COMPANY RESEARCH AND ANALYSIS REPORT

# global bridge HOLDINGS Co., Ltd.

## 6557

TSE Mothers market

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# Summary

## Helping to solve Japan's population problem from a strategy of "From nursery schools to an EdTech company"

global bridge HOLDINGS Co., Ltd.<6557> (hereafter, also "the Company") is aiming to be a "comprehensive welfare company" that helps to solve Japan's population problem through conducting welfare businesses. It conducts a childcare business and a nursing care business as welfare businesses that support the "quantity" of welfare in Japan, while it conducts an ICT business*1 as a welfare-support business that supports the "quality" of welfare in Japan. It is also utilizing the nursery schools management and administration system it independently developed to set "from nursery schools to an EdTech*2 company" as its growth strategy.

*1 From the current 1Q consolidated fiscal period, in order for results to be more effectively evaluated, the Company changed the name of the "childcare business" to the "childcare business" (name change in Japanese only), the "nursing care business" to the "elderly care business," and the "ICT business" to the "tech business," and it has positioned day services including after-school services, and child development support, etc., which were previously classified into the "nursing care business," into the "childcare business."

*2 A portmanteau from combining "Education" and "Technology."

#### 1. In Chiba Prefecture, has an overwhelming large share for authorized nursery school management

In the childcare business, the Company manages "AIAI" directly managed authorized nursery schools, mainly in Tokyo's 23 wards, Chiba Prefecture, and Osaka City. It ranks sixth in the childcare industry for the number of managed authorized nursery schools. In particular, it has an overwhelmingly large market share in Chiba Prefecture, and the conditions in Chiba Prefecture are that is easier for it to obtain information on sites for facilities and for building rentals, and conditions are also advantageous for its recruitment of newly graduated nursery school teachers. Its educational program for nursery school children has unique features and has been highly evaluated, including for aiming to enhance preschool active learning as "nursery schools to develop children."

#### 2. Sales are growing of the independently developed nursery school management and administration system

The ICT business provides solutions services to promote improved work efficiency in childcare facilities, including the Child Care System (CCS), which is a nursery school management and administration system that the Company itself developed for childcare businesses nationwide. A strength is that it can utilize the data and expertise acquired in the experience of conducting its own childcare business, and as of the end of December 2020, it had a track record of installing the system into a total of more than 700 facilities. By 2025, it is aiming to increase its share of installations into private nursery schools and private kindergartens to 20% (forecast to be approximately 4% in 2021).

### 3. New facilities become profitable in their 2nd or 3rd year from opening by improving the student vacancy fill rate

In terms of the earnings characteristics of the childcare business, at the time a new facility is opened, costs are incurred in advance for its opening, including initial-period costs and recruitment costs, and facilities tend to incur a loss for several years after their opening due to the low student vacancy fill rate (the rate of enrolled students to the student capacity, of the maximum number of students), as the number of students in the higher-age class (3 years to 5 years) are less than the capacity. However, after the passage of a few years from the opening, the student vacancy fill rate improves due to the repeated advance of children in the lower-age class (0 years to 2 years) to the higher-aged class, and net sales and gross profit both increase. In general, it is said that from the second or third year after opening, the round of upfront costs is completed, the student vacancy fill rate improves, and the facility becomes profitable.

### 4. In FY12/20, the operating loss increased due to upfront investment, but achieved final profit for the first time

In the FY12/20 consolidated results, net sales increased 40.6% year-on-year (YoY) to ¥8,318mn, the operating loss was ¥1,380mn (a loss of ¥887mn in the previous period), ordinary profit was ¥276mn (profit of ¥5mn), and profit attributable to owners of parent was ¥150mn (a loss of ¥31mn). Net sales rose significantly due to the increases in the number of childcare-business facilities and the number of users, but the operating loss grew, mainly due to the increases in personnel costs and rent alongside the rise in the number of facilities, and also due to costs incurred for measures to respond to the novel coronavirus pandemic. However, alongside the opening of new facilities, equipment subsidy income, which is non-operating income, increased and ordinary profit grew significantly, and net profit was recorded and the Company achieved a final profit for the first time.

### 5. The operating loss is forecast to contract in FY12/21 and may achieve operating profit in FY12/22

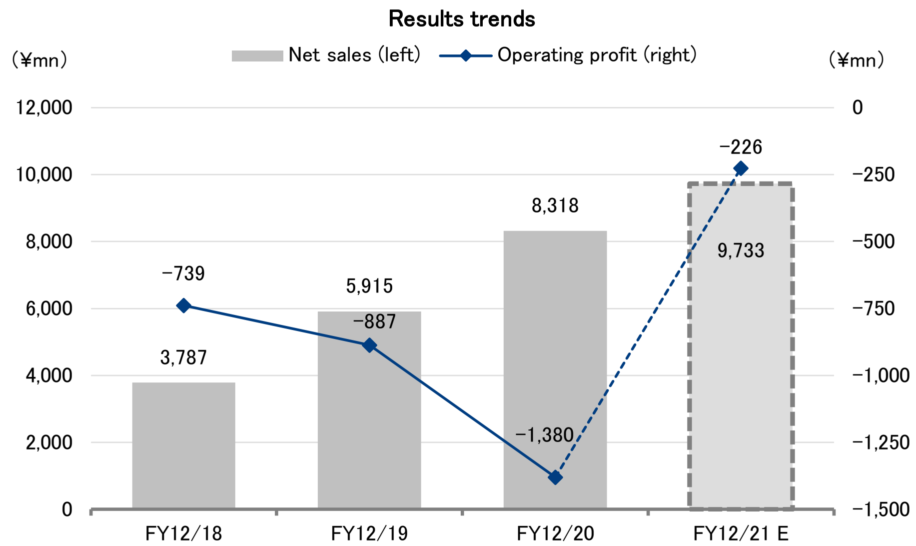
For the FY12/21 consolidated results, the Company is forecasting that net sales will increase 17.0% YoY to ¥9,733mn, an operating loss of ¥226mn (a loss of ¥1,380mn in the previous period), ordinary profit will decrease 33.0% to ¥185mn, and profit attributable to owners of parent will decline 26.1% to ¥111mn. The forecasts are for net sales to rise significantly due to the increases in the number of facilities and the number of users, the operating loss to contract including because of the optimization of staff placements, and ordinary profit and profit attributable to owners of parent to decline due to the decrease in equipment subsidy income. Going forward, net sales will trend upward alongside the increase in the number of facilities, while in profits, it is anticipated that operating profit could be achieved in FY12/22 from the contribution of facilities that were opened 2 or 3 years ago and in which the student vacancy fill rates have improved.

