

■ 4714 Tokyo Stock Exchange First Section ■ Riso Kyoiku

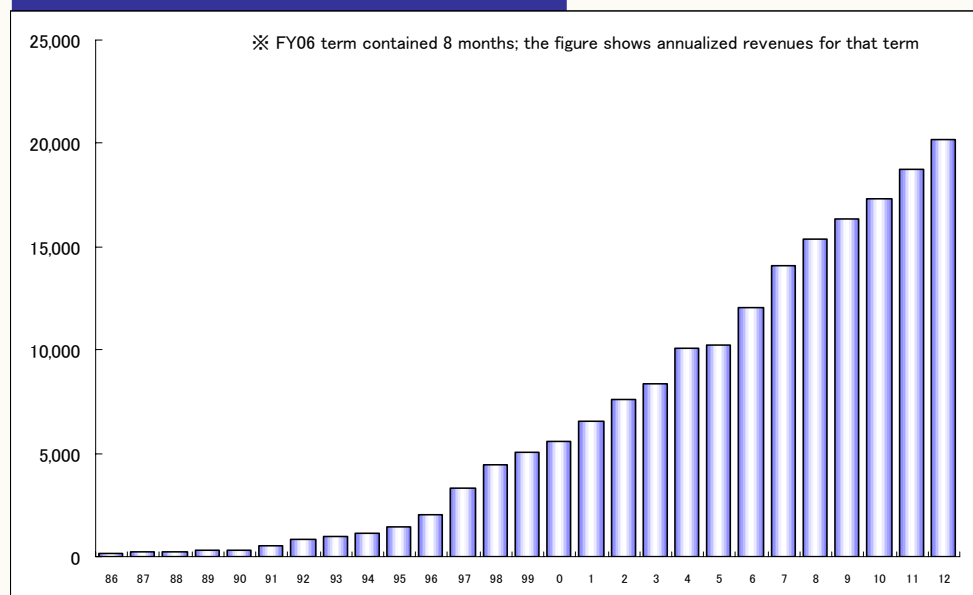
■ 26 straight years of revenue growth show drive and high management indices

The number of children in Japan is declining, reflecting decades of birth rates below the replacement rate. Thus, competition in the private education industry has intensified. Nonetheless, Riso Kyoiku, a leading provider of private educational services, has increased its revenues for 26 straight years since its founding and projects record-high profits for FY2/2012, for the fourth straight year. This company has grown faster than its industry by thoroughly organizing to raise customer satisfaction. The parent company offers the TOMAS tutorial classes at company schools, while subsidiaries Meimonkai, Shingakai, and Nihon Edunet offer other educational services. All group companies are growing rapidly.

In May 2011, Shingakai started its Shinga's Club, which provides long-term care for young children while giving them high-quality and high-level education. Soon after the company started accepting applications for membership in this club, it received far more applications than it had planned to accept. More private high schools are installing the interactive internet teleconference system operated by Nihon Edunet, so that subsidiary also has bright growth prospects. The group has also started building English conversation schools. Through the horizontal development of many kinds of private educational services, the group aims for further expansion. Its medium-term goals are revenues of ¥50 billion and recurring profit of ¥10 billion.

Riso Kyoiku's management also plans to increase shareholder returns and to remain active in corporate social responsibility, through such measures as continually supporting the victims of the Great East Japan Earthquake and sponsoring cultural and sports events and organizations.

Annual revenues since establishment (¥mn)



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★ Check Point

- Company has substantial growth potential, due to one-on-one classes and other distinctions
- Investments in new businesses, e.g., Shinga's Clubs, are eyeing quick profitability
- Higher ROE and dividend yield, lower PER than competitors

Company history

Move to one-on-one classes was a decisive turning points

The company was founded in July 1985 as Nihon Kyoiku Kosha by current Chairman Mitsugu Iwasa. The company initially offered private instruction under the name of Riso Kyoiku Kenkyusho (Ideal Education Institute). Each class had a maximum of six students, and all teachers were regular employees of the school. Five years later, Chairman Iwasa decided to limit class size to one student per teacher, and changed the school's name to the Tokyo Man-to-man School. Now, that name has been abbreviated to TOMAS.

