COMPANY RESEARCH AND ANALYSIS REPORT

Gakken Holdings Co., Ltd.

9470

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Summary

Announced "Gakken 2023," the new medium-term management plan with aims of accelerating DX and promoting globalization and reaching ¥7,500mn in operating income in FY9/23

Gakken Holdings <9470> is a comprehensive services company in the fields of education and healthcare & nursing. In the educational field, it operates private supplementary schools and publishes children's books, study-aid books, textbooks for elementary and junior high schools, and other materials and sells products to kindergartens and nursery schools. In the healthcare and nursing field, it operates serviced apartments for the elderly, group homes for the elderly with dementia, nursery schools, and other facilities. The Company acquired Medical Care Service Company Inc. (MCS), the top operator of group homes for the elderly with dementia, in September 2018 and has been broadening business scope by actively undertaking M&A.

1. Attained higher sales and profits again in FY9/20 despite COVID-19 headwind

In FY9/20 consolidated results, the Company reported higher sales for an 11th straight year and higher operating income for a 6th straight year with net sales at ¥143,564mn (+2.1% YoY) and operating income at ¥5,075mn (+12.2%). There was a decline in the number of students in Gakken Classroom and cram school business due to the impact of the widening COVID-19 pandemic from March 2020. However, stronger sales of children's books, study-aid books, and other publications driven by stay-home demand offset setbacks and steady growth in the elderly care businesses and cutbacks in various expenses on tighter control of advertising and promotional costs and shift to telework operations fueled sales and profit increases. Furthermore, the Company roughly met revised guidance prior to the COVID-19 pandemic (¥143,000mn in net sales, ¥5,100mn in operating income).

2. Announced "Gakken 2023," the new medium-term management plan

The Company announced "Gakken 2023," the new medium-term management plan. It aims to "establish a solid foundation for growth" by adapting to changes amid major revisions to social and lifestyle formats in the COVID-19 pandemic. In the educational field, its policies are "creation of new approaches to learning and a diverse range of learning opportunities" and it intends to maximize the extensive educational contents and infrastructure it has accumulated utilizing digital transformation (DX) in provision of services ranging from toddlers to adults and Japan to worldwide and thereby expand business and improve profitability. In the healthcare and nursing field, it defines a policy of "seek to be a top company contributing to development of sustainable towns" and aims to achieve stable growth through expansion of the number of sites while promoting cultivation of human resources and enhanced service quality. Numerical goals for FY9/23, the final fiscal year of the plan period, are ¥165,000mn in net sales, ¥7,500mn in operating income, at least 8.0% ROE, and at least 30% dividend payout ratio. FISCO thinks the Company should be capable of attaining plan goals for the healthcare and nursing field because of anticipated arrival of an extreme aged society. Meanwhile, FISCO believes it should be capable of reaching goals for the educational field if it successfully acquires educational DX demand through collaboration with group companies.

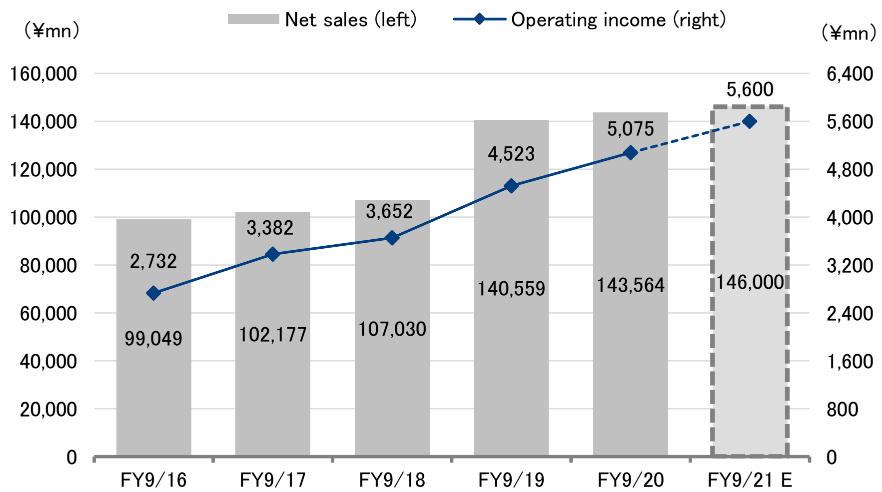
3. Expecting continued sales and profit gains in FY9/21

The Company's guidance for FY9/21 consolidated results targets is ¥146,000mn in net sales (+1.7% YoY) and ¥5,600mn in operating income (+10.3%). In the educational field, despite the prospect of continued struggles in Gakken Classroom and cram school business through 2Q, it plans to build dual services with real-world and online capabilities and thereby revive income trends from 3Q onwards. It also expects growth in English business and enhanced income in video distribution, science business, and other areas. In the healthcare and nursing field, it expects continued sales and profits growth with increase in the number of residents accompanying expansion of site volume.

Key Points

- Achieved higher sales for an 11th straight year and higher operating income for a 6th straight year in FY9/20 despite COVID-19 pandemic headwind
- With a slogan of "establishing a solid foundation for growth," the Company intends to accelerate DX and promote global business in the educational field and healthcare and nursing field and achieve sustainable improvement of corporate value

Results trends



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

Business overview

Operates in two main areas – education and healthcare/nursing

1. Company history and business segments

The Company started with the establishment of Gakushu Kenkyusha, a publisher of educational books, in 1946 with a corporate motto of the founder that “postwar reconstruction fundamentally relies on education.” While the Company initially developed business through sales channel of schools, it expanded scope in the 1970s by building bookstores sales channel and setting up direct sales to households. It obtained broad support for “Kagaku and Gakushu” educational magazines with supplemental materials for elementary school students and steadily grew into a comprehensive publishing company in the educational field by widening to encyclopedias, dictionaries, medical books, and other areas. The Company expanded business to the educational services field from the 1980s with its launch of learning center business.

The Company started the elderly care business for the purpose of cultivation as a second major business area in 2004 amid weakened income because of the impact of the shrinking child population and a publishing recession in the 2000s. It transitioned to a holding-company organization in 2009 and subsequently pursued streamlined management in educational business and efforts to rebuild the business foundation and restore profitability while actively conducting M&A and engaging in business alliances until today. At the end of FY9/20, it had 54 consolidated subsidiaries and one equity-method affiliate*.

* Owns a 37.7% stake in Ichishin Holdings <4645>.

In business segments, the Company has adjusted segments to address business growth, exits, and other developments. Since FY9/17, it had been disclosing with four business segments under two business domains – the educational field and healthcare and nursing field. The educational fields consist of three business segments - educational service business that mainly covers Gakken Classroom and other cram school businesses, educational contents business that has roots in the Company’s founding educational publishing business, and educational solution business that sells publications, childcare products and playing and other equipment to kindergartens and nursery schools and handles textbooks for elementary and junior high schools.

