

Gakken Holdings Co., Ltd.

9470

Tokyo Stock Exchange Frist Section

4-Feb.-2022

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FISCO Ltd.

<https://www.fisco.co.jp>

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■ Summary

Is accelerating structural reforms and the DX strategy in the educational field, aiming to continue to increase sales and profits

Gakken Holdings <9470> (hereafter, also “the Company”) is a comprehensive-services company in the fields of education and healthcare & nursing. In the educational field, it operates learning centers; publishes children’s and study-aid books; conducts e-learning for nurses; sells products for kindergartens, nursery schools, and children’s daycare centers; and publishes textbooks for elementary and junior high 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. In January 2021, the Company acquired 30.72% of the shares of JP Holdings <2749>, which is an industry leader in operations of nursery schools and after-school children’s clubs, and made it an equity-method affiliate.

1. Achieved higher sales for the 12th straight year and higher operating income for the 7th straight year in FY9/21

In the FY9/21 consolidated results, net sales increased 4.7% year on year (YoY) to ¥150,288mn and operating income rose 22.9% to ¥6,239mn. Both results were higher than the Company forecasts, with sales increasing for the 12th consecutive period and operating income for the 7th consecutive period. In the educational field, due to the impacts of a partial sale of the business and the novel COVID-19 pandemic (hereafter, COVID-19), net sales growth was sluggish, rising 2.0%. However, sales of children’s books and practical books were strong, and growth in e-learning for nurses and progress in structural reforms also contributed. As a result, operating income increased significantly, up 87.9%. Results also grew steadily in the healthcare and nursing field, with net sales increasing 8.2% and operating income rising 10.9%, including due to the expansion of facilities, such as serviced apartments for the elderly and group homes.

2. For the FY9/22 results, is improving profitability in the educational field and expanding scale in the healthcare and nursing field

For the FY9/22 consolidated results, the Company is forecasting that the higher sales and profits will continue, with net sales to increase 4.5% YoY to ¥157,000mn and operating income to rise 7.4% to ¥6,700mn. In the educational field, it is accelerating measures for DX and aiming to improve profitability in the classroom and learning center business. It is also focusing on other initiatives, including sustaining the substantial growth in e-learning for nurses and developing content in response to recurrent education and GIGA schools. In the healthcare and nursing field, it plans to accelerate the opening of serviced apartments for the elderly and group homes, so due to the increase in the financial burden because of these openings, operating income will increase only slightly YoY. However, the Company is positioning this as upfront investment in order to solidify the business foundation in this field.

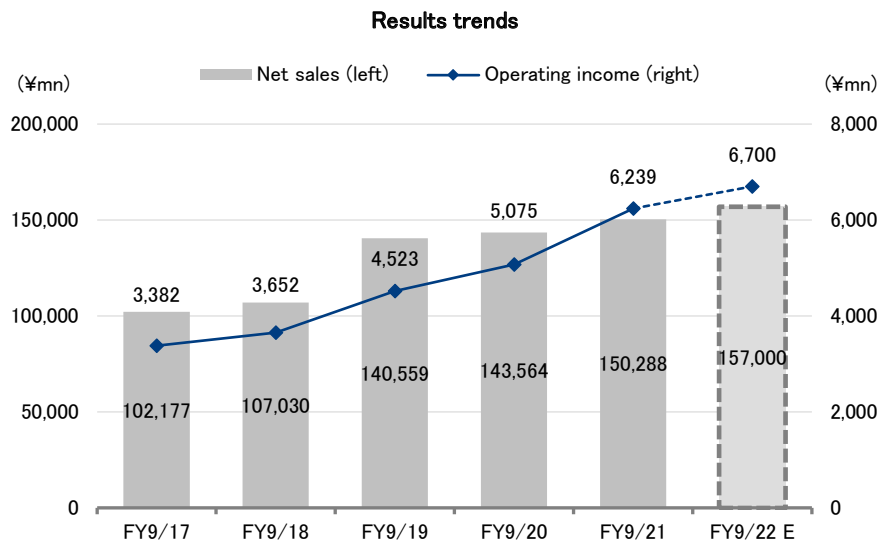
Summary

3. In the educational field, has newly established a subsidiary to progress the DX strategy and intends to build the foundations for growth

In Gakken 2023, the medium-term management plan started in FY9/21, the Company has set the “establishment of a solid foundation for growth” as its management policy and is aiming to continuously improve enterprise value on the themes of “creation 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. The numerical management goals for FY9/23, the plan’s final fiscal year, are net sales of ¥165,000mn, operating income of ¥7,500mn, ROE of at least 8.0%, and a dividend payout ratio of at least 30.0%. It has made a smooth start in FY9/21, the plan’s first fiscal year, as results exceeded initial forecasts. Issues the Company is facing in achieving its targets for results are increasing customers and improving profitability in the educational field, but it intends to surmount these obstacles by progressing the DX strategy. Specifically, by integrating the Gakken Group’s customers into Gakken ID, all services will be made available with the aim of maximizing customer LTV by improving convenience. In the educational field, a diverse range of services, but the Group as a whole has been unable to unify customer management and promotion strategies and failed to fully utilize these resources. However, integrating customers into Gakken ID is expected to improve costs. Furthermore, in December 2021, Gakken LEAP Co., Ltd. was established as a new company with goals including creating new businesses, as illustrated by Ed-Tech. Going forward, the DX strategy will be progressed mainly by Gakken LEAP, with investments of ¥25bn by 2025, including in capital partnerships with start-up companies. It also plans to progress investment in the toddler and global businesses in order to build a foundation for growth in the educational field in the medium to long term.

Key Points

- Achieved higher sales for a 12th straight year and higher operating income for a 7th straight year in FY9/21
- In FY9/22 as well, is forecasting continued higher sales and profits in the educational field and healthcare and nursing field
- Newly established a subsidiary that will progress the DX strategy, has a policy to accelerate initiatives to create new services and improve profitability



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

■ Business overview

Operates in two main fields—education and healthcare and 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 “education is the key to Japan's postwar reconstruction.” While business was initially developed through the sales channel of schools, the scope was expanded in the 1970s by building a bookstore sales channel and setting up direct sales to households. It obtained broad support for the 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 branching out into encyclopedias, dictionaries, medical books, and other areas. The Company expanded business into the educational services field in the 1980s with its launch of the learning center business.

On entering the 2000s, the earnings environment became severe due to the declining birthrate and the slump in the publishing business. Though in 2004, the Company started an elderly care business with the intention of developing it into a second pillar of earnings. In 2009, it transitioned to a holding company structure, and while aiming to rationalize management in the education business on the one hand, has worked to rebuild the business foundation and strengthen profitability in step with actively progressing M&A and business partnerships. In September 2018, it made a subsidiary of Medical Care Service Company Inc., a major group homes company, also made more than doubling its business scale in the healthcare and nursing field. Its equity-method affiliates are Ichishin Holdings <4645> (investment stake: 37.7%) and JP Holdings (investment stake in January 2021: 30.72%), with which it announced a capital and business partnership in January 2021.

The business segments have changed, such as in accordance with business growth and business withdrawals, and since September 2017, the Company has disclosed information on two business domains: the educational field and healthcare and nursing field. The educational field is comprised of three sub-businesses: classroom and learning center business, publishing and content business, and kindergartens and schools business. The healthcare and nursing field is also comprised of three sub-businesses: elderly housing business, group homes for the elderly with dementia business, and child raising support business.