### 6. Growth is expected in the medium term from the strategy of “from nursery schools to an EdTech company”

It is considered that after 2 or 3 years have passed from a facility opening, its student vacancy fill rate has improved and the conditions are in place for an earnings foundation that can stably record operating profit. In the ICT business, the Company’s policy is to strengthen new product development and sales as software that realizes individually optimized childcare. From the strategy of “from nursery schools to an EdTech company,” growth is expected in the medium term through opening new facilities and expanding the ICT business.

**Key Points**

- A “comprehensive welfare company” helping to solve Japan’s population problem through welfare businesses
- The operating loss is forecast to contract in FY12/21 and may achieve operating profit in FY12/22
- Growth is expected in the medium term from the strategy of “from nursery schools to an EdTech company”




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

# Company profile

## A “comprehensive welfare company” helping to solve Japan’s population problem through welfare businesses

### 1. Company profile

The Company is aiming to be a “comprehensive welfare company” that helps to solve Japan’s population problem through welfare businesses. It conducts the childcare business, disability welfare business, and nursing care business as welfare businesses that support the “quantity” of welfare in Japan, and it conducts the ICT business as a welfare-support business that supports the “quality” of welfare in Japan. Moreover, it is utilizing the nursery school management and administration system it independently developed for its growth strategy of “from nursery schools to an EdTech company.”

The Company's head office is located in Kinshi, Sumida Ward, Tokyo, and at the end of FY12/20, its total assets were ¥10,498mn, capital was ¥329mn, the equity ratio was 13.2%, and the number of issued shares was 2,661,335 shares. After obtaining the approval of the 6th Ordinary General Meeting of Shareholders held on March 26, 2021, it reduced the capital amount by ¥319mn (transfer to other capital surplus, effective date of March 29, 2021) to ¥10mn. There was no change in net assets because of transfer work between the account items in the net assets part of the balance sheet. Also, it has changed to being a company with an audit and supervisory committee in order to improve the transparency of management and to speed-up decision making.

**2. History**

In January 2007, global bridge Co., Ltd., (currently global child care Co., Ltd.) was established in Shinkoiwa, Katsushika Ward, Tokyo, in order to conduct childcare and nursing care businesses. It started a childcare business in March 2007 and a nursing care business in May 2008. Then in July 2011, it launched the CCS nursery school management and administration system that it itself had developed.

Subsequently in November 2015, global bridge HOLDINGS Co. Ltd., the current holding company, was established through a company split (new establishment split) with ANNIVERSAIRE HOLDINGS Inc. Then in December of the same year, global bridge was made a wholly owned subsidiary, the ICT business was separated from global bridge, and social solutions Co., Ltd. (in January 2021, its company name was changed to its current name, CHaiLD Co., Ltd.) was established. In October 2017, the head office was relocated to its current location (Kinshi, Sumida Ward, Tokyo); in July 2018, Tokyo Life Care Co., Ltd. (currently, global life care Co., Ltd.) was made a wholly owned subsidiary and began the management of serviced housing for the elderly; and then in November 2018, YUAN Co., Ltd. (currently, global life care) was made a wholly owned subsidiary and it began management of residential-type, fee-paying homes for the elderly.

In relation to shares, the Company was listed on the Tokyo Stock Exchange (TSE) TOKYO PRO Market in October 2017, and its listing was upgraded to the TSE Mothers market in December 2019.

ANNIVERSAIRE HOLDINGS is an investment company owned by Mr. Hironori Aoki, who is the Chairman and Representative Director of AOKI Holdings. At the end of FY12/20, it was the Company's leading shareholder, holding 40.00% of the total number of issued shares, and its policy is to continuously hold the shares in the future also. It has no transaction or personal relations with the Company, so the Company's management independence is expected to be maintained.

History

| Date | Event |
|---|---|
| January 2007 | global bridge Co., Ltd., was established in Shinkoiwa, Katsushika Ward, Tokyo, in order to conduct childcare and nursing care businesses |
| March 2007 | Opened the AIAI Nursery School Makuhari Garden in Makuharicho, Hanamigawa Ward, Chiba City, Chiba Prefecture, and launched the childcare business |
| May 2008 | Opened Yasuragiya Kamagaya-Tei day service in Kamagaya City, Chiba Prefecture, and launched the nursing care business |
| September 2009 | Relocated the head office to Sumida Ward, Tokyo |
| July 2011 | Launched the Child Care System (CCS), a nursery school management and administration system that the Company itself developed |
| October 2011 | Opened the Kansai Office (Honmachi, Chuo Ward, Osaka City, Osaka Prefecture) |
| June 2014 | Launched the after-school day services business in Manpuku-ji, Asao Ward, Kawasaki City, Kanagawa Prefecture |
| July 2014 | Entered into a business collaboration with Nippon Telegraph and Telephone East Corporation (NTT East) for CCS |
| September 2014 | Acquired a patent for a layout design for a “nursing care and childcare integrated business” |
| November 2014 | Acquired a patent for CCS support equipment |
| November 2015 | Established global bridge HOLDINGS Co., Ltd. |
| January 2016 | Launched a living-support nursing care business for adults with disabilities |
| September 2016 | Launched a child development support business |
| October 2017 | Listed on the TSE TOKYO PRO Market |
| April 2018 | Developed the childcare robot VEVO. Started its trial introduction at directly managed facilities. |
| July 2018 | Made a wholly owned subsidiary of Tokyo Life Care Co., Ltd. |
| November 2018 | Made a wholly owned subsidiary of YUAN Co., Ltd. |
| April 2019 | Conducted R&D for CCS SENSOR |
| December 2019 | Listing was upgraded to the TSE Mothers market |
| March 2021 | Changed to being a company with an audit and supervisory committee |

Source: prepared by FISCO from the Company’s website

# Business overview

## Conducts a childcare business, nursing care business, and ICT business

### 1. Business segments

The business segments are the childcare business, the nursing care business, and the ICT business*. In FY12/20, the percentages of total net sales by segment were 89.8% from the childcare business, 8.3% from the nursing care business, 1.5% from the ICT business, and 0.5% from others. So the Company is focusing on the childcare business of directly managed authorized nursery schools.

As of January 1, 2021, the global bridge Group consisted of the Company (the holding company), 3 consolidated subsidiaries (global child care, CHaiLD and global life care), and 1 non-consolidated subsidiary (The Japanese Association of Social Welfare Management).

* From the current 1Q consolidated fiscal period, in order for results to be more effectively evaluated, the Company changed the name of the “childcare business” to the “childcare business” (name change in Japanese only), the “nursing care business” to the “elderly care business,” and the “ICT business” to the “tech business,” and it positioned day services including after-school services, and child development support, etc., which were previously classified into the “nursing care business,” into the “childcare business.”