The healthcare and nursing field, meanwhile, consists of the serviced apartments for the elderly business launched with the establishment of Gakken Cocofump Co., Ltd. (now, Gakken Cocofump Holdings Co., Ltd.) in 2004, operation of nursery schools and other child rising support facilities, and MCS* (operates mainly group homes for the elderly with dementia and other elderly care facilities) acquired as a subsidiary in September 2018.

* The Company acquired 61.8% of MCS shares for ¥8.9bn in September 2018 and subsequently purchased more shares to hold 96.5% stake as of end-September 2020.

Business content and major subsidiaries

Business segment	Business content	Major subsidiaries
Educational field	1) Operate Gakken Classroom mainly for elementary school students and promote franchise business 2) Operate cram schools mainly for junior and senior high school students 3) Produce and sell learning materials mainly based on textbooks for elementary and junior high school students	Gakken Juku Holdings (intermediate holding company) Gakken Educational Gakken L Staffing Gakken Study et Sozogakuen Waseda School ING ZENKYOKEN Bunri gakuin Koto Shingakujuku Bunri
	4) Publish study-aid books, children's books, and other publications 5) Produce and sell medical and nursing publications and contents, e-learning 6) Plan, develop, and sell stationery goods and educational toys and goods 7) English education facility Online English conversation classes	Gakken Plus Gakken Medical Shujunsha Gakken Sta-Ful TOKYO GLOBAL GATEWAY Glats
	8) Produce and sell publications for kindergartens and nursery schools, nursery goods and supplies, etc. 9) Produce and sell textbooks, etc. for elementary and junior high schools, and produce and sell publications and teaching materials for senior high schools and colleges	Gakken E-mirai
	10) Corporate hiring assistance business, training business, etc. 11) ODA consulting, overseas development assistance business, etc.	JTEX Management Center IC Net
Healthcare and nursing field	1) Develop and operate serviced apartments for the elderly, group homes for the elderly with dementia, and other care facilities 2) Develop and operate kindergartens, nursery schools, etc. 3) Develop and operate mainly group homes for the elderly with dementia and other care facilities	Gakken Cocofump Holdings (intermediate holding company) Gakken Cocofump Gakken Cocofump Nursery Medical Care Service
Other	Provide logistics services, provide group shared services, etc.	Gakken Logistics Gakken Products Support

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

Operates Gakken Classroom covering from toddlers to junior high school students and cram schools, and publishes educational materials

2. Educational field

(1) Gakken Classroom business

Gakken Classroom is a learning classroom business started in 1980 that covers toddlers to junior high school students (including some senior high school students) and uses a franchise format. It had 15,716 classrooms (number of certified sites) with 378,787 course members (course basis) as of end-September 2020. It also operates overseas, mainly in the Asia region.

Kumon Method Classroom service operated by Kumon Institute of Education Co., Ltd. is the primary rival. However, Gakken Classroom's main characteristics and strengths are 1) low monthly fees, 2) non-school-year system, one-to-one teaching, and personalized learning materials, and 3) concurrent math and Japanese language courses.

While income weakened in FY9/20 because of substantial decline in the number of students due to COVID-19 pandemic impact, this business normally generates operating margin in the 6% range and is positioned as a stable income source for the Company's Group.

The Company also provides toddler classrooms that dispatches instructors to kindergartens, nursery schools, and children's daycare centers where they provide science, English, and intellectual education, etc.

(2) Cram school business

While educational services business primarily focused on increasing the number of Gakken Classroom, it has also been expanding cram school business through aggressive acquisitions and business alliances since the mid-2000s. For the background, the Company sets a goal of maximizing customer LTV by adding a cram school in the Group to retain students recruited by Gakken Classroom. In M&A, it continues using the school's brand after acquisition as a subsidiary. In global business, the Company operates learning centers for Japanese students living in Singapore, Taiwan, Vietnam, and other countries. It had a total of 499 classrooms with 47,589 students as of end-September 2020.

(3) Educational materials publishing business

The Company produces and sells learning materials for elementary and junior high school students mainly based on textbooks and specialized materials for its learning centers. While this business previously belonged to educational contents business, the Company moved it to educational services business from FY9/20 for the purpose of enhancing Group synergies by bolstering collaboration with the cram school business.

The business consists of study-aid books, children's books, and other publishing, medical books, nursing books, and e-learning for nurses, digital contents linked to publishing, and educational toys

(4) Publishing business

The Company sells children's books and study-aid books. Elementary and junior high school student segment accounts for a large percentage of study-aid books, and the Company holds a top share in this industry. The Company spun off its media business in July 2020 and transferred periodical magazines, mook book publishing, web media business, and contents marketing business to One Publishing, a newly established joint venture of which the Company owns 49.5% stake.

(5) Medical and nursing business

The Company produces and sells medical and nursing publications and operates an e-learning business for nurses. It has sales network with 1,788 hospitals for e-learning as of end-September 2020.

(6) Businesses other than publishing

This business utilizes contents cultivated in the publishing business and mainly consists of video distribution business, educational ICT services, online English conversation services, sales of stationery, intellectual learning toys, and goods, and operation of TOKYO GLOBAL GATEWAY, an experience-type English learning facility.

Operates toddler education, school education, and recurrent education businesses

(7) Toddler education business

The toddler education business sells published materials (picture books, etc.) for kindergartens, nursery schools and children's daycare centers, day care goods, supplies, and uniforms.

(8) School education business
School education business covers publishing of textbooks for elementary and junior high schools (physical and health education, moral education), instruction guides for teachers, and special assistance teaching materials, as well as produces and sells short essay and mock test materials for senior high schools in addition to job practice tests and learning materials to colleges.

Income for the school education business increasingly relies on textbooks for elementary and junior high schools and instruction guides for teachers. The Ministry of Education, Culture, Sports, Science and Technology assesses school textbooks in a four-year cycle. For public schools, boards of education in each municipality select school textbooks that are approved by the assessment. Sales share fluctuates depending on these trends. Additionally, while textbook sales offer stable demand until the next adoption year once the textbook is selected, sales of teacher instruction manuals typically concentrate in the initial usage fiscal year (year after adoption) and hence caution is needed due to the tendency for income volatility depending on the fiscal year. Income is expected to be healthy thanks to starts in two elementary school courses in FY9/20 and two junior high school courses in FY9/21, but it is likely to weaken thereafter due to the absence of new issuance in the subsequent two years.

(9) Recurrent education business
In recurrent education business, the Company provides recruitment assistance services to corporate customers and also plans and provides corporate training through JTEX Management Center Co., Ltd. (JMC). Moreover, the Company acquired IC Net Limited. As a subsidiary from 1Q FY9/20. IC Net operates consulting business that specializes in overseas development activities, including Official Development Assistance (ODA) consulting business, and global human resource training business. The Company intends to promote overseas business in its educational field and healthcare and nursing field by utilizing IC Net's business network.

