

Notice Concerning the New Medium-Term Management Plan

Tokyo Individualized Educational Institute, Inc. (TIEI) has formulated a new three-year management plan starting in fiscal 2015 (the year ending February 2016). The plan was approved by a resolution of the Board of Directors today. Details follow below.

Outline of New Medium-Term Management Plan Dynamic Challenge 2017

(1) Medium-Term Management Targets

Target year: Fiscal 2017 (Year ending February 2018)

Targets: Net sales of 19.3 billion yen or more/Operating income of 2.9 billion yen or more (record high)

| Targets | Targets for fiscal 2017 (Year ending February 2018) | Vs. fiscal 2014 (Year ended February 2015) |
|-------------------------|--|---|
| Net sales | 19.3 billion yen | 22.8% increase |
| Operating income | 2.9 billion yen | 68.2% increase |
| Operating income margin | 15% or more | 1.36 times |

Dividend payout ratio: 50% or higher

■ Management Targets for Fiscal 2015 (Year ending February 2016) (year-on-year change)

| | |
|-------------------------------|---|
| Net sales: | 16.9 billion yen (7.5% increase) |
| Operating income: | 2.3 billion yen (33.4% increase) |
| Operating income margin: | 13.6% (1.24 times) |
| Full-year dividend per share: | Regular dividend: 16.00 yen/Special dividend commemorating 30th anniversary: 8.00 yen Total: 24.00 yen (200% increase) |

(2) Management Philosophy

We aim to instill in our students
“the confidence that they can achieve their goals,”
“the satisfaction of taking on a new challenge”
and
“the importance of having a dream.”

We will strive to enhance the lives of people everywhere by spreading these educational ideals.

(3) Background of the New Medium-Term Management Plan

1. Background of the New Medium-Term Management Plan

TIEI celebrates its 30th anniversary in the current fiscal year (the fiscal year ending February 2016), which is also the final year of the current medium-term management plan Shining☆2015.

Against this backdrop, TIEI formulated the **new medium-term management plan Dynamic Challenge 2017** for the three years ending February 2018. By achieving this plan, as well as Shining☆2015, TIEI aims to make rapid progress at a new stage while growing steadily and sustainably over the long term to increase its corporate social value.

2. Preparing Children for the Future

Various think tanks are predicting that the future society in which today's children will live will look very different from current society, as indicated by buzzwords such as “technology revolution,” “globalization” and the “low birthrate and aging population.” Future society will be an **era of unpredictable change** and will require the ability to think for oneself and act on one's own initiative. In addition, it will be an **era of diverse values** in which emphasis is placed on collaboration with international colleagues, understanding of different cultures and acceptance of others.

This means that **independence and the ability to co-exist in harmony** will be essential traits in the future of the children of today.

TIEI's business objective is not only to improve children's academic performance but also to nurture these abilities for survival in the future based on its educational ideals.

3. Changes in Society and TIEI's Growth Opportunities

● University entrance exam reforms

The educational environment in Japan is about to undergo significant changes.

One of these is the reforms to the university entrance exam system that will take effect in fiscal 2020. Under a proposal submitted by the Central Council for Education on December 22, 2014, changes to the university entrance exam system will be implemented as the main pillar of education reforms designed to foster the ability to learn and work independently with diverse people – an ability that will be even more important in society going forward.

The reforms will consist of three stages: (1) measurement of basic academic ability with tests to be administered several times in the second and third year of high school; (2) assessment of intellect, judgment and expression of university applicants with tests to be administered several times a year instead of the National Center Test for University Admissions; and (3) assessment of independence, openness to diversity and collaborative skills in individual university-administered exams consisting of interviews and essays.

The effects on the education industry of these entrance exam reforms will include **earlier**

preparation for university entrance exams, particularly for middle and high school students, a greater need for study outside of school, and a growing need for individualized instruction.

● **TIEI’s individualized instruction know-how and Benesse’s strengths present growth opportunities**

TIEI’s educational ideals – instilling in students “the confidence that they can achieve their goals,” “the satisfaction of taking on a new challenge,” and “the importance of having a dream” – are necessities in future society, and TIEI’s in-depth knowledge of instruction based on these ideals developed over the past 30 years is what children will need from now on.

In addition, TIEI is the only publicly traded individualized educational institute that can utilize the unrivaled academic guidance capabilities of the Benesse Group. In this time of change, TIEI will take advantage of the Benesse Group’s information, academic guidance and educational capabilities to further enhance its instructional expertise.

