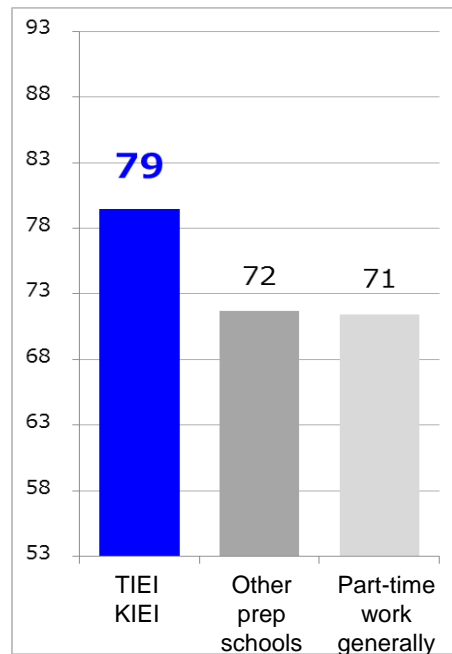
## Received a high evaluation for teacher satisfaction with duties

■ Source: Orion Satisfaction Ranking ■ Survey period: January 21 to February 14, 2016  
 ■ Subjects: 982 university students working part time who have been employed at their current job for 3 years or longer  
 ■ Method: Internet survey (calculated from a 100-point score for each item) Note: Excerpt from "Survey of University Student Part-Time Workers"

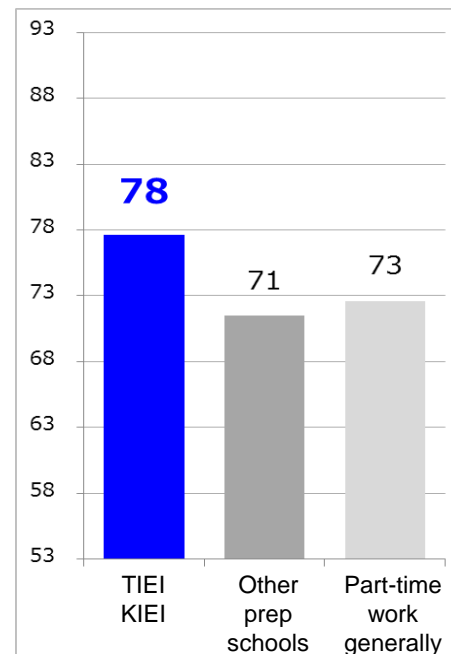
**I learn a lot from my job**



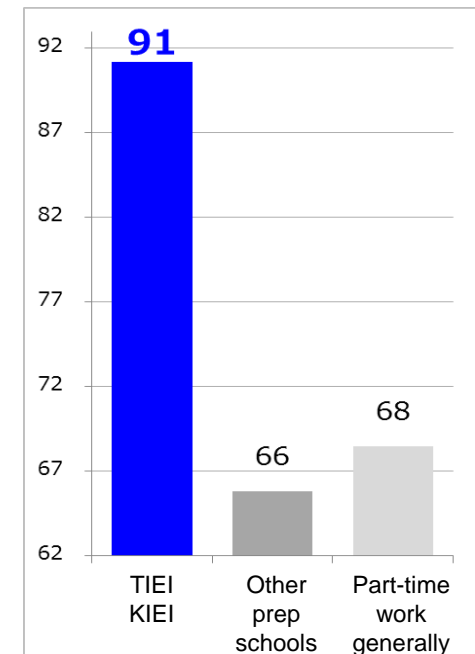
**I am satisfied with my current job**



**Clear relationship between duties and pay**



**I frequently interact with my coworkers or superiors**



**TIEI and KIEI prep school teachers ranked highest in 21 categories !**

# Pursuit of Customer Satisfaction

## Recognition of measures to improve teaching and academic guidance capabilities

2015 Oricon Customer Satisfaction Ranking for “High School Entrance Exam Preparation, Individualized Instruction (Tokyo Area)”  
**First to Win Overall First Place for Three Consecutive Years**

Categories in Which TIEI Won First Place  
**High School Entrance Exam Preparation, Individualized Instruction (Tokyo Area)**

“Overall,” “Improvement in grades/results,” “Teacher quality,” “Quality of curricula,”  
“Usability of study rooms,” “Classroom facilities/atmosphere,” “Accessibility/Safety”



2015 IID Awards for “High School/University Entrance Exam Preparation, Individualized Instruction”  
**First Place for Fourth Consecutive Year**

Categories in Which TIEI Won First Place  
**High School/University Entrance Exam Preparation, Individualized Instruction**

“Good teachers,” “Good materials,” “Good support,” “Improvement in grades,”  
“Comprehensive information on tests/school entrance,” “Liked by students”



# Growth in Business Results Based on Employee Growth

Four consecutive years of increases in net sales, operating income and the operating income margin

Efficient deployment of advertising expenses to open dominant schools and proactive investment in personnel training to ensure sustained business growth.

(Millions of yen)

	FY 2/12	FY 2/13	FY 2/14	FY 2/15	FY 2/16
<b>Net sales</b>	<b>12,572</b>	<b>13,017</b>	<b>14,322</b>	<b>15,717</b>	<b>17,094</b>
Personnel expenses (Cost of sales)	1,605	1,707	1,704	1,962	2,096
Teacher salaries	3,525	3,555	3,810	4,146	4,609
Personnel expenses (SG&A)	939	979	1,098	1,036	1,066
Advertising expenses	2,025	2,063	2,216	2,154	2,262
<b>Advertising expense ratio (vs. net sales)</b>	<b>16.1%</b>	<b>15.9%</b>	<b>15.5%</b>	<b>13.7%</b>	<b>13.2%</b>
<b>Operating income</b>	<b>347</b>	<b>716</b>	<b>1,272</b>	<b>1,724</b>	<b>2,217</b>
<b>Operating income margin</b>	<b>2.8%</b>	<b>5.5%</b>	<b>8.9%</b>	<b>11.0%</b>	<b>13.0%</b>
<b>ROE</b>	<b>2.0%</b>	<b>5.5%</b>	<b>10.9%</b>	<b>14.7%</b>	<b>17.5%</b>
[Individualized instruction] New schools opened	—	5	7	10	7
Full-year dividends (Yen)	6	6	6	8	24
Payout ratio	245.4%	90.9%	44.1%	40.4%	94.2%

The vitality of the people  
who work for us is the  
source of our business  
growth.

# Use Employee Engagement as a Source for Business Growth

Focus on supporting employee growth for sustainable growth



## Engagement

- **Hospitality training conducted for all employees**
  - On-site employees have acquired Associate Hospitality Coordinator certification from Japan Hospitality Movement Association
- **President Saito appointed Chairman of Education Industry Committee, Japan Hospitality Movement Association**
  - Incorporate information on hospitality to further improve service quality and customer satisfaction
- **Raise the precision of the PDCA cycle for yearly school operation centered on yearly school plans**
- **Share business plans for each division of headquarters throughout the company**

# Thank you for your attention today.

## Forward-Looking Statements

These materials include forward-looking statements concerning future financial performance, including business strategies and forecasts. Such statements are based on the Company's judgment at the time of publication, and include inherent risks and uncertainties. These strategies and forecasts may be amended due to changes in the external environment or other factors.

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