Diagram of the business system


Source: reprinted from Company materials for the individual investor seminar

Trends in net sales and operating profit by segment

(¥mn)

| | FY12/18 | FY12/19 | FY12/20 |
|---|---|---|---|
| Net sales | 3,787 | 5,915 | 8,318 |
| Childcare business | 3,233 | 5,002 | 7,468 |
| Nursing care business | 418 | 745 | 688 |
| ICT business | 90 | 96 | 122 |
| Other | 45 | 72 | 38 |
| Operating profit | -739 | -887 | -1,380 |
| Childcare business | 166 | 178 | -64 |
| Nursing care business | -111 | 19 | -44 |
| ICT business | 5 | -9 | 14 |
| Other | 20 | 80 | 0 |
| Total | 82 | 269 | -94 |
| Adjustment amount | -821 | -1,157 | -1,286 |

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

## In the childcare business, openings of new directly managed authorized nursery schools are accelerating

### 2. The childcare business

The childcare business involves the management of the "AIAI" directly managed authorized nursery schools and small-scale childcare facilities, which are mainly in Tokyo's 23 wards, Chiba Prefecture, and Osaka City.

Authorized nursery schools are child welfare facilities that are based on the Child Welfare Act; that satisfy the standards established by the national government, such as for the floor area and the number of staff, including nursery school teachers; and that have been authorized by the prefectural governor or by others. They are managed while receiving facilities-type financial subsidies provided by the national and local governments. Small-scale childcare facilities are childcare facilities newly established through the support system for children and child raising that have been authorized by the municipality, targeting facilities with a capacity of 19 students or less and for children aged from 0 year to 2 years. The facilities operate while receiving childcare fees from the users and regional-type childcare financial subsidies from the local government.

The trend in the number of childcare-business facilities is as follows. Toward establishing an earnings foundation, the Company has been progressing openings of new facilities and at the end of FY12/20, it had 73 facilities in total (65 authorized nursery schools and 8 small-scale childcare facilities). Also, in FY12/21, it plans to newly open 6 authorized nursery schools, and on April 1, 2021, it opened 5 authorized nursery schools. It ranks 6th in the childcare industry for the number of managed authorized nursery schools.

In the future as well, the Company will progress openings of “AIAI” directly managed authorized nursery schools. Also, in response to the increase in the number of children requiring special support, its policy is to progress openings of “AIAI PLUS” (name changed from the previous “Niji”) which are multi-function facilities providing child development support and day services including after-school services. “AIAI PLUS” can be opened with a smaller investment amount than “AIAI,” so their profit margin is high.

**Trend in the number of facilities in the childcare business**

(Unit: facilities)

| | End-FY12/16 | End-FY12/17 | End-FY12/18 | End-FY12/19 | End-FY12/20 |
|---|---|---|---|---|---|
| Authorized nursery schools | 13 | 23 | 34 | 48 | 65 |
| Small-scale childcare facilities | 7 | 7 | 8 | 8 | 8 |
| Other | 4 | 1 | 1 | - | - |
| Total | 24 | 31 | 43 | 56 | 73 |

Note: listed in December 2019
Source: Prepared by FISCO from the Company’s financial results

In terms of the features and strengths of the nursery schools business, the Company is efficiently opening new facilities through a dominance strategy, of specializing in authorized nursery schools for which the barriers to entry are high, and concentrating openings in Tokyo’s 23 wards, Chiba Prefecture and Osaka City (the forecast numbers of facilities by region at the end of FY12/21 are 39 facilities in Chiba Prefecture, 25 facilities in Tokyo, 13 facilities in Osaka Prefecture, and 2 facilities in Kanagawa Prefecture). As a result, it has an overwhelming large market share particularly in Chiba Prefecture, and the conditions in Chiba Prefecture are that is easier for it to obtain information on sites for facilities and for building rentals, and conditions are also advantageous for its recruitment of newly graduated nursery school teachers.

The Company’s educational program for nursery school children has unique features and has been highly evaluated. Specifically, its nursery schools do not simply take care of children, they also aim to enhance preschool active learning as “nursery schools to develop children,” including that each facility has installed a dedicated learning room and “AINI” large-school play equipment (general athletic equipment that extends the children’s exercise capabilities), and an abundance of stimuli to enrich the children’s senses, such as relating to numbers, figures, and characters. At the child development support facilities, the service content was renewed in April 2021 and a new development support program was started as a “professional program” that supports the children’s learning and movement.

## Utilizes M&A for the nursing care business

### 3. The nursing care business

In the nursing care business, the Company manages serviced housing for the elderly, and residential-type, fee-paying homes for the elderly.

The serviced housing for the elderly involves the provision of rental properties in which an environment is in place that enables the elderly, both living alone or as a couple (mainly 65 years and older) to live with peace of mind, and also facilities that provide services, such as home-visit nursing care. The residential-type, fee-paying homes for the elderly are serviced housing facilities for the elderly (mainly aged 65 years and older), including for living support. In the event that nursing care is required, depending on the selections of the tenants themselves, they can continue to live in a home for the elderly while continuing to use nursing services, such as receiving local, home-visit nursing care.

The trend in the number of facilities managed in the nursing care business is as follows. The Company is currently at the stage of creating the business format while utilizing M&A, while in April 2021, it upgraded the service content for the YASURAGI directly managed nursing-care facilities. It is promoting the utilization of ICT, including installing sensors onto beds and conducting health management. Going forward, it is aiming to grow to have around 50 facilities in the medium-to long-term, mainly in Chiba Prefecture, through synergies with the “AIAI” directly managed authorized nursery schools.

**Trend in the number of facilities in the nursing care business**

(Unit: facilities)

| | End-FY12/16 | End-FY12/17 | End-FY12/18 | End-FY12/19 | End-FY12/20 |
|---|---|---|---|---|---|
| Day services including after-school services | 6 | 7 | 10 | 9 | 7 |
| Living-support nursing-care facilities | 1 | 2 | 1 | 1 | 1 |
| Serviced housing for the elderly | - | - | 1 | 1 | 1 |
| Residential-type, fee-paying homes for the elderly | - | - | 1 | 1 | 1 |
| Others (child development support facilities, etc.) | 3 | 4 | 2 | 2 | 2 |
| Total | 10 | 13 | 15 | 14 | 12 |

Note: listed in December 2019
Source: Prepared by FISCO from the Company’s financial results

## In the ICT business, is increasing sales of the independently developed nursery school management and administration system

### 4. ICT business

In the ICT business, the Company is utilizing its own childcare business experience for childcare businesses nationwide, and it is providing solution services to improve the work efficiency of childcare facilities. This includes providing CCS, the nursery school management and administration system it itself developed and launched in July 2011, and the CCS Shop, its online shop specializing in childcare and nursing-care goods. It is aiming to contribute to improving the quality of childcare by reducing the time required for clerical work relating to the management of childcare facilities, including the work to prepare documents for the nursery school teachers, and also to increase the time spent with each and every child and the time spent ascertaining their individual development conditions and health status.

