



Toshio Tada, President

TAC Co., Ltd. (4319)



Company Information

Exchange	TSE 1st Section
Industry	Service
President	Toshio Tada
HQ Address	Kanda-Misaki-cho 3-2-18, Chiyoda-ku, Tokyo
Year-end	March
Homepage	https://www.tac-school.co.jp/

Stock Information

Share Price	Number of shares issued (excluding treasury shares)	Total market cap	ROE(Act.)	Trading Unit	
¥200	18,504,000 shares	3,700 million	1.9%	100 shares	
DPS(Est.)	Dividend yield (Est.)	EPS(Est.)	PER(Est.)	BPS(Act.)	PBR(Act.)
¥5.00	2.5%	¥22.16	9.0 x	¥295.67	0.7 x

*The share price is the closing price on June 10. Each figure was taken from the brief report on results for the term ended Mar. 2020.

Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
March 2017 Act	20,440	713	692	490	26.49	4.00
March 2018 Act	20,951	833	735	442	23.93	5.00
March 2019 Act	20,474	340	409	309	16.74	8.00
March 2020 Act	20,331	162	260	103	5.58	5.00
March 2021 Est	20,350	690	684	410	22.16	5.00

*Unit: ¥mn. Forecast by the Company. These values are on an accrual basis. Net income is profit attributable to owners of parent (the same applies for net income hereinafter).

We present this Bridge Report reviewing fiscal year March 2020 earnings results and other information about TAC.

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Key Points

- The sales on a cash basis for the term ended March 2020 were 20,398 million yen, up 0.7% year on year. The sales of the Personal Education segment's core services, such as Certified Public Accountant courses and Architects and Building Engineers courses, were healthy and the sales of the publishing business grew. Sales on an accrual basis were 20,331 million yen, down 0.7% year on year. Gross profit margin dropped 1.0% year on year. Gross profit decreased 3.2% year on year. SG&A expenses declined 1.0% year on year due to the reduction of the operating expenses but could not be offset. As a result, operating profit on an accrual basis decreased 52.4% year on year to 162 million yen.
- The sales on a cash basis for the term ending March 2021 are expected to decline 0.2% year on year to 20,350 million yen, while sales on an accrual basis are estimated to increase 0.1% year on year to 20,350 million yen. Operating profit is projected to be 690 million yen, up 325.6% year on year. Sales are expected to be at the same level as the previous term, but gross profit margin is forecasted to improve 2.2% and SG&A ratio is expected to fall 0.3% due to the cost reduction. The company anticipates a significant growth in profit. The dividend is to be 5.00 yen/share, unchanged from the previous term. The estimated payout ratio is 22.6%.
- The forecast for this term does not reflect the impact of shortened business hours of schools and partial postponement or suspension of corporate training programs and on-campus seminars caused by the spread of the novel coronavirus on earnings. The company will make a new announcement if it becomes necessary to revise its earnings forecasts and dividend forecasts as a result of compiling new earnings forecasts after the pandemic subsides.
- Although a substantial profit growth is expected in the current fiscal year, the forecast does not reflect the impact of the spread of the novel coronavirus and the company believes that there is a high possibility that the spread of the infection will have a negative impact in the short term. Therefore, investors have no choice but to wait for the disclosure of the first quarter results.
- On the other hand, although the fundamental reform of the cost structure is important from a medium-term perspective, it is essential to expand the top line through diversification of revenue sources and other means. While the medical staffing section continues to struggle, we are interested to know about the progress of the company's efforts to realize the effects of its M&As, which have been conducted, including Zoshinkai.

1. Company Overview

TAC Co., Ltd. is known as the "TAC, The Certification School" where university students and working people come to study to increase their chances of passing tests for various certifications and qualifications. The Company operates schools throughout Japan that educate students and adults in academic fields necessary to pass certification and Public Officer tests to become Certified Public Accountants, Certified Public Tax Accountants, Real Estate Appraisers, Labor and Social Security Attorney, Bar Examination, Judicial Scriveners and other professional occupations. In addition, TAC also provides various training programs for corporate clients and conducts publishing business as well.

