

Consolidated Financial Results for the Three Months Ended December 31, 2020 [Japanese GAAP]



February 10, 2021

Company name: Gakken Holdings Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange
 Securities code: 9470
 URL: <https://www.gakken.co.jp/>
 Representative: Hiroaki Miyahara, President, Representative Director
 Contact: Yoshinobu Adachi, Executive Director and General Manager of Financial Strategy Office
 Phone: +81-3-6431-1016
 Scheduled date of filing quarterly securities report: February 10, 2021
 Scheduled date of commencing dividend payments: —
 Availability of supplementary briefing material on quarterly financial results: None
 Schedule of quarterly financial results briefing session: None

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended December 31, 2020 (October 1, 2020 to December 31, 2020)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended December 31, 2020	35,766	3.0	1,929	67.8	1,759	63.4	946	91.5
December 31, 2019	34,711	3.2	1,149	36.6	1,076	37.1	494	371.8

(Note) Comprehensive income: Three months ended December 31, 2020: ¥1,014 million [(27.1)%]

Three months ended December 31, 2019: ¥1,392 million [—%]

	Profit per share	Diluted profit per share
Three months ended	Yen	Yen
December 31, 2020	25.50	25.21
December 31, 2019	13.37	13.22

Effective April 1, 2020, Gakken Holdings Co., Ltd. (the “Company”) implemented a 4-for-1 stock split of its common shares. Reflecting this change, the profit per share and the diluted profit per share are calculated by hypothetically assuming that the stock split was executed at the beginning of the fiscal year ended September 30, 2020.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2020	105,392	36,919	34.7
As of September 30, 2020	103,741	36,239	34.6

(Reference) Equity: As of December 31, 2020: ¥36,565 million

As of September 30, 2020: ¥35,895 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2020	—	40.00	—	10.00	—
Fiscal year ending September 30, 2021	—				
Fiscal year ending September 30, 2021 (Forecast)		11.00	—	11.00	22.00

(Note) Revision of dividends forecast since the last announcement: None

Effective April 1, 2020, the Company implemented a 4-for-1 stock split of its common shares.

Reflecting this change, the amount of the 2nd quarter-end dividend per share for the fiscal year ended September 30, 2020, represents the amount before the stock split and the total annual dividend is indicated with “—.”

3. Consolidated Financial Results Forecast for the Fiscal Year Ending September 30, 2021 (October 1, 2020, to September 30, 2021)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	146,000	1.7	5,600	10.3	5,700	8.1	2,800	20.6	75.46

(Note) Revision of financial results forecast since the last announcement: None

The first half performance forecast is omitted due to the nature of the Company’s business, characterized by fluctuations in the first half.

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in the scope of consolidation): No
Newly added: - (Name) - Excluded: - (Name) -
- (2) Application of special accounting treatments in preparing quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Total number of issued shares (common stock)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
December 31, 2020: 42,383,232 shares
September 30, 2020: 42,383,232 shares
 - 2) Total number of treasury shares at the end of the period:
December 31, 2020: 5,257,366 shares
September 30, 2020: 5,289,352 shares
 - 3) The average number of shares during the period:
Three months ended December 31, 2020: 37,107,515 shares
Three months ended December 31, 2019: 36,964,317 shares

Effective April 1, 2020, the Company implemented a 4-for-1 stock split of its common shares.

The total number of issued shares at the end of the period, the total number of treasury shares at the end of the period, and the average number of shares during the period are calculated by hypothetically assuming that the stock split was executed at the beginning of the fiscal year ended September 30, 2020.

The Company has a trust-type employee shareholding incentive plan in place. The total number of treasury shares at the end of the period includes the number of the Company’s shares held under this plan by The Nomura Trust & Banking Co., Ltd. (the dedicated

trust account for Gakken Employees' Shareholding Association): 482,800 shares at the end of the three months ended December 31, 2020; and 515,000 shares at the end of the fiscal year ended September 30, 2020. The average number of shares during the period is calculated with the number of treasury shares deducted; the number of treasury shares deducted includes the number of the Company's shares held under the same plan by The Nomura Trust & Banking Co., Ltd. (the dedicated trust account for Gakken Employees' Shareholding Association): 501,250 shares at the end of the three months ended December 31, 2020; and 611,100 shares at the end of the three months ended December 31, 2019.