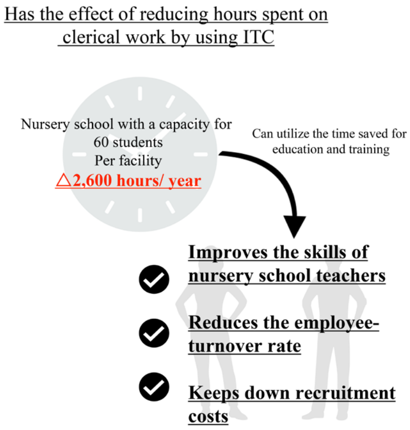
In the CCS nursery school management and administration system, the Company provides functions including CCS PRO, a comprehensive work support system; CCS SENSOR, a child nap check sensor; and VEVO, a childcare robot for nursery school teacher development. For example, CCS PRO is provided in a subscription format (monthly fee of around ¥20,000), and it simplifies and improves the efficiency of clerical work in the management of childcare facilities*. At the end of FY12/20, it had a track record of being installed into more than 700 facilities in total.

* Realizes a reduction of 2,600 working hours a year per nursery school with a capacity for 60 students.

**Services developed in the ICT business have the effect of reducing hours spent on clerical work by using ICT**

Service content up to the present time

| Content | Functions |
|---|---|
| Functions to improve work efficiency | Comprehensive work support system, including child registration management, childcare journal entries, childcare subsidies billing, audit records, etc. |
| Photo sales function | Website for sales of photos and videos to parents/guardians |
| CCS SENSOR (Child Care System) | Child nap check sensor, including skin-temperature measurements |
| Childcare goods sales function | E-commerce website specializing in childcare goods. Sales of stationery, disinfectants, toys, furniture, etc. |
| Contacts ledger and chat function | The Renraku Cho App that connects the nursery schools and parents/guardians. Promotes communication from the school and from the home. |
| VEVO | A childcare robot. Realizes enhanced communication between the parents/guardians and the nursing school teachers at the time the child goes to the school and when they come home. |
| IQパズル | An arithmetic course for infants to develop their “thinking capabilities” and “sense of quantity” (deployments into directly managed facilities and acquisitions of sales rights) |

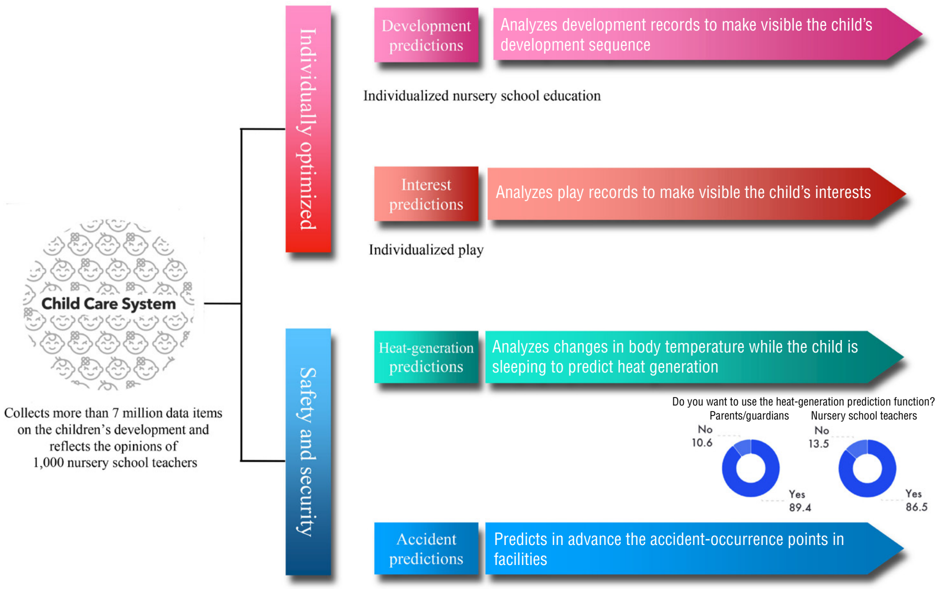



Source: The Company’s results briefing materials

By improving efficiency, the Company’s system realizes improvements to the quality of childcare and provides users with “appropriate childcare.” It also provides nursery school teachers with workplaces that are “easier to work in.” Its advantages include that it can effectively improve the skills of young nursery school teachers who lack experience, reduce the costs of training nursery school teachers and the employee-turnover rate, and keep down the costs of recruiting nursery school teachers.

Moreover, based on the more than 7 million data items on the development of 6,000 children in total obtained from the management of the directly managed authorized nursery schools (a volume of information corresponding to 10 veteran nursery school teachers each with over 20 years of childcare experience), as software that realizes individually optimized childcare, it can be utilized including to measure heat generation from an analysis of body temperature when the child is sleeping, development measures from analyzing the child’s development records, and interest predictions from analyzing the child’s play. Also, the plan is to release the newly developed heat generation measurement sensor in May 2021, a development prediction service using AI in September 2021, and a system to improve work efficiency also using AI in October 2021.

What can be done from the obtained data



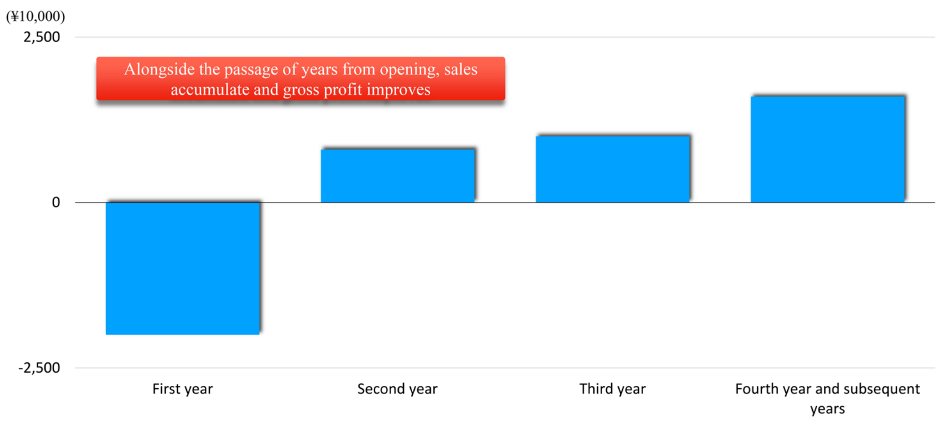

Source: reprinted from supplementary briefing materials from the 6th Ordinary General Meeting of Shareholders