TAC Group (9 Consolidated Subsidiaries, 1 Equity Method Affiliated Company, 1 Non-Consolidated Subsidiary / not accounted for by Equity Method)

Company Type	Segment	Company Name	Business Description
Consolidated Subsidiaries	Personnel Education	TAC General Property Management Co., Ltd.	School classroom building contracts, maintenance work
		TAC INFORMATION TECHNOLOGY (Dalian)Co., Ltd.	Dalian operation center (Administrative task, instruction material monitoring check)
		Online School Co., Ltd.	Online instruction membership system over the Internet
	Corporate Training	LUAC., Ltd.	Insurance related corporate training
	Publishing	Waseda Management Publishing Co., Ltd.	“W Seminar” brand publishing business
		TAC Publishing Sales Co., Ltd.	Marketing advertising related to the publishing business
Manpower Business	TAC Profession Bank Co., Ltd	Human Resources introduction (headhunting), worker dispatch, job advertising business	
	Medical Office Staffing Kansai Co., Ltd	Health insurance claims, medical-related staff dispatch business	
	Kubo Medical Office Support Co., Ltd.	Health insurance claim inspection, filing services	
Equity Method Affiliated Company		Professional Network Co., Ltd.	Publishing of web magazines for professionals
Non-Consolidated Subsidiary / not accounted for by Equity Method		Technological and Commercial Modern Education (Dalian) Co., Ltd.	Corporate training for Japanese Bookkeeping, IT Specialist

*As of the end of March 2020.

【1-1 Corporate History】

TAC was established in December 1980 as a school providing instruction to people seeking to obtain certifications and qualifications through examinations, including courses for the Certified Public Accountant, Bookkeeping, and Certified Public Tax Accountant examinations. In October 2001, TAC listed its shares on the Over-The-Counter Market, and later moved its shares to the Second Section of the Tokyo Stock Exchange in January 2003 and then to the First Section in March 2004. TAC acquired KSS Co., Ltd. (formerly known as Waseda Management Publishing), which conducts certification and qualification acquisition support services including the provision of preparatory courses for Bar Examination, Judicial Scrivener, Patent Attorney, Level-1 Civil Service (National career track), Special Personnel of the MOFA, in September 2009. Through the addition of this company, TAC has been able to fortify its strengths in the accounting area by adding certification preparatory courses in the legal area, and to round out its service lineup with courses in the Public Officer area. In December 2013, the Company formed a collaborative agreement that included the sharing of capital with Zoshinkai Publishers Co., Ltd. for work in the development of a correspondence course education service for elementary, junior and senior high school students. Furthermore, other M&A activities were conducted in June 2014 to enter into the medical office area.

【1-2 Strengths】

(1) Detailed Response to Changes, Revisions in Examination System, Laws

Since the founding of the Company, TAC instructors have made revisions to the text materials used in its courses every year, and this ability to respond to changes and revisions in the examination and legal systems is a distinguishing feature and strength of TAC. For a company like TAC with sales approaching ¥20.0 billion, absorbing the costs of updating text materials on an annual basis is possible. However, new entrants and smaller players in the market have a much more difficult time absorbing the costs of updating teaching materials. Other strengths of TAC include its knowhow and efficiency accumulated over the history of its operations in providing the most updated information to the students of its courses.

(2) Full-Scale Lineup and Active Course Development

TAC has risen to become the top player in the industry through its active efforts to develop courses in new areas, including those targeting university students, and it has become the first company within its industry to list its shares. Along with the acquisition of W Seminar's certification and qualification acquisition support business in 2009, TAC has been able to fortify its weakness in the areas of legal and Public Officer related courses. Consequently, the Company now boasts of a strong business model comprised of the three main cornerstones of accounting (Certified Public Accountant, Certified Public Tax Accountant and Bookkeeping), legal, and Public Officer related certification and qualification acquisition support courses.

(3) Providing Innovative Services with a Focus upon Students

Innovative services are yet another strength of TAC. TAC was the first school in the certification and qualification acquisition support services market to introduce educational media and enable students to choose which instructor they would like to study under. This corporate focus upon satisfying the needs of students is reflected in the quality of the text materials offered and has contributed to the establishment of a strong brand reputation as "TAC, The Certification School."