Operates serviced apartments for the elderly, group homes for the elderly with dementia, and other elderly care businesses and provides child-care services

3. Healthcare and nursing field

In the healthcare and nursing field, the Company provides elderly care business and child-care business. It expanded business scale in September 2018 by the acquisition of MCS as a subsidiary.

(1) Elderly care business
The elderly care business involves nationwide operation of serviced apartments for the elderly under the Cocofump brand of the subsidiary, Gakken Cocofump, established in 2004 as well as providing day service for the elderly. The Company operates 148 senior home sites, including serviced apartments for the elderly, nationwide as of end-September 2020. Regionally, the Tokyo metropolitan area (including Shonan) accounts for 70% of total volume (room basis), and the rest are located in Tokai, Hokuriku, and Western areas of Japan.

The business model of serviced apartments for the elderly is mainly based on a sub-leasing scheme. The Company does not own the land nor building by themselves and has steadily expanded the business because this model facilitates streamlining of the balance sheet and rapid site deployment.

Meanwhile, MCS mainly operates group homes for the elderly with dementia. It operates 274 homes nationwide at the end of August 2020 and is the industry leader in terms of number of rooms.

The Company decided to acquire MCS as a subsidiary expecting strong synergy effect in realizing a "Gakken's Community-based Integrated Care System." Specifically, it aims to 1) secure destinations for people living at serviced apartments for the elderly when they need to leave the apartment due to advanced dementia, and raise the occupancy rate, 2) enhance facility development capabilities by leveraging area commonalities, and 3) realize benefits in personnel recruitment through shared recruitment activities and boost the retention rate.

Occupancy rate and operating staff personnel costs are the main factors that affect profits in the elderly care business. Increase in the number of new sites in a short period results in temporary decline in the occupancy rate along with initial investment burden, such as operating staff hiring and personnel costs. Key points for strengthening profitability are raising the occupancy rate, training human resources, and lowering turnover.

(2) Parenting support business

Parenting support business operates nursery schools and after-school children's club facilities at Gakken Cocofump Nursery Co., Ltd. The Company had 72 child raising support sites at the end of September 2020 with all of them located in the Tokyo metropolitan areas. This includes 45 nursery schools with 2,381 students. A key issue in the nurseries and children's day care business is finding nursery school teachers.

Performance trends

Achieved higher sales for an 11th straight year and higher operating income for a 6th straight year in FY9/20 despite COVID-19 pandemic headwind

1. FY9/20 results summary

In FY9/20 consolidated results, the Company reported ¥143,564mn in net sales (+2.1% YoY), ¥5,075mn in operating income (+12.2%), ¥5,273mn in ordinary income (+10.9%), and ¥2,321mn in profit attributable to owners of parent (+19.7%). Despite the headwind from the COVID-19 pandemic, the Company achieved higher net sales in an 11th straight year and higher operating income and ordinary income for a 6th straight year and the strongest operating income and ordinary income since the shift to a holding company organization in 2009. The Company made upward revision in November 2019 from the initial plan announced in November 2018. However, because of uncertainty about COVID-19 impact, it once withdrew the revised forecast at the time of 2Q disclosure and announced downward revision in June 2020. Actual FY9/20 results exceeded the revised forecast of June 2020 and net sales, operating income, and ordinary income roughly on track with the revised forecast of announced in November 2019. Regarding the profit attributable to owners of parent, however, the initial plan was not achieved because of extraordinary loss of ¥253mn related to the COVID-19 pandemic and higher tax expenses than initially expected.

FY9/20 consolidated results

(Unit: ¥mn)

	FY9/19	FY9/20				
	Results	Initial plan (disclosed in November 2018)	Revised plan (disclosed in November 2019)	Guidance (disclosed in June 2020)	Results	Changes vs. the revised plan (November 2019)
Net sales	140,559	140,000	143,000	141,000	143,564	564
Operating income	4,523	5,000	5,100	4,600	5,075	-25
Ordinary income	4,755	-	5,300	4,800	5,273	-27
Profit attributable to owners of parent	1,940	3,300	2,800	1,950	2,321	-479
ROE	5.0%	7.7%	7.0%	-	6.2%	-0.8pt

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

Looking at factors changing operating income, factors for an increase in income included an increase in gross profit of ¥1,426mn, and decreases in advertising and promotion expenses of ¥585mn and in transportation, social interaction and meeting costs of ¥517mn, which absorbed an increase in SG&A expenses of ¥1,976mn. Increase in SG&A expenses included higher costs due to the increase of facilities in the healthcare and nursing service business and impact of acquiring IC Net as a subsidiary. At the segment level, while profit slipped in educational services business directly affected by the COVID-19 pandemic, other businesses attained profit gains. In educational contents business, despite lower sales, withdrawal from unprofitable businesses and robust sales of children's books, study-aid books, and other publications, driven by the tailwind of stay-home demand, delivered sharply higher profits.

Profit increases in other businesses offset decline in educational services business profit

2. Trends by business segment

Results by business segment

(Unit: ¥mn)

		FY9/19 Results	FY9/20		YoY	
			Period-start plan	Results	Change rates	Change
Educational field	Net sales	81,627	81,000	78,710	-3.6%	-2,916
	Operating income	1,873	2,650	2,291	22.3%	417
Educational services	Net sales	34,232	34,500	32,969	-3.7%	-1,263
	Operating income	970	1,200	424	-56.3%	-545
Educational contents	Net sales	28,314	26,500	26,643	-5.9%	-1,671
	Operating income	542	750	1,440	165.7%	898
Educational solutions	Net sales	19,080	20,000	19,098	0.1%	17
	Operating income	361	700	425	17.7%	64
Healthcare and nursing field Healthcare and nursing service	Net sales	55,430	59,000	60,786	9.7%	5,355
	Operating income	2,499	2,350	2,562	2.5%	63
Other	Net sales	3,500	3,000	4,067	16.2%	566
	Operating income	150	100	221	47.3%	71
Total	Net sales	140,559	143,000	143,564	2.1%	3,005
	Operating income	4,523	5,100	5,075	12.2%	551

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

(1) Educational services business

Educational services business achieved ¥32,969mn in net sales (-3.7% YoY) and ¥424mn in operating income (-56.3%). Decline in member student volumes at Gakken Classroom and cram schools amid the COVID-19 pandemic resulted in lower sales and profits.

Results breakdown in the educational services business

(Unit: ¥mn)

		FY9/19	FY9/20	YoY	
				Change rates	Change
Net sales	Gakken Classroom	10,590	9,819	-7.3%	-770
	Cram school business	19,682	18,567	-5.7%	-1,115
	Learning materials publishing business	3,958	4,581	15.7%	622
	Total	34,232	32,969	-3.7%	-1,263
Operating income	Gakken Classroom	652	-24	-	-676
	Cram school business	179	-55	-	-235
	Learning materials publishing business	138	504	265.2%	366
	Total	970	424	-56.3%	-545

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

In the breakdown, Gakken Classroom business posted ¥9,819mn in net sales (-7.3% YoY) and a ¥24mn operating loss (¥676mn decline YoY). Sales weakened on a rise in members of suspending or withdrawing and slower recruitment of new members because of COVID-19 impact from March 2020. Member volume slipped to a decline for the first time in two fiscal years with a 9.0% drop YoY to 378,787 people at end-FY9/20, and the number of classrooms, which had been steadily increasing in recent years, also switched to a decline with a 2.6% drop to 15,716 classrooms. These setbacks demonstrated strong impact by the COVID-19 pandemic. In earnings, this business confronted downward pressure from weaker sales as well as increase in learning material revision costs to accommodate changes in the Courses of Study from FY2020.