Business overview

Business content and major subsidiaries

Business domain	Business segment	Business content	Major subsidiaries
Educational field	Classroom and learning center business	1) Operates Gakken Classroom mainly for preschoolers through junior high school students (mainly elementary school students) and promotes franchise business 2) Operates classrooms for toddlers and children 3) Operates learning centers mainly for elementary school students to senior high school students	Gakken Juku Holdings (intermediate holding company) Gakken Educational Gakken Method Gakken L Staffing Gakken Study et Sozogakuen Waseda School ING ZENKYOKEN Bunri Gakuin Koto Shingakujuku
	Publishing and content business	1) Publishes study-aid books, children's books, and other publications 2) Develops and sells teaching materials for learning centers 3) Publishes and sells nursing and medical books, and provides e-learning training services for nurses 4) Develops and sells digital contents and educational toys 5) Online English conversation classes	Gakken Plus Bunri Gakken Medical Shujunsha Gakken Medical Support Gakken Sta: Ful TOKYO GLOBAL GATEWAY Glats
	Kindergartens and schools business	1) Produces and sells publications for kindergartens, nursery schools, and children's daycare centers; nursery goods and supplies, and clothing for teachers, etc. 2) Produces and sells textbooks, instruction guides for teachers, supplementary readers, ICT teaching materials, special assistance teaching materials, short essay and mock test materials, etc. 3) Corporate recruitment assistance, training services	Gakken E-mirai JTEX Management Center
Healthcare and nursing field	Elderly housing business	Develops and operates serviced apartments for the elderly, bases for serviced elderly care services, etc.	Gakken Cocofump Holdings (intermediate holding company) Gakken Cocofump Gakken Cocofump Nursing
	Group homes for the elderly with dementia business	Develops and operates various services, including the group homes for the elderly with dementia	Medical Care Service
	Child raising support business	Develops and operates nursery schools, children's daycare centers, after-school children's club facilities, etc.	Gakken Cocofump Nursery
Other	Other	Provides logistics services, ODA consulting, overseas development assistance business, Group shared services, etc.	Gakken Logistics IC Net Gakken Products Support

Source: Prepared by FISCO from the Company's securities report and website

Is developing the classroom and learning center business, publishing and content business, and kindergartens and schools business

2. Educational field

(1) Classroom and learning center business

In the classroom business, the Company operates Gakken Classroom, which is made up of learning classrooms targeting students from preschoolers through to junior high school students (including some senior high school students). After launching in 1980, franchising was used to expand this business to classrooms nationwide, and at the end of September 2021, the scale had grown to 15,069 classrooms (based on the number of certified sites) and 365,143 course members (based on the number of students in courses). Also, classrooms overseas are being developed, centered on the Asia region.

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Business overview

The Company's main competition is the Kumon Method Classroom service operated by Kumon Institute of Education Co., Ltd. However, Gakken Classroom has been highly evaluated for its main characteristics and strengths, which are 1) low monthly fees, 2) a non-school-year system, one-to-one teaching and personalized learning materials, and 3) concurrent math and Japanese language courses. Due to the impact of COVID-19, the numbers of students and classrooms have declined, so earnings have also declined since September 2020. However, during normal times, the operating income margin of this business is expected to be in the 6% range, and it is positioned as a stable source of earnings within the Gakken Group.

The Company also dispatches instructors to kindergartens, nursery schools, and children's daycare centers to provide instruction on subjects including education, science, and English in toddler classrooms. Moreover, it is aiming to expand this business and has acquired a series of businesses*. In April 2020, it acquired Shogakukan Academies, which are learning classrooms for elementary, junior and high school students, and some Ecolab classrooms, which are English classrooms for toddlers and elementary school students. Then in July 2021, it acquired Intelligence Education Mebae Classrooms for toddlers and elementary school students. These two businesses are conducted in classrooms mainly in shopping centers, and have around 300 classrooms in total and approximately 35,000 to 40,000 students.

* The Shogakukan Academies and Ecolab business were acquired from Shogakukan-Shueisha Productions Co., Ltd., and the Mebae Classrooms were acquired from Sogo Kyoiku Center Co., Ltd.

Conversely, since the mid-2000s the Company has been actively expanding the learning center business by utilizing M&A and other methods. It aims to maximize customer LTV by referring students recruited by Gakken Classroom to learning centers established in the Group. Even after conducting an M&A to make a learning center subsidiary, it continues to use that school's brand name. Overseas, it also operates learning centers for Japanese children living in countries including Singapore, Taiwan and Vietnam. At the end of September 2021, the Group as a whole had 426 classrooms and 46,036 students.

Overview of and subsidiaries in the learning center business

Operating company	learning center name (target region)
Gakken Study et Co., Ltd.	Asunaro Gakuin (Miyagi), Taishi Seminars (Fukushima), SIGN-1 (Saitama), overseas subsidiary learning centers for Japanese children living overseas (Singapore, Taiwan, and Vietnam)
Sozo gakuen Co., Ltd.	EDIC and Sougaku Seminar etc. (Hyogo)
Waseda School Co., Ltd.	Waseda School (Kumamoto)
ING Co., Ltd.	ING (Osaka and Wakayama)
ZENKYOKEN Co., Ltd.	ZENKYOKEN, Ecole individual instruction classrooms, Z-UP entrance exam preparation schools (Kita Kyushu area)
Koto Shingakujuku Co., Ltd.	Koto Shingakujuku entrance exam preparation schools for difficult-to-enter universities and colleges and medical departments (Hanshin area)
Bunri Gakuin Co., Ltd.	Bunri Gakuin (Yamanashi and Shizuoka)
Gakken L Staffing Co., Ltd.	Gakken Home Tutors service for dispatches of home tutors (all major cities nationwide except for the Tohoku, Hokuriku, and Shikoku regions)
GI Village Co., Ltd.	Clantete kindergarten and elementary integrated education and day care (Tokyo)

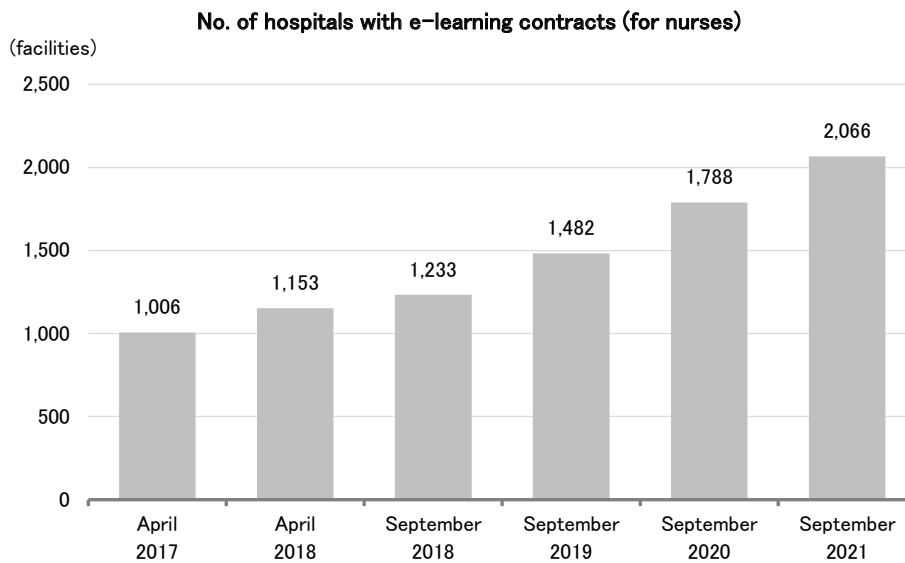
Source: Prepared by FISCO from the Company's securities report

Business overview

(2) Publishing and content business

The publishing and content business includes the publishing business, the medical and nursing business, and businesses other than publishing. The publishing business produces and sells publications such as children’s books and study-aid books. A high percentage of study-aid books are for elementary and junior high school students, and the Company holds the top share in this industry. It spun-off its media business in July 2020 and transferred management of the periodical magazines and mook book publishing business, online media business, and contents marketing business to ONE PUBLISHING Co., Ltd., a newly established joint venture (investment stake: 49.5%). Conversely, in January 2021, it acquired a travel guidebook publishing business and inbound business, including Chikyu no Arukikata, from Diamond-Big Co., Ltd.

The medical and nursing business produces and sells publications including medical books and nursing books, and operates an e-learning training business for nurses. E-learning was introduced to meet nurses’ needs, such as to acquire qualifications. These needs have further expanded since the start of the COVID-19 pandemic, so at the end of September 2021, the number of hospitals with contracts for this service had grown to 2,066 facilities. Also, the businesses other than publishing include the development and sale of digital contents and educational toys, online English conversation classes, and a business to operate TOKYO GLOBAL GATEWAY hands-on English learning facilities.



