COMPANY RESEARCH AND ANALYSIS REPORT

global bridge HOLDINGS Co., Ltd.

6557

TSE Mothers market

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Summary

A growth strategy focused on shifting “From nursery schools to an EdTech company”

global bridge HOLDINGS Co., Ltd. <6557> (hereafter, also “the Company”) aims to be a “comprehensive welfare company” that helps to solve Japan’s population problem through its welfare businesses. The Company conducts the management of authorized nursery schools, support facilities for children with disabilities, nursing care facilities, and other facilities that support the “quantity” of welfare in Japan. It also conducts the sale of the Child Care System (CCS), a nursery school management support system it developed independently. CCS supports the “quality” of welfare in Japan. The Company has adopted “From nursery schools to an EdTech (a portmanteau from combining ‘education’ and ‘technology’) company” as its growth strategy.

1. Dominant share of authorized nursery school management in Chiba Prefecture

In terms of segment classification, the Company changed the classification and names of its business segments in the fiscal year ended December 31, 2021 (FY12/21). It classifies its businesses as the “childcare business” (childcare business), “elderly care business” (nursing care business), and the “tech business.” In the mainstay childcare business, the Company operates directly managed authorized nursery schools and small-scale childcare facilities under the brand name “AIAI,” and mixed-use facilities (child development support and day services including after-school services) under the brand name “AIAI PLUS,” in Tokyo’s 23 wards, Chiba Prefecture, Kanagawa Prefecture, and Osaka Prefecture. The Company ranks sixth in the industry in terms of the number of authorized nursery schools under management. It has a dominant market share in Chiba Prefecture. Its proprietary educational program for nursery school children has unique features and has been highly evaluated.

2. CCS, a nursery school management support system developed independently

In the tech business, the Company provides childcare businesses nationwide with solutions to promote improved work efficiency in childcare facilities. These solutions include CCS, which is a nursery school management support system the Company has developed independently. One of the Company’s strengths is that its system draws on the abundant data and expertise it has obtained from its experience in managing its authorized nursery schools. As a result, the system has become more than just a means of improving work efficiency. It has evolved into a system that realizes individually optimized childcare. It can be used to predict, among other things, the outbreak of fever based on an analysis of a child’s body temperature when he or she is asleep, child development based on an analysis of a child’s development records, and a child’s interests based on an analysis of his or her play habits. As of the end of December 2020, the Company had a track record of installing the system at a total of more than 700 facilities. By 2025, the Company aims to increase its share of installations at private nursery schools and private kindergartens to 20%. (The share is forecast to be approximately 4% in 2021.)

3. Nursery school management becomes profitable in the 3rd or 4th year from opening through increases in the number of students enrolled and the enrollment rate

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

4. In FY12/21 1H, the trend in operating profitability improved, with a decrease in the operating loss

For FY12/21 1H, consolidated results were as follows (various costs incurred before opening facilities were reclassified from cost of sales to preparation costs for opening facilities under non-operating expenses; results for the same period of the previous year were restated to reflect this change). Net sales increased 19.2% year on year (YoY) to ¥4,621mn, the operating loss was ¥375mn (compared with a loss of ¥941mn in the same period of the previous year), ordinary profit decreased 74.3% YoY to ¥118mn, and profit attributable to owners of parent decreased 71.8% YoY to ¥62mn. Ordinary profit and profit attributable to owners of parent decreased due to a decline in facility opening subsidies, which are recorded in non-operating expenses, in connection with a decrease in the number of new facilities opened. However, the ratio of facilities that became profitable in the 3rd or 4th year after opening increased, and supported by the optimization of staff placement, the operating loss decreased. The trend in operating profitability is improving.

5. The Company plans for a 15-month transitional accounting period due to a change in the fiscal year-end. Forecasts for FY12/21 on a 12-month basis remain unchanged.

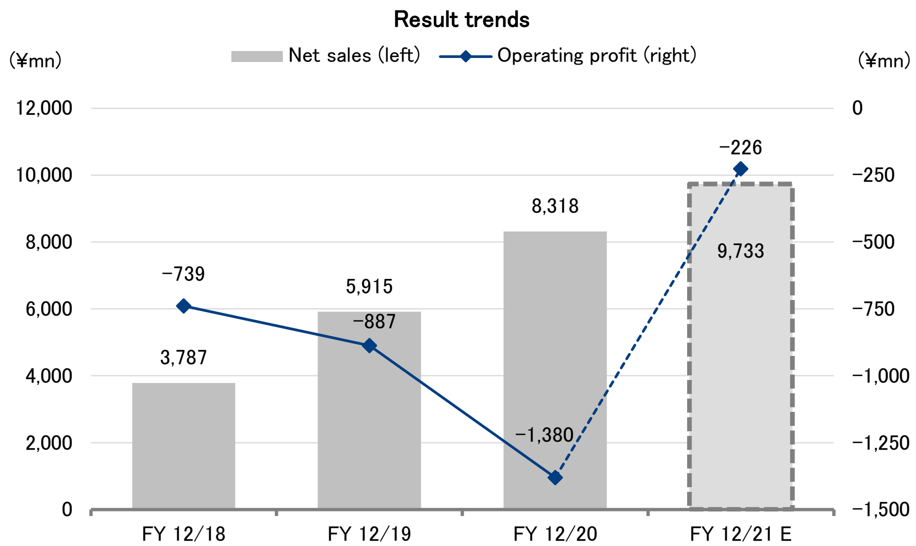
The Company will change its fiscal year-end from December to March, subject to the approval of an Extraordinary General Meeting of Shareholders scheduled to be held on November 18, 2021. For this reason, the Company's 7th business year, which is currently under way, will be a transition period of 15 months from January 1, 2021 to March 31, 2022. The Company has announced that it will disclose its forecasts of consolidated results for the 15-month period separately. Forecasts of consolidated results for FY12/21 on a 12-month basis have remained unchanged. For the FY12/21 12-month period, the Company is forecasting that net sales will increase 17.0% from FY12/20 to ¥9,733mn, the operating loss will amount to ¥226mn (compared with a loss of ¥1,380mn in FY12/20), ordinary profit will decrease 33.0% to ¥185mn, and profit attributable to owners of parent will decline 26.1% to ¥111mn. Ordinary profit and profit attributable to owners of parent are forecast to decrease because of a decline in equipment subsidy income. However, the Company expects a large increase in net sales and a smaller operating loss based on factors such as an increase in the number of facilities, an increase in the number of students enrolled, a rise in the enrollment rate, and optimization of staff placement.

6. Strong prospects for accelerated growth as an EdTech company

The number of children on waiting lists for nursery schools has been decreasing, while the number of children with disabilities has been increasing. In response to these changes in the market environment, the Company has decided to accelerate the opening of new AIAI PLUS mixed-use facilities, which have high profit margins. Guided by its strategy of "From nursery schools to an EdTech company," the Company will drive the growth of the tech business. These efforts will make the most of the Company's strengths in having accumulated data and expertise in the management of authorized nursery schools. The trend in operating profitability is improving owing to progress on building an earnings foundation. After the Company achieves operating profitability, FISCO believes that it can achieve accelerated growth as an EdTech company through initiatives such as opening new AIAI PLUS mixed-use facilities and expanding sales of the CCS nursery school management support system. These initiatives will be based on the AIAI directly managed authorized nursery schools, which will serve as a stable earnings foundation.