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

(Note on forward-looking statements, etc.)

Financial performance forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions it deems rational. The actual results may vary significantly due to various factors. With regard to the assumptions for the performance forecasts and the notes on the use of the performance forecasts, please refer to "1. Qualitative Information on Financial Results for the Period under Review, (3) Consolidated Financial Results Forecast and Other Forward-looking Statements" on page 6 of the Attachments.

Table of Contents - Attachments

1. Qualitative Information on Financial Results for the Period under Review	2
(1) Explanation of Business Results	2
(2) Explanation of Financial Position	6
(3) Consolidated Financial Results Forecast and Other Forward-looking Statements	6
2. Quarterly Consolidated Financial Statements and Primary Notes	7
(1) Quarterly Consolidated Balance Sheets	7
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	9
(3) Notes to the Quarterly Consolidated Financial Statements	11
(Notes on Going Concern Assumption)	11
(Application of Special Accounting Treatments in Preparing Quarterly Consolidated Financial Statements)	11
(Additional Information)	11
(Segment Information, etc.)	13
(Significant Subsequent Events)	15

1. Qualitative Information on Financial Results for the Period under Review

(1) Explanation of Business Results

In the educational domain where Gakken Group (the “Group”) conducts its business, the government has introduced English language courses into the curriculum of the fifth and sixth grade of elementary school, as well as programming courses. The Common Test for University Admissions has replaced the previous National Center Test for University Admissions from the academic year 2021. In adult education, the recurrent education market grew in response to changes in work styles.

Such factors have further accelerated education's digitalization as an apparent third wave of the new coronavirus infection. More schools and parents are offered internet access, mobile devices, online learning materials, content services and others to receive online education at schools, learning centers and homes.

While the demand for in-person learning remains high in the learning center market, the services are diversifying and, for example, expanding to include online lessons as part of countermeasures to prevent the infection.

Although the publishing industry has been affected by shortened opening hours at bookstores, the market as a whole appears to have bottomed out, owing mainly to stay-at-home demand for paper publications, massive hits in comic books, and substantial growth in e-book publishing.

In the school education industry, the GIGA (Global and Innovation Gateway for All) School Program that aims for the development of the educational ICT environment has been expedited. In addition, junior high school textbooks following the new revised Courses of Study will be used starting in the academic year 2021.

In the adult education industry, the e-learning market is growing, as companies promote remote work, and demand for online language training and other types of remote education rises.

In the elderly care business within the healthcare and nursing domain, needs for elderly care are increasing in association with the “2025 issue” (Japan’s baby boomer generation will reach the late elderly age in 2025) and the growing population of the elderly with dementia. In this context, the Ministry of Health, Labour and Welfare is promoting the building of systems that provide comprehensive support and services to communities (Community-based Integrated Care System) that enable people to continue to live their lives in the communities that are familiar to them until the end of life. Meanwhile, securing workers who support elderly care services at the frontline and moves to revise long-term care compensations present challenges that should be watched out.

In the childcare industry, the demand for childcare services is increasing especially in urban areas, due to the increase in households in which both parents work. Although progress has been made in national measures to support child care, such as the child care relief plan and the provision of free preschool education and childcare, there are still issues to be addressed such as the shortage of nursery school teachers.

Elderly care and childcare facilities are required to ensure the safety of residents, children, parents and employees, as well as thorough measures to prevent the spread of the new coronavirus, including providing hygiene products.

Under these circumstances, the Group created the slogan “Establishing an unshakable foundation for growth,” and set out the following management policies based on “Gakken 2023,” a three-year plan formulated in November 2020: in the educational domain, create new ways of learning and diverse learning opportunities; in the healthcare and nursing domain, contribute to the creation of sustainable communities as we aim to be a leading company; and for the Group as a whole, accelerate the digital transformation (DX) and expand global business. The Group is advancing the following concrete measures to achieve these policies.