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

Business overview

(3) Kindergartens and schools business

The kindergartens and schools business includes three businesses: toddler education, school education, and societal education. The toddler education business is a product sales business, including publications (picture books, etc.), childcare products, toys and other equipment, and clothing for teachers, and the products are mainly for kindergartens, nursery schools, and children's daycare centers. It also includes the hugmo childcare cloud services business acquired from a subsidiary of SoftBank <9434> in June 2021. Hugmo is equipped with functions that can be used for a monthly fee, including a communication function with parents and guardians (contact points, scheduling, various applications and questionnaires, etc.), a child monitoring service, and several ICT services to support the business operations of childcare facilities (child ledger, staff management, billing management, etc.). In terms of profitability, this business is still at the upfront investment stage.

The school education business publishes books including textbooks (on health and physical education and moral education) for elementary and junior high schools, instruction guides for teachers, and supplementary readers. It also produces and sells short essay tutoring and mock tests for high schools and job search and job practice tests for colleges and universities. In addition, it develops and sells ICT teaching materials in response to the GIGA school concept. Among these publications, the majority of earnings are provided by textbooks for elementary and junior high schools and instruction guides for teachers. The Ministry of Education, Culture, Sports, Science and Technology assesses school textbooks on a four-year cycle. For public schools, the boards of education in each municipality select the school textbooks that have been approved in the Ministry's assessment. Therefore, sales shares fluctuate depending on these trends. Additionally, for sales of textbooks, demand can be expected to be stable once a textbook is selected until the next selection year. However, sales of instruction guides for teachers are concentrated in the initial usage year (the year after selection), so it is necessary to be aware that earnings tend to fluctuate depending on the fiscal year. Recently, the greatest number of instruction guides for teachers was for elementary schools (as there are six grades) in FY9/20.

Textbook publication schedule

	Fiscal year	2018	2019	2020	2021	2022	2023	2024
Elementary school health education	Assessment	△				△		
	Selection		●				●	
	Start of usage			◎				◎
Junior high school health and physical education	Assessment		△				△	
	Selection			●				●
	Start of usage				◎			
Elementary school moral education	Assessment	△				△		
	Selection		●				●	
	Start of usage	◎		◎				◎
Junior high school moral education	Assessment		△				△	
	Selection	●		●				●
	Start of usage		◎		◎			

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

In the societal education business, Gakken E-mirai Co., Ltd. provides corporate recruitment support services. In addition, JTEX Management Center Co, Ltd., which was made a subsidiary in February 2018, plans and manages corporate training services.

Operates an elderly housing business, group homes for the elderly with dementia business, and child raising support business

3. Healthcare and nursing field

(1) Elderly housing business

This business includes operations of nationwide serviced apartments for the elderly under the Cocofump brand of Gakken Cocofump Co., Ltd. and day-service facilities. At the end of September 2021, the Group operated 169 housing facilities for the elderly nationwide, including serviced apartments for the elderly under the Cocofump brand. Regionally, the Tokyo metropolitan area (including Shonan) accounts for 60% of the total (based on the number of housing units, etc.), and the rest are located in Tokai, Hokuriku, and western Japan. Basically, the balance sheet has been slimmed down by utilizing a sublease scheme in which the Company itself does not own land or buildings, but is rapidly developing facilities. Also, as the core facilities for serviced apartments for the elderly, it is progressing measures for Gakken's Community-based Integrated Care System* through a public-private sector partnership.

* As the core facilities in serviced apartments for the elderly, the Community-based Integrated Care System brings together and creates opportunities for interchanges between the elderly, the child raising generation, and children by establishing services provided by the Group in the same area, such as group homes and home assistance for the elderly, nursery schools, and learning centers.

(2) Group homes for the elderly with dementia business

Medical Care Service (MCS) operates group homes for the elderly with dementia and other facilities, including paid nursing homes with elderly care services, and small-scale, multi-function residence care facilities. At the end of September 2021, it operated 320 facilities nationwide, and it leads the industry in terms of the number of rooms. The acquisition of MCS foresaw strong synergies in terms of realizing Gakken's Community-based Integrated Care System. Specifically, expected benefits included 1) secure destinations for people living at serviced apartment for the elderly when they leave 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 hiring activities and boost the retention rate.

Occupancy rate and operating staff personnel costs are the main factors that affect profits in the business of operating serviced apartments for the elderly and group homes, etc. 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 recruitment and personnel costs. Key points for strengthening profitability are raising the occupancy rate, training human resources, and improving the retention rate.

(3) Child raising support business

Gakken Cocofump Nursery Co., Ltd. conducts a business to develop and operate nursery schools, children's daycare centers, and after-school children's club facilities. At the end of September 2021, it operated 72 child raising support facilities, all in metropolitan areas. Of these facilities, 43 were nursery schools that had 2,661 students.

4. Other

Other includes the business of the subsidiary that conducts the Group's logistics services and various work support (shared services) for Group companies. It also includes businesses such as a consulting business for overseas development assistance (ODA) conducted by IC Net Limited, which was made a subsidiary in September 2019, an overseas business development support business, and a global human resources training business. The Company's policy is to utilize IC Net's network to progress overseas business development in the educational field and healthcare and nursing field.

Performance trends

Achieved higher sales for the 12th straight year and higher operating income for the 7th straight year in FY9/21

1. FY9/21 results summary

In the FY9/21 consolidated results, net sales increased 4.7% YoY to ¥150,288mn, operating income rose 22.9% to ¥6,239mn, ordinary income grew 16.2% to ¥6,126mn, and profit attributable to owners of parent increased 12.7% to ¥2,617mn. Each of net sales, operating income, and ordinary income were higher than the Company forecasts. Earnings are steadily growing, as net sales increased for the 12th consecutive period and operating income for the 7th consecutive period. Net sales grew to the ¥150bn range for the first time in 24 fiscal periods, while operating income recovered to the ¥6bn range for the first time in 29 years. Non-operating income/expenditure worsened approximately ¥300mn YoY, but this was mainly because the equity-method investment loss increased ¥283mn. Also, profit attributable to owners of parent was below the Company forecast because the actual tax rate increased more than anticipated.

FY9/20 consolidated results

(Unit: ¥mn)

	FY9/20			FY9/21			
	Results	Vs. sales	Forecast	Results	Vs. sales	YoY	Vs. forecast
Net sales	143,564	-	147,000	150,288	-	4.7%	2.2%
Operating income	5,075	3.5%	6,000	6,239	4.2%	22.9%	4.0%
Ordinary income	5,273	3.7%	5,700	6,126	4.1%	16.2%	7.5%
Extraordinary income/loss	-106	-	-	-116	-	-	-
Profit attributable to owners of parent	2,321	1.6%	2,900	2,617	1.7%	12.7%	-9.8%

Note: The Company forecasts are the revised forecasts announced in May 2021
 Source: Prepared by FISCO from the Company's financial results

Looking at the breakdown of the increase and decrease factors behind operating income increasing ¥1,164mn YoY, gross profit increased ¥3,435mn alongside the higher sales, which absorbed the cost increases, including that outsourcing costs increased ¥985mn, advertising costs rose ¥748mn, and personnel costs grew ¥451mn, and therefore the operating income margin rose from 3.5% in the previous period to 4.2%. Looking at operating income by business segment, it increased ¥1,935mn in the educational field, increased ¥297mn in the healthcare and nursing field, and decreased ¥1,069mn in other. The main reasons for the substantial decrease in operating income in other were the increases in systems investment alongside the promotion of DX in the Group as a whole, and in personnel costs.