Key Points

- A "comprehensive welfare company" helping to solve Japan's population problem through welfare businesses, centering on nursery schools
- The Company plans for a 15-month transitional accounting period due to a change in the fiscal year-end. The operating loss is expected to decrease for FY12/21 on a 12-month basis.
- Strong prospects for accelerated growth as an EdTech company



Note: FY12/21 E is scheduled to be a 15-month transitional accounting period for FY3/22 due to a change in the fiscal year-end.
Source: Prepared by FISCO from the Company's financial results

Company profile

Aiming to be a EdTech Corporate Group that helps to solve Japan's population problem

1. Company profile

The Company aims to be a "comprehensive welfare company" that helps to solve Japan's population problem through its welfare businesses. The Company conducts the management of authorized nursery schools, support facilities for children with disabilities, nursing care facilities, and other facilities that support the "quantity" of welfare in Japan. It also conducts the sale of the Child Care System (CCS), a nursery school management support system it developed independently. CCS supports the "quality" of welfare in Japan. The Company has adopted "From nursery schools to an EdTech company" as its growth strategy.

The Company's head office is located in Kinshi, Sumida Ward, Tokyo. As of January 1, 2021, the Group comprises the Company (holding company) and 3 consolidated subsidiaries (global child care Co., Ltd., global life care Co., Ltd., and CHaiLD Co., Ltd.)

At the end of FY12/21 1H, the Company's total assets were ¥11,234mn, net assets were ¥1,554mn, share capital was ¥45mn, the equity ratio was 13.5%, and the number of issued shares was 2,737,190. Following approval by resolution of the 6th Ordinary General Meeting of Shareholders held on March 26, 2021, the Company transitioned to a company with an audit and supervisory committee, in order to improve the transparency of management and speed up decision-making.

The Company's leading shareholder, ANNIVERSAIRE HOLDINGS Inc., holds 40.00% of the total number of issued shares of the Company as of the end of December 2020. ANNIVERSAIRE HOLDINGS is an investment company owned by Mr. Hironori Aoki, who is the Chairman and Representative Director of AOKI Holdings <8214>. The Company was established through a company split with ANNIVERSAIRE HOLDINGS. Considering this background, ANNIVERSAIRE HOLDINGS plans to continue to hold the shares of the Company. It has no business or personnel relations with the Company, so the Company's management is expected to remain independent.

2. History

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

Subsequently in November 2015, global bridge HOLDINGS Co. Ltd., the current holding company, was established through a company split (new establishment split) with ANNIVERSAIRE HOLDINGS Inc. Thereafter, global bridge HOLDINGS has reorganized the group and expanded its business through M&As and other means.

In December 2015, global bridge was made a wholly owned subsidiary (it absorbed Tokyo Life Care Co., Ltd. through a merger in April 2020 and its company named was changed to its current name, global child care), the ICT business (currently, the tech business) was separated from global bridge, and social solutions Co., Ltd. (in January 2021, its company name was changed to its current name, CHaiLD Co., Ltd.) was established. In October 2017, the head office was relocated to its current location; in July 2018, Tokyo Life Care Co., Ltd. was made a wholly owned subsidiary (it was absorbed by global bridge through a merger in April 2020) and began the management of serviced housing for the elderly; and then in November 2018, YUAN Co., Ltd. (its company name was changed to its current name, global life care, in 2019) was made a wholly owned subsidiary and it began management of residential-type, fee-paying homes for the elderly.

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

History

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

Source: prepared by FISCO from the Company’s website

Business overview

The Company conducts the childcare business, elderly care business, and tech business.

1. Business segments

Until FY12/20, the Company's business segments were classified as the childcare business, the nursing care business, and the ICT business. From FY12/21 1Q, the Company has changed the classification and names of its business segments. Its business segments are the childcare business (the former childcare business (name change in Japanese only)), the elderly care business (the former nursing care business) and the tech business (the former ICT business). The former and new segment classifications are outlined in the following diagram. Under the former segments, day services including after-school services, child development support, and certain related services were included in the nursing care business. Under the new segments, these services have been reclassified to the childcare business and managed as mixed-use facilities.

Changes in segment classification and names

From FY12/21 1Q, the Company has changed the classification of its segments based on the services and characteristics of each business.

Until FY12/20

Segment classification	Covered businesses and services	Managing company
Childcare business	AIAI (childcare)	global child care
Nursing care business	Niji (Day services including after-school services)	global child care
	YASURAGI (Nursing care for seniors)	global life care
	Niji no Ie (living-support nursing-care)	global life care
ICT business	Child Care System (ICT services for childcare)	social solutions

From FY12/21 1Q

Segment classification	Covered businesses and services	Managing company
Childcare business	AIAI (childcare)	global child care
	AIAI PLUS (Mixed-use facility (child development support, day services including after-school services)	global child care
Elderly care business	YASURAGI (Nursing care for seniors)	global life care
	Niji no Ie (living-support nursing care)	global life care
Tech business	Child Care System (EdTech services for childcare)	CHaiLD

Source: The Company's results briefing materials

The trends in net sales and operating profit by segment are as follows. Looking at the sales composition (before adjustment), under the former classification in FY12/20, the childcare business accounted for 89.7% of net sales, the nursing care business 8.3%, the ICT business 2.5%, and other 0.7%. Under the new segment classification in FY12/21 1H, the childcare segment accounted for 94.2% of net sales, the elderly care business 4.2% and the tech business 2.9%.

Trends in net sales and operating profit by segment

(¥mn)

Former segment classification

	FY 12/18	FY 12/19	FY 12/20
Net Sales			
Childcare business	3,233	5,002	7,468
Nursing care business	418	745	688
ICT Business	121	147	209
Other	45	127	55
Total	3,818	6,021	8,422
Adjustment amount	-30	-106	-104
Consolidated net sales	3,787	5,915	8,318
Operating profit			
Childcare business	166	178	-64
Nursing care business	-111	19	-44
ICT Business	5	-9	14
Other	20	80	0
Total	82	269	-94
Adjustment amount	-821	-1,157	-1,286
Consolidated operating profit	-739	-887	-1,380

New segment classification

	FY12/20 1H	FY12/21 1H
Net Sales		
Childcare business	3,633	4,357
Elderly care business	152	196
Tech business	139	133
Other	6	0
Total	3,932	4,688
Adjustment amount	-58	-66
Consolidated net sales	3,874	4,621
Operating profit		
Childcare business	-386	-146
Elderly care business	-23	-3
Tech business	-5	-45
Other	-10	0
Total	-425	-195
Adjustment amount	-516	-180
Consolidated operating profit	-941	-375

Note: Figures for FY12/20 1H have been restated to reflect the new segment classification.
Source: Prepared by FISCO from the Company's financial results

The childcare business manages authorized nursery schools and mixed-use facilities.