## New facilities become profitable in the 2nd or 3rd year from opening due to the improved student vacancy fill rate

### 5. Earnings characteristics

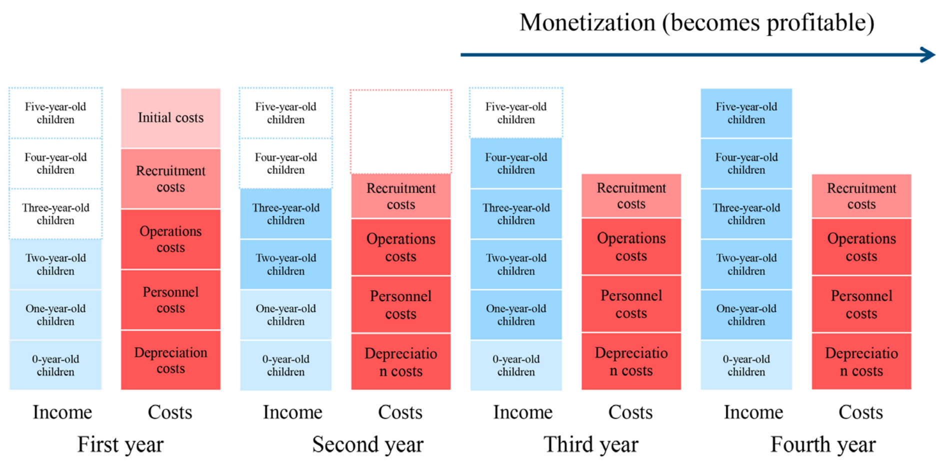
In terms of the earnings characteristics of the childcare business, at the time a new facility is opened, costs are incurred in advance for its opening, including initial-period costs and recruitment costs, and facilities tend to incur a loss for several years after they are opened due to the low student vacancy fill rate, as the number of students in the higher-age class (3 years to 5 years) are less than the capacity. However, after the passage of a few years from the opening, the student vacancy fill rate improves due to the repeated advance of children in the lower-age class (0 years to 2 years) into the higher-aged class, and net sales and gross profit both increase. In general, it is said that from the second or third year after opening, the round of upfront costs is completed, the student vacancy fill rate improves, and the facility becomes profitable.

Average gross profit (loss) per facility according to number of years from opening




Source: The Company's results briefing materials

Image of the monetization of a nursery school



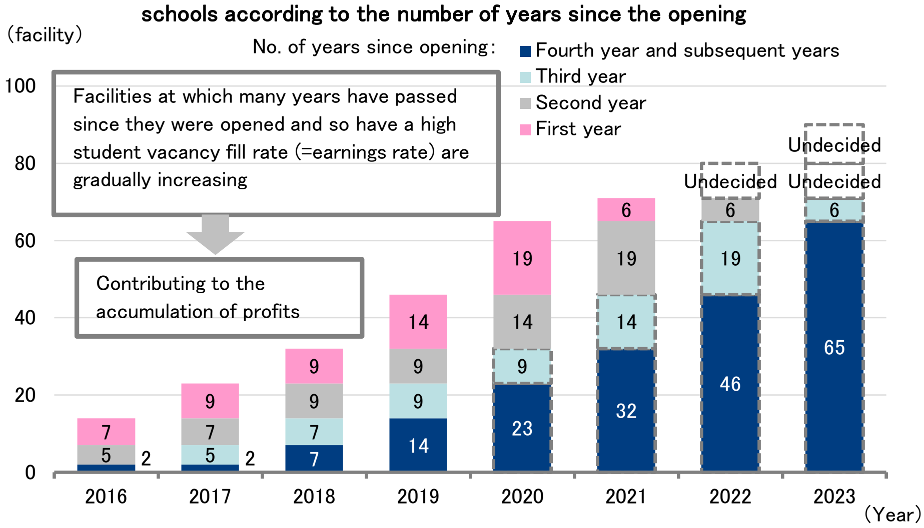

Source: The Company's results briefing materials

Looking by fiscal quarter, in principle authorized childcare facilities open for business on April 1st, so the costs ratio and the SG&A expenses ratio tend to increase in the 1Q (January to March) and the 2Q (April to June) in relation to the timing of spending on costs to establish a new facility, and then to decline in the 3Q (July to September) and the 4Q (October to December).

The equipment subsidy income from the various local governments is recorded in non-operating income, but this is also a factor causing fluctuations in quarterly earnings, such as because of increases or decreases in the income amount and time lags in the recording periods.

In order to build an earnings foundation, in the last few years the Company has rapidly increased the number of new openings of directly managed authorized nursery schools (an increase of 12 facilities at end of FY12/18, an increase of 13 facilities in FY12/19, and an increase of 17 facilities in FY12/20). Therefore, it incurred upfront costs and recorded an operating loss in FY 12/20. However, the percentage of facilities for which two or three years have passed since they were opened is increasing, and therefore the forecast is that the sequential accumulation of profits will contribute and that earnings will improve.

Structure of the numbers of directly managed authorized nursery schools according to the number of years since the opening




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

## Competitive advantages from a dominance strategy and an EdTech strategy

### 6. Risk factors

The general risk factors in the childcare and nursing care businesses include a decline in the number of users, changes of policy in the national and local governments, related regulations and permissions and authorizations, accidents and infections in facilities, difficulties in securing nursery school teachers, and the intensification of competition.

In the childcare business, progress is being made in eliminating the child waiting list problem, and in the future, it is anticipated that we will enter an era of selecting nursery schools due to the decline in user numbers. In response to this issue, the Company is maintaining its competitive advantages by progressing a dominance strategy, centered on Chiba Prefecture, and an ICT strategy, such as by utilizing CSS. Its policy is also to strengthen openings of "AIAI PLUS" schools that have low initial costs and a high profit margin. In principle, authorized nursery schools open for business on April 1st, but "AIAI PLUS" also have the flexibility of being able to freely set their opening period.

In the nursing care business, users are expected to increase in the future, so the Company's policy is to actively develop this business, including by utilizing M&A.

# Results trends

## In FY12/20, the operating loss grew due to upfront investment, but achieved final profit for the first time

### 1. FY12/20 consolidated results review

In the FY12/20 consolidated results, net sales increased 40.6% YoY to ¥8,318mn, the operating loss was ¥1,380mn (a loss of ¥887mn in the previous period), ordinary profit was ¥276mn (profit of ¥5mn), and profit attributable to owners of parent was ¥150mn (a loss of ¥31mn).

FY12/20 consolidated results review

(¥mn)

| | FY12/19 | FY12/20 | Change |
|---|---|---|---|
| Net sales | 5,915 | 8,318 | 40.6% |
| Gross profit (loss) | 434 | 314 | -27.7% |
| SG&A expenses | 1,322 | 1,695 | 28.2% |
| Operating profit | -887 | -1,380 | - |
| Non-operating income | 1,016 | 1,794 | 76.6% |
| Non-operating expenses | 123 | 136 | 10.9% |
| Ordinary profit (loss) | 5 | 276 | 5,043.2% |
| Profit (loss) attributable to owners of parent | -31 | 150 | - |

Note: listed in December 2019
Source: Prepared by FISCO from the Company's financial results

Net sales rose significantly due to the increases in the number of facilities and the number of users in the childcare business. However, the operating loss grew due to the increases in personnel costs and rent alongside the rise in the number of facilities, and also due to the costs incurred for measures to respond to the novel coronavirus pandemic. However, alongside the opening of new facilities, equipment subsidy income, which is non-operating income, increased and ordinary profit grew significantly, and net profit was recorded and the Company achieved a final profit for the first time. The openings of new facilities were 17 authorized nursery schools and 1 child development support facility, and the number of facilities at the end of the period were 73 facilities in the childcare business and 12 facilities in the nursing care business.