【1-3 ROE Analysis】

	FY 3/2013	FY 3/2014	FY 3/2015	FY 3/2016	FY 3/2017	FY 3/2018	FY 3/2019	FY 3/2020
ROE(%)	35.5	21.9	4.9	4.8	10.3	8.6	5.7	1.9
Net profit Margin (%)	4.66	3.98	1.06	1.07	2.40	2.11	1.51	0.51
Asset Turnover	1.17	1.16	0.98	0.93	0.94	0.96	0.95	0.97
Leverage	6.59	4.79	4.68	4.81	4.60	4.27	4.00	3.81

ROE declined for three consecutive terms because of the decrease in profitability and leverage. The company estimates that net profit Margin in this term will be 2.0% and ROE will improve to 7.3%.

2. Fiscal Year March 2020 Earnings Results

Regarding Sales

Students applying for courses are required to pay tuitions at the time of their initial application (TAC calls these fees tuition advance pre-adjustment sales or sales on a cash basis), which are then booked on the balance sheet as a liability under the title “tuition advance.” These tuition advances are then written down and booked as sales in the month that educational services were provided to the student (TAC calls these fees tuition advance pre-adjustment sales or sales on an accrual basis). While sales booked on the income statement are “sales on an accrual basis (tuition advance pre-adjustment sales)”, the actual indicator of the sales conditions of the Company in the term are considered to be the “sales on a cash basis (tuition advance pre-adjustment sales)” (The fact that cash and equivalents are influenced strongly by the sales on a cash income is a characteristic that is shared with companies that take orders) and they are deemed to be a leading indicator for actual sales. Therefore, TAC management identifies this “sales on a cash basis (tuition advance pre-adjustment sales)” as a key management indicator.

Regarding Seasonal Characteristics

Examinations for the majority of certification courses are held from the second (July to September) to third quarters (October to December), and core courses, especially those for Certified Public Accountants and Licensed Tax Accountants, fall into the time frame for examinations in the following year. At the same time, all courses fall into the fourth (January to March) and first quarters (April to June).

Despite an increase in sales on a cash basis and Account receivable-trade sales during the second and third quarters, tuition advances are written down and booked depending upon enrollment period and gross margin is profoundly influenced because of the booking of a fixed level of expenses every month. In the fourth and first quarters, these tuition advances are then written down and booked as sales in each month, causing gross margin to increase.

(1) Consolidated Earnings

	FY 3/19	Share	FY 3/20	Share	YY Change	Difference from the initial estimate
Sales on a cash basis	20,253	98.9%	20,398	100.3%	+0.7%	-0.2%
Sales on an accrual basis	20,474	100.0%	20,331	100.0%	-0.7%	-0.5%
Gross profit	8,006	39.1%	7,750	38.1%	-3.2%	-2.5%
SG&A	7,665	37.4%	7,588	37.3%	-1.0%	-0.6%
Operating profit	340	1.7%	162	0.8%	-52.4%	-49.4%
Ordinary profit	409	2.0%	260	1.3%	-36.4%	-19.3%
Net profit	309	1.5%	103	0.5%	-66.6%	+3.0%

*Units: ¥mn. Net profit is profit attributable to owners of parent (the same applies for net income hereinafter).

Sales were flat and profit was down

The sales on a cash basis for the term ended March 2020 were 20,398 million yen, up 0.7% year on year. The sales of the Personal Education segment’s core services, such as Certified Public Accountant courses and Architects and Building Engineers courses, were healthy and the sales of the publishing business grew. Sales on an accrual basis were 20,331 million yen, down 0.7% year on year. Gross profit margin dropped 1.0% year on year. Gross profit decreased 3.2% year on year. SG&A expenses declined 1.0% year on year due to the reduction of the operating expenses but could not be offset. As a result, operating profit on an accrual basis decreased 52.4% year on year to 162 million yen.