(Educational domain)

- Increase the added value of classrooms and learning centers by striking a balance between offline and online, and engage in areas we have yet to cultivate
- Win the top market share of children's books in addition to study-aid books
- Roll out digital learning using published content
- Digitize medical and nursing texts, and accelerate the growth of e-learning targeting nurses
- Enhance sales of goods targeting kindergartens, nursery schools and children's daycare centers (e.g. picture books, supplies needed for new semesters, and equipment such as desks), and improve services in daycare center operations through ICT
- Create new services for schools using Group content, and reorganize the sales system
- Roll out digital services in adult education and corporate training domains
- Review unprofitable businesses

(Healthcare and nursing domain)

- Accelerate the opening of new serviced apartments for the elderly and group homes for the elderly with dementia
- Improve the quality of childcare in support for child raising, and accelerate the cultivation of new growth businesses with a focus on the Tokyo metropolitan area (support for after-school children's clubs and child development)
- Reduce early separations and improve employee satisfaction and retention by enhancing recruitment and educational system
- Improve quality and productivity through such means as the collaboration of IoE, AI, and robots

(Group strategy)

- Deploy global business with Asia as a starting point
- Create a new dementia care business

In regard to the Company's consolidated financial results for the three months ended December 31, 2020, net sales amounted to ¥35,766 million (up 3.0% year on year), operating profit was ¥1,929 million (up ¥779 million year on year), ordinary profit was ¥1,759 million (up ¥682 million year on year), and profit attributable to owners of parent was ¥946 million (up ¥452 million year on year).

Business performance by segment is summarized below.

Reportable segments have been changed since the first quarter of the fiscal year ending September 30, 2021, and the comparison and analysis made in the said period are based on the segment classification after the change. For details concerning this change, please refer to "2. Quarterly Consolidated Financial Statements and Primary Notes, (3) Notes to the Quarterly Consolidated Financial Statements (Segment Information, etc.), II For the three months ended December 31, 2020, 2. Changes in reportable segments."

(Million yen)

Reportable segments	Three months ended December 31, 2019		Three months ended December 31, 2020		Change	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Educational Domain	18,509	224	18,456	1,381	(52)	1,157
Healthcare and Nursing Domain	14,813	783	15,842	639	1,029	(144)
Other	1,388	145	1,467	(96)	79	(242)
Adjustment	—	(3)	—	4	—	8
Group total	34,711	1,149	35,766	1,929	1,055	779

[Educational Domain]

Net sales: ¥18,456 million (down 0.3% year on year); operating profit: ¥1,381 million (up ¥1,157 million year on year)

(Million yen)

	Three months ended December 31, 2019		Three months ended December 31, 2020		Change	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Main businesses						
Classroom and learning center business	7,452	504	7,754	783	302	279
Published content business	6,979	(166)	6,938	452	(41)	619
Kindergarten and school business *1	4,077	(9)	3,763	228	(313)	237
Goodwill *2	—	(104)	—	(83)	—	21
Segment total	18,509	224	18,456	1,381	(52)	1,157

*1: From the current fiscal year, the official development assistance (ODA) and other overseas businesses are transferred from the former Educational Solution segment to the Other segment.

The results for the three months ended December 31, 2019 have been restated to reflect this change.

*2: Goodwill was included in each business until the previous fiscal year. From the current fiscal year, it is reported separately.

(Classroom and learning center business)

While the number of members of non-exam-taking elementary school students, which are the main targets of Gakken Classroom, has been slow to recover, the Company worked to reduce costs, including member recruitment expenses, travel and transportation expenses, and entertainment expenses. In addition, both revenue and profit increased as a result of transferring toddler classes for kindergartens from the kindergarten and school business, and acquiring the Shogakukan Academy business in April 2020.

Some learning centers reported strong performance, with a recovery in the number of students taking winter courses and junior and senior high school students, as well as an increase in unit price due to an addition of online classes. However, revenue declined at many learning centers due to a decrease in the number of students, especially among non-exam-taking elementary school students. Profit increased as a result of streamlining through the shift to online promotions.

(Published content business)

Publishing sales decreased substantially, owing mainly to the company split of the media business executed in July 2020. However, sales of study-aid books and children's books, as a measure to continue demand for home learning, remained strong from the previous fiscal year. In addition, multiple hit products drove an increase in sales of how-to guides. As a result, revenue decreased but profit increased.

For medical and nursing, the number of hospitals that made a contract for e-learning targeting nurses continued to grow, resulting in growth in both revenue and profit.