Cram school business achieved ¥18,567mn in net sales (-5.7% YoY) and a ¥55mn operating loss (¥235mn decline YoY). Decline in student volume of 6.6% YoY to 47,589 students at end-FY9/20 because of sluggish recruitment activities for new students amid the COVID-19 environment was the main source of lower sales. While the Company rolled out online interactive classes, implemented short-term concentrated courses, and reduced costs, these efforts were not enough to fully offset profit setback from sales contraction.

Educational materials publishing business performed well at ¥4,581mn in net sales (+15.7% YoY) and ¥504mn in operating income (+265.2%). This momentum reflected upbeat sales of drill-related and other home study materials due to school closures during March to May.

(2) Educational contents business

Educational contents business incurred weaker sales with a 5.9% YoY decline to ¥26,643mn but delivered sharply higher operating income at ¥1,440mn (+165.7%). Main profit improvements were upbeat sales of children's books and study-aid books driven by stay-home demand and withdrawal from unprofitable businesses.

Results breakdown in the educational contents business

(Unit: ¥mn)

		FY9/19	FY9/20	YoY	
				Change rates	Change
Net sales	Publishing	16,669	16,300	-2.2%	-369
	Medical and nursing business	2,829	2,791	-1.3%	-37
	Businesses other than publishing	8,815	7,550	-14.3%	-1,264
	Total	28,314	26,643	-5.9%	-1,671
Operating income	Publishing	1,554	2,231	43.6%	677
	Medical and nursing business	477	451	-5.5%	-26
	Businesses other than publishing	-1,489	-1,242	-	247
	Total	542	1,440	165.7%	898

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

Publishing business reported ¥16,300mn in net sales (-2.2% YoY) and ¥2,231mn in operating income (+43.6%). While this business posted higher sales of children's books, study-aid books, and other materials on increased demand for home learning due to school closures, spin-off of the media business in 4Q reduced sales of periodical magazines, mook books, and other content. Profits benefited from upbeat sales of children's books and study-aid books and steep decline in returns from bookstores that had been anticipated in 4Q.

The number of new publications dropped by 13 titles YoY to 731. The main factor was an increase of 91 new publications for study-aid books that addressed changes to the Courses of Study. New releases of mook books and other magazines, on the other hand, fell down. Although the return rate climbed from 31% in the previous fiscal year to 35% for books, this occurred as a one-time impact of bulk returns of inventory in past versions of study-aid books. Regarding magazines and periodicals, on the other hand, improvement is steadily progressing.

Medical and nursing business achieved ¥2,791mn in net sales (-1.3% YoY) and ¥451mn in operating income (-5.5%). Despite higher sales in e-learning for nurses with steady expansion of the number of contracted hospitals, weaker sales of medical books and nursing books because of decline in sales opportunities amid curtailment of various events had an impact. Lower book sales contributed to profit decline as well. The Company accelerated the increase pace in e-learning contracted hospital volume with an addition of 306 sites YoY to 1,788 sites. Nurses are often unable to find time for group training because of busy schedules and hence are a good fit with e-learning service that provides a nurse training tool for education anytime and anywhere. Demand appears to have risen even more because of the inability to hold group training amid the COVID-19 pandemic. With roughly 8,000 hospitals nationwide in Japan, this business is likely to sustain high growth through further inroads.

Other businesses besides publishing achieved ¥7,550mn in net sales (-14.3% YoY) and an operating loss of ¥1,242mn (decreasing ¥247mn YoY). The main factors of sales setbacks were the sales of a portion of the anime business in 2Q* and weaker sales of stationery and toy products. Meanwhile, the Company selling off anime and other unprofitable businesses contributed to healthier earnings.

* The Company sold three monthly anime magazines issued by Gakken Plus Co., Ltd., mook sales, and the "Cho! Animedia" anime information site to IID Inc. <6038> in February 2020.

(3) Educational solutions business

Educational solutions business achieved ¥19,098mn in net sales (+0.1% YoY) and ¥425mn in operating income (+17.7%). Elementary school textbook and teacher instruction guideline publications lifted profits.

Results breakdown in the educational solutions business

(Unit: ¥mn)

		FY9/19	FY9/20	YoY	
				Change rates	Change
Net sales	Toddler education business	13,679	12,549	-8.3%	-1,130
	School education business	4,179	4,161	-0.4%	-17
	Recurrent education business	1,221	2,387	95.5%	1,166
	Total	19,080	19,098	0.1%	17
Operating income	Toddler education business	557	-22	-	-579
	School education business	-303	367	-	671
	Recurrent education business	107	80	-25.2%	-26
	Total	361	425	17.7%	64

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

Toddler education business had ¥12,549mn in net sales (-8.3% YoY) and ¥22mn operating loss (income fell by ¥579mn YoY). Sales softened on decline in member volume due to prolonged closures of toddler classrooms from March on COVID-19 pandemic conditions and weaker sales in classroom building design, new school year goods, and equipment businesses. Income dropped on lower sales and fixed cost burden with curtailment of sales activities from June as well.

School education business, meanwhile, reported ¥4,161mn in net sales (-0.4% YoY) and a ¥367mn operating income (rose by ¥671mn YoY). Profit improved on higher sales of lucrative teacher instruction manuals accompanying a new publication year for elementary school textbooks (health and ethics). In spring 2021, the Company is issuing new publications for health education and ethics courses for junior high schools. Since junior high schools only have half as many school years than elementary schools and this reduces teacher guideline issuance volume, it is likely that FY9/20 will be the near-term peak in school education business income.

Recurrent education business recorded ¥2,387mn in net sales (+95.5% YoY) and ¥80mn in operating income (-25.2%). Sales strengthened from 1Q on the addition of IC Net, which operates an ODA consulting business, as a consolidated subsidiary. Profits, however, slipped on lower income due to ban on overseas trips amid the COVID-19 pandemic.

(4) Healthcare and nursing services

The healthcare and nursing business reported ¥60,786mn in net sales (+9.7% YoY) and ¥2,562mn in operating income (+2.5%). Sales and profits improved due to expansion in number of serviced apartments for the elderly and nursery schools and after school children's clubs.