(2) Business Segment Trends**Sales on a cash basis by Business Segment**

	FY 3/19	Share	FY 3/20	Share	YY Change
Personnel Education	11,794	58.2%	11,778	57.7%	-0.1%
Corporate Training	4,256	21.0%	4,423	21.7%	+3.9%
Publishing	3,562	17.6%	3,678	18.0%	+3.3%
Manpower Business	705	3.5%	585	2.9%	-16.9%
Companywide Eliminations	-64	-	-66	-	-
Consolidated Sales	20,253	100.0%	20,398	100.0%	+0.7%

*Units: ¥mn

Operating profit on a cash basis by Business Segment

	FY 3/19	Share	FY 3/20	Share	YY Change
Personnel Education	-545	-	-520	-	-
Corporate Training	988	23.2%	1,061	24.0%	+7.4%
Publishing	686	19.3%	730	19.9%	+6.4%
Manpower Business	105	15.0%	93	16.0%	-11.0%
Companywide Eliminations	-1,116	-	-1,136	-	-
Consolidated Operating profit	118	0.6%	229	1.1%	+92.8%

*Units: ¥mn

【Personnel Education】

Sales and profit declined

Sales increased.	Courses for Certified Public Accountants, Architects and Building Engineers, Administrative Scrivener, Teacher's Employment Exam, etc.
Sales decreased.	Courses for Government Officials in the Regular Service and Senior Officials of Local Governments, Professional Career and Foreign Affairs, Certified Public Tax Accountant, S&M Enterprise Mgt. Consultants, the Bar Exam, Labor and Social Security Attorney, etc.

The results were impacted by reaction to the rush demand before the consumption tax hike, shortened business hours due to the spread of the novel coronavirus, and other factors.

Operating costs declined 0.3% year on year.

【Corporate Training Business】

Sales and profit increased

Sales increased.	Financial Planners, IT Specialist, CompTIA®, Securities Analyst and Training programs entrusted for local governments
Sales decreased.	Business schools, Content Provision and affiliated schools

Operating costs, including instruction fees and personnel expenses for operation, increased 2.9% year on year

【Publishing Business】

Sales and profit increased

Sales increased	Real Estate Notary, Administrative Scrivener, Financial Planners, Condominium Manager, Overseas Travel Book
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Sales increased for eight successive terms.

Operating costs rose 2.5% year on year.

【Manpower Business】

Sales and profit declined

The demand for personnel in audit corporations, tax accountant corporations, and private enterprises is stable, but the sales of personnel introduction and advertisement decreased as the gap between job offers and job seekers in conditions is wider and the effectiveness of job advertisement for securing human resources has begun to fade.

Sales of temporary staffing shrunk due to the amendment to the Worker Dispatch Law.

As for the business of introduction and dispatch of medical office staff and nurse, little progress was made in large-scale projects from last fiscal year, leading to profit declining, while personnel expenses kept rising. Thus, the business has been struggling.

(3) Trend by Certification Category

Sales on an accrual basis by Certification Category

	FY 3/19	Share	FY 3/20	Share	YY Change
Finance, Accounting	3,764	18.4%	3,882	19.1%	+3.1%
Management, Taxation	3,472	17.0%	3,305	16.3%	-4.8%
Financial Service, Real Estate	4,141	20.2%	4,299	21.1%	+3.8%
Law	1,492	7.3%	1,465	7.2%	-1.8%
Public Officer, Labor	4,927	24.1%	4,637	22.8%	-5.9%
IT, International	1,440	7.0%	1,546	7.6%	+7.4%
Medical, Welfare	299	1.5%	237	1.2%	-20.7%
Others	937	4.6%	956	4.7%	+2.0%
Consolidated Sales	20,474	100.0%	20,331	100.0%	-0.7%

*Units: ¥mn

【Market Overview】

The number of applicants for various certification tests offered by TAC in 2019 declined from 2.514 million in the previous year to 2.512 million. It dropped for three consecutive years, but has remained stable after a significant decline from 2010 to 2014.

Sales increased	Finance and Accounting Area, Financial Service and Real Estate Area, IT and International Area, Others
Sales decreased	Management and Taxation Area, Law Area, Public Officer Labor Area, Medical, & Welfare Area

(Finance and Accounting Area)

Applications for the Certified Public Accountant course, our mainstay services has been healthy throughout the year.