2. Childcare business

In the mainstay childcare business, global child care, which is a subsidiary, manages the "AIAI" directly managed authorized nursery schools and small-scale childcare facilities, and the "AIAI PLUS" mixed-use facilities (child development support and day services including after-school services). These facilities are primarily located in Tokyo's 23 wards, Chiba Prefecture, Kanagawa Prefecture, and Osaka Prefecture.

Authorized nursery schools are child welfare facilities based on the Child Welfare Act. These schools satisfy the standards established by the national government, such as for the floor area and the number of staff, including nursery school teachers. The schools are authorized by the prefectural governor or by others. They are managed while receiving facilities-type financial subsidies provided by the national and local governments. Small-scale childcare facilities are childcare facilities newly established through the support system for children and child raising. These facilities are authorized by municipalities. They have a capacity of 19 students or less and are for children aged 0 year to 2 years. The facilities operate while receiving childcare fees from the users and regional-type childcare financial subsidies from local governments. Mixed-use facilities are facilities equipped to provide care and a place to stay for school-age children with disabilities (from 6 to 18 years old), who commute to the facilities after their classes at school or on school holidays. The facilities provide welfare services to these students, so that they can live and learn with peace of mind. Mixed-use facilities claim welfare service fees for people with disabilities from national health insurance organizations and co-payment service fees from users.

The trend in the number of facilities in the childcare business (after restatement to reflect the new segment classification) is as follows. In an effort to establish an earnings foundation, the Company has been pushing ahead with openings of new directly managed authorized nursery school facilities. At the end of FY12/21 1H, the Company had 87 facilities in total (71 authorized nursery schools, 8 small-scale childcare facilities, and 8 mixed-use facilities). The Company, as a joint-stock company, ranks 6th in the industry in terms of the number of authorized nursery schools under management.

Trend in the number of facilities in the childcare business

(Unit: facilities)

	End-FY 12/16	End-FY 12/17	End-FY 12/18	End-FY 12/19	End-FY 12/20	End-FY12/21 1H
Authorized nursery schools	13	23	34	48	65	71
Small-scale childcare facilities	7	7	8	8	8	8
Outsourced and non-authorized	4	1	1	-	-	-
Mixed-use facilities	-	-	-	-	-	8
Day services including after-school services	6	7	10	9	7	-
Child development support	3	4	2	2	2	-
Total	33	42	55	67	82	87

Note: Figures have been restated to reflect the new segment classification.
Source: Prepared by FISCO from the Company's financial results

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

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

The elderly care business is conducting businesses such as serviced housing for the elderly, eyeing M&As in the future.

3. Elderly care business

In the elderly care business, global life care, which is a subsidiary, manages serviced housing for the elderly and residential-type, fee-paying homes for the elderly under the YASURAGI brand.

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

The trend in the number of facilities in the elderly care business (after restatement to reflect the new segment classification) is as follows. Currently, global life care is working to drive further business expansion, eyeing M&As in the future. It is also promoting the use of ICT through such means as carrying out health management using sensors installed in in beds.

Trend in the number of facilities in the elderly care business

(Unit: facilities)

	End-FY 12/16	End-FY 12/17	End-FY 12/18	End-FY 12/19	End-FY 12/20	End-FY12/21 1H
Living-support nursing-care facilities	1	2	1	1	1	1
Serviced housing for the elderly	-	-	1	1	1	1
Residential-type, fee-paying homes for the elderly	-	-	1	1	1	1
Total	1	2	3	3	3	3

Note: Figures have been restated to reflect the new segment classification.
Source: Prepared by FISCO from the Company's financial results

The tech business is increasing sales of the independently developed nursery school management system

4. Tech business

In the tech business, CHaiLD, which is a subsidiary, uses its experience in managing authorized nursery schools to provide solutions for improving the work efficiency of childcare facilities nationwide. These solutions include CCS, a nursery school management support system that it developed independently in July 2011. One of CHaiLD's strengths in this business lies in its ability to supply solutions based on abundant data and expertise obtained from experience in managing its authorized nursery schools.

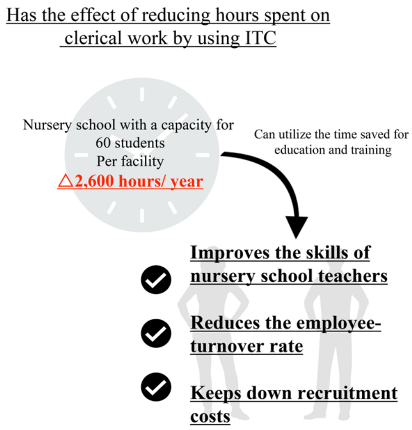
These solutions seek to help improve the quality of childcare by reducing the time required for clerical work related to the management of childcare facilities, including the work to prepare documents for nursery school teachers. This allows the nursery school teachers and other staff to spend more time interacting with every child and to devote more time to ascertaining each child's individual development and health condition. By improving work efficiency, CHaiLD's solutions realize improvements in the quality of childcare, making it possible to provide "appropriate childcare" to users and productive and efficient workplaces to nursery school teachers. These solutions enable nursery schools to efficiently improve the skills of young nursery school teachers who lack experience. They also provide advantages such as reducing the costs of training nursery school teachers, lowering the employee turnover rate, and curtailing the cost of recruiting nursery school teachers.

With the CCS nursery school management support system, CHaiLD provides functions including CCS PRO, a comprehensive work support system; CCS SENSOR, a child nap check sensor; and VEVO, a childcare robot for nursery school teacher development. For example, CCS PRO is provided in a subscription format (monthly fee of around ¥20,000), and it simplifies and improves the efficiency of clerical work in the management of childcare facilities. To illustrate the system's cost effectiveness, the system can reduce 2,600 working hours a year per nursery school with a capacity of 60 students. As of the end of December 2020, CHaiLD had a track record of installing the system at a total of more than 700 facilities. By 2025, the company aims to increase its share of installations at private nursery schools and private kindergartens to 20%. (The share is forecast to be approximately 4% in 2021.)