Results breakdown in the healthcare and nursing business

(Unit: ¥mn)

		FY9/19	FY9/20	YoY	
				Change rates	Change
Net sales	Elderly care business	50,889	55,805	9.7%	4,916
	(Cocofump, etc.)	20,556	23,810	15.8%	3,254
	(MCS)	30,333	31,995	5.5%	1,662
	Child-care business	4,541	4,980	9.6%	438
	Total	55,430	60,786	9.7%	5,355
Operating income	Elderly care business	2,426	2,445	0.7%	18
	(Cocofump, etc.)	1,039	1,161	11.7%	122
	(MCS)	1,387	1,284	-7.4%	-103
	Child-care business	72	117	62.5%	44
	Total	2,499	2,562	2.5%	63

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

Looking at the breakdown, elderly care business (excluding MCS) performed well with ¥23,810mn in net sales (+15.8% YoY) and ¥1,161mn in operating income (+11.7%). The number of serviced apartments for the elderly rose by 12 sites YoY to 148 sites, resident volume expanded at a healthy pace to 6,600 rooms (+11.2%), and the occupancy rate stay at a high level of 91.9% (flat YoY). These trends fueled higher sales and profits.

MCS business, on the other hand, recorded ¥31,995mn in net sales (+5.5% YoY) and ¥1,284mn in operating income (-7.4%). Despite opening four new group homes for the elderly with dementia, profit shrank on higher personnel costs with implementation of salary revision and increase in staff volume and extra costs to implement COVID-19 pandemic countermeasures.

Parenting support business reported ¥4,980mn in net sales (+9.6% YoY) and ¥117mn in operating income (+62.5%). This business boosted sales by opening two nursery schools (lifting total volume to 45 sites) and obtaining consignments to operate six after school children's club sites (putting total volume at 26 sites), and the positive effect from higher sales raised profits.

Issued ¥6bn social bonds and allocating proceeds to buying additional MCS shares and MCS financing

3. Financial conditions and cash flow overview

Looking at financial condition at the end of FY9/20, total assets were up by ¥4,392mn versus the previous period-end to ¥103,741mn. Main changes were a ¥4,411mn increase in cash and deposits under current assets and an increase of ¥1,105mn in tangible fixed assets and a decrease of ¥2,767mn in investment securities under fixed assets.

Liabilities increased by ¥8,131mn versus the previous period-end to ¥67,502mn. Mainly interest-bearing debt rose by ¥6,950mn. Total net assets fell by ¥3,738mn versus the previous period-end to ¥36,239mn. Despite an increase in retained earnings by ¥1,507mn, this result reflected decreases of ¥3,677mn in capital surplus, ¥541mn in valuation difference on available-for-sale securities, and ¥1,231mn in non-controlling interests.

The Company issued ¥6bn social bonds in March 2020 with the intent of allocating funds entirely to social projects that the Company formulated. Specifically, the funds are used to acquire more MCS shares and provide financing to MCS with the aim of realizing stable growth in the elderly care business. The Company's ownership of MCS shares totaled 61.8% when it acquired MCS at the end of September 2018. Since then, the Company has incrementally raised its stake to 96.5% at the end of September 2020.

Looking at cash flow trends, cash and cash equivalents rose by ¥4,927mn versus the previous period-end to ¥24,765mn at end-FY9/20. In the breakdown, cash flow from operating activities resulted in a net inflow of ¥5,971mn mainly on stronger income. Cash flow from investing activities resulted in a decrease of ¥1,588mn due to outflows from the purchase of tangible and intangible fixed assets. Free cash flow hence realized a ¥4,383mn surplus. Cash flow from financing activities resulted in a net outflow of ¥22mn due to ¥5,311mn spent to acquire MCS shares and dividend paid of ¥751mn despite issuance of ¥6bn in social bonds.

In business indicators, we think the Company sustained financial health due to its ample cash and deposits, despite slight weakening of safeness indicators, such as the interest-bearing debt ratio and capital ratio on increase in interest-bearing debt. From a profitability perspective, ROE, ROA, and operating margin improved versus FY9/19 levels. The Company targets at least 8.0% in ROE and intends to take actions to raise investment efficiency, including ROIC.

Consolidated balance sheet and business indicators

(Unit: ¥mn)

	FY9/17	FY9/18	FY9/19	FY9/20	YoY change
Current assets	46,538	53,087	54,811	60,030	5,218
Cash and deposits	15,738	18,911	21,185	25,596	4,411
Fixed assets	30,325	46,854	44,538	43,711	-826
Total assets	76,863	99,942	99,349	103,741	4,392
Total liabilities	40,659	59,252	59,371	67,502	8,131
Interest-bearing debt*	14,858	29,222	30,858	37,808	6,950
Total net assets	36,203	40,689	39,978	36,239	-3,738
Total liabilities and net assets	76,863	99,942	99,349	103,741	4,392
Financial indicators					
(Safety)					
Equity ratio	46.9%	39.5%	38.7%	34.6%	-4.1pt
Interest-bearing debt ratio	41.2%	74.1%	80.2%	105.3%	26.0pt
(Profitability)					
ROA	4.6%	4.5%	4.8%	5.2%	0.4pt
ROE	9.8%	8.1%	5.0%	6.2%	1.2pt
Operating margin	3.3%	3.4%	3.2%	3.5%	0.3pt

* Interest-bearing debt = Borrowings + bonds payable + lease obligations
Source: Prepared by FISCO from the Company's financial results

Cash Flow Statement

(Unit: ¥mn)

	FY9/17	FY9/18	FY9/19	FY9/20
Cash flow from operating activities	5,099	3,145	5,353	5,971
Cash flow from investing activities	473	-14,898	-2,825	-1,588
Free cash flow	5,573	-11,753	2,527	4,383
Cash flow from financing activities	-5,119	14,431	-352	-22
Cash and cash equivalents at the end of FY	14,826	17,494	19,838	24,765

Source: Prepared by FISCO from the Company's financial results, results briefing materials and medium-term management plan materials

"Gakken 2023," the new medium-term management plan

Pursuing sustainable improvement in corporate value by "establishing a solid foundation for growth" with the educational field and healthcare and nursing field as the two core drivers

1. Gakken 2023 management policy and numerical goals

(1) Management Policy

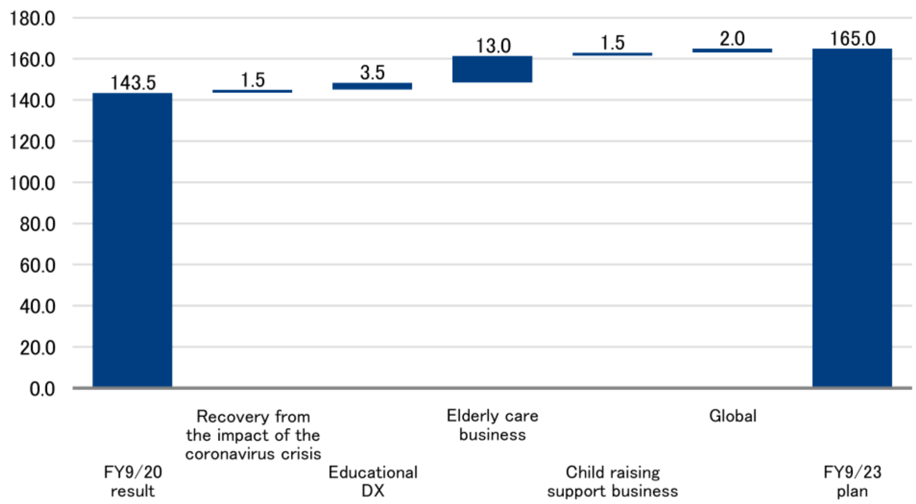
The Company announced Gakken 2023, a new three-year medium-term management plan that started in FY9/21. As the management policy, it intends to pursue sustainable improvement in corporate value by "establishing a solid foundation for growth," while accelerating DX and developing global business, with the educational field and healthcare and nursing field as the two core drivers.