Performance trends

Results by business segment

(Unit: ¥mn)

	FY9/20		FY9/21		Change rates	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Educational field	77,379	2,202	78,919	4,138	2.0%	87.9%
Classroom and learning center	28,387	310	31,493	933	10.9%	201.0%
Publishing and content	31,726	1,764	31,531	2,791	-0.6%	58.2%
Kindergartens and schools	17,266	494	15,895	745	-7.9%	50.8%
Amortization of goodwill	-	-366	-	-332	-	-
Healthcare and nursing field	60,786	2,744	65,792	3,042	8.2%	10.9%
Elderly housing	23,952	1,211	27,431	1,275	14.5%	5.3%
Group homes for the elderly with dementia	31,995	1,871	33,151	2,203	3.6%	17.7%
Child raising support	4,838	124	5,208	26	7.6%	-79.0%
Amortization of goodwill	-	-462	-	-462	-	-
Other	5,398	127	5,576	-950	3.3%	-
Adjustment	-	0	-	9	-	9
Total	143,564	5,075	150,288	6,239	4.7%	22.9%

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

In the educational field, operating income grew significantly, increasing by double digits

2. Trends by business segment

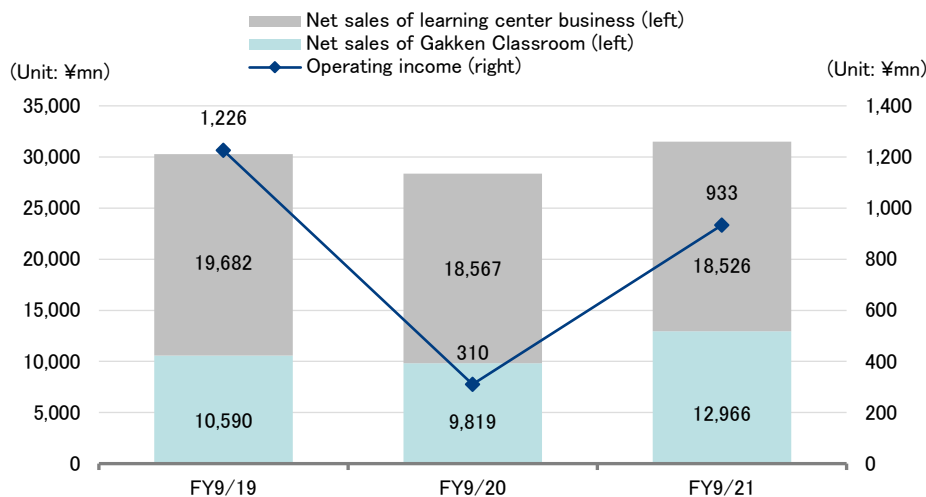
(1) Educational field

In the educational field, profitability improved greatly, with net sales rising 2.0% YoY to ¥78,919mn and operating income growing 87.9% to ¥4,138mn. Sales and profits increased including from the effects of a partial transfer of the classroom and learning center business and a business acquisition. In the publishing and content business and the kindergartens and schools business as well, although sales decreased, profits increased.

a) Classroom and learning center business

In the classroom and learning center business, net sales increased 10.9% YoY to ¥31,493mn and operating income grew 201.0% to ¥933mn. Within these results, classroom net sales increased 32.1% to ¥12,966mn. Sales increased ¥2,429mn due to the effects of the transfer of toddler classrooms from the kindergartens and schools business, and the actual sales increase rate when excluding this factor was 7.3%. For Gakken Classroom, due to the impact of COVID-19, the numbers of course members and certified classrooms continued to decline by a single digit YoY. However, from the contribution of digital services, including the Manamil communication service for parents and guardians launched in April 2021, net sales increased slightly and are recovering to the same level as before COVID-19. The business acquisitions of Shogakukan Academies in April 2020 and of Mebae Classrooms in July 2021 were also sales-increase factors. Profits increased, due in part to the rise in sales of digital services, the transfer of toddler classrooms, and the effects of the business acquisitions.

Performance trends

Results in the classroom and learning center business


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

Nos. Gakken Classroom course members and certified classrooms

	September 2019	September 2020	September 2021	YoY	
				Change	Change rates
No. of course members (people)	416,431	378,787	365,143	-13,644	-3.6%
No. of certified classrooms	16,135	15,716	15,069	-647	-4.1%

Note: Course members is based on the number of people taking courses

Note: In the calculations for Gakken Classroom, there are two English certified categories, and the number of classrooms is based on the number of certifications

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

Learning center net sales decreased 0.2% YoY to ¥18,526mn. Sales are steadily recovering from COVID-19, and Sozogakuen Co., Ltd. and Waseda School Co., Ltd. both achieved record-high results. However, the Company liquidated two companies that continued to be unprofitable, while it also progressing the arrangement of unprofitable classrooms. Therefore student numbers decreased, which was the main reason for the sluggish sales growth. Conversely, operating income increased significantly from the contribution of the strongly performing learning centers and the effects of the arrangement of the unprofitable companies and classrooms, and the operating income margin rose from 1.3% in the previous period to 3.9%. That said, when considering that the profit margin of the two strongly-performing companies is more than 10%, it seems there is still plenty of room for improvement.

Nos. students and classrooms in the learning centers business

	September 2019	September 2020	September 2021	YoY	
				Change	Change rates
No. of students	50,964	47,589	46,036	-1,553	-3.3%
No. of classrooms	489	499	426	-73	-14.6%
No. of students per classroom (students/classrooms)	104.2	95.3	108.0	12.7	13.3%

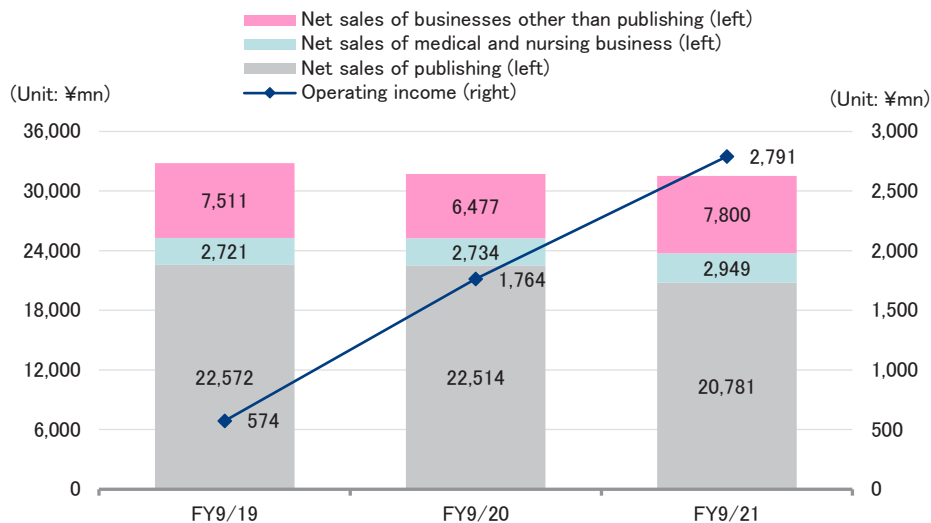
Source: Prepared by FISCO from the Company's results briefing materials

Performance trends

b) Publishing and content business

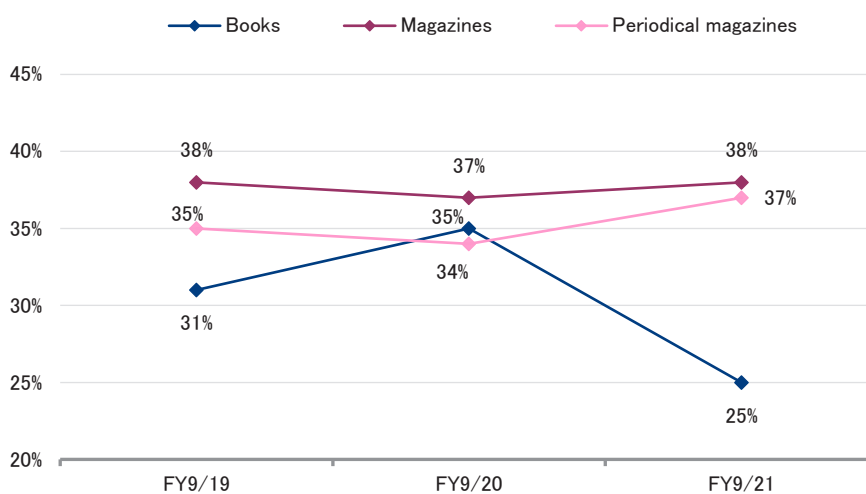
In the publishing and content business, net sales decreased 0.6% YoY to ¥31,531mn, but operating income increased 58.2% to ¥2,791mn. Within these results, publishing net sales decreased 7.7% to ¥20,781mn. Sales of children’s books and practical books were strong, but net sales still decreased because of the split-off of the media business in July 2020 and as sales declined of study-aid books as a rebound from the previous special nesting (stay-at-home) demand. Conversely, operating income was maintained at the same level as in the previous period. The sale of an unprofitable business and the significant decline in the book return rate from 35% in the previous period to 25% both contributed. There were book returns as 2021 was a revision year for junior high school study-aid books and typically there are returns of existing publications in a revision year. However, it seems that the number of returned books was still small due to strong sales at book stores and measures to improve distribution, including to optimize inventory. As a result, the operating income margin rose from 9.3% in the previous period to 10.2%.