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

Service content up to the present time

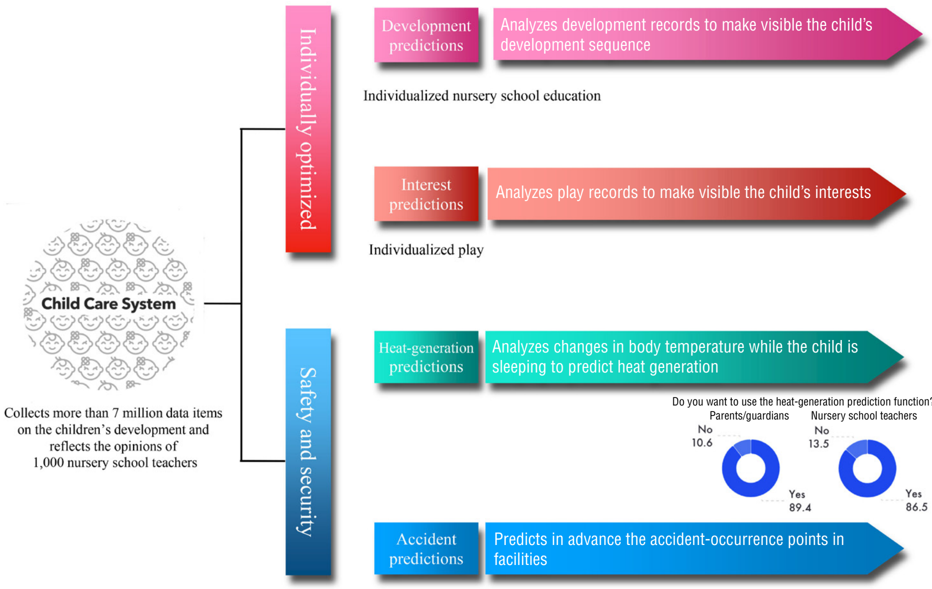
Content	Functions
Functions to improve work efficiency	Comprehensive work support system, including child registration management, childcare journal entries, childcare subsidies billing, audit records, etc.
Photo sales function	Website for sales of photos and videos to parents/guardians
CCS Child Care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



Source: The Company's results briefing materials

Moreover, the system has become more than just a means of improving work efficiency. It has evolved into a system that realizes individually optimized childcare. It can be used to predict, among other things, the outbreak of fever based on an analysis of a child's body temperature when he or she is asleep, child development based on an analysis of a child's development records, and a child's interests based on an analysis of his or her play habits. These predictions are based on more than 7 million data entries on the development of more than 6,000 children in total, which have been obtained from the operation of directly managed authorized nursery schools (a volume of information corresponding to 10 experienced nursery school teachers each with over 20 years of childcare experience) and based on the opinions of more than 1,000 nursery school teachers. The newly developed fever prediction sensor was released in May 2021, and future plans call for the implementation of capabilities such as an AI-based child development prediction function.

What can be done from the obtained data



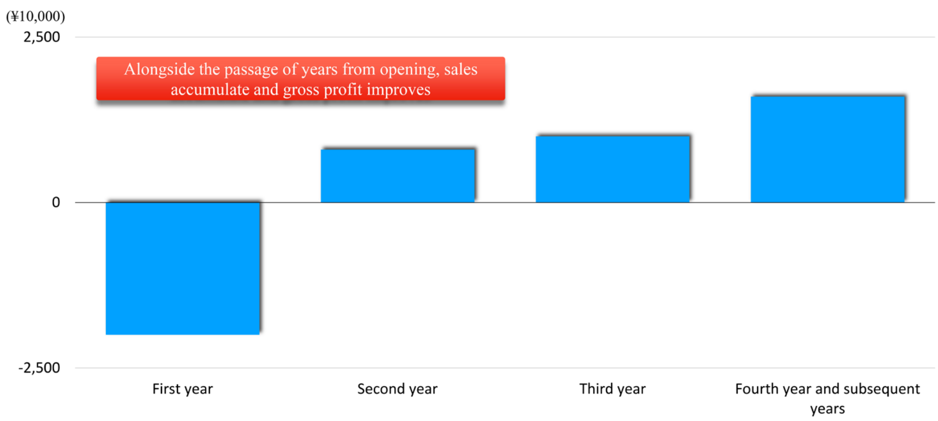
Source: reprinted from supplementary briefing materials from the 6th Ordinary General Meeting of Shareholders

Nursery school management becomes profitable in the 3rd or 4th year from opening through increases in the number of students enrolled and enrollment rate

5. Earnings characteristics

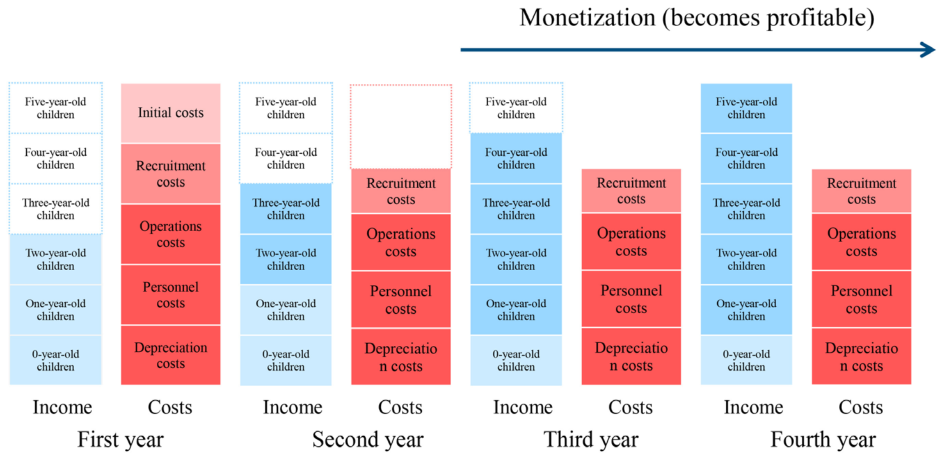
In terms of the earnings characteristics of the childcare business, at the time a new facility is opened, costs are incurred in advance for its opening, including initial-period costs and recruitment costs. Meanwhile, facilities tend to incur a loss for several years after they are opened due to the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

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



Source: The Company's results briefing materials

Image of the monetization of a nursery school



Source: The Company's results briefing materials

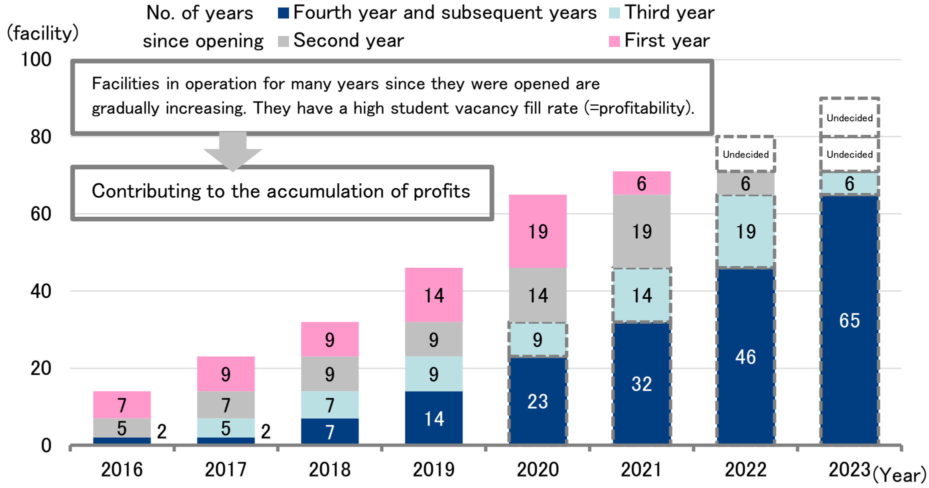
Looking at trends by fiscal quarter, in principle authorized childcare facilities open for business on April 1st, so the cost ratio and the SG&A expenses ratio tend to increase in 1Q (January to March) and 2Q (April to June) in relation to the timing of spending on costs to establish a new facility,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

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

In order to build an earnings foundation, the Company has rapidly increased the number of new openings of directly managed authorized nursery schools (an increase of more than 5-fold over 5 years, from 13 facilities at the end of FY12/16 to 23 facilities at the end of FY12/17, 34 facilities at the end of FY12/18, 48 facilities at the end of FY12/19, 65 facilities at the end of FY12/20 and 71 facilities at the end of FY12/21). Therefore, it has strategically incurred upfront costs and continuously recorded operating losses (net income became profitable in FY12/20 owing to the recording of equipment subsidy income from various local governments in non-operating income).