Due to rapid changes in social and lifestyle formats caused by COVID-19, the plan cites three major tasks that the Group should address over the three years – 1) adaptation to the "new normal" resulting from COVID-19, 2) digital transformation, and 3) to relieve the overemphasis on the domestic mature market. It calls for initiatives of 1) actively using open innovation (collaborative creation), 2) optimizing the business portfolio (selection and growth), and 3) promoting new market development through global business operations and positioning this period as a time to build the growth foundation for realizing the long-term vision through 2030. While the Company previously prepared two-year medium-term plans, it switched to three years in the latest one with the aim of conducting strategic investments for the medium- and long-term.

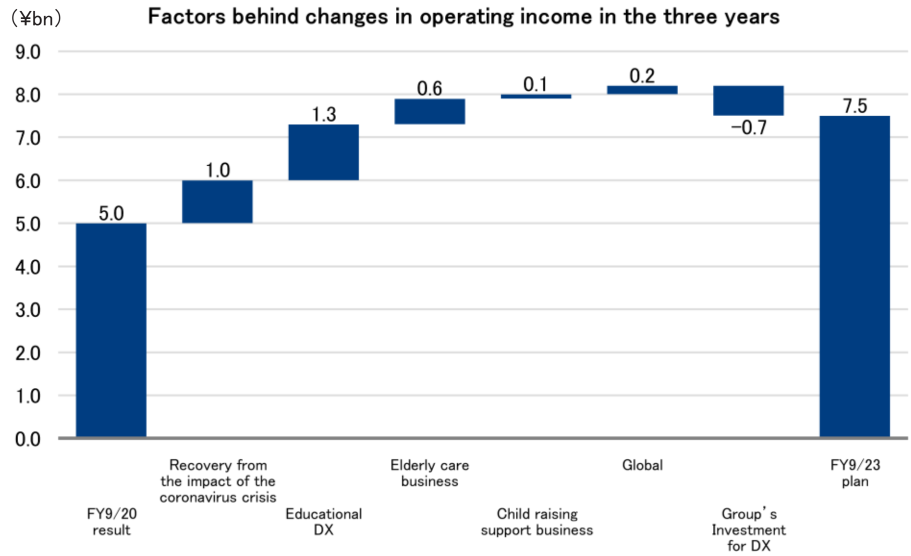
(2) Management numerical goals

Management numerical goals for FY9/23 are ¥165,000mn in net sales, ¥7,500mn in operating income, ¥3,800mn in profit attributable to owners of parent, at least 8.0% ROE, and at least 30% dividend payout ratio. These goals indicate average growth rates over three years of 4.8% in net sales and 13.9% in operating income. The plan also seeks to increase operating margin from 3.5% in FY9/20 results to 4.5% and ROE from 6.2% to at least 8.0%. Expansion of the elderly care business is expected to account for about 60% of the sales increase. In operating income, meanwhile, educational DX contributions account for just over 50% of the total gain.

Factors behind changes in net sales in the three years



Source: Prepared by FISCO from the Company's results briefing materials and medium-term management plan materials



Source: Prepared by FISCO from the Company's results briefing materials and medium-term management plan materials

Numerical goals in the medium-term management plan

(Unit: ¥mn)

	FY9/20 results	FY9/21 plan	FY9/23 plan	CAGR
Net sales	143,564	146,000	165,000	4.8%
Operating income	5,075	5,600	7,500	13.9%
(Profit margin)	3.5%	3.8%	4.5%	
Profit attributable to owners of parent	2,321	2,800	3,800	17.9%
(Profit margin)	1.6%	1.9%	2.3%	
ROE	6.2%	6.5%	At least 8.0%	
Dividend payout ratio	31.9%	29.1%	At least 30.0%	

Source: Prepared by FISCO from the Company's financial results, results briefing materials and medium-term management plan materials

By business segments, the Company targets ¥82,000mn in net sales and ¥4,500mn in operating income for the educational field and ¥76,000mn in net sales and ¥3,600mn in operating income for the healthcare and nursing field. Because of a change in the method of recognizing expenses in the Company and Gakken Products Support from FY9/21*, each field is boosted by a few hundred million yen compared to previous income on an operating income basis. In net sales, annual growth rates work out to 2.0% in the educational field and 7.7% in the healthcare and nursing field. FISCO thinks both goals are highly feasible. Meanwhile, in operating income, the plan expects growth of 27.3% in the educational field and 9.5% in the healthcare and nursing field. In our view, whether the Company is capable of raising profitability in the educational field is likely to be an important point in attaining numerical goals in the new medium-term management plan.

* Until FY9/20, the Company allocated final operating income or loss related to the Company and Gakken Products Support to individual segments under other operating income. From FY9/21, operating income from these two companies will be displayed in the other segment as assessment indicators for operating income in each segment.

Numerical goals by business segments

(Unit: ¥mn)

		FY9/20 results	FY9/21 plan	FY9/23 plan	CAGR
Education	Net sales	77,372	76,000	82,000	2.0%
	Operating income	2,184	3,300	4,500	27.3%
	(Profit margin)	2.8%	4.3%	5.5%	
Healthcare and nursing	Net sales	60,786	65,000	76,000	7.7%
	Operating income	2,744	3,000	3,600	9.5%
	(Profit margin)	4.5%	4.6%	4.7%	
Other	Net sales	5,405	5,000	7,000	9.0%
	Operating income	146	-700	-600	-
	(Profit margin)	2.7%	-	-	
Total	Net sales	143,564	146,000	165,000	4.8%
	Operating income	5,075	5,600	7,500	13.9%
	(Profit margin)	3.5%	3.8%	4.5%	

Note 1: Other includes overseas business, logistics business, etc.
Note 2: From FY9/21, the segment changed to the education field, integrating the educational services, educational contents, and educational solutions business
Source: Prepared by FISCO from the Company' news releases

Policies are "creation of new approaches to learning and a diverse range of learning opportunities" in the educational field and "seek to be a top company contributing to development of sustainable towns" in the healthcare and nursing field

2. Basic policy and priority initiatives

(1) Educational field

The Company's basic policies for the educational field are 1) promotion of individually optimized learning through "smart education" (educational DX), 2) development of a learning environment for the 100-year life era, and 3) strengthening cooperation among schools, learning centers, and homes. It intends to implement the following priority initiatives.

a) Learning center and classroom business

With COVID-19 conditions, a new "interactive online" educational service market is ramping up in the learning center industry. The Company plans to solidify advantages in this market. While JustSystems Corporation's <4686> Smile Zemi and other offerings have a lead in non-interactive services, the Company aims to achieve differentiation with its robust content as a strength and expand market share in this field.