For businesses other than publishing, both revenue and profit grew through a contract for on-demand learning materials from Tokyo Global Gateway, despite the cancelation of development of new stationary card and letter products.

(Kindergarten and school business)

In toddler education, while sales declined due to transfer of toddler classes for kindergartens to the classroom and learning center business, profit increased due to strong sales of hygiene products and equipment for preventing the new coronavirus and a new apron product for teachers.

Both revenue and profit increased for school education due to an increase in the number of junior high school

textbooks accepted, and growth in short essay exams for high schools.

In social education, both revenue and profit decreased as a result of cancellations of and lower enrollment in job-seeker seminars, and a decline in repeat orders for corporate training.

[Healthcare and Nursing Domain]

Net sales: ¥15,842 million (up 6.9% year on year); operating profit: ¥639 million (down ¥144 million year on year)

(Million yen)

	Three months ended December 31, 2019		Three months ended December 31, 2020		Change	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Main businesses						
Elderly housing business	5,744	262	6,395	211	650	(51)
Group homes for the elderly with dementia business	7,912	617	8,181	561	269	(56)
Child raising support business	1,156	19	1,264	(16)	108	(36)
Goodwill *3	—	(115)	—	(115)	—	—
Segment total	14,813	783	15,842	639	1,029	(144)

*3: Goodwill was included in each business until the previous fiscal year. From the current fiscal year, it is reported separately.

The healthcare and nursing domain as a whole reported increased profit excluding the increased burden for management and administration fees to the holding company. In addition, employee retention improved mainly as a result of strengthened online training.

(Elderly housing business)

Despite up-front investment in the opening of seven new sites (bringing the total number of sites to 155), both revenue and profit from serviced apartments for the elderly increased. This was attributable to strong performance in the Shonan and West Japan regions, increased occupancy in existing sites, and increased home-visit care services.

(Group homes for the elderly with dementia business)

Both revenue and profit increased owing to continued higher occupancy rates compared to the previous year, despite an increase in costs due to labor shortages.

(Child-care business)

Revenue increased but profit decreased. This was attributable to increased staffing expenses, including recruitment expenses, despite an improved fill rate at nursery schools.

[Other]

Net sales: ¥1,467 million (up 5.7% year on year); operating profit: ¥(96) million (down ¥242 million year on year)

Previously, the final operating profit or loss of quarterly results related to Gakken Holdings Co., Ltd., the holding company, and Gakken Products Support Co., Ltd., a shared company, were added to or subtracted from results of each segment. From the current fiscal year, profit or loss information based on operating profit before adjustment is used as a performance indicator of each segment. Consequently, the operating profit of the two companies above is included under Other.

(2) Explanation of Financial Position

(Million yen)

Item	Fiscal year ended September 30, 2020	First quarter of the fiscal year ending September 30, 2021	Change
Current assets	60,030	59,746	(283)
Cash and deposits	25,596	22,266	(3,330)
Non-current assets	43,711	45,645	1,933
Total assets	103,741	105,392	1,650
Current liabilities	36,476	37,678	1,201
Non-current liabilities	31,025	30,794	(231)
Total liabilities	67,502	68,472	970
Interest-bearing debt *1	37,808	37,412	(395)
Total net assets	36,239	36,919	679
Total liabilities and net assets	103,741	105,392	1,650
Equity ratio (%) *2	34.6	34.7	0.1
D/E ratio (times) *3	1.05	1.02	(0.03)

*1: Interest-bearing debt = Borrowings + Bonds payable + Lease obligations

*2: Equity ratio = Equity / Total assets

*3: D/E ratio = Interest-bearing debt / Equity

The total assets for the first quarter of the fiscal year ending September 30, 2021 amounted to ¥105,392 million, increasing by ¥1,650 million from the end of the preceding fiscal year. Main changes were a decrease of ¥3,330 million in cash and deposits, an increase of ¥1,085 million in notes and accounts receivable - trade, an increase of ¥780 million in merchandise and finished goods, an increase of ¥533 million in work in process, an increase of ¥214 million in property, plant and equipment, and an increase of ¥839 million in investment securities.