Results in publishing and content business



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

Publications return rate



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

We encourage readers to review our complete legal statement on “Disclaimer” page.

Performance trends

In the medical and nursing business, net sales increased 7.9% YoY to ¥2,949mn. Sales of nursing books declined, but net sales still increased because of the growth in demand for e-learning training for nurses. At the end of September 2021, the number of contracting hospitals for this service had increased by 15.5% on the end of the previous period to 2,066 facilities, and the double digit growth is expected to continue in the future as well. Due to the increase in sales, the operating income margin rose from 16.6% in the previous period to 23.8%.

In businesses other than publishing, net sales increased 20.4% YoY to ¥7,800mn. The main sales-increase factors were that education ICT services were transferred to the kindergartens and schools business, the progress made in arranging unprofitable stationery card and letter products, and the growth of the English business. In operating income-loss, due to the effects of the higher sales and the progress made in arranging unprofitable products, the extent of the loss contracted by nearly ¥500mn YoY and improved to close to the profit-loss breakeven line.

c) Kindergartens and schools business

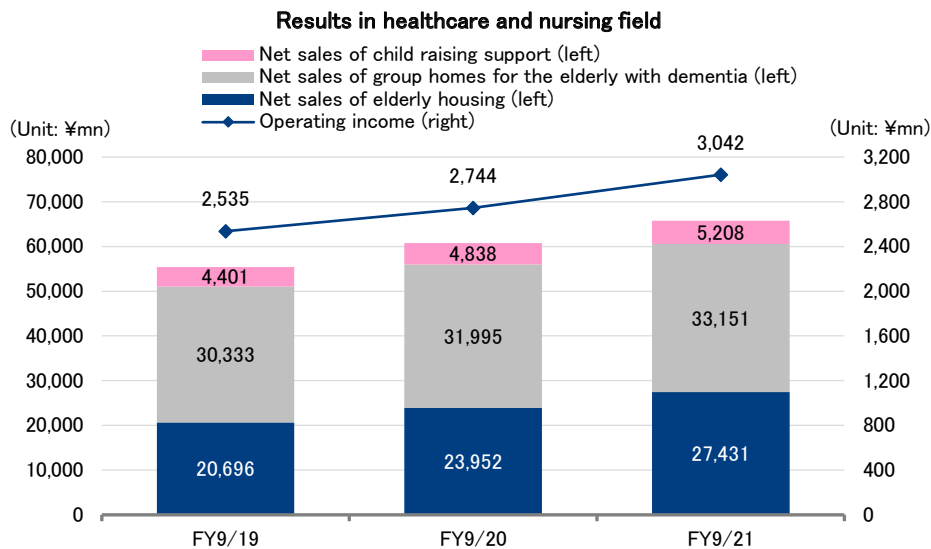
In the kindergartens and schools business, net sales decreased 7.9% YoY to ¥15,895mn, but operating income increased 50.8% to ¥745mn. Within these results, toddler education net sales decreased 9.8% to ¥10,820mn. The main reason for the decline in sales was the transfer of toddler classrooms to the classroom and learning center business, and in fact, it seems that sales increased by around 10%. Sales were strong including of clothing for teachers, hygiene products for COVID-19, and large play equipments. Sales also grew for kindergarten facility design. Due to the effects of the higher sales, the operating income margin become positive, rising from -0.2% in the previous period to 2.0%.

In the school education business, net sales decreased 5.2% YoY to ¥4,025mn and operating income also declined. The main reason for this was that the number of selections of instruction guides for teachers for junior high school textbooks decreased in contrast to the number of selections for elementary schools in the previous period. The operating income margin also fell from 8.2% to 7.2%. ICT teaching materials services, including digital textbooks in response to the new GIGA schools, were transferred from the publishing business. In the societal education business, net sales increased 2.5% YoY to ¥1,050mn. There was a shift from real seminars and training workshops through the progress made in the digitalization of job search seminars and corporate training. Progress was also made in keeping down cost prices through the digitalization of products and services, and the operating income margin rose from 16.5% in the previous period to 22.5%.

(2) Healthcare and nursing field

In the healthcare and nursing field, the increases in sales and profits continued, with net sales rising 8.2% YoY to ¥65,792mn and operating income growing 10.9% to ¥3,042mn. Alongside the increase in net sales, business management fees also increased.

Performance trends



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

a) Elderly housing business

In the elderly housing business, net sales increased 14.5% YoY to ¥27,431mn and operating income rose 5.3% to ¥1,275mn. Over the full fiscal year, the Company established 21 facilities and took over management of 2 facilities through a business acquisition by M&A (Hokkaido), for a total of 169 facilities (including franchisees). Alongside the increase in the number of facilities, at the end of September 2021, the number of residents had increased by 13.7% compared to the same period in the previous fiscal year to 7,505 people, but the occupancy rate had declined from 91.9% at the end of the previous period to 90.3%. The reasons for the decline in the occupancy rate are that openings of 8 new facilities were concentrated in the 4Q, and the self-restraint on changing residences during the COVID-19 pandemic and the decline in the number of people visiting facilities to view them.

b) Group homes for the elderly with dementia business

In the group homes for the elderly with dementia business, net sales increased 3.6% YoY to ¥33,151mn and operating income rose 17.7% to ¥2,203mn. The number of group homes increased by 7 on the end of the previous period to 281 buildings, and the number of residential rooms rose by 2.4% to 5,372 rooms. Costs for infection-prevention measures and to refurbish facilities increased, but sales and profits still both rose because the occupancy rate trended at the high level of 97.8% (98.0% at the end of the previous period) and from the sale of 2 buildings owned by the Company during the period.

Performance trends

c) Child raising support business

In the child raising support business, net sales increased 7.6% YoY to ¥5,208mn, but operating income decreased 79.0% to ¥26mn. Nursery schools decreased by 2 on the end of the previous period to 43 facilities (39 certified nursery schools, 2 authorized nursery schools, and 2 certified children's daycare centers), after-school children's clubs increased by 1 to 27 facilities, and there are 2 children's development support facilities, for a total 72 facilities. At the end of the period, the number of students had increased by 2.6% on the end of the previous period to 2,443 students, and following the closures of 3 unprofitable facilities, the facilities fill rate (the number of students / the number of places available) had risen from 85.4% at the end of the previous period to 91.8%. However, profits decreased, including as due to the impact of the increase in home work because of COVID-19, there are parents who are refraining from entering their children into facilities, mainly toddlers aged 0 to 1 year, and due to the increase in costs to newly establish facilities, including personnel costs.

In January 2021, the Company announced that it had acquired the shares and made an equity-method affiliate of JP Holdings, which is a leading company in Japan for operations of nursery schools and after-school children's clubs, and it also announced a business partnership with it. By sharing the management expertise of JP Holdings, which leads the industry for profitability with an operating income margin of approximately 8%, the aims are to strength the profitability of this business, while the strategy is also to increase synergies including by capturing customers (referring students who are graduating from a kindergarten or nursery school to Gakken Classroom) and providing educational contents and teaching materials.

(3) Other

In other, net sales increased 3.3% YoY to ¥5,576mn and the operating loss was ¥950mn (operating income of ¥127mn in the previous period). The loss was due to the increases in systems investment alongside the promotion of DX in the Group as a whole, and investment in human resources.