In May 1989, Riso Kyoiku started dispatching tutors to homes. This business was taken over by subsidiary Meimonkai in January 2003. In July 2000, Riso Kyoiku established subsidiary Nihon Edunet to offer personalized instruction through interactive internet teleconferences. In December 2002, the company started the School Tour Ship service, which combined education with tours to provide experiential learnings. In January 2003, Riso Kyoiku acquired Shingakai, the pioneer in Japan in preparing pre-school children to enter famous kindergartens and elementary schools, and made the company a wholly-owned subsidiary. In July 2005, the company combined its student recruitment and public relations functions with the School Tour Ship service and renamed the unit Riso Education Planning.

In 1998, Riso Kyoiku registered on Japan's over-the-counter market (now the JASDAQ market of the Osaka Securities Exchange), in 2001, the company listed on the second section of the Tokyo Stock Exchange, and in 2002, it moved up the first section of the Tokyo Stock Exchange.

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Businesses

One-on-one classes most appropriate for
declining population of children

1) Tutorial instruction at company schools

This is the main business of the group, supplying revenues of ¥11,703 million and operating profit of ¥1,836 million in FY2/2011, or 62% of total group revenues and 68% of total group operating profit last fiscal year. The Japanese market for private educational services supplementing formal education is estimated at ¥900 billion – ¥1 trillion per year. In recent years, this market has restructured and consolidated, reflecting increased competition and generation changes of managers.

Most private schools that offer personalized private instruction have two or three students per class, i.e., per teacher, but Riso Kyoiku's TOMAS schools offer classes with one student per teacher, essentially tutorial instruction. Recognizing that education is a service industry, these schools also offer personalized curricula. Each school employs 4 – 6 professionals who ascertain the needs and desires of students and their parents, including improvement points, inform the teachers of these needs and desires, and assist the teachers to prepare and implement appropriate plans of instruction. Through frequent communication with students and their parents, the administrators and teachers can offer solutions that satisfy individual needs. This administrative system forms the basis for the high quality of educational service provided by TOMAS schools and distinguishes the company from competitors. In Japan's personalized private education industry, only TOMAS schools are able to assist students from sub-par schools to achieve respectable academic performances.

To ensure that administrators and teachers maintain the ability to ascertain customer needs and respond to them effectively, the company regularly conducts in-house trainings. As employees must be able to manage classrooms from their initial day of employment, all of the company's regular employees have experience. The company does not hire recent university graduates as regular employees. Very few teachers are regular employees, but all teachers are trained to recognize that education is a service industry. To attract and keep high-quality teachers, the company pays some of the highest wages in the industry.