However, overall operating profitability is expected to improve. This is because the overall number of students enrolled and the enrollment rate will rise due to an increase in the ratio of facilities at which more than 3 or 4 years have passed from their opening. In addition, the Company has adopted a policy of recording preparation costs for opening facilities as non-operating expenses from FY12/21 in order to classify profit and loss items more appropriately by clearly and distinctly presenting the actual cost burden. Previously, these costs were recorded as cost of sales. In FY12/21 1H, the operating loss decreased dramatically from the same period of the previous fiscal year, due partly to increases in the number of students enrolled and the enrollment rate.

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



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

Competitive advantages from a dominance strategy and an ICT strategy

6. Risk factors

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

In the childcare field, there are supportive factors such as the Japanese government's "New Plan for Raising Children with Peace of Mind" (Shin Kosodate Anshin Plan) and "Plan to Set up a Children's Agency" (Kodomocho Sousetsu Plan). However, progress is being made on eliminating the child waiting list problem, and in the future, it is anticipated that competition may intensify and profitability may decline due to a decrease in user numbers. In response to this risk, the Company is maintaining its competitive advantages by advancing a dominance strategy centered on Chiba Prefecture, and an ICT strategy based on CCS and other elements.

Moreover, in the future, the number of children on waiting lists for nursery schools will likely decrease, and the number of children with disabilities will likely increase. In response to these changes in the market environment, the Company has decided to shift from the opening of new AIAI directly managed authorized nursing schools to the opening of new AIAI PLUS mixed-use facilities.

Result trends

In FY12/21 1H, the trend in operating profitability improved, with a decrease in the operating loss

1. FY12/21 1H consolidated results review

For FY12/21 1H, consolidated results were as follows (various costs incurred before opening facilities were reclassified from cost of sales to preparation costs for opening facilities under non-operating expenses; results for the same period of the previous year were restated to reflect this change). Net sales increased 19.2% YoY to ¥4,621mn, the operating loss was ¥375mn (compared with a loss of ¥941mn in the same period of the previous year), ordinary profit decreased 74.3% YoY to ¥118mn, and profit attributable to owners of parent decreased 71.8% YoY to ¥62mn. Ordinary profit and profit attributable to owners of parent decreased due to a decline in facility opening subsidies, which are recorded in non-operating expenses, in connection with a decrease in the number of new facilities opened. However, the ratio of facilities that became profitable in the 3rd or 4th year after opening increased, and supported by the optimization of staff placement, the operating loss decreased. The trend in operating profitability is improving.

FY12/21 consolidated results review

(¥mn)

	FY12/20 1H	FY12/21 1H	Change
Net Sales	3,874	4,621	19.2%
Gross profit (loss)	-62	391	-
SG&A expenses	879	766	-12.8%
Operating profit	-941	-375	-
Non-operating income	1,557	567	-63.6%
Non-operating expenses	153	73	-52.3%
Ordinary profit (loss)	462	118	-74.3%
Profit (loss) attributable to owners of parent	220	62	-71.8%

Note: Figures for FY12/20 1H have been restated to reflect the reclassification of preparation costs for opening facilities.
Source: Prepared by FISCO from the Company's financial results

Net sales increased significantly, owing to an increase in the number of childcare facilities, and an increase in the number of students enrolled and the enrollment rate at existing facilities, in the childcare business. In cost of sales, personnel costs rose in line with the increase in the number of facilities. However, supported by the positive effects of increased sales and optimization of staff placement, gross profit rose ¥453mn and the gross profit margin stood at 8.5%, marking an improvement of 6.9 percentage points. SG&A expenses decreased 12.8% owing to contributions from factors such as a decrease in taxes and dues, and the SG&A expenses ratio was 16.6%, down 6 percentage points. Ordinary profit and profit attributable to owners of parent decreased due to a decline in equipment subsidy income associated with the opening of new facilities, which is recorded in non-operating income. The number of newly opened authorized nursery schools decreased from 17 facilities in FY12/20 1H to 6 facilities in FY12/21 1H, and subsidy income under non-operating income decreased by ¥985mn from ¥1,546mn in FY12/20 1H to ¥561mn in FY12/21 1H. Preparation costs for opening facilities, which are recorded in non-operating expenses, were ¥33mn in FY12/21 1H, and ¥93 million in FY12/20 1H.

2. Trends by segment

The trends by segment are as follows

Trends by segment in FY12/21 1H

(¥mn)

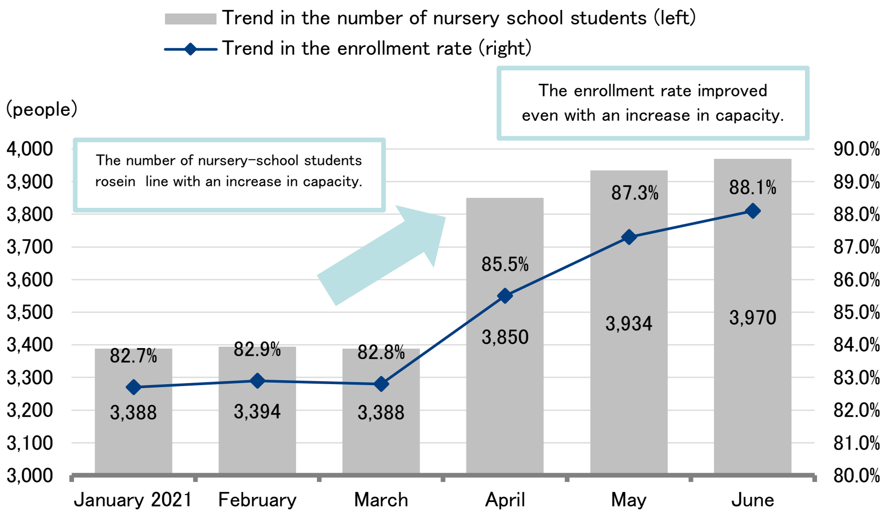
	FY12/20 1H	FY12/21 1H	Change
Net Sales			
Childcare business	3,633	4,357	19.9%
Elderly care business	152	196	28.7%
Tech business	139	133	-4.3%
Other	6	0	-
Total	3,932	4,688	19.2%
Adjustment amount	-58	-66	-
Consolidated net sales	3,874	4,621	19.2%
Operating profit			
Childcare business	-386	-146	-
Elderly care business	-23	-3	-
Tech business	-5	-45	-
Other	-10	0	-
Total	-425	-195	-
Adjustment amount	-516	-180	-
Consolidated operating profit	-941	-375	-

Note: Figures for FY12/20 1H have been restated to reflect the new segment classification.
Source: Prepared by FISCO from the Company's financial results

In the childcare business, net sales increased 19.9% YoY to ¥4,357mn and the operating loss was ¥146mn (in comparison to a loss of ¥386mn in FY12/20 1H). Net sales rose significantly, due to factors such as an increase in the number of facilities, and an increase in the number of students enrolled and improvement in the enrollment rate at existing facilities. However, personnel costs rose in line with the increase in the number of facilities. Overall, the operating loss decreased. For new openings of facilities, 6 AIAI authorized nursery schools were opened (2 facilities in Tokyo, 3 facilities in Chiba Prefecture, 1 facility in Osaka Prefecture) and 1 AIAI PLUS mixed-use facility was opened in Chiba Prefecture. At the end of FY12/21 2Q, the number of facilities had increased to a total of 87 facilities (71 authorized nursery schools, 8 small-scale childcare facilities, and 8 mixed-use facilities).