(Financial Service and Real Estate Area)

FP, Securities Analyst and Architects and Building Engineers courses were strong and sales increased.

(IT and International Area)

Sales from information processing training for enterprises were solid until the third quarter. CompTIA-related sales were also steady.

(Management and Taxation Area)

Although the decline rate of applicants for the test for licensed Certified Public Tax Accountant was lower than the overall decline rate, the number of applications for the course fell slightly. The sales of the Small and Medium Enterprise Management Consultant course were also sluggish.

(Law Area)

Demand increased due to the revision to the Civil Code, but sales were sluggish overall.

(Public Officer and Labor Area)

The sales from the Government Officials course (Regular Service and Local Government course) decreased, as the employment conditions in the private sector were good.

(Medical and Welfare Area)

Large projects were discontinued and sales declined.

(4) Student Number Trends

	FY 3/19	Share	FY 3/20	Share	YY Change
Individual	131,119	60.8%	126,000	60.8%	-3.9%
Corporate	84,450	39.2%	81,118	39.2%	-3.9%
Total	215,569	100.0%	207,118	100.0%	-3.9%

*Units: Persons

Number of students by Certification Category

	FY 3/20	Share	YY Change
Finance and Accounting	33,368	16.1%	-2.6%
Management and Taxation	24,696	11.9%	-2.5%
Financial Service & Real Estate	53,617	25.9%	-4.1%
Law	11,212	5.4%	-9.8%
Public Officer and Labor	55,936	27.0%	-2.5%
IT and International/ Medical and Welfare/ Others	28,289	13.7%	-6.6%
Total	207,118	100.0%	-3.9%

Business Trends by Curriculum Category (Combined Total for both Personal and Corporate Instruction)

<Increases>

Certified Public Accountant course, Securities Analyst and Architects and Building Engineers courses etc.

<Declines>

Bookkeeping course, Certified Public Tax Accountant course, Real Estate Notary course, Government Officials course (Regular Service and Local Government course) etc.

The number of corporate trainees increased with new orders for outsourced training, but declined for correspondence training, university seminars and affiliated schools.

(5) Financial Conditions and Cash Flow**◎Main Balance Sheet Items**

	End of March 2019	End of March 2020		End of March 2019	End of March 2020
Cash, Equivalents	5,195	4,287	Payables	524	495
Receivables	3,871	3,860	Returns, Disposal Loss Reserves	820	813
Inventories	784	865	Tuition advance	6,044	6,176
Current Assets	10,901	9,716	Asset Retirement Obligation	637	772
Tangible Fixed Assets	4,508	4,746	Interest Bearing Liabilities	6,377	5,187
Intangible Fixed Assets	331	300	Liabilities	15,987	14,775
Investments, Others	5,744	5,489	Net Assets	5,498	5,478
Fixed Assets	10,584	10,536	Total Liabilities, Net Assets	21,486	20,253

*Units: ¥mn

Current assets decreased 1,184 million yen from the end of the previous term due to the decline in cash and cash equivalents, etc. Fixed assets fell 48 million yen from the end of the previous term as investments and other assets dropped. Total assets were 20,253 million yen, down 1,232 million yen from the end of the previous term.

Total liabilities were 14,775 million yen, down 1,212 million yen from the end of the previous term, due to the decrease in debts, etc.

Net assets were 5,478 million yen, down 20 million yen from the end of the previous term, as retained earnings fell.

As a result, capital adequacy ratio improved 1.4% from the end of the previous term to 27.0%.

◎Cash flow statement

	FY March 2019	FY March 2020	YoY
Operating Cash Flow	93	586	+492
Investing Cash Flow	372	-153	-525
Free Cash Flow	466	433	-32
Financing Cash Flow	-242	-1,334	-1,091
Cash, Equivalents at the end of term	5,165	4,257	-908

The surplus of operating CF expanded due to the increase in tuition protection trust beneficiary interest, etc.

Since there were no longer proceeds from the sale and redemption of securities, which were posted in the previous term, investing CF turned negative.

Free CF was almost unchanged.

The deficit of financing CF expanded due to the decrease in short-term debts, etc.

The cash position fell.