Furthermore, the Company plans to provide services to regions without bases and or had previously been inaccessible (such as remote islands and mountainous areas) in an online format, including Gakken Classroom, G-PAPILS, and home tutors, and intends to recruit new students in these regions. For cram schools, the Company differentiates through dual classes (real and online) in an effort to broaden the attendee segment and boost the continuation rate, as well as strives to share expertise and improve results at struggling schools through collaboration among schools.

b) Toddler and adult businesses

The Company will put efforts into bolstering toddler education too. While the Company's Group conducts multiple businesses for toddler, such as operation of Gakken toddler classrooms and operation of nursery schools, publication of children's books, and sales of products to kindergartens, nursery schools, and children's daycare centers, it has not fully capitalized on synergies throughout the Group. This time it plans to promote investments that lift collaboration among business divisions and stimulate synergies by assigning a supervisor to implementation of a toddler business unit strategy that extends across the various business divisions. It aims to maximize customer LTV by encouraging continued use of Group learning center services after students advance to elementary or junior high schools by building a platform that creates a virtuous cycle of ongoing provision of learning while building numerous customer contact points. By raising LTV, the Company lowers customer acquisition costs and boosts Group profitability.

On the other hand, in adult education business, although the recurrent education market is growing, it has not become oligopolistic yet and the Company still sees sufficient room to enter. Going forward, it intends to propose a lifelong learning environment for the 100-year life era and expand business scale. Two Group companies are the main source of adult education business – JMC (corporate training service) and Gakken Medical Support (e-learning service for nurses). While sales are still small, the Company plans to actively invest resources to expand this business.

c) Publishing and education business

In publishing business, a core business, the Company aims to revamp operations with education reforms and digitalization as a promising opportunity and increase income opportunities while broadening digital contents. It will also deliver digital contents and other educational DX services to schools.

d) Global business

In overseas initiatives, the Company plans to promote Gakken contents (educational, nursing, and elderly care) globally and introduce Japan's high-quality education cultivated in public education. Overseas business currently consists of learning center operations in Southeast Asia and Taiwan, and provision of four elderly care facilities in China by MCS. The elderly care facilities in China are at the stage of establishing income model. The Company intends to continue overseas advances along the lines of existing activities in addition to leveraging IC Net's network to enter new education services. Asia is likely to be the main service region.

(2) Healthcare and nursing field

The Company's basic policies for the healthcare and nursing field are 1) improving customer and employee satisfaction, 2) collaborative creation via Gakken's Community-based Integrated Care System, and 3) achieving growth through provision of comprehensive services that support child raising and the elderly. To realize business growth amid continuing expansion of the elderly care market driven by arrival of an extreme aged society, key points are human resource development, service quality, and site development. The Company intends to implement the following priority initiatives.

a) Human resources

For human resources, it plans to strengthen the education system and improve employee satisfaction in order to increase retention rates and reduce early turnover of care staff (for instance nursery staff in the nursery school business). Group company MCS has a low turnover, and the Company aims to lower its overall turnover rate by sharing this knowhow within the Group. It plans to reinforce new hiring and expand areas covered by business to cultivate human resources. In particular, the Company thinks it is important to cultivate human resources with management potential and strengthen training internally, rather than just mid-career hiring, in order to increase the number of sites.

b) Quality

The Company will improve operating efficiency with DX and ICT and expand in-home services. It also intends to strengthen home-visit nursing care services and develop a high-standard model at serviced apartments for the elderly. In child raising support, on the other hand, it will provide a wide range of services.

c) Development

Initiatives in development are strengthening sales systems, expediting site openings, and bolstering building management and brand. The Company intends to continue reviewing reinforcement of developer (town building) capabilities and development of overseas business.

In senior living facilities, it aims to expand the number of sites by 7% annually and the number of rooms by over 10%. This stance seeks to gain a regionally dominant position in each region. In nursery schools, after school children's clubs, and other child raising support facilities, it sets goals of expanding the number of facilities by 13% annually and 1.5-fold increase in enrollment capacity versus FY9/20 over the three years.

d) Dementia care business

The Company started a review of commercializing dementia prevention about two years ago and has engaged in joint research with Shimane University and Shimadzu Corporation. It intends to accelerate these initiatives and create new business. The policy calls for provision of early dementia detection and alleviation and care services and tackling the social issue of future expansion in dementia patients.

Aims to optimize allocation of business resources through management based on a matrix of business fields and strategic areas

3. Group strategy

The Company reorganized the business operation framework to conduct investment strategy across businesses in four strategic investment areas based on an overall assessment of businesses developed by the Group. Strategic investment areas are DX, global, toddler, and dementia care. The Company aims to integrate customer contact points and accumulated expertise in the various businesses and implement investment strategy that readily realizes group synergies. With management based on a matrix of business fields and strategic areas, it should be possible to avoid wasteful investments and realize optimal allocation of business resources.

(1) DX business

For DX, the Company intends to accelerate initiatives in all business areas. In the educational field, it will promote DX at all contact points (learning centers, homes, and schools) to expand sales, and in the healthcare and nursing field, it will seek more efficient operation of nursery schools through collaboration with digital companies and promote DX in service provision to customers with the aim of improving customer satisfaction. It is also deploying and utilizing care assistance robots and developing solutions that utilize ICT in the dementia field. Furthermore, as new digital areas, it plans to broaden rollout of e-learning business to other industries (certified care workers, teachers, etc.), expand the Gakken EC site, and create new businesses through collaborative efforts with IT universities and companies in Asia, particularly in Southeast Asia. The Company targets a DX-related income contribution of more than 10% of overall earnings in the next three years.

(2) Global business development

In global business, the Company targets just under ¥7bn in FY9/21 sales and expansion to roughly ¥20bn in five years through rollout of education services and elderly care business in Asia, ODA consulting projects at IC Net, and other business.

(3) Four priority initiatives in group management

The Company outlines a policy of focusing on reinforcement of Group governance and capital cost-conscious management in the next three years. Priority initiatives are 1) higher ROIC through Gakken's approach to refining business portfolio management, 2) optimal allocation of business resources by reorganization of the Group's business operation structure (implementation of matrix-based management), 3) promotion of diverse human resources and fostering human resources for executive management, and 4) cash flow generation and capital efficiency enhancement.