Shareholders' equity increased due to the implementation of equity finance

3. Financial conditions and cash flow overview

Looking at financial condition at the end of FY9/21, total assets were up by ¥13,158mn versus the previous period-end to ¥116,900mn. Main changes were a ¥5,823mn decrease in cash and deposits under current assets and an increase of ¥3,185mn in tangible fixed assets and an increase of ¥12,515mn in investment securities under fixed assets due to factors such as the acquisition of shares of JP Holdings (a total acquired amount equivalent to ¥9,851mn).

Total liabilities increased ¥1,984mn on the end of the previous period to ¥69,486mn. There were increases of interest-bearing debt of ¥944mn and notes and accounts payable of ¥116mn. Total net assets increased ¥11,174mn on the end of the previous period to ¥47,413mn. Following the sale of new shares and the disposal of treasury shares implemented in March 2021, capital increased ¥1,460mn and the capital surplus ¥4,005mn, and treasury shares decreased ¥2,588mn (an increase factor). Retained earnings increased ¥1,747mn, mainly due to the recording of profit attributable to owners of parent.

Performance trends

Looking at the cash flow conditions, cash flow from operating activities was a cash increase of ¥4,441mn, mainly due to the higher earnings. Cash flow from investing activities was a cash decrease of ¥18,112mn due to expenditure of ¥4,722mn to acquire tangible and intangible assets and expenditure of ¥12,183mn to acquire investment securities. Cash flow from financing activities was a cash increase of ¥7,806mn, with the main items being income of ¥8,280mn from the sale of treasury shares and the issue of new shares, and expenditure of ¥858mn for dividends. As a result, at the end of the period cash and cash equivalents had declined by ¥5,845mn on the end of the previous period to ¥18,920mn.

Looking at the business indicators, due to the increase in shareholders' equity following the implementation of equity finance, the equity ratio rose 5.6 percentage points (pp) on the end of the previous period, while the interest-bearing debt ratio fell 22.8 pp, and the Company continues to improve its financial structure. In the five fiscal years from FY9/21 to FY9/25, it plans to conduct growth investment of ¥50bn (¥25bn for the DX strategy and ¥25bn for the toddler and global businesses), including in M&A, so it is possible that interest-bearing debt will temporarily increase depending on the scale of the investment projects.

Consolidated balance sheet and business indicators

(Unit: ¥mn)

	FY9/18	FY9/19	FY9/20	FY9/21	YoY change
Current assets	53,087	54,811	60,030	56,554	-3,475
Cash and deposits	18,911	21,185	25,596	19,772	-5,823
Fixed assets	46,854	44,538	43,711	60,345	16,633
Total assets	99,942	99,349	103,741	116,900	13,158
Total liabilities	59,252	59,371	67,502	69,486	1,984
Interest-bearing debt*	29,222	30,858	37,808	38,753	944
Total net assets	40,689	39,978	36,239	47,413	11,174
Total liabilities and net assets	99,942	99,349	103,741	116,900	13,158
[Financial indicators]					
(Safety)					
Equity ratio	39.5%	38.7%	34.6%	40.2%	5.6pt
Interest-bearing debt ratio	74.1%	80.2%	105.3%	82.5%	-22.8pt
(Profitability)					
ROA	4.5%	4.8%	5.2%	5.6%	0.4pt
ROE	8.1%	5.0%	6.2%	6.3%	0.1pt
Operating margin	3.4%	3.2%	3.5%	4.2%	0.7pt

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

Cash flow statement

(Unit: ¥mn)

	FY9/18	FY9/19	FY9/20	FY9/21
Cash flow from operating activities	3,145	5,353	5,971	4,441
Cash flow from investing activities	-14,898	-2,825	-1,588	-18,112
Free cash flow	-11,753	2,527	4,383	-13,671
Cash flow from financing activities	14,431	-352	-22	7,806
Cash and cash equivalents at the end of FY	17,494	19,838	24,765	18,920

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

Outlook for the future

The outlook for FY9/22 is for sales and profits to continue to increase in the educational field and healthcare and nursing field

1. FY9/22 outlook

For the FY9/22 consolidated results, the Company is forecasting that net sales will increase 4.5% YoY to ¥157,000mn, operating income will rise 7.4% to ¥6,700mn, ordinary income will grow 11.0% to ¥6,800mn, and profit attributable to owners of parent will increase 29.9% to ¥3,400mn. By business segment, the forecasts are that in the educational field, net sales will increase 2.6% YoY to ¥81,000mn and operating income will grow 16.0% to ¥4,800mn; in the healthcare and nursing field, net sales will rise 6.4% to ¥70,000mn and operating income will increase 1.9% to ¥3,100mn; and in other, net sales will increase 7.6% to ¥6,000mn and the operating loss will be ¥1,200mn (a loss of ¥950mn in the previous period). In particular, the forecast is for profits to increase by double digits in the educational field, including from the effects of promoting DX.

FY9/22 consolidated outlook

(Unit: ¥mn)

	FY9/21		FY9/22		
	Results	Vs. sales	Forecast	Vs. sales	YoY
Net sales	150,288	-	157,000	-	4.5%
Operating income	6,239	4.2%	6,700	4.3%	7.4%
Ordinary income	6,126	4.1%	6,800	4.3%	11.0%
Profit attributable to owners of parent	2,617	1.7%	3,400	2.2%	29.9%
Earnings per share (¥)	64.55		78.12		

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

Outlook by business segment

(Unit: ¥mn)

	FY9/21		FY9/22 E		Change rates	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Educational field	78,919	4,138	81,000	4,800	2.6%	16.0%
Classroom and learning center	31,493	933	33,000	1,500	4.8%	60.8%
Publishing and content	31,531	2,791	32,000	3,000	1.5%	7.5%
Kindergartens and schools	15,895	745	16,000	600	0.7%	-19.5%
Amortization of goodwill	-	-332	-	-300	-	-
Healthcare and nursing field	65,792	3,042	70,000	3,100	6.4%	1.9%
Elderly housing	27,431	1,275	31,000	1,400	13.0%	9.8%
Group homes for the elderly with dementia	33,151	2,203	33,500	2,100	1.1%	-4.7%
Child raising support	5,208	26	5,500	100	5.6%	284.6%
Amortization of goodwill	-	-462	-	-500	-	-
Other	5,576	-950	6,000	-1,200	7.6%	-
Adjustment	-	9	-	-	-	-
Total	150,288	6,239	157,000	6,700	4.5%	7.4%

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

Outlook for the future

(1) Educational field**a) Classroom and learning center business**

In the classroom and learning center business, the forecasts are for net sales to increase 4.8% YoY to ¥33,000mn and operating income to rise 60.8% to ¥1,500mn. For classrooms, the Company will increase new openings of toddler classrooms and strengthen referrals of customers to Gakken Classroom. Profits are also forecast to further increase compared to in the previous period due to the decline in member-acquisition costs following the establishment of a customer-referral route, and the growth of digital services (Gakken Classroom online services were launched in September 2021).

For learning centers, the Company is progressing the arrangement of unprofitable classrooms by thoroughly determining profitability on the unit of classrooms. It is also working to acquire students through strengthening measures to respond to online services, for which demand is high, and for real/online hybrid services.

b) Publishing and content business

In the publishing and content business, the forecasts are for net sales to increase 1.5% YoY to ¥32,000mn and operating income to rise 7.5% to ¥3,000mn. In publishing, sales of new editions are expected to increase due to the revisions of study-aid books for high school students. Also, the reduction in the cost rate due to the consolidation of the Chikyu no Arukikata travel guidebooks and the second-year revisions of junior high school study-aid books will contribute. However, as the book return rate was low in the previous period, it appears that the key to determining profitability will be how the book return rate trends.

In the medical and nursing business, the forecasts are for sales and profits to increase, continuing to be driven by e-learning for nurses. In addition to the increase in the number of contracts for this service, the Company plans to develop new contents. For the businesses other than publishing, through utilizing Gakken ID, the results of online English conversation classes and other businesses are forecast to grow.

c) Kindergartens and schools business

In the kindergartens and schools business, the forecasts are for net sales to increase 0.7% YoY to ¥16,000mn and operating income to decrease 19.5% to ¥600mn. For toddler education, the Company is working to expand the functions of the hugmo work support system and to further increase the number of facilities introducing it.