Trends in the number of students and enrollment rate at AIAI authorized nursery schools from January to June 2021 and the number of students by age are outlined below. The number of 0-year-old children entering nursery school in the new school year temporarily decreased further than expected due to enrollment hesitancy following the spread of the novel coronavirus (hereafter, the “COVID-19 crisis”). However, the overall number of nursery school students increased in step with the opening of new facilities in April. The enrollment rate showed an uptrend even with an increase in the capacity of nursery schools. The enrollment of 0-year-old children has returned to a recovery track since bottoming out in April.

Status of the number of AIAI nursery school students



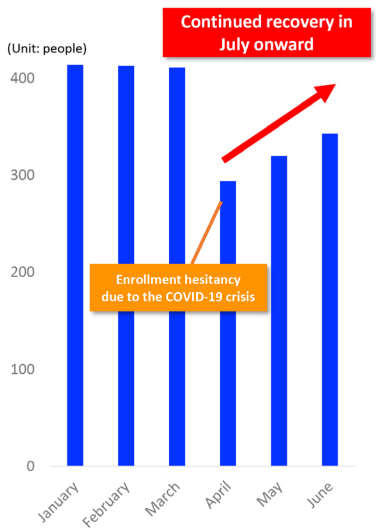
Source: Prepared by FISCO from the Company’s results briefing materials

Status of the number of nursery-school students (by age) and trend in 0-year-old children

Status of the number of nursery-school students (by age)

Class by age group	As of June 2021 No. of enrolled students	Enrollment rate
0-year-old children	343	79%
One-year-old children	786	102%
Two-year-old children	826	98%
Three-year-old children	798	94%
Four-year-old children	666	82%
Five-year-old children	551	69%
Total	3,970	88%

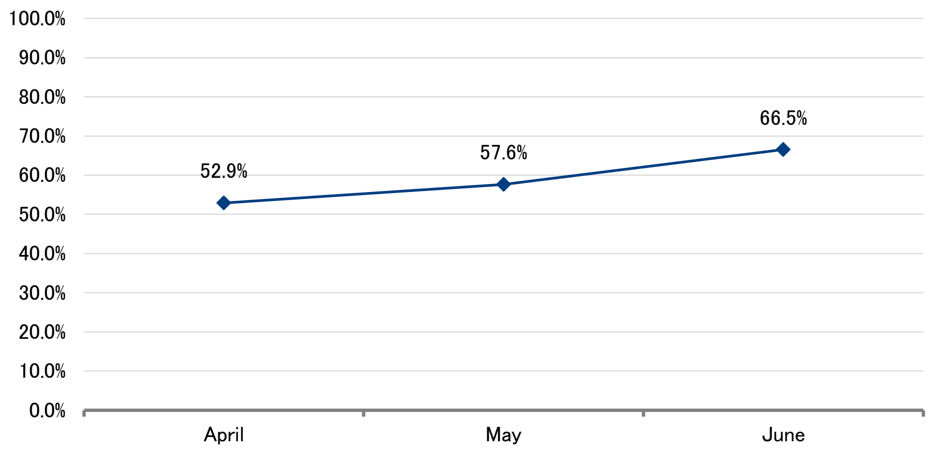
Trend in 0-year-old children



Source: The Company’s results briefing materials

In addition, the occupancy rate of AIAI PLUS mixed-use facilities has also been steadily increasing. The occupancy rate since April 2021, when AIAI PLUS was launched as a service, is outlined as follows. The occupancy rate was 52.9% in April and had increased to 66.5% in June.

Status of usage of AIAI PLUS



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

In the elderly care business, net sales increased 28.7% YoY to ¥196mn and the operating loss was ¥3mn (in comparison to a loss of ¥23mn in FY12/20 1H). While no new facilities were opened, steady utilization of existing facilities led to a decline in the operating loss.

In the tech business, net sales decreased 4.3% to ¥133mn and the operating loss was ¥45mn (in comparison to a loss of ¥5mn in FY12/20 1H). Upfront costs were incurred as resources were intensively allocated to the replacement of the CCS nursery school management support system, and there were also personnel increases aimed at building a new sales structure.

3. Financial condition

Looking at the Company's financial condition, total assets had increased ¥735mn to ¥11,234mn as of the end of FY12/21 1H. Cash and deposits rose ¥501mn in line with the increase in net sales, and property, plant and equipment increased ¥483mn in connection with new openings of facilities. Total liabilities had increased ¥613mn to ¥9,679mn. While short-term borrowings decreased ¥193mn, long-term borrowings increased ¥748mn in connection with new openings of facilities. Total net assets increased ¥122mn to ¥1,554mn. The equity ratio rose 0.3 of a percentage point to 13.5%. After obtaining the approval of the 6th Ordinary General Meeting of Shareholders held on March 26, 2021, the Company reduced the amount of share capital and made a transfer to other capital surplus. There was no change in net assets because the transaction was a transfer between accounts in the net assets section of the balance sheet.

Interest-bearing debt increased due to upfront investment, and the equity ratio was at a somewhat low level. That said, the Company has continued to maintain positive cash flows from operating activities. In the medium term, it would be desirable for the Company to strengthen its financial position by accumulating profit and repaying interest-bearing debt. However, this cannot be said to be a major problem as the Company is currently in a growth phase.