The percentage of TIEI’s students who attend private middle schools and high schools tends to be higher than the national average. The strength of individualized educational institutes is that they can provide appropriate, carefully planned academic guidance for students of private schools, where the pace of learning differs depending on the school and the curriculum content varies widely. It is easy to imagine that the entrance exam reforms will lead to even greater diversity in the pace of learning, a fact that could be favorable for TIEI, which has many students who attend private schools.

TIEI received the Grand Prize for the third consecutive year in the IID Exam Preparation School Awards 2014 in the High School and University Entrance Exam Preparation, Individualized Instruction categories, indicating the high level of customer satisfaction. One factor behind this high level of satisfaction is that the rate of TIEI students accepted into top private universities such as the “GMARCH” universities (Gakushuin, Meiji, Aoyama Gakuin, Rikkyo, Chuo and Hosei) has been increasing every year.

These strengths of TIEI are likely to stand out more and more in the dramatically changing environment surrounding education, including the coming new entrance exams.

● **Market environment: Concentration of population in cities**

As the low birthrate and aging population trend accelerates, the number of children is clearly decreasing on a nationwide basis. On the other hand, the effect of this trend is negligible in large metropolitan areas, particularly Tokyo.

TIEI has 219 schools in large metropolitan areas throughout Japan, primarily Tokyo, where the low birthrate and aging population have less impact. In addition, direct management of schools enables TIEI to provide high-quality, high-value-added services while conducting efficient business operation with its dominance strategy.

This strength will enable TIEI to maintain and expand the competitive advantage of its operations.

(4) Overview of New Medium-Term Management Plan Dynamic Challenge 2017

In the changing market environment described above, TIEI will be able to increasingly leverage its strengths.

The new management plan, Dynamic Challenge 2017, is designed to **increase TIEI's corporate social value through sustained growth** and to **nurture children's independence and their ability to co-exist in harmony in the future**. These goals will be achieved by steadily executing key measures for reinforcing TIEI's strengths.

Outline of New Medium-term Plan



(5) Concrete Initiatives in Dynamic Challenge 2017

Key Measure 1: Service Portfolio Expansion and Dominance

1) Service Portfolio Expansion and Urban Area Dominance Strategy

In its core individualized instruction business, TIEI will expand business by continuing to open new schools while increasing the number of students at existing schools. In addition, TIEI will **build a service portfolio** centered on individualized instruction through CCDnet, which makes interactive Internet-based classes available to students nationwide, and through collaboration with Benesse Science Class, Benesse Writing Class and Benesse's Shinkenzeni correspondence courses, which nurture the skills preschool and elementary school children will need in the future. This portfolio includes Class Benesse to develop a customer base for new individualized instruction classes.

In addition, TIEI will open new schools based on its **dominance strategy** in urban areas, where population concentration will continue. TIEI will also open individualized instruction **schools attached to other businesses**. This will allow TIEI to consistently meet the educational needs of a wide range of customers from elementary school to high school students, increasing both

customer satisfaction and management efficiency.

To **serve students in regions outside large urban areas**, TIEI will also develop new businesses, such as delivery of classes via the Internet and joint operation of Class Benesse with Benesse.

2) Expansion of School Openings in Individualized Instruction Business

Since the fiscal year ended February 2013, TIEI has opened a total of 22 new schools in line with Shining☆2015, and the number of new students and the number of students enrolled have been steadily growing at all schools. This aggressive strategy for opening new schools has been the biggest factor in the rapid recovery of TIEI's business performance, and will be a key measure contributing to sustainable and stable business growth going forward.

TIEI has developed sophisticated marketing analysis know-how through its experience. That analysis indicates that there are still **more than 100 highly promising candidate locations for new schools**, even in regions where TIEI already has schools.

Therefore, in the fiscal year ending February 2016, TIEI **will open new schools primarily in the Tokyo metropolitan area**, and will expand the number of new school openings to **eight schools from four schools** in the original plan (Shining☆2015). (This includes two schools that opened in February 2015.)

3) Marketing Strategy

For the marketing reforms that were one of the key factors for success (KFS) in Shining☆2015, TIEI will continue to use various creative measures to deepen the reforms into a new phase.

Specifically, as the basis of its appeal, TIEI will use its distinctive educational system underpinned by its characteristic educational ideals and hospitality to **strengthen relationship marketing** by blending three points: (1) further concentration and efficiency improvement by applying the aforementioned **dominance strategy** in marketing, (2) **consistent promotion over the long term as students progress from elementary school to high school**, which will be made possible by expansion of the service portfolio, and (3) anticipated **Group synergy** with Shinkenzei and other correspondence courses.