In school education, the forecasts are for sales and profits to decrease as sales for instruction guides for teachers enter the off-season. The Company is implementing a strategy of strengthening development and sales of digital teaching materials (digital encyclopedias, learning drills, etc.) in response to GIGA schools, and increasing sales of peripheral products and services by using the introductions of these contents as the hook to acquire customers.

In societal education, the Company is aiming for sales and profit to increase by progressing measures to provide one-stop corporate recruitment assistance services and corporate training services, and by expanding digital content for corporate training services.

Outlook for the future

(2) Healthcare and nursing field

a) Elderly housing business

In the elderly housing business, the forecasts are for net sales to increase 13.0% YoY to ¥31,000mn and operating income to rise 9.8% to ¥1,400mn. The actual profit-increase rate after excluding the increase in business management fees will be around 13%. For new facility openings, the plan is to accelerate openings from 21 facilities in the previous period to 27 facilities. Of these, 3 facilities will be opened in Gakken's Community-based Integrated Care System through a public-private sector partnership. It plans to strengthen the structure to train the human resources needed for this, including expanding online follow-up training and the Gakken Academy's elderly care nursing training course. Also, in order to reduce the work burden, it is continuing to utilize IT to work to reduce the employee turnover rate. It is targeting increasing the occupancy rate from 90.3% at the end of the previous period to 93.4%.

b) Group homes for the elderly with dementia business

In the group homes for the elderly with dementia business, the forecasts are for net sales to increase 1.1% YoY to ¥33,500mn and operating income to decrease 4.7% to ¥2,100mn. The Company is planning to newly establish 16 new buildings, and the forecasts are for the number of rooms to increase by 5.4% on the end of the previous period to 5,660 rooms, and for the occupancy rate to maintain its high level at 97.5%. For human resources, it is aiming to keep in place the head managers of homes and to achieve a rate of 100% of homes having a head manager, with the aim of stabilizing work places, while it will also progress measures include to reduce the work burden by utilizing IT. Profits are forecast to decline slightly on an operating income basis, but if excluding the gain on the sale of real estate recorded in the previous period, the costs of the new facilities will be absorbed and profits will be basically unchanged YoY.

c) Child raising support business

In the child raising support business, the forecasts are for net sales to increase 5.6% YoY to ¥5,500mn and operating income to rise 284.6% to ¥100mn. For new establishments of nursery schools and after-school children's clubs, the Company plans 9 facilities concentrated in city centers where demand is expected. It will enhance the recruitment of childcare staff through strengthening partnerships with schools and increasing the recruitment of students who have graduated from Gakken Academy's childcare training course. It is aiming for profits to increase from the effects of the higher sales and by efforts to improve earnings at unprofitable facilities.

Occupancy rate and facility fill rate in the healthcare and nursing field

	FY9/19	FY9/20	FY9/21	FY9/22 forecast
[Serviced apartments for the elderly (Cocofump)]				
Total no. of rooms	6,457	7,182	8,308	9,652
No. of residents	5,934	6,600	7,505	9,018
Occupancy rate	91.9%	91.9%	90.3%	93.4%
[Group homes]				
No. of rooms	5,156	5,246	5,372	5,660
Occupancy rate	97.4%	98.0%	97.8%	97.5%
[Nursery schools]				
No. of available places	2,704	2,788	2,661	2,711
No. of students	2,280	2,381	2,443	2,512
Facility fill rate	84.3%	85.4%	91.8%	92.7%
[Turnover rate]				
Serviced apartments for the elderly	-	24.8%	24.9%	20.0%
Group homes	-	23.5%	22.0%	21.0%

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

Has newly established a subsidiary to progress the DX strategy, and the policy is to accelerate measures to create new services and to improve profitability

2. “Gakken 2023,” the medium-term management plan

(1) Management Policy

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

Due to COVID-19, societal and lifestyle formats are rapidly changing, and in this situation the issues that need to be addressed in the plan’s three years are 1) adapting to the new normal due to COVID-19, 2) digital transformation, and 3) the overemphasis on the mature domestic market. The Company’s initiatives to address these three issues include 1) actively utilizing open innovation (collaborative creation), 2) optimizing the business portfolio (selection and growth), 3) and opening up new markets through global business development, and it is building the foundations for growth to realize its long-term vision by 2030. Also, as the investment in strategic areas (including in M&A) in order to achieve these targets, it plans to invest ¥50bn in the 5 fiscal years from FY9/21 to FY9/25. Breaking this down, ¥25bn will be invested in the DX strategy and ¥25bn in the toddler and global businesses.

(2) Management numerical goals

The FY9/23 management numerical goals are net sales of ¥165,000mn, operating income of ¥7,500mn, profit attributable to owners of parent of ¥3,800mn, ROE of at least 8.0%, and a dividend payout ratio of at least 30.0%. By business segment, the goals for the educational field are net sales of ¥82,000mn and operating income of ¥4,500mn, and for the healthcare and nursing field are net sales of ¥76,000mn and operating income of ¥3,600mn.

As previously stated, it seems that the Company made a smooth start in the plan’s first year, with results higher than forecast. By business segment, the progress made in the healthcare and nursing field was basically as planned, but profitability improved more than expected in the educational field, including from the effects of the business structural reforms. Therefore, the FY9/22 operating income forecast for the educational field is higher than the numerical goal in the medium-term management plan’s final fiscal year. Going forward, if in addition to the structural reforms, the effects of the DX strategy are realized, at FISCO we think that operating income in FY9/23 in the educational field may greatly exceed the initial goal.

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Outlook for the future

In the healthcare and nursing field, if the opening of new facilities, including serviced apartments for the elderly and group homes, proceed according to plan*, at FISCO we think that the Company can achieve the sales goal by sufficiently capturing demand on the arrival of the super-aging society. One issue will be improving profitability and it seems that the key to this will be the trend in the employee turnover rate. In particular, it appears that the factors for this are that the turnover rate of elderly care staff is high due to the low wage level, and that there is a chronic shortage of human resources. Currently, the Company is aiming to lower the employee turnover rate by further strengthening its human resources recruitment and training system, which is thought will lead to improved profitability. The Japanese government has announced its policy of introducing measures in the future to improve the treatment of elderly care staff, which may alleviate this shortage of human resources. Other than this, measures for the global business have been delayed by the prolonging of the COVID-19 pandemic, but enthusiasm for education is rising in emerging countries in Asia, and if the COVID-19 pandemic settles down, the Company plans to actively develop its global business.

* In FY9/23, the Company is planning to open 221 serviced apartments for the elderly and other facilities (169 facilities in FY9/21) and 312 group-home buildings (281 buildings).

Numerical goals in the medium-term management plan

(Unit: ¥mn)

	FY9/20 results	FY9/21			FY9/22 Current forecast	FY9/23 Numerical goal	
		Period-start plan	Revised plan	results			
	Net sales	77,379	76,000	76,800	78,919	81,000	82,000
Education	Operating income	2,202	3,300	3,700	4,138	4,800	4,500
	(Profit margin)	2.8%	4.3%	4.8%	5.2%	5.9%	5.5%
	Net sales	60,786	65,000	65,200	65,792	70,000	76,000
Healthcare and nursing	Operating income	2,744	3,000	3,000	3,042	3,100	3,600
	(Profit margin)	4.5%	4.6%	4.6%	4.6%	4.4%	4.7%
	Net sales	5,398	5,000	5,000	5,576	6,000	7,000
Other	Operating income	127	-700	-700	-950	-1,200	-600
	(Profit margin)	2.4%	-	-	-	-	-
Adjustment		-	-	-	9	-	-
	Net sales	143,564	146,000	147,000	150,288	157,000	165,000
Total	Operating income	5,075	5,600	6,000	6,239	6,700	7,500
	(Profit margin)	3.5%	3.8%	4.1%	4.2%	4.3%	4.5%
	Profit*	2,321	2,800	2,900	2,617	3,400	3,800
	(Profit margin)	1.6%	1.9%	2.0%	1.7%	2.2%	2.3%
	ROE	6.2%	6.5%	-	6.3%	7.1%	8.0%

* Profit attributable to owners of parent

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

Outlook for the future

(3) Progress made in the growth strategy

a) DX strategy

As its DX strategy, the Company's policy is to capture customers by integrating into Gakken ID the members who use the services of the Gakken Group, and to prepare an environment to provide one-stop Gakken services, targeting customers from toddlers to the elderly, in order to maximize customer LTV. Previously, each Group company individually carried out customer management and promotions, so Group synergies were limited. However, through integrating customers onto the Gakken ID platform, it intends to centralize the registration and billing of services and customer management, which will improve customer convenience. Improving the user experience (UX) and conducting strategic promotions through this platform will make it possible to promote the use of other services in the Group, which is expected to lead to an improvement in customer LTV and a reduction in customer-acquisition costs. The number of registered Gakken ID members grew from 200,000 in March 2021 to 360,000 in September of the same year. The number of Gakken Group digital members is more than 1mn people, so presently it is targeting 1mn member registrations.