### 2. Trends by segment

The trends by segment are as follows.

**Trends by segment in FY12/20**

(¥mn)

| | FY12/19 | FY12/20 |
|---|---|---|
| Net sales | 5,915 | 8,318 |
| Childcare business | 5,002 | 7,468 |
| Nursing care business | 745 | 688 |
| ICT business | 96 | 122 |
| Other | 72 | 38 |
| Operating profit | -887 | -1,380 |
| Childcare business | 178 | -64 |
| Nursing care business | 19 | -44 |
| ICT business | -9 | 14 |
| Other | 80 | 0 |
| Total | 269 | -94 |
| Adjustment amount | -1,157 | -1,286 |
| Number of facilities at end of period | | |
| Childcare business (facilities) | 56 | 73 |
| Nursing care business (facilities) | 14 | 12 |

Note: listed in December 2019
Source: Prepared by FISCO from the Company's financial results

In the childcare business, net sales increased 49.3% YoY to ¥7,468mn and the operating loss was ¥64mn (profit of ¥178mn in the previous period). Net sales rose significantly due to the increases in the number of facilities and the number of users alongside the improvement of the student vacancy fill rate at existing facilities. However, an operating loss was recorded because of the increase in costs alongside the rise in the number of facilities. For new openings, 17 authorized nursery schools were opened, and at the end of the period, the number of facilities had increased by 17 for a total of 73 facilities (authorized nursery schools increased by 17 to 65 facilities, while small-scale childcare facilities were unchanged at 8 facilities).

In the nursing care business, net sales decreased 7.7% YoY to ¥688mn and the operating loss was ¥44mn (profit of ¥19mn in the previous period). One child development support facility was newly opened, but there was a decrease of two facilities providing day services including after-school services. At the end of the period, the total number of facilities was 12 facilities.

In the ICT business, net sales increased 27.3% YoY to ¥122mn and operating profit was ¥14mn (a loss of ¥9mn in the previous period). The number of contracts for CCS, the nursery school management and administration system, increased.

From the current 1Q consolidated fiscal period, in order for results to be more effectively evaluated, the Company changed the name of the "childcare business" to the "childcare business" (name change in Japanese only), the "nursing care business" to the "elderly care business," and the "ICT business" to the "tech business," and it positioned day services including after-school services, and child development support, etc., which were previously classified into the "nursing care business," into the "childcare business."

### 3. Financial condition

Looking at the Company's financial condition at the end of FY12/20, total assets had increased ¥2,721mn on the end of FY12/19 to ¥10,498mn. Total liabilities had increased ¥2,250mn to ¥9,066mn and total net assets had risen ¥470mn to ¥1,431mn. In assets, property, plant and equipment, and deposits and security money increased alongside the new openings of authorized nursery schools, while in liabilities, borrowing increased. Net assets also increased, including of payments following the capital increase through a public offering. The equity ratio improved 1.5 percentage points to 13.2%. Positive cash flow from operating activities was maintained.

After obtaining the approval of the 6th Ordinary General Meeting of Shareholders held on March 26, 2021, the Company reduced the capital amount by ¥319mn (transfer to other capital surplus, effective date of March 29, 2021) to ¥10mn. There was no change in net assets because of transfer work between the account items in the net assets part of the balance sheet.

Interest-bearing debt increased due to upfront investment toward achieving growth in the medium-term, and the interest-bearing debt ratio is also at a high level (69.1% at the end of FY12/20). In addition, the equity ratio's level is somewhat low. In the medium-term, it would be preferable to strengthen the earnings foundation by accumulating profits and repaying interest bearing debt, but it can be said that this will not particularly be a major problem due to the current growth process.

Results trends

The main financial indicators

(¥mn)

| Item | FY12/19 | FY12/20 |
|---|---|---|
| Net sales | 5,915 | 8,318 |
| Cost of sales | 5,480 | 8,003 |
| Gross profit (loss) | 434 | 314 |
| Gross profit margin | 7.4% | 3.8% |
| SG&A expenses | 1,322 | 1,695 |
| SG&A expenses ratio | 22.4% | 20.4% |
| Operating profit | -887 | -1,380 |
| Operating profit margin | -15.0% | -16.6% |
| Non-operating income | 1,016 | 1,794 |
| Non-operating expenses | 123 | 136 |
| Ordinary profit (loss) | 5 | 276 |
| Ordinary profit margin | 0.1% | 3.3% |
| Extraordinary income | -0.5 | 4 |
| Extraordinary losses | 4 | 1 |
| Profit before income taxes | 0 | 279 |
| Total income taxes | 32 | 129 |
| Profit (loss) attributable to owners of parent | -31 | 150 |
| Net profit margin | - | 1.8% |
| Total assets | 7,777 | 10,498 |
| Current assets | 1,821 | 2,183 |
| Non-current assets | 5,945 | 8,308 |
| Total liabilities | 6,815 | 9,066 |
| Current liabilities | 1,663 | 2,192 |
| Non-current liabilities | 5,152 | 6,873 |
| Total net assets | 961 | 1,431 |
| Shareholder's equity | 913 | 1,397 |
| Share capital | 176 | 329 |
| Total number of issued shares at the end of the period excluding treasury shares (shares) | 2,470,300 | 2,661,335 |
| Earnings per share (EPS) (¥) | -13.39 | 57.51 |
| Net assets per share (¥) | 366.82 | 521.84 |
| Dividend per share (¥) | 0.00 | 0.00 |
| Equity ratio | 11.7% | 13.2% |
| Return on Equity (ROE) | -4.0% | 10.9% |
| Cash flow from operating activities | 287 | 385 |
| Cash flow from investing activities | -1,905 | -2,924 |
| Cash flow from financing activities | 1,350 | 2,206 |
| Cash and cash equivalents at end of period | 1,159 | 817 |

Note: listed in December 2019
Source: Prepared by FISCO from the Company's financial results

# Outlook

## In FY12/21, the operating loss is forecast to contract

### 1. Summary of the FY12/21 consolidated results forecasts

For the FY12/21 consolidated results, the Company is forecasting that net sales will increase 17.0% YoY to ¥9,733mn, the operating loss will be ¥226mn (a loss of ¥1,380mn in the previous period), ordinary profit will decrease 33.0% to ¥185mn, and profit attributable to owners of parent will decline 26.1% to ¥111mn.