(6) Topics**◎ Extending the expiration date of special coupons for shareholders**

Due to the spread of COVID-19, in order to secure opportunities in using a discount coupon, the company decided to extend the expiration date of special coupons distributed in late June 2019 for shareholders as of the end of March 2019 and special coupons distributed in early December 2019 for shareholders as of the end of September 2019 for two months each.

3. Fiscal Year March 2021 Earnings Estimates

(1) Consolidated Earnings

	FY 3/20 Act.	Share	FY 3/21 Est	Share	YY Change
Sales on a cash basis	20,398	100.3%	20,350	100.0%	-0.2%
Sales on an accrual basis	20,331	100.0%	20,350	100.0%	+0.1%
Gross profit	7,750	38.1%	8,210	40.3%	+6.0%
SG&A	7,588	37.3%	7,520	37.0%	-0.9%
Operating profit	162	0.8%	690	3.4%	+325.6%
Ordinary profit	260	1.3%	684	3.4%	+162.3%
Net profit	103	0.5%	410	2.0%	+296.8%

*Units: ¥mn. Estimates are those of the company.

Sales was flat year to year, but profits are expected to increase significantly.

The sales on a cash basis for the term ending March 2021 are expected to decline 0.2% year on year to 20,350 million yen, while sales on an accrual basis are estimated to increase 0.1% year on year to 20,350 million yen. Operating profit is projected to be 690 million yen, up 325.6% year on year. Sales are expected to be at the same level as the previous term, but gross profit margin is forecasted to improve 2.2% and SG&A ratio is expected to fall 0.3% due to the cost reduction. The company anticipates a significant growth in profit. The dividend is to be 5.00 yen/share, unchanged from the previous term. The estimated payout ratio is 22.6%.

The forecast for this term does not reflect the impact of shortened business hours of schools and partial postponement or suspension of corporate training programs and on-campus seminars caused by the spread of the novel coronavirus on earnings. The company will make a new announcement if it becomes necessary to revise its earnings forecasts and dividend forecasts as a result of compiling new earnings forecasts after the pandemic subsides.

(2) Various Initiatives

① Novel Coronavirus-related efforts

The company has not reflected the impact of the novel coronavirus on its earnings forecast, but it anticipates the following effects.

Personnel Education Business	<ul style="list-style-type: none"> ▪ Increase of course applications in online centered on the website ▪ Decrease of course applications at the school's reception counter due to voluntary restraint from going out and reduced business hours
Corporate Training Business	<ul style="list-style-type: none"> ▪ Increase in demand for e-learning and online training ▪ Decrease in demand for face-to-face corporate training
Publishing Business	<ul style="list-style-type: none"> ▪ Increase in book sales using the Internet ▪ Decrease in book sales at bookstores due to voluntary restraint from going out
Manpower Business	<ul style="list-style-type: none"> ▪ Reduced number of job advertisements accompanying voluntary restraint from holding events such as job fairs and declined corporate recruitment

In the Personnel Education Business, the external environment and market (student) needs vary among courses, so each course will be adapted accordingly. In the Corporate Training Business, the company will conduct training and seminars in response to requests (implementation methods, timing, etc.) from business partners (enterprises, universities, etc.), and expand e-learning and correspondence training content.

In the Publishing Business, the company will respond quickly to orders placed via the Internet such as the direct sales webstore (the cyber bookstore), Amazon, and other websites, and improve product appeal by differentiating its products from competitors'. As for the Manpower Business, the company will make efforts to minimize the impact on each business by holding job fairs in response to request from business partners (audit corporations, accounting firms, etc.), quickly securing human resources meeting the needs of business partners, etc., and focus on developing a framework for the business environment after the pandemic subsides.

As of the date of announcement of financial results, the Spring Japan Information-Technology Engineers Examination, the 155th Official Business Skill Test in Bookkeeping, the Bar Examination (short-answer-format), the Real Estate Appraisal Examination (short-answer format), the Certified Public Accountant Examination (short-answer format), the Public Officer Examination, FP Skills Test, etc. have been postponed or cancelled.