(As of September 30, 2021)

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

In December 2021, the Company founded Gakken LEAP Co., Ltd. as a new company with goals including creating new businesses, as illustrated with Ed-Tech. In order to accelerate the DX strategy, including developments of new services, it is necessary to attract high-quality DX human resources with a new remuneration system. Also, in order to actively enter into partnerships and business collaborations with venture companies and others in the Ed-Tech area, and to functionally build an ecosystem with businesses in the same industry, it determined that it was necessary to have a specialist subsidiary to be responsible for the DX strategy. Going forward, the DX strategy will be progressed, mainly by Gakken LEAP, by fully utilizing the Group's contents and channels, and the Company plans to invest ¥25bn, including in capital partnerships, over five years up to 2025. As its M&A track record, in FY9/21 it made subsidiaries of two venture companies* in the recurrent education area.

* Bend Inc., which operates Shikaku Times, a comprehensive qualifications website, and Manabi Times, a comprehensive education website, and Dontokoi Inc., which provides an online platform for learning Chinese and a matching service with Chinese language tutors, were made subsidiaries.

Outlook for the future

b) Toddler strategy

In order to strengthen its foundation in the toddler area, the Company has entered into a capital and business partnership with JP Holdings, which is an industry leader in child raising support facilities, including nursery schools. The aims for this capital and business partnership are to absorb the management expertise of JP Holdings, which realizes a high profit margin in its child raising support business, and progress a synergies strategy to capture customers from the toddler stage in order to increase Gakken Classroom student numbers.

The specific measures after entering into the capital and business partnership are that the Company will change its head office organization for the child raising support business and work on building a mechanism to strengthen safety management. Also, Gakken Academy's childcare training course will accept the childcare staff of JP Holdings and both companies will work to improve the quality of childcare.

In addition, as the strategy to capture customers (to refer to Gakken Classroom those students who have graduated from kindergartens and nursery schools), the facilities managed by JP Holdings will implement measures to improve the name awareness of Gakken Classroom and work to create continuous points of contact with the toddlers' parents and guardians. Also, to increase sales of educational contents and teaching materials for training, the plan is to conduct toddler education training and to further increase the number of kindergartens introducing toddler classrooms.

c) Global strategy

For the Gakken Group's overseas business development, it is conducting business development in the Asia region, including the operations of Gakken Classroom, learning centers, and elderly care facilities. In FY9/21, overseas net sales were approximately ¥4.5bn, which is around 3% of total net sales. The Company's long-term vision is to raise-up the percentage of total sales from overseas sales to 30% by FY9/30 through the organic growth of its existing businesses, and by developing new businesses. As the new businesses, it will develop a toddler education business, which is the Company's strength, in South East Asia, and a non-cognitive education business in the China market. It also anticipates creating other businesses such as through ODA synergies that utilize the network of IC Net (including STEAM education in the Middle East region). In the China market, learning centers are essentially state run through government policy. However, the toddler educational field, which is deemed non-cognitive education, is outside the scope of these regulations, so it seems there is room for business development in this field.

Shareholder returns

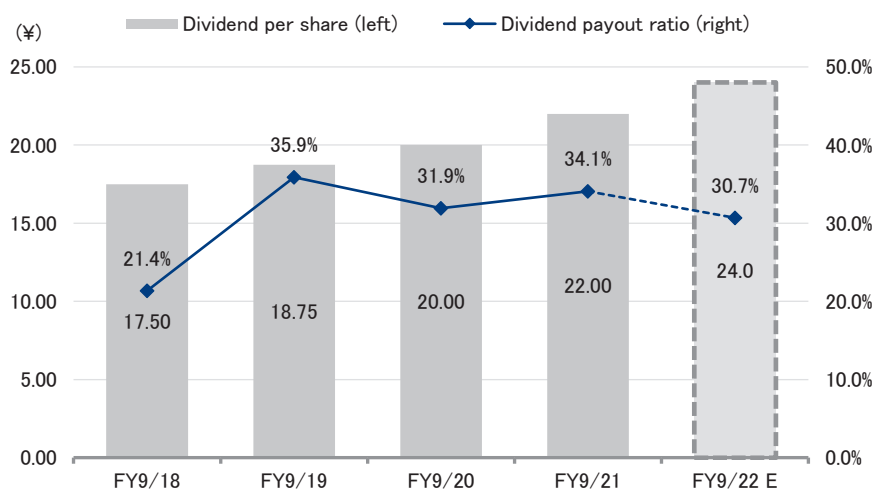
In FY9/22, plans to increase the dividend for the 5th consecutive period and will also enhance benefits for long-term shareholders

The Company positions shareholder returns as an important management issue and returns profits to shareholders through dividends, while it has also introduced a shareholder benefits program. Its basic dividend policy is to stably pay a dividend targeting a dividend payout ratio of 30%, at the same time as maintaining a good balance with earnings growth through actively investing in growth fields. In FY9/21, it increased the dividend per share by ¥2.0 YoY to ¥22.0 (dividend payout ratio, 34.1%). In FY9/22, it plans to pay a dividend per share of ¥24.0 (dividend payout ratio, 30.7%), which in actual terms will be the fifth consecutive period it has increased the dividend.

Shareholder returns

In September 2021, the Company announced that it would enhance the shareholder benefits system. The changes compared to previously are that shareholders holding 100 to 399 shares will be given a Gakken Mall Coupon that can be used on the shopping website operated by the Company, while it has also enhanced benefits for shareholders holding shares over the long term (holding shares continuously for at least three years). For long-term shareholding, shareholders holding at least 1,200 shares were previously given a book card worth ¥1,000, but this has now been increased to ¥2,000. Also, shareholders holding 400 to 1,199 shares will be given a book card worth ¥1,000. The aim is to increase shareholders who hold shares stably over the long term, and for the future also, the Company is considering measures to further shift the resources for shareholder benefits to long-term shareholders.

Changes in dividend per share and dividend payout ratio



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

Changes to shareholder benefits

[Before]		[After]	
Number of shares held	Content of Shareholder benefit	Number of shares held	Content of Shareholder benefit
100-399 shares	Products worth ¥2,000	100-399 shares	Gakken Mall Coupon worth ¥2,000
400-1,199 shares	Products worth ¥4,000 or a Gakken Mall Coupon	400-1,199 shares	A set of products, etc., worth ¥4,000 or a Gakken Mall Coupon
1,200 or more shares	Two choices from products worth ¥4,000 or a Gakken Mall Coupon, to products worth ¥8,000 or a Gakken Mall Coupon	1,200 or more shares	A set of products, etc., worth ¥8,000 or a Gakken Mall Coupon
Long-term-shareholder benefits		Long-term-shareholder benefits	
<ul style="list-style-type: none"> Shareholders holding at least 1,200 shares continuously for at least 3 years given a book card worth ¥1,000 		<ul style="list-style-type: none"> Shareholders holding 400 to 1,199 shares continuously for at least 3 years given a book card worth ¥1,000 Shareholders holding at least 1,200 shares continuously for at least 3 years given a book card worth ¥2,000 	

Source: Prepared by FISCO from the Company's website

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