The total liabilities amounted to ¥68,472 million, increasing by ¥970 million from the end of the preceding fiscal year. Main changes were an increase of ¥1,358 million in notes and accounts payable - trade, a decrease of ¥977 million in provision for bonuses, and a decrease of ¥199 million in long-term borrowings.

The total net assets amounted to ¥36,919 million, increasing by ¥679 million from the end of the preceding fiscal year. Main changes were an increase of ¥570 million in retained earnings and an increase of ¥95 million in valuation difference on available-for-sale securities.

(3) Consolidated Financial Results Forecast and Other Forward-looking Statements

In regard to the outlook for the fiscal year ending September 30, 2021, the Company forecasts net sales of ¥146,000 million, operating profit of ¥5,600 million, ordinary profit of ¥5,700 million, and profit attributable to owners of parent of ¥2,800 million. The forecast figures announced on November 13, 2020 remain unchanged.

The above-mentioned financial performance forecasts and other forward-looking statements are determined based on information currently available to the Company and include potential risks and uncertainties. Please note that actual performance may vary significantly due to various factors.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of September 30, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	25,596	22,266
Notes and accounts receivable - trade	19,889	20,974
Merchandise and finished goods	8,477	9,257
Real estate for sale	54	160
Work in process	3,109	3,643
Raw materials and supplies	143	108
Other	2,785	3,369
Allowance for doubtful accounts	(25)	(34)
Total current assets	60,030	59,746
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,862	8,815
Machinery, equipment and vehicles, net	58	53
Land	4,013	4,083
Construction in progress	342	516
Other, net	850	871
Total property, plant and equipment	14,126	14,341
Intangible assets		
Goodwill	7,620	7,407
Other	2,855	2,978
Total intangible assets	10,476	10,386
Investments and other assets		
Investment securities	8,689	9,528
Other	10,605	11,554
Allowance for doubtful accounts	(186)	(164)
Total investments and other assets	19,108	20,918
Total non-current assets	43,711	45,645
Total assets	103,741	105,392

(Million yen)

	As of September 30, 2020	As of December 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,275	8,634
Short-term borrowings	11,497	11,397
Current portion of long-term borrowings	3,500	3,386
Income taxes payable	984	731
Provision for bonuses	1,901	924
Provision for sales returns	822	872
Provision for point card certificates	3	2
Other	10,491	11,729
Total current liabilities	36,476	37,678
Non-current liabilities		
Bonds payable	6,000	6,000
Long-term borrowings	16,437	16,238
Retirement benefit liability	3,222	3,280
Provision for retirement benefits for directors (and other officers)	60	—
Other	5,305	5,276
Total non-current liabilities	31,025	30,794
Total liabilities	67,502	68,472
Net assets		
Shareholders' equity		
Share capital	18,357	18,357
Capital surplus	8,303	8,303
Retained earnings	11,286	11,856
Treasury shares	(3,509)	(3,468)
Total shareholders' equity	34,437	35,048
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	948	1,044
Foreign currency translation adjustment	(19)	(26)
Remeasurements of defined benefit plans	528	498
Total accumulated other comprehensive income	1,458	1,516
Share acquisition rights	275	275
Non-controlling interests	68	78
Total net assets	36,239	36,919
Total liabilities and net assets	103,741	105,392

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income

(Million yen)

	For the three months ended December 31, 2019	For the three months ended December 31, 2020
Net sales	34,711	35,766
Cost of sales	24,219	24,971
Gross profit	10,492	10,795
Provision for sales returns	118	49
Gross profit - net	10,373	10,745
Selling, general and administrative expenses	9,223	8,816
Operating profit	1,149	1,929
Non-operating income		
Interest income	3	5
Dividend income	75	51
Other	77	83
Total non-operating income	156	140
Non-operating expenses		
Interest expenses	33	41
Share of loss of entities accounted for using equity method	184	258
Other	11	10
Total non-operating expenses	230	310
Ordinary profit	1,076	1,759
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	—	18
Total extraordinary income	0	18
Extraordinary losses		
Loss on sales and retirement of non-current assets	14	4
Impairment loss	2	1
Loss on disaster	18	—
Other	2	0
Total extraordinary losses	38	6
Profit before income taxes	1,037	1,771
Income taxes	414	815
Profit	623	955
Profit attributable to non-controlling interests	129	9
Profit attributable to owners of parent	494	946