TAC's courses are designed and run on the assumption that the examinations will be held. Therefore, if the examinations are cancelled, there is a risk that courses related to the cancelled examinations will not be offered. Also, if the postponement date remains undetermined for a long time, or if there is prolonged uncertainty regarding the next year's and subsequent exams and the employment status of those who have obtained qualifications, an increasing number of customers may hold off on signing up for courses.

On the other hand, considering that there is a certain level of need for qualified professionals in all circumstances as they are part of the infrastructure supporting Japanese society and that demand for qualifications generally increases during recessionary periods, the company believes that the number of applications for courses will not change much, or may even increase in the long term.

As for costs, since personnel costs related to instructors and employees, rentals mainly for nationwide branches, advertising expenses, etc. are fixed costs, any increase or decrease in sales caused by fluctuations in course applications will have an almost immediate impact on operating profit and other kinds of profits for each stage.

As a result, it is difficult to predict the overall performance of the company at this point of time, but the company believes that earnings are likely to be adversely affected in the short term.

② Radical reforms of the cost structure

The company will continue to review and reform the cost structure drastically.

◎Rent expenses

In response to the trend of 10-30% price hike with low vacancy rates due to the booming economy, floor space was reviewed. Also, it was reduced and relocated for schools including the Kobe, Yokohama, Yaesu and Suidobashi schools in the term ended March 2020 as a measure to reduce costs.

If the effect of the floor reduction were to contribute for one year, the rent reduction would be 228 million yen in the term ended March 2019 and 209 million yen in the term ended March 2020.

As the upward trend in prices will continue in the current term and beyond, the company will review floor space. Moreover, the company expects a decline of approx. 400 million yen by the term ending March 2023 through continuous reduction in floor space.

◎Personnel expenses

In addition to efficiently carrying out IT-based operations, for example, by promoting the use of online reception services and utilizing IT at school reception desks, the company will focus on assigning personnel to sales department to enhance sales.

◎Advertisement cost

As the cost of paper is on the rise and advertising media are shifting to the Internet platform, the company will promote paperless brochures and shift to online advertisement.

Since the effect of reduction in floor space will appear after six months to a year, it is necessary to make quick decisions and execute them based on operating conditions, but the goal is to shift to a profitable cost structure while maintaining the learning environment for students.

4. Conclusions

Although a substantial profit growth is expected in the current fiscal year, the forecast does not reflect the impact of the spread of the novel coronavirus and the company believes that there is a high possibility that the spread of the infection will have a negative impact in the short term. Therefore, investors have no choice but to wait for the disclosure of the first quarter results.

On the other hand, although the fundamental reform of the cost structure is important from a medium-term perspective, it is essential to expand the top line through diversification of revenue sources and other means. While the medical staffing section continues to struggle, we are interested to know about the progress of the company's efforts to realize the effects of its M&As, which have been conducted, including Zoshinkai.

<Reference: Regarding Corporate Governance>

©Operating type, and the composition of directors and auditors

Operating type	Company with company auditors
Directors	8 directors, including 2 external ones
Auditors	3 auditors, including 2 external ones

©Corporate Governance Report

Updated on June 28, 2019

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
Supplementary principle 1-2 (4)	The great majority of our shareholders consist of individual Japanese shareholders, and the respective ratios of institutional and overseas investors are limited. At the present moment, therefore, our company does not use any electronic voting platforms, etc. or translate notices of convocation of shareholders' meetings into English; however, we will consider working on them if the ratio of institutional or overseas investors increases in the future.
Principle 1-4	At present, our company does not have any listed shares that are possessed strategically (hereinafter referred to as "strategically held shares"), and thus, we do not develop any criteria for properly coping with the exercise of voting rights pertaining to strategically held shares. In the future, however, if we have to possess listed shares as strategically held shares, considering the intent of the corporate governance code, we will take appropriate action on disclosure of the policy on strategic shareholding, explanation about strategically held shares at meetings of shareholders, and the exercise of voting rights relating to strategically held shares.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
【Principle 5-1 Policy on constructive communication with shareholders】	Our company has established a department devoted to dealing with inquiries from investors including shareholders (IR Office). We appropriately handle each and every inquiry, except for any information that is deemed to be highly likely to go against the regulations for insider trading.

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