Main financial indicators

(¥mn)

Item	FY 12/19	FY 12/20	FY12/21 1H
Net Sales	5,915	8,318	4,621
Cost of sales	5,480	8,003	4,230
Gross profit (loss)	434	314	391
Gross profit margin	7.4%	3.8%	8.5%
SG&A expenses	1,322	1,695	766
SG&A expenses ratio	22.4%	20.4%	16.6%
Operating profit	-887	-1,380	-375
Operating profit margin	-	-	-
Non-operating income	1,016	1,794	567
Non-operating expenses	123	136	73
Ordinary profit (loss)	5	276	118
Ordinary profit margin	0.1%	3.3%	2.6%
Extraordinary income	-	4	0
Extraordinary losses	4	1	8
Profit before income taxes	0	279	111
Total income taxes	32	129	49
Profit (loss) attributable to owners of parent	-31	150	62
Net profit margin	-	1.8%	1.3%
Total assets	7,777	10,498	11,234
Current assets	1,821	2,183	2,338
Non-current assets	5,945	8,308	8,890
Total liabilities	6,815	9,066	9,679
Current assets	1,663	2,192	2,010
Non-current assets	5,152	6,873	7,669
Total net assets	961	1,431	1,554
Shareholders' equity	913	1,397	1,529
Share capital	176	329	45
Total number of issued shares at the end of the period excluding treasury shares (shares)	2,470,300	2,661,335	2,737,190
Earnings per share (EPS) (¥)	-13.39	57.51	-
Net assets per share (¥)	366.82	521.84	-
Dividend per share (¥)	0.00	0.00	0.00
Equity ratio	11.7%	13.2%	13.5%
Return on Equity (ROE)	-	10.9%	-
Cash flow from operating activities	287	385	812
Cash flow from investing activities	-1,905	-2,924	-911
Cash flow from financing activities	1,350	2,206	600
Cash and cash equivalents at end of period	1,159	817	1,318

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

Outlook

The Company plans for a 15-month transitional accounting period (FY3/22) due to a change in fiscal year-end

1. The Company plans for a 15-month transitional accounting period (FY3/22) due to a change in fiscal year-end

The Company will change its fiscal year-end (the last day of the business year) from December (from January 1 to December 31 each year) to March (from April 1 to the following March 31 each year), subject to the approval of an Extraordinary General Meeting of Shareholders scheduled to be held on November 18, 2021. By aligning the fiscal year with the business management year for authorized nursery schools, the Company seeks to improve the efficiency of corporate and business management, including budget formulation and business performance management. For this reason, the Company's 7th business year, which is currently under way, will be a transition period for this change in business year. It will be a 15-month transitional accounting period (FY3/22) running from January 1, 2021 to March 31, 2022. The Company has announced that it will disclose its forecasts of consolidated results for the 15-month period separately.

FY12/21 consolidated results forecasts on a 12-month basis remain unchanged, but the operating loss is expected to decrease

2. Summary of the FY12/21 consolidated results forecasts on a 12-month basis

The Company's FY12/21 consolidated results forecasts on a 12-month basis will remain unchanged. The Company is forecasting that net sales will increase 17.0% from FY12/20 to ¥9,733mn, the operating loss will be ¥226mn (a loss of ¥1,380mn in FY12/20), ordinary profit will decrease 33.0% to ¥185mn and profit attributable to owners of parent will decline 26.1% to ¥111mn.

Summary of the FY12/21 consolidated results forecasts

(¥mn)

	FY 12/20	FY 12/21 E	Change
Net Sales	8,318	9,733	17.0%
Gross profit (loss)	314	-	-
SG&A expenses	1,695	-	-
Operating profit	-1,380	-226	-
Non-operating income	1,794	-	-
Non-operating expenses	136	-	-
Ordinary profit (loss)	276	185	-33.0%
Profit (loss) attributable to owners of parent	150	111	-26.1%

Note: FY12/21 E is scheduled to be a 15-month transitional accounting period for FY3/22 due to a change in the fiscal year-end.
Source: Prepared by FISCO from the Company's financial results

Ordinary profit and profit attributable to owners of parent are forecast to decrease based on a decline in equipment subsidy income. However, net sales are expected to rise significantly (increases of ¥1,285mn in the childcare business and ¥100mn in the elderly care business) and the operating loss is expected to decrease. This outlook is based on factors such as an increase in the number of facilities, an increase in the number of students enrolled, a rise in the enrollment rate, optimization of staff placement and curtailment of SG&A expenses. It can be said that the Company is making progress on building an earnings foundation and that it will soon achieve operating profitability.

3. Key measures in 2H

The Company will implement the following key measures in 2H. In the childcare business, the Company will continue working to establish a stable management foundation in this business (through activities such as continuing to hold nursery school presentations online and working to provide child development support programs in collaboration with nursery schools and kindergartens). In the tech business, the Company will build a sales foundation for next fiscal year onward (through activities such as continuing system development to replace the CCS nursery school management support system, upgrading and expanding the lineup of video-on-demand educational materials, and preparing to build a new sales structure). The Company will also reduce SG&A expenses (through activities such as reducing SG&A expenses and strengthening office functions by reviewing how work is performed and driving rationalization of the organizational framework).

With regards to the replacement of the CCS nursery school management support system, which drastically reduces the clerical work of nursery schools, functions related to backyard processes were completed in September 2021. In addition, functions pertaining to nursery school teachers are expected to be completed around fall 2021. Thereafter, the Company plans to conduct marketing activities in earnest.

Video-on-demand educational materials, one of the Company's unique content offerings, are designed to enhance the skills of nursery school teachers. The Company will distribute content featuring the skills and techniques of the best nursery school teachers selected from among more than 1,000 nursery school teachers. The Company states that it aims to upgrade and expand the lineup of educational materials, while brushing up the quality of existing materials.

Growth Strategy

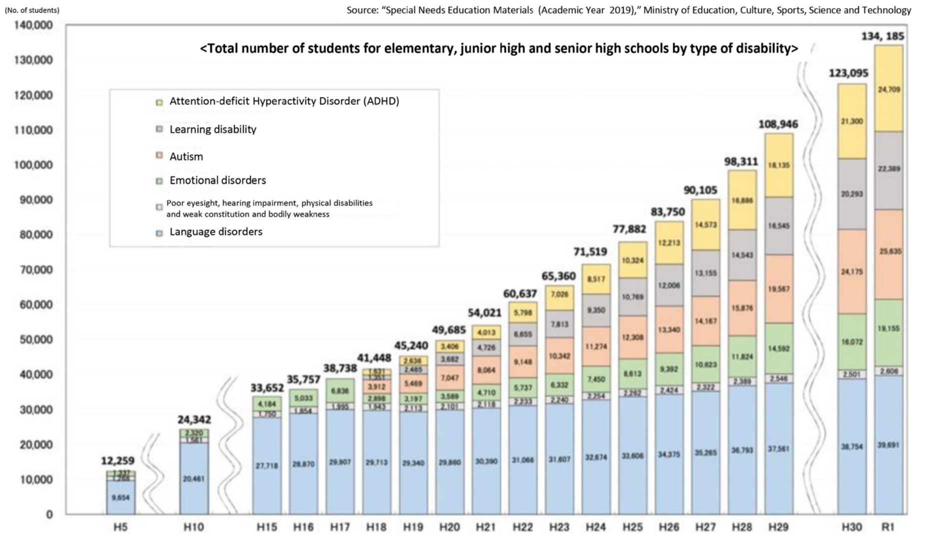
Accelerate new openings of AIAI PLUS mixed-use facilities

1. Accelerate new openings of AIAI PLUS mixed-use facilities

In the childcare field, there are supportive factors such as the Japanese government's "New Plan for Raising Children with Peace of Mind" (Shin Kosodate Anshin Plan) and "Plan to Set up a Children's Agency" (Kodomocho Sousetsu Plan). However, progress is being made on eliminating the child waiting list problem, and in the future, it is anticipated that competition may intensify and profitability may decline due to a decrease in user numbers.