Key Measure 2: Enhance Educational Capabilities Centered on Teacher Quality

1) Leveraging 30 Years of Experience and Direct Management Strengths in Recruitment and Training

One factor in TIEI's consistent growth in the rapidly changing education industry over the past 30 years is the unmatched quality of its teachers. Only applicants who are sincerely committed to TIEI's educational ideals and have **sufficient academic ability and an excellent record of guiding students** meet TIEI's rigorous, nationally uniform hiring standards. TIEI's schools attract teachers who are not simply looking for part-time work, but who want a job where they can **achieve personal growth, meet nice people and contribute to society**.

Once hired, dedicated instructors receive **generous training** on an ongoing basis. In addition, teacher-led large-scale events and other activities are held regularly to maintain and increase motivation. These measures support the high quality and high added value of TIEI's services.

The exceptional quality of TIEI's teachers has received a positive response from many customers. TIEI placed first for teacher quality in the IID Exam Preparation School Awards 2014, in the High School and University Entrance Exam Preparation, Individualized Instruction categories, and also placed first in the Teacher Quality category of the Oricon Customer Satisfaction Ranking 2015.

TIEI's greatest strength is teacher quality. Accordingly, TIEI will continue to fortify its teacher recruitment and training – the source of teacher quality – by leveraging the advantages of direct management to carry out further creative measures and improvements.

2) Improvement of Academic Guidance and Educational Capabilities

●Organizational Improvement Measures

TIEI has in-depth knowledge of instruction based on its individualized instruction ideals cultivated over 30 years. Moreover, it is the only publicly traded individualized instruction school that can utilize the unrivaled academic guidance capabilities of the Benesse Group. To further sharpen this specialization, TIEI will establish the **Academic Guidance Center** and promote greater use of the **Internal Knowledge Portal**.

The Academic Guidance Center will aggregate and analyze the extensive career guidance information of the Benesse Group and combine it with TIEI's instructional know-how while supplying information in a timely manner either to all schools uniformly or tailored to the circumstances of each region.

By **strengthening its academic guidance capabilities** with these measures, TIEI will clearly differentiate itself from other companies.

●Enhancement of original teaching materials

TIEI provides instruction tailored to the goals, academic level, personality and requests of each student. Consequently, it makes use of various teaching materials, including those that are commercially available.

However, as a service to supplement individualized instruction, TIEI also has original textbooks for use in High-Speed Exercise V-style, a video learning system that delivers lectures by well-known teachers nationwide by using tablet devices (iPads), and the My Small Step System, a unique learning system combining the Benesse Group's high-quality learning materials with TIEI's individualized instruction know-how. TIEI will further enhance the content of these materials to strengthen the educational capabilities that TIEI is known for.

●Enhancement of educational content through Group synergy

In the increasingly complex educational environment, TIEI cannot always fully meet the growing needs of society in every area, even with the know-how it has developed.

For example, there is an increasing need for more specialized English language education. To meet those needs, TIEI can leverage the synergy of the Benesse Group by collaborating with the Group's language education business and other businesses. Cooperation with the Benesse Educational Research & Development Institute to respond to the latest educational needs is also possible.

In this way, TIEI will **make maximum use of diverse Group resources** while continuing to conduct **R&D** to expand its service lineup and enhance the content of its services.

Key Measure 3: Increase Efficiency and Added Value through Collaboration with Benesse

1) Group Collaboration That Creates High Added Value

TIEI, a Benesse Group company, has carried out **alliance marketing to Shinkenzemi members**, and has attracted more students with the Shinkenzemi Let's (formerly Shinkenzemi Individualized Support Classroom) service. TIEI plans to collaborate in other ways, such as student recruitment in Class Benesse. To strengthen product appeal, TIEI will also share university entrance exam information and know-how.

In terms of its operating foundation, TIEI conducts exchanges of high-performing staff and leverages the benefits of scale in purchasing and procurement.

By steadily raising the sense of unity in the Group, TIEI will achieve business growth while responding quickly and perceptively to changes in the educational environment.

2) Launch of Class Benesse

Class Benesse is a collaborative Group business model that TIEI and Benesse Corporation launched in December 2014. **Aimed at Shinkenzemi members**, it combines Shinkenzemi self-

study materials and TIEI's school management and individualized instruction know-how, and is designed to foster children's self-study capabilities. Classes are structured with one teacher (coach) for four students. One school, Class Benesse Sengawa, has already opened.

Currently, the effectiveness of Class Benesse Sengawa is being assessed. Based on the results, TIEI and Benesse will develop **joint operation know-how**, and will aim for **nationwide expansion** and pursue **greater operating efficiency by attaching Class Benesse to existing individualized instruction schools**.

Key Measure 4: Build a Stronger, More Efficient Operating Foundation

1) Enhancement of Human Resource Strategy

To achieve sustained and stable growth driven by expansion of the individualized instruction business and new businesses, an efficient and robust human resource management system capable of accommodating that expansion is essential.