Summary of the FY12/21 consolidated results forecasts

(¥mn)

| | FY12/20 | FY12/21 E | Change |
|---|---|---|---|
| Net sales | 8,318 | 9,733 | 17.0% |
| Gross profit (loss) | 314 | - | - |
| SG&A expenses | 1,695 | - | - |
| Operating profit | -1,380 | -226 | - |
| Non-operating income | 1,794 | - | - |
| Non-operating expenses | 136 | - | - |
| Ordinary profit (loss) | 276 | 185 | -33.0% |
| Profit (loss) attributable to owners of parent | 150 | 111 | -26.1% |

Note: listed in December 2019
Source: Prepared by FISCO from the Company's financial results

FY12/21 forecast trends by segment

(¥mn)

| | FY12/20 | FY12/21 E | Change |
|---|---|---|---|
| Net sales | 8,318 | 9,733 | 17.0% |
| Childcare business | 7,468 | 8,743 | 17.1% |
| Nursing care business | 688 | 792 | 15.1% |
| ICT business | 122 | 191 | 56.7% |
| Other | 38 | 6 | -84.3% |
| Number of facilities at end of period | | | |
| Childcare business (facilities) | 73 | 79 | +6 |
| Nursing care business (facilities) | 12 | 13 | +1 |

Note: listed in December 2019
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Net sales are forecast to rise significantly due to the increases in the number of facilities and the number of users. For openings of new facilities, the plan is to open 6 authorized nursery schools and 1 child development support facility. In profits, the operating loss will contract, including due to the optimization of staff placements, while ordinary profit and profit attributable to owners of parent are both forecast to decrease due to the decline in equipment subsidy income alongside the fall in the number of new facility openings. In the 2Q, equipment subsidy income of ¥371mn is scheduled to be recorded in non-operating income.

## May achieve operating profit in FY12/22

### 2. May achieve operating profit in FY12/22

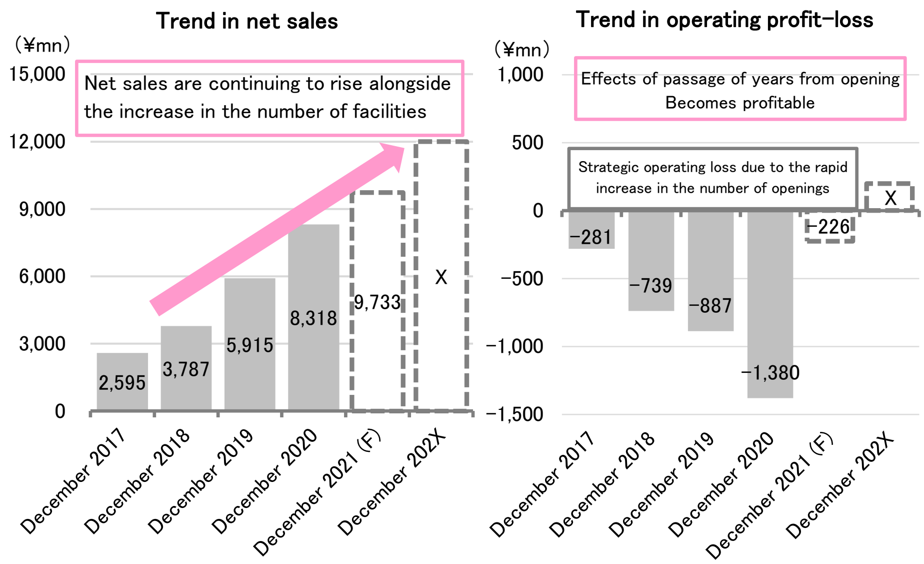
For operating profit-loss in FY12/21, the forecast is that the extent of the loss will contract and improve significantly. This is because although the operating loss has grown up to the present time due to upfront investment alongside the rapid increase in the number of newly opened facilities, going forward, net sales will trend upward from the increase in the number of facilities, while in profits, facilities will contribute after 2 or 3 years have passed from their openings when their student vacancy fill rates have improved. At the end of FY12/20, the lower-age class had achieved the high occupancy rate of over 100%. In FY12/21, occupancy for the higher-age class is also expected to sequentially improve, so the Company may achieve operating profit in FY12/22.

Enrolment conditions at the directly managed childcare facilities

(Unit: people)

| Class by age group | Maximum no. of students (capacity) | As of December 2020 No. of enrolled students | Enrollment rate |
|---|---|---|---|
| 0-year-old children | 403 | 414 | 103% |
| One-year-old children | 705 | 708 | 100% |
| Two-year-old children | 762 | 733 | 96% |
| Three-year-old children | 755 | 657 | 87% |
| Four-year-old children | 736 | 533 | 72% |
| Five-year-old children | 733 | 341 | 47% |
| Total | 4,094 | 3,386 | 83% |

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




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

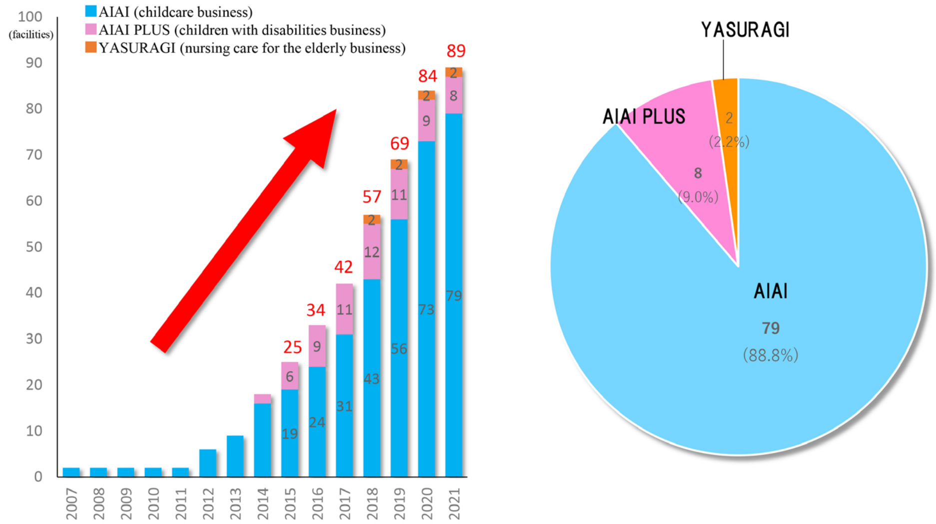
# Growth strategy

## Child development support facilities are increasing

### 1. Child development support facilities are increasing

Since around the middle of the 2010s, the Company has rapidly increased openings of new facilities, mainly directly managed authorized childcare facilities, in order to build an earnings foundation.