Quarterly Consolidated Statements of Comprehensive Income

(Million yen)

	For the three months ended December 31, 2019	For the three months ended December 31, 2020
Profit	623	955
Other comprehensive income		
Valuation difference on available-for-sale securities	819	98
Foreign currency translation adjustment	(16)	(5)
Remeasurements of defined benefit plans, net of tax	(34)	(32)
Share of other comprehensive income of entities accounted for using equity method	0	(0)
Total other comprehensive income	768	59
Comprehensive income	1,392	1,014
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,271	1,004
Comprehensive income attributable to non-controlling interests	120	10

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

There is no relevant information.

(Application of Special Accounting Treatments in Preparing Quarterly Consolidated Financial Statements)

(Calculation of tax expenses)

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after applying tax effect accounting to profit before income taxes for the fiscal year, including the first quarter of the fiscal year ending September 30, 2021, and multiplying the profit before income taxes by this estimated effective tax rate.

(Additional Information)

(Impact of the spread of the new coronavirus on accounting estimates)

We have prepared accounting estimates, including those for impairment losses of non-current assets and recoverability of deferred tax assets, on the assumption that the impact of the spread of the new coronavirus will gradually decrease and that, in the fiscal year ending September 30, 2021, our business will return almost to the level before the pandemic. It is deemed at this time that there has not been, and there will not be, any significant impact on our accounting estimates.

However, given the many uncertain factors regarding the impact of the spread of the new coronavirus, actual results may differ from these estimates due to possible changes in the business environment.

(Transactions to issue the Company's shares to employees, etc. through a trust)

The Company has a trust-type employee shareholding incentive plan in place (hereinafter, the "Plan") with the aim of incentivizing the Group's employees to contribute to increasing the Company's medium- to long-term corporate value.

(1) Overview of the transaction

The Plan is an incentive plan for all employees who are members of the Gakken Employees' Shareholding Association (hereinafter, the "Shareholding Association"). Under the Plan, the Company will establish a dedicated trust account for the Shareholding Association (hereinafter, the "Trust") with a trust bank. The Trust acquires in advance the Company's shares equivalent in number to the Company's shares that the Shareholding Association is expected to acquire in five years following the establishment of the trust account. Subsequently, the Trust sells on a continuous basis the Company's shares to the Shareholding Association. If an amount equivalent to a gain on sale of shares accumulate within the Trust by the time of its termination, the said amount equivalent to the gain on sale of shares will be distributed as residual assets to individuals who meet the requirements for eligible beneficiaries. The Company guarantees borrowings by the Trust for the purchase of the Company's shares. Therefore, if an amount equivalent to a loss on sale of shares is incurred and accumulated within the Trust due to a decline in the Company's stock price and if, at the time of the Trust's termination, there remains an outstanding balance of the borrowings equivalent to the loss on sale of shares, the Company will repay the remaining borrowings.

The Plan aims to incentivize employees to contribute to increasing the Company's medium- to long-term corporate value and, at the same time, support employees' asset formation by encouraging the acquisition and retention of the Company's shares through the expansion of the Shareholders Association, as a measure for enhancing employee welfare.

(2) The Company's shares held in the trust account

The Company records shares remaining in the Trust as treasury shares under net assets, at the book value in the Trust (excluding the amount of incidental expenses). The book value and the number of the treasury shares held were: ¥657 million and 515,000 shares in the preceding fiscal year, and ¥616 million and 482,800 shares in the first quarter of the fiscal year ending September 30, 2021.

- (3) Book value of the borrowings recorded with adoption of the gross price method
Consolidated fiscal year ended September 30, 2020: ¥613 million
First quarter of the fiscal year ending September 30, 2021: ¥613 million

(Adoption of tax effect accounting in relation to the transition from the consolidated taxation system to the group tax sharing system)

With respect to items subject to the review of the non-consolidated taxation system conducted in line with the transition to the group tax sharing system, which was created under the “Act on Partial Revision of the Income Tax Act, etc.” (Act No. 8 of 2020), the Company and some of its domestic consolidated subsidiaries have not applied the provisions of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Guidance No. 28 issued on February 16, 2018), in accordance with the treatment set out in Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (Practical Issues Task Force (PITF) No. 39 issued on March 31, 2020). The amounts of deferred tax assets and deferred tax liabilities are based on the provisions of tax laws before the revision.