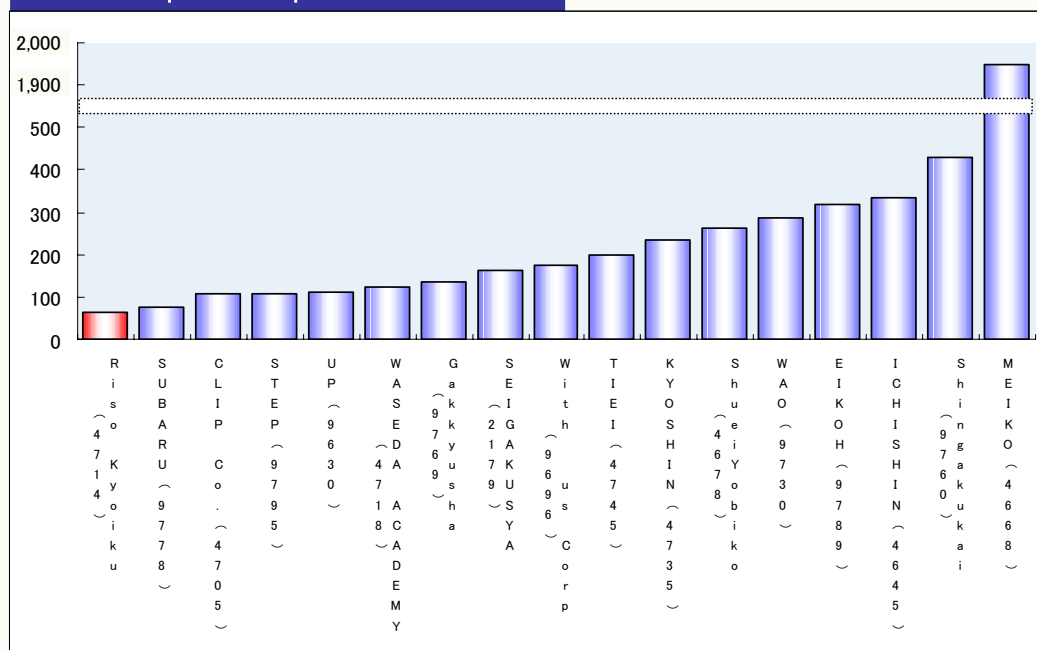
Currently, there are 65 TOMAS schools in the Greater Tokyo area. This is the smallest number of schools operated by any listed private education company concentrating on the Greater Tokyo area. Competitors have 100 – 300 schools each. However, this disparity illustrates the growth potential of TOMAS schools. In the near term, Riso Kyoiku plans to open new schools in Greater Tokyo, rather than branch into other regions of Japan. The company does not conduct detailed market surveys before opening a new school. It has only two criteria for such an opening: 1) the location must be near a train station where several other private schools operate, and 2) the company must be able to lease or buy a building at this location with at least 150 – 200 tsubo (495 – 660 square meters) of floor space. To obtain students for a new school, the company relies on specialist sales personnel from subsidiary Riso Education Planning, who can usually enroll about 250 students in two – three months. This sales force is another factor that distinguishes Riso Kyoiku from its competitors. The company is not concerned about entering a geographical area already served by competitors. It is confident that it can attract students from competitors by maintaining high-quality service and by explaining to customers the company's leading position in the industry in promoting academic achievement.

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Businesses

The company opens only two – three new schools per year, while expanding a similar number of schools, for a maximum of five schools opened or expanded. It sets this limit in order to train enough personnel to work effectively at the new and enlarged schools. As a result of this careful approach, all of the company's schools are profitable. This approach has also helped the company to increase its revenues every year of its existence.

Number of schools operated by listed providers of private education



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Businesses

Revenue and profit growth despite greater competition
from more personalized classes at private schools

2) Dispatching tutors to homes

This business is conducted by subsidiary Meimonkai. In FY2/2011, this subsidiary earned revenues of ¥3,750 million and operating profit of ¥453 million, or 20% of group revenues and 17% of group operating profit, the second-largest contributions in the group. The Japanese market for dispatching tutors to homes is estimated at ¥30 billion – 40 billion per year. The market has been shrinking in recent years because of increased competition with private schools which have reduced their class sizes.

Despite this severe operating environment, Meimonkai continues to increase its revenues and profits and maintains a double-digit operating profit margin. The subsidiary continues to attract customers because, like the TOMAS schools, it provides high-quality service and leads its industry in helping students to enter their schools of choice. Meimonkai accepts only superb, experienced teachers as tutors, avoiding part time tutors such as University students. All tutors must submit monthly progress reports, and the company solicits feedback from its customers about the tutors. This system allows the company to consistently offer service that is one level above the service provided by competitors. To improve the teaching ability of its tutors, the company conducts trainings for them four times a year.

Unlike the TOMAS schools, Meimonkai is aggressively expanding throughout Japan. It now has 11 branch offices and 28 schools in the Kanto, Kansai, Tokai, Chugoku and Kyushu regions of Japan, and it intends to set up new facilities in the Tohoku and Hokkaido regions.