Trend in the no. of directly managed facilities




*In addition to the above, manages "Niji no Ie" living-support nursing-care facilities

Source: The Company's results briefing materials

As its policy for openings of new facilities toward growth in the future, the Company opens around 10 facilities a year as the total of "AIAI" and "AIAI PLUS" facilities. Progress is being made in eliminating child waiting lists, and it is anticipated that competition will intensify and profits will decline for authorized nursery schools. Therefore, its policy is to strengthen new openings of "AIAI PLUS," for which there is little competition and which have a high profit margin. Also, for nursing-care facilities, it intends to open them (to increase to around 50 facilities in the medium- to long-term) while also utilizing M&A.

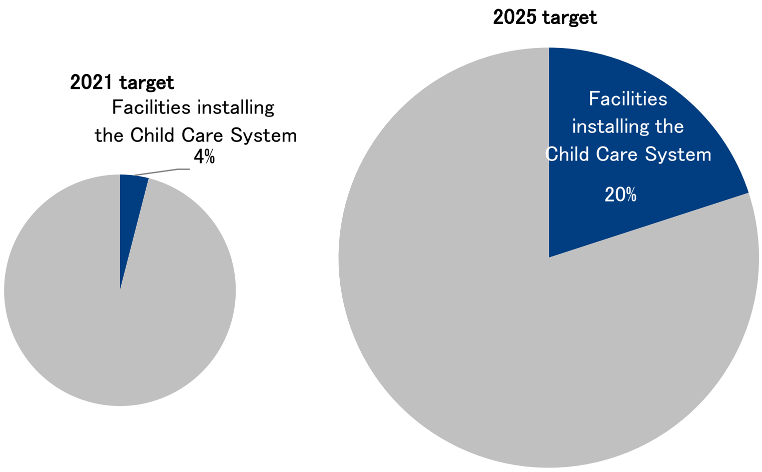
## From nursery schools to an EdTech company

### 2. From nursery schools to an EdTech company

The Company has set "from nursery schools to an EdTech company" as its strategy to achieve further growth. It will utilize its strength, of the data and expertise accumulated through managing childcare facilities, to progress business growth.

As well as strengthening sales of CCS, the nursery school management and administration system, it will enhance the development and sales of new products as software that will realize individually optimized childcare. It is aiming to increase installations of the system into private authorized nursery schools and private kindergartens from 4% in 2021 (around 750 installations based on the number of installations) up to 20% by 2025 (around 4,200 installations).

Share target




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

## Growth is expected in the medium-term

### 3. Growth is expected in the medium-term

Facilities for which 2 or 3 years have passed since they were opened and whose student vacancy fill rates have improved will contribute, so the possibility is increasing that the Company will achieve operating profit in FY12/22. It is considered that the conditions are in place for an earnings foundation that will enable operating profit to be stably recorded. From its strategy of "from nursery schools to an EdTech company," it is opening new facilities and progressing the expansion of the ICT business, and growth is expected in the medium-term.

# Shareholder return policy

## Is currently in a growth process and is giving priority to actively conducting capital investment and strengthening the financial foundation toward business growth

The Company considers returning profits to shareholders to be one of its most important management policies. But it is currently in a growth process and it considers that actively conducting capital investment and strengthening the financial foundation toward business growth will lead to returns to shareholders being maximized in the future. Therefore, it has not yet paid a dividend since its foundation, and it seems that it will continue this policy for the time being.

The Company's policy is to consider retuning profits to shareholders in the future, while considering the business results and financial condition in each fiscal year. But at the current time, it has not decided on the possibility or the timing of dividend payments.

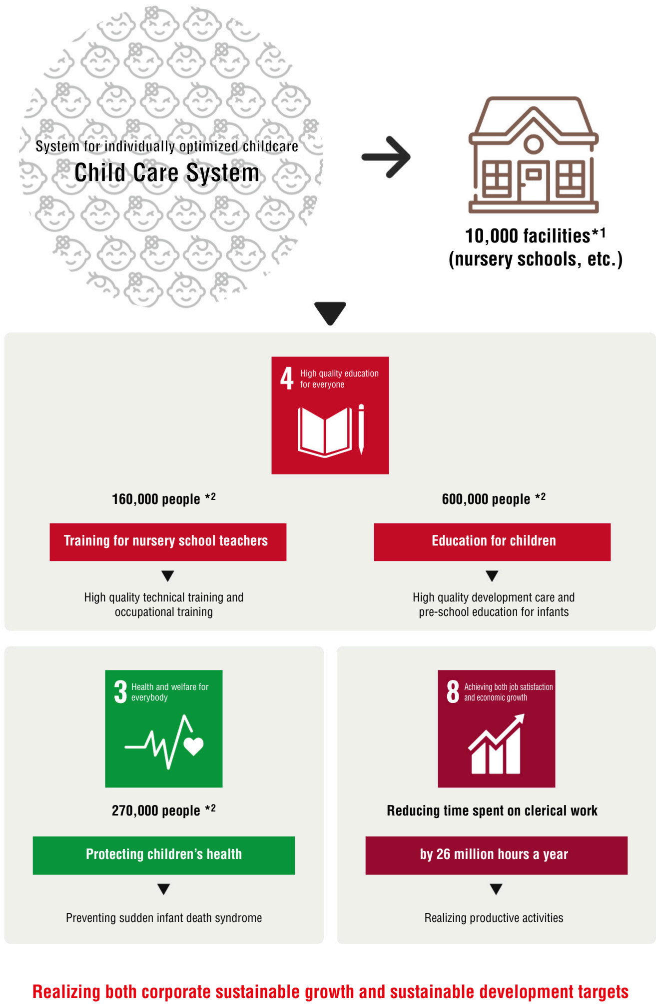
# Initiatives for SDGs

The Company's policy is to strengthen initiatives for SDGs. Based on its SDGs philosophy, of "Bold reforms in which not a single person is left behind," it is utilizing CCS to implement measures to prevent sudden infant death syndrome, to provide high-quality pre-school education, and for technical training and occupational training for nursery school teachers. It is also aiming to realize productive activities through progressing measures to improve work efficiency.

In addition to the above, currently in Cambodia the Company is conducting measures including constructing a kindergarten, donating food and clothing to an orphanage, and providing a scholarship system for high-school students who want to go to a local university (providing some of the tuition fees and living expenses). Also, with the aims of improving expertise and personnel skills, it is conducting overseas inspection training in Cambodia, Finland, and other regions.

Initiatives for SDGs

Bold reforms in which not a single person is left behind




*1 In the event that the Child Care System is installed by around 20% of nationwide nursery schools, kindergartens, and certified centers for early childhood education and care (no. of nationwide nursery schools, kindergartens, and certified centers for early childhood education and care: approx. 56,000 facilities)

*2 When assuming a facility with 16 childcare providers, 27 students aged under 1, 1 year or 2 years, and a capacity for 60 students.

Source: reprinted from the Company's website

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