In capital efficiency enhancement, the Company plans to generate ¥20bn operating cash flow in the next three years by introducing ROIC for individual businesses, conducting appropriate investment evaluation and monitoring, and improving financial soundness and ¥10bn cash by reviewing the balance-sheet. It plans to allocate ¥25bn of these cash to strategic investments (including M&A).

Targeting over 40% of income from digital business and over 30% from global business in 2030

4. Long-term vision

The Company updated its Group Vision for 2030 to "create solutions beyond your imagination." As the value creation model, it has adopted a policy of pursuing further income growth with the educational field and healthcare and nursing field as the two core drivers and by also incorporating DX business and global business.

The long-term vision for 2030 targets contributions to overall net sales of over 40% in digital business and over 30% in global business. While business areas should not change in the next 10 years, their content is likely to transform considerably. Milestone goals in FY9/25 are ¥200bn in net sales and over 5% operating income. The Company plans to budget ¥50bn in growth investments, including M&A, in the next five years through 2025.

Expecting profit improvement again in FY9/21

5. FY9/21 outlook

The Company's FY9/21 consolidated forecast targets ¥146,000mn in net sales (+1.7% YoY), ¥5,600mn in operating income (+10.3%), ¥5,700mn in ordinary income (+8.1%), and ¥2,800mn in profit attributable to owners of parent (+20.6%).

By business segment, educational field targets are ¥76,000mn in net sales (-1.8% YoY) and ¥3,300mn in operating income (+51.1%). The outlook is for Gakken Classroom and cram school businesses to recover, and though the deconsolidation of the media business from 4Q FY9/20 was a factor in the reduction in revenue to a scale of several billion yen, from an earnings aspect the Company will increase income due to the aforementioned improvement in profits and recovery in other losing businesses except for publishing. Healthcare and nursing field targets are ¥65,000mn in net sales (+6.9% YoY) and ¥3,000mn in operating income (+9.3%). The Company expects healthy net sales expansion on additions in the number of senior facility sites and increase in occupants. It also projects higher profits on the sales gain. In other businesses (logistics, overseas, etc.), the Company forecasts ¥5,000mn in net sales (-7.5% YoY) and a ¥700mn operating loss (vs. a ¥146mn profit in the previous year). As mentioned earlier, expenses related to the Company and Gakken Products Support previously allocated to the individual segments moved to other segments, causing performance to appear to be worsening, from FY9/21. From FY9/21, the segment changed to the education field, integrating the educational services, educational contents, and educational solutions business.

FY9/21 consolidated outlook

(Unit: ¥mn)

	FY9/20		FY9/21		
	Results	Vs. sales	Plan	Vs. sales	YoY
Net sales	143,564	-	146,000	-	1.7%
Educational field	77,372	53.9%	76,000	52.1%	-1.8%
Healthcare and nursing field	60,786	42.3%	65,000	44.5%	6.9%
Other	5,405	3.8%	5,000	3.4%	-7.5%
Operating income	5,075	3.5%	5,600	3.8%	10.3%
Educational field	2,184	2.8%	3,300	4.3%	51.1%
Healthcare and nursing field	2,744	4.5%	3,000	4.6%	9.3%
Other	146	2.7%	-700	-	-
Ordinary income	5,273	3.7%	5,700	3.9%	8.1%
Profit attributable to owners of parent	2,321	1.6%	2,800	1.9%	20.6%
Profit per share (Yen)	62.70		75.48		
ROE	6.2%		6.5%		

Note: The ratio of segment operating income against sales is calculated from the ratio of sales in each segment
Source: Prepared by FISCO from the Company's financial results and news releases

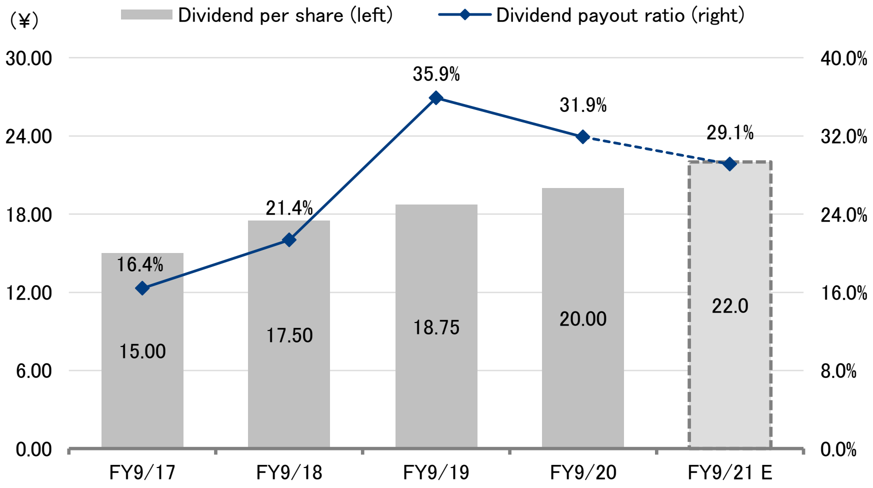
Shareholder returns

Plans a fourth straight dividend hike in FY9/21

The Company positions shareholder return as an important management issues and utilizes dividends and a shareholder benefit program. The Company aims to realize sustainable improvement in shareholder value through well-balanced implementation of a stable dividend and profit expansion with aggressive investment in growth areas. The Company implemented a 4-for-1 stock split on April 1, 2020 and plans to raise the dividend in a 4th straight fiscal year at ¥22.0 in FY9/21 (29.1% dividend payout ratio). With its goal of dividend payout ratio of 30% or more in FY9/23 in the medium-term management plan, the dividend should continue rising if earnings expand.

The Company also provides a shareholder benefit program. It sends a catalog to shareholders at the end of September each year from which they can select a gift among the Company's products, such as magazines, books, mook books or character goods, depending on how many shares they hold. Shareholders who own 400 shares or more have the option to select a coupon for use on the Company's shopping site that allows for selection from a broader range of products. Furthermore, for shareholders who have owned 1,200 shares or more continuously for a period of three years or longer, the Company sends a long-term shareholder gift.

Changes in dividend per share and dividend payout ratio



Note: Retroactively adjusted past dividend values following implementation of a 4-for-1 stock split on April 1, 2020
Source: Prepared by FISCO from the Company's financial results

Shareholder benefit

Number of shares owned	Content
100-399 shares	One choice from G3
400-1,199 shares	One choice from G2, G3
1,200 or more shares	Two choices from G2 G3 or one choice from G1

Note: G3 is a set of Group products with 1-2 items
G2 is a set of Group products with 1-4 items or a Gakken Mall Coupon worth ¥4,000
G1 is a high-priced Group product or a Gakken Mall Coupon worth ¥8,000
Note 2: Additionally, the Company gives a long-term gift to shareholders who own 1,200 shares or more continuously for a period of three years or longer
Source: Prepared by FISCO from the Company's web page

Disclaimer

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