Shingakai – Japan's pioneer in pre-school education

3) Infant and Pre-school education

This business is conducted by subsidiary Shingakai, which, in FY2/2011, earned revenues of ¥2,470 million and operating profit of ¥349 million, or 13% of both group revenues and group operating profit. Established in 1956, Shingakai was Japan's pioneer in the education of pre-school children. It is the industry standard for households and nursery schools in terms of entering prestigious kindergartens and elementary schools. The company currently operates 28 schools, 25 in Greater Tokyo and 3 in Greater Osaka.

In 2003, when Riso Kyoiku bought Shingakai, the latter company had annual revenues of approximately ¥500 million and just about broke even. Since then, Shingakai has grown into a strategically important member of the group as a result of an ongoing boom in pre-school education and of support from Riso Kyoiku.

Shingakai plans to open 13 – 15 new schools in Greater Osaka to take advantage of an increase in demand for pre-school education in that area accompanying the recent opening of several new elementary schools affiliated with private universities.

As mentioned earlier, in May 2011, Shingakai started its Shinga's Club, which offers long-term care and high-quality and high-level education for children. The company has already received more applications for this club than spaces available. This new business appears to have great growth potential, as detailed below.

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Businesses

Adoption by private high schools stoking growth

4) Teaching through interactive teleconferences via the internet

This business is conducted by subsidiary Nihon Edunet. In FY2/2011, this subsidiary earned revenues of ¥366 million and operating profit of ¥119 million, or 2% of group revenues and 4% of group operating profit. Although this business is small, it is expected to become a growth leader.

This company started its business in July 2000 as the first company in Japan to offer such a service. At that time, the service was called Hello e-*sensei*. Now, the service is used by a wide range of students, from elementary school students to high school students. Using the internet, within 10 seconds, a student can access a teacher whenever or wherever he or she wants to. Instruction is available from 150 – 200 teachers until midnight.

This business was originally seen as a supplement to private instruction by teachers, and it did not grow much for several years because of infrastructure problems, such as slow internet circuits. However, this system is now being installed at more and more private high schools, and this trend is likely to continue, as detailed below.

Nihon Edunet also offers an Edu Magazine, through which schools can advertise for students over the internet. 123 schools now subscribe to this magazine, at an annual fee of ¥300,000 – ¥1 million.

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Business results

In Q1 FY2/2012, losses increased y-o-y
due to temporary cost increase

1) Q1 FY2/2012 results

On July 8, the company announced its results in the first quarter of FY2/2012, i.e., in March-May 2011. Revenues grew by 2.7% y-o-y, to ¥3,413 million, but the company suffered a operating loss of ¥475 million, down from ¥314 million, current loss of ¥491 million, down from a loss of ¥321 million a year earlier, and a net loss of ¥390 million, down from a loss of ¥225 million.

Losses increased because the costs of rent, classroom materials, personnel, and advertising and promotion grew by about ¥80 million as the company launched its Shinga's Club and International TOMAS businesses in May. However, these new businesses are already profitable. The company also claimed an extraordinary loss of ¥145 million, which was the estimated cost of compensating for the termination of a real estate lease.

The company's businesses are quite seasonal, with the least demand in the first quarter, when new school years begin in Japan. Demand, revenues and profits tend to be concentrated in the second and fourth quarters. Investments and fixed costs are usually concentrated in the first quarter, so profitability is lowest during this quarter.

In Q1 FY2/2012, revenues earned by the TOMAS schools grew by 2.1% y-o-y, to ¥2,061 million, consistent with past growth.

Meimonkai recorded revenue growth of 22.5% y-o-y, to ¥706 million, reflecting the opening of two new schools, one in Fukuoka Prefecture, the other in Kanagawa Prefecture, and the expansion of two schools, one in Osaka, the other in Aichi Prefecture.