The number of children on waiting lists for nursery schools has tended to decrease, while the number of children with disabilities has tended to increase. The Company will address these changes in the market environment. In parallel, the Company has decided to accelerate new openings of AIAI PLUS mixed-use facilities, to conduct management with emphasis on return on investment (ROI). Mixed-use facilities tend to have relatively low initial opening costs and higher ROI. For example, some mixed-use facilities, can be operated in the same building as authorized nursery schools. In addition, mixed-use facilities offer greater flexibility. Authorized nursery schools must be opened on April 1 as a rule, but service providers are free to choose the opening dates of mixed-use facilities.

Market Environment of AIAI PLUS



* As of May 1, every academic year
* From the 2006 academic year, ADHD and learning disabilities have been covered by special support services in resource rooms as stipulated by the Ordinance for Enforcement of the School Education Act. In addition, autism was clearly specified as covered by these services from the 2006 academic year. (In the 2005 academic year and prior years, these conditions were mainly addressed as emotional disorders, which were covered by the special support services in resource rooms.)
* Based on surveys of educational institutions including national and private schools from the 2018 academic year.
* Special support services in resource rooms in senior high schools began in the 2018 academic year. Accordingly, data for senior high schools have been recorded since the 2018 academic year.
* Elementary school includes the lower curriculum of compulsory education schools; junior high school includes the upper curriculum of compulsory education schools and the lower curriculum of secondary schools; and senior high school includes the upper curriculum of secondary schools.

Source: The Company's results briefing materials

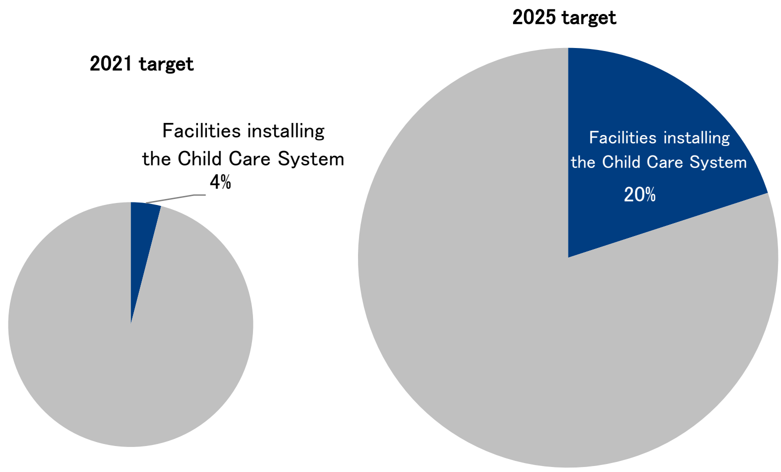
In the elderly care business, the Company has decided to work to improve its market recognition by harnessing synergies with Group company brands, along with considering growth initiatives eyeing M&As in the future.

From nursery schools to an EdTech company

2. From nursery schools to an EdTech company

The Company has set "from nursery schools to an EdTech company" as its strategy to achieve further growth. The Company will strive to expand the tech business by leveraging its strengths in terms of the data and expertise it has amassed by managing authorized nursery schools. Furthermore, it aims to increase the share of installation of its system at private authorized nursery schools and private kindergartens in Japan from 4% in 2021 (around 750 installations based on the number of installations) up to 20% by 2025 (around 4,200 installations).

Share target



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

Strong prospects for accelerated growth after achieving operating profitability

3. Progress on building an earnings foundation and strong prospects for accelerated growth after achieving operating profitability

The Company has accelerated the opening of new facilities centered on directly managed nursery schools, with a view to building an earnings foundation. For this reason, it has continuously recorded operating losses due to upfront investments. However, there has been an increase in the ratio of facilities in operation for more than 3 or 4 years since their opening. Moreover, the number of students enrolled and the enrollment rate have been increasing because of the repeated advance of children in the lower-age class (0 to 2 years) into the higher-aged class (3 to 5 years). These results indicate progress on building an earnings base. Together with positive contributions from factors such as the optimization of staff placement, the trend in operating profitability is improving. It can be said that the Company will soon achieve operating profitability.

After the Company achieves operating profitability, FISCO believes that the Company will be able to achieve accelerated growth as an EdTech company through initiatives such as accelerating new openings of the AIAI PLUS mixed-use facilities, which have high profit margins, and expanding sales of the CCS nursery school management support system. These initiatives will be based on the AIAI directly managed authorized nursery schools, which will serve as a stable earnings foundation.

Shareholder return policy

Currently giving priority to investment and improving the financial foundation given that the Company is in a growth phase

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

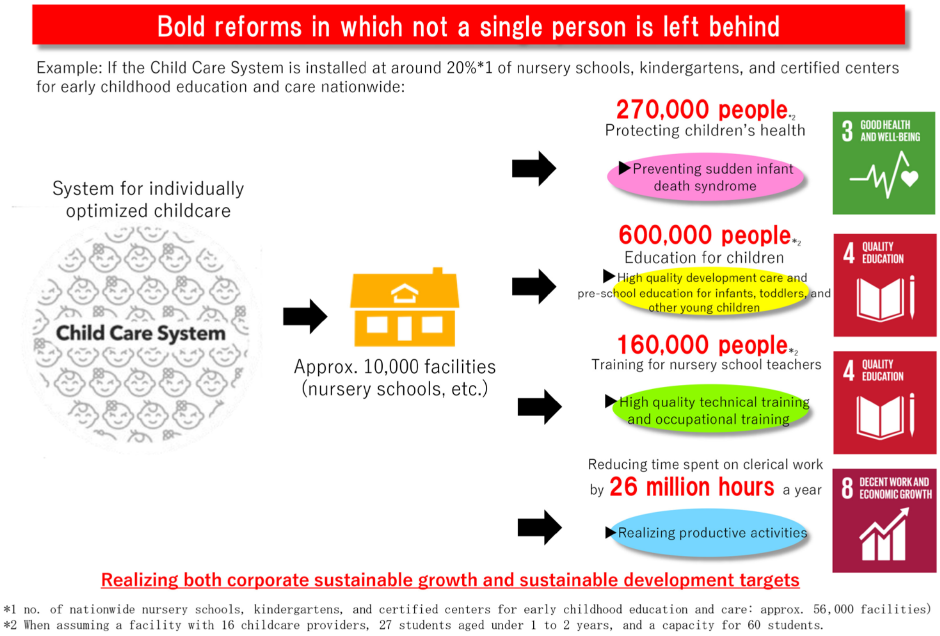
The Company's policy is to consider returning profits to shareholders in the future, while considering the business results and financial condition in each fiscal year. But at the current time, it has not decided on the possibility or the timing of dividend payments.

Initiatives for ESG management and SDGs

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

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

Bold reforms in which not a single person is left behind, with a view to achieving the SDGs



Source: The Company's results briefing materials

Disclaimer

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