In employee recruitment, TIEI will bolster its competitiveness by stepping up the **promotion of teachers who can be expected to be immediately effective**. TIEI will also consider new approaches such as actively hiring women and seniors and recruiting locally outside major metropolitan areas.

Moreover, in teacher recruitment, which forms the foundation for the high-quality, high-value-added services that TIEI provides, measures will be taken to expedite hiring and ensure consistent training quality. These measures will revolve around **unification of teacher recruitment and training operations**, which is already under way.

Despite the current difficulty of hiring part-time employees, TIEI had 7,082 teachers at the end of February 2015, an increase of 1,261 (21.7%) from 5,821 teachers at the end of February 2013.

This steady recruitment is attributable to TIEI's socially significant educational ideals and the long-standing high-value-added services it provides based on those ideals.

For example, many TIEI teacher applicants have been students who received instruction with TIEI's trademark hospitality for many years from teachers with whom they have good chemistry. After entering university, they wanted to become teachers themselves and tell children about the growth they experienced. This **chain of hospitality** forged over 30 years at TIEI is an intangible competitive edge that plays a part in enhancing quality and increasing customer satisfaction.

Word has spread that working as a TIEI teacher allows one to experience personal growth while guiding the growth of children. It attracts many teacher applicants who have a sincere interest in the job, not simply in financial gain. From those applicants, TIEI carefully selects and hires the best candidates with rigorous hiring standards that are uniform nationwide.

This is a fundamental difference between TIEI and other companies that hire part-time teachers, and is the reason why the number of top-notch teachers at TIEI increases every year.

TIEI will continue to take creative approaches and make improvements in multiple areas, including teacher training. As a result, teachers will provide high-quality, high-value-added services based on a higher level of interpersonal skills and communication skills.

2) Improvement of Productivity for Sustained Growth

TIEI will carry out **improvement of business processes** from every angle to increase productivity for sustained growth. This will involve bringing together organizations and people, including Group affiliated employees, redefining the mission that each employee should fulfill, and then optimizing organizations through restructuring.

In terms of **enhancing customer service**, TIEI will continue to actively renovate facilities at schools.

TIEI has **begun development of a new IT system** to support that effort, and will further strengthen and increase the efficiency of its operating foundation.

(6) Financial Strategy

TIEI celebrates its 30th anniversary in 2015. Given the solid performance and stable financial position that it established during previous medium-term management plans, TIEI has decided to set a **target dividend payout ratio of 50% or higher**, starting with dividends for fiscal 2015 (the year ending February 2016).

For fiscal 2015, TIEI expects to pay ordinary regular dividend of 16.00 yen per share (full-year) plus a special dividend of 8.00 yen per share (full-year) to commemorate its 30th anniversary, for a total dividend of 24.00 yen per share (full-year).

TIEI's financial strategy going forward is to aggressively invest in mergers and acquisitions that lead to further business growth while making the most of its existing business foundation.

| | Cash Dividends per Share | | | |
|---|--|--|---|--------------|
| | Interim | Year-end | Total | Payout Ratio |
| | (Yen) | (Yen) | (Yen) | (%) |
| Fiscal 2014 (Year ended February 2015) | 4.00 | 4.00 | 8.00 | 40.4 |
| Fiscal 2015 (Year ending February 2016) (forecast) | 12.00 (Regular dividend 8.00) (Special dividend 4.00) | 12.00 (Regular dividend 8.00) (Special dividend 4.00) | 24.00 (Regular dividend 16.00) (Special dividend 8.00) | 93.3 |

Note: TIEI plans to place the year-end dividend for fiscal 2014 on the agenda of the general meeting of shareholders scheduled to be held on May 27, 2015.

(7) Performance Targets of New Medium-Term Management Plan Dynamic Challenge 2017

In a rapidly changing operating environment, TIEI will maximize its strengths and establish a strong financial position to minimize the impact of external changes.

| | | (Billions of yen) | | |
|-------------------------|--|---|---|---|
| | Fiscal 2014 (Year ended February 2015) | Target for fiscal 2015 (Year ending February 2016) | Target for fiscal 2016 (Year ending February 2017) | Target for fiscal 2017 (Year ending February 2018) |
| Net sales | 15.71 | 16.9 | 18.0 | 19.3 |
| Operating income | 1.72 | 2.3 | 2.6 | 2.9 |
| Operating income margin | 11.0% | 13.6% | 14.4% | 15.0% |

Note: Forecasts and plans in this document were prepared based on information available to TIEI at the time of publication and certain assumptions that it judges to be reasonable. Actual performance may differ materially from these forecasts and plans due to various factors.