At Shingakai, revenues fell by 10.5% y-o-y, to ¥477 million, for a couple reasons. After the Great East Japan Earthquake and accompanying tsunami of March 11, interest in pre-school education in the areas affected by these disasters declined. Furthermore, because of the disabled reactors at the Fukushima Nuclear Power Complex, many Japanese moved away from Greater Tokyo to the Kansai area or to overseas.

At Nihon Edunet, revenues surged 60.9% y-o-y, to ¥119 million, reflecting the popularity of the School e-Station service and of the Edu Magazine.

Company results, FY2/2008-2/2012E (¥mn, ¥)

Fiscal Year	sales	yoy(%)	Recurring profit	yoy(%)	Net Profit	yoy(%)	EPS	Dividends
2009(Mar 08' to Feb 09')	16,305	5.9%	1,673	7.2%	661	65.9%	167.76	85
2010(Mar 09' to Feb 10')	17,347	6.4%	2,506	49.8%	1,371	107.4%	368.27	155
2011(Mar 10' to Feb 11')	18,751	8.1%	2,663	6.3%	1,366	-0.4%	375.49	210
2012(Mar 11' to Feb 12') (Projection)	20,210	7.8%	3,064	15.0%	1,588	16.2%	444.24	210

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Business results

Medium-term goals: ¥50bn of sales, ¥10bn of recurring profit

2) Company forecasts for FY2/2012

Because of concerns about the impact of the Great East Japan Earthquake, the company issued conservative guidance for FY2/2012. It projected revenues of ¥20,210 million (+7.8% y-o-y), operating profit of ¥3,118 million (+15.7%), recurring profit of ¥3,064 million (+15.0%), and net profit of ¥1,588 million (+16.2%). The company claims that its first-quarter results were broadly in line with its full-year forecasts.

Since June, businesses have generally picked up. More pre-school students have applied for instruction at Shingakai, more students have applied for classes at TOMAS schools than applied in the same period last year, and the Shinga's Club has proved more popular than expected. Thus, the company appears likely to achieve its full-year forecasts.

On June 21, the company opened its third International TOMAS school, in the Meguro neighborhood of Tokyo. On July 4, it opened its 65th TOMAS school, in Kita Urawa, east of Tokyo. In November, it plans to open its second Shinga's Club, in the Ikebukuro area of Tokyo. Until then, it will prepare for this opening at its first Shinga's Club, in Meguro.

For FY2/2012, the company foresees revenue growth of only 2-3% for its TOMAS schools, but it expects revenue growth of at least 10% at Meimonkai and Shingakai and revenue growth of at least 60% at Nihon Edunet, reflecting the expansion of the School e-Station business.

3) Medium-term goals

Over the medium term, the company aims to record annual sales of ¥50 billion and recurring profit of ¥10 billion. It intends to maintain some of the highest sales and profits in the private education industry by nurturing its main business of one-on-one classes at its TOMAS schools, while promoting profitable new businesses, such as Shinga's Club, and possibly acquiring promising businesses.

As detailed above, Riso Kyoiku has increased its revenues for the 26 years since its founding, reflecting sound management strategy. The company's recurring profit has declined only three fiscal years in the past ten. In FY2/2011, profits hit record highs. Over the past 10 fiscal years, the company's recurring profit margin has averaged 12.6%, and it has fallen below 10% only twice. This is one of the highest profitabilities in the private education industry, despite the increasing competition in the industry stemming from a decline in the number of children in Japan.