(Segment Information, etc.)

[Segment information]

I For the three months ended December 31, 2019

1. Information on the amounts of net sales and profit or loss by reportable segment

(Million yen)

	Reportable segment			Other (Note) 1	Total	Adjustment (Note) 2	Amount recorded in the quarterly consolidated statements of income (Note) 3
	Educational Domain	Healthcare and Nursing Domain	Total				
Net sales							
Net sales to external customers	18,509	14,813	33,322	1,388	34,711	—	34,711
Inter-segment net sales or transfers	40	3	44	2,458	2,502	(2,502)	—
Total	18,550	14,816	33,366	3,847	37,214	(2,502)	34,711
Segment profit	224	783	1,008	145	1,153	(3)	1,149

(Notes)

1. "Other" includes logistics and other businesses that are not included in the reportable segments.
2. The adjustment of ¥(3) million for "segment profit" includes ¥(3) million in adjustments for inventories.
3. Total amount of "segment profit" is adjusted based on operating profit reported in the quarterly consolidated statements of income.

2. Information concerning impairment losses on non-current assets or goodwill, etc. by reportable segment

There is no relevant information.

II For the three months ended December 31, 2020

1. Information on the amounts of net sales and profit or loss by reportable segment

(Million yen)

	Reportable segment			Other (Note) 1	Total	Adjustment (Note) 2	Amount recorded in the quarterly consolidated statements of income (Note) 3
	Educational Domain	Healthcare and Nursing Domain	Total				
Net sales							
Net sales to external customers	18,456	15,842	34,298	1,467	35,766	—	35,766
Inter-segment net sales or transfers	47	7	54	2,268	2,323	(2,323)	—
Total	18,503	15,850	34,353	3,736	38,090	(2,323)	35,766
Segment profit (loss)	1,381	639	2,021	(96)	1,924	4	1,929

(Notes)

1. “Other” includes logistics and other businesses that are not included in the reportable segments.
2. The adjustment of ¥4 million for “segment profit (loss)” includes ¥4 million in adjustments for inventories.
3. Total amount of “segment profit (loss)” is adjusted based on operating profit reported in the quarterly consolidated statements of income.

2. Changes in reportable segments

From the first quarter of the fiscal year ending September 30, 2021, the Group has changed its reportable segments by consolidating the previous Education Service, Education Contents, and Educational Solution segments into the Educational Domain. This change is intended to optimize the allocation of management resources from the perspective of the Group as a whole and create new value by maximizing customer contacts and engagement at all places of learning (the home, classrooms, learning centers, kindergartens, and schools).

In addition, previously, the operating profit or loss related to the Company, the holding company, and Gakken Products Support Co., Ltd., the Group’s shared service company, were added to or subtracted from results of each segment. Following the change in segments, profit or loss information based on operating profit before adjustment is used as a performance indicator of each domain. Consequently, the operating profit of the two companies above is presented as Other.

The segment information for the three months ended December 31, 2019, was prepared based on the classification after the said changes.

3. Information concerning impairment losses on non-current assets or goodwill, etc. by reportable segment

There is no relevant information.

(Significant Subsequent Events)

(Acquisition of shares of JP-HOLDINGS, INC. and conclusion of a business alliance agreement)

The Company has resolved to acquire 26,989,100 shares issued by JP-HOLDINGS, INC. (hereinafter, “JPHD”) through off-market trading, and to conclude a business alliance agreement regarding the childcare business, etc. (hereinafter, the “Business Alliance”) between the Company and JPHD at the Board of Directors meeting held on January 14, 2021.

1. Acquisition of shares

(1) Timing of acquisition of shares

January 14, 2021

(2) Name, etc. of companies whose shares were acquired

1) Mother Care Japan Co., Ltd.

Name	Mother Care Japan Co., Ltd.
Location	Sumitomo Fudosan Nishi Shinjuku Building 12F 3-12-1 Honmachi, Shibuya-ku, Tokyo
Name and title of the representative	Yusuke Tomita, Representative Director
Business	General investment business, general management support for invested companies
Capital	¥5 million
Date founded	December 8, 2017

2) JPI Management Inc.