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Promising new businesses

Shinga's Club leads business expansion

1) Shinga's Club

At the strong request of current and former students of Shingakai, the company started its Shinga's Club in May 2011. This club accepts children aged one or above for long-term care and education. It is the first such service in Japan. The company first offered 80 places for this club at its school in the Meguro district of Tokyo, but it quickly received 120 applications. Membership in this club is not cheap, costing ¥150,000 – 200,000 per month. However, families in which both parents work could previously enroll their children only in ordinary day-care centers. Thus, the company received many applications from well-to-do households which wanted their children to enter well-known kindergartens. This year, the company plans to offer another Shinga's Club at its school in the Ikebukuro district of Tokyo. It plans to offer clubs at schools in other neighborhoods of Tokyo, including Shibuya, Jiyugaoka, Iidabashi, and Azabu. According to the company's five-year plan of operations, it will open six schools per year, for a total of 30 new schools. By FY 2/2016, the company aims for revenues of at least ¥3.24 billion and operating profit of at least ¥810 million. Given the popularity of its services, it seems likely that the company will exceed these targets.

2) School e-Station

Several years ago, a private high school asked to install the interactive teleconference system operated by Nihon Edunet. After this system was installed, the students at this school improved their academic performances notably, and the system gained credibility in the education community. This system facilitated learning by students who did not comprehend classroom material, or who wanted to learn more than the school taught. Now, it has been installed at 17 private high schools and more than 30 other schools are negotiating to install it.

Nihon Edunet has labelled its business for the installation of its internet instruction School e-Station. This business appears to have great growth potential, as private schools earn reputations by improving the academic performances of their students. Schools pay ¥15 million – 20 million per year to install this service, and there are approximately 1,500 private high schools in Japan, providing huge potential market for the service. Nihon Edunet aims to sell its service to 30% of these schools. Toward this end, it recently increased its sales force for this service to nine people, from three. The company intends to promote the service as a potentially high-margin business.

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Promising new businesses

3) English conversation schools

In July 2008, Riso Kyoiku established its International TOMAS English conversation school. In recent years, many English conversation schools in Japan have gone bankrupt, due to poor management, and the industry has acquired a bad reputation. Thus, after peaking at ¥129.6 billion in FY2003, the Japanese market for English conversation instruction shrank to ¥67.5 billion in FY2010.

However, Riso Kyoiku entered this market because it believed that English conversation ability would become more important and it believed it could expand the appeal of English conversation instruction from the traditional targets of primary and secondary school students to include pre-school children, university students, and other adults. In fact, some companies have begun to use English for in-house conferences, and more elementary schools are hiring English conversation teachers. There are currently only three International TOMAS schools, but the company plans to open more schools in Greater Tokyo, in part, to prevent the loss of students to competitors. Using its personalized curricula, it may succeed in the market for English conversation instruction.

4) Plus One education

Part of the company's School Tour Ship business is shared experiential learning, through which, children learn decisiveness, action, the ability to challenge accepted norms, and cooperation. During holidays and summer vacations, students from urban areas are given the opportunity to live amid nature and animals and to play sports often. Thus, they discover things they do not learn from books. This is a popular service, with many repeating customers. Therefore, Riso Kyoiku is considering offering it through a new independent subsidiary.

The group has a management strategy that has a strong drive for growth by attracting wider customer base. Until now, subsidiary Shingakai only accepted children over 2 years of age, it will also accept, through Shinga's Club, even one-year old babies, preparing for entering prestigious kindergartens, elementary schools, and junior and senior high schools. Adding that, the group will start a new business called "International TOMAS," which targets University students and working people. International TOMAS will provide English program for those who want to get qualifications such as TOEFL and TOEIC.

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M&A

M&A pursued only for mutual benefit

Over the past few years, as the private education industry has restructured, Riso Kyoiku has reportedly had opportunities to buy other companies in the same industry. In considering whether to buy another company, the most important factor for Riso Kyoiku is the possibility of joint existence and benefit. Many acquisitions in the industry have failed to yield synergy because of differing corporate cultures or the marketability of teachers. For Riso Kyoiku, it is important that any potential acquisition be committed to the company's values, of seeing education as a service industry and of contributing to society. Riso Kyoiku also constantly reviews its conditions for M&A. It may accept the acquisition of two-thirds of a company instead of total ownership. It believes M&A is a strategy that should be based on thorough analysis.

Improving shareholder returns and contributing to society

Plan to improve shareholder returns reflects confidence in earnings potential

Confident of its ability to increase sales and profits, Riso Kyoiku has planned to increase shareholder returns. In July 2010, the company adopted a system by which it would pay dividends based partially on its share price. According to this system, the company would pay as a dividend the higher of two calculations: 1) its earnings per share multiplied by 40% of consolidated payout ratio or 2) the company's average share price at the end of the first half of a fiscal year and at the end of the full fiscal year multiplied by 3% of stock-dividend ratio (with an upper limit of a 75% consolidated dividend payout ratio). In FY2/2011, however, the company's consolidated dividend payout ratio was 55.9%, higher than it would have been using either of the two calculations. The company will probably maintain a dividend payout ratio of about 50%.

Riso Kyoiku has a reputation for contributing to society. It has already announced five contributions to victims of the Great East Japan Earthquake, including donations of money and stationary, and contributions to education in science, sports and music. It continues to support the arts, music and sports activities.

Company continues to increase dividends (¥)

	First-half dividends		Second-half dividends		Full-year dividends	
						Dividend payout ratio
2010(Mar 09' to Feb 10')	40.00	→ 75.00	45.00	→ 80.00	155.00	42.1%
2011(Mar 10' to Feb 11')	85.00	→ 100.00	85.00	→ 110.00	210.00	55.9%
2012(Mar 11' to Feb 12') (Projection)		100.00		110.00	210.00	47.3%

* Dividends paid in FY2/2011 were the highest ever

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Comparison with competitors

Leads its industry in profitability,
has one of the highest ROEs of all listed companies in Japan

Of 19 listed companies offering private educational services based on business results in FY2010 (through February or March 2011), Riso Kyoiku ranked fourth in revenues, second in recurring profit, and first in net profit. Riso Kyoiku earned a recurring profit margin of 14.2%, double the average figure for the 18 listed competitors, of 7.1%. This dominant profitability attests to the company's superiority in its industry.

Over the past three fiscal years, the 18 listed competitors increased their revenues by an average of only 2%, while Riso Kyoiku raised its revenues by 22%. On average, the recurring profit of the 18 competitors fell by 8%, while Riso Kyoiku's recurring profit increased by 70%. Based on company forecasts for FY2011 and on share prices at the end of June, Riso Kyoiku's PER was about 9x, while the average PER for its 18 listed competitors was 16x.

According to a survey by the *Nikkei* newspaper, the results of which were published on March 10, 2011, Riso Kyoiku ranked among the top 10 listed companies in Japan in terms of ROE. Over the past three fiscal years, its 18 listed competitors earned an average ROE of about 3.5%, while Riso Kyoiku's ROE averaged 45.1%.

Rankings of listed Japanese providers of private education (based on latest results available as of July 11, 2011)

Rank	Ticker	Name	Sales (¥mn)
1	9789	EIKOH	37,582
2	9733	Nagase	36,499
3	4645	ICHISHIN	18,874
4	4714	Riso Kyoiku	18,751
5	9730	WAO	16,710

Rank	Ticker	Name	Recurring profit (¥mn)
1	9789	EIKOH	2,999
2	4714	Riso Kyoiku	2,663
3	9733	Nagase	1,440
4	9696	With us Corp	1,194
5	4705	CLIP Co.	1,029

Rank	Ticker	Name	Net profit (¥mn)
1	4714	Riso Kyoiku	1,366
2	9789	EIKOH	909
3	4705	CLIP Co.	566
4	9630	UP	352
5	9696	With us Corp	238

Rank	Ticker	Name	ROE (%)
1	4714	Riso Kyoiku	49.2
2	2179	SEIGAKUSYA	14.6
3	4705	CLIP Co.	11.5
4	9789	EIKOH	8.1
5	9769	Gakkyusha	6.7

Corporate Analysis

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