Name	JPI Management Inc.
Location	Shiroyama Trust Tower 4-3-1 Toranomom, Minato-ku, Tokyo
Name and title of the representative	Masaki Shibuta, Representative Director
Business	Financial advisory services, asset consulting services
Capital	¥50 million
Date founded	March 16, 2015

(3) Number of share acquired, acquisition price, and voting rights ratio after the acquisition

Number of shares acquired: 26,989,100 shares

Acquisition price: ¥9,851 million

Voting rights ratio after the acquisition: 30.86%

This acquisition of share makes JPHD an entity accounted for using equity method of the Company.

(4) Financing and payment method

The payment of the consideration for the acquisition was made in cash using funds on hand and external financing.

2. Business alliance

(1) Purpose of the business alliance

The childcare industry faces major issues to be addressed, namely the issue of children on the waiting list for nursery schools that has not been eliminated completely, and improvements in the working environment and compensation of nursery school teachers. Meanwhile, the growth of the nursery school market, which was valued at ¥3.5 trillion in fiscal year 2019, slowed due to the low birth rate, and the industry has entered a mature phase. As competition in the market intensifies, nursery school operators are required not only to ensure quantitative capacity, but also to be chosen by parents by improving their quality.

The digital transformation (DX) in society and industry is accelerating due to the spread of the new coronavirus. There is also urgent need in nursery schools and preschools for the provision of new services using digital media, and the development and introduction of efficient operation models.

Based on this understanding, the Company sets out toddler education as a candidate for its third profit pillar following education and healthcare and nursing under “Gakken 2023,” our medium-term management plan formulated in November 2020. Under the plan, the Group is aiming to provide high value by integrating our human resources, knowledge, and management assets that were previously dispersed among Group companies, and building an integrated childcare and education system. This business alliance is aligned with the Company’s strategy for the toddler educational domain, and is positioned to accelerate the achievement of this strategy.

As competition grows increasingly fierce, enhancing toddler education in nursery schools is an effective measure to become a “chosen” nursery school. By using the Group’s resources, it believes that nursery schools, which are child welfare facilities, can offer educational programs that compare favorably with kindergartens, etc. Furthermore, the enhancement of toddler education in nursery schools also promotes the realization of the Company’s key goal “4. Quality Education” under the SDG principle of “Leave no one behind.”

The Business Alliance is expected to contribute significantly to Gakken’s Community-based Integrated Care System, which the entire Group is united in promoting. This system integrates the Group’s resources, including elderly housing, elderly and nursing care, welfare for people with disabilities, support for child raising, healthcare and nursing content, educational services, and human resource development, aiming to provide comprehensive support for life in partnership with community facilities, organizations, government institutions, and others. The Business Alliance will serve as a trigger to promote communities where people can raise children with peace of mind by deploying nursery school facilities offering high-quality services nationwide.

JPHD, the partner in the Business Alliance, operates a total of 303 nursery schools and after-school children’s clubs, which is the largest share in the industry. JPHD strives to create new business value through qualitative growth of the child raising support business and growth of existing businesses, enhancement of its management base through structural reforms of its businesses, and co-creation with diverse partners, in accordance with its Long-term Management Vision 2025.

JPHD and the Group have an aggregate total of approximately 18,000 nursery school students and approximately 7,000 nursery school employees. Based on this business foundation, the Group will use the Company’s educational content services and jointly promote DX for streamlining and value creation, thereby building a framework that balances qualitative improvement with quantitative growth in its childcare and toddler education business.

The Group will also strive to become the de-facto standard in new childcare and toddler education, and roll it out in the national and global markets.

(2) Business alliance details

The Company and JPHD will promptly launch a joint execution system for qualitative improvement and quantitative growth of the childcare and toddler education business, and strive to carry out the following:

- 1) Education and learning support for nursery and preschool students: We will build a cooperative system that offers educational services for nursery and preschool students, including Gakken toddler classes; educational content and learning materials for toddlers; and learning support services after entering elementary school.
- 2) Development and deployment of services and content in the toddler education and knowledge development domains: We will aim to deploy new services by jointly developing services and content and partnering in research and digitalization of education for toddlers and preschoolers, including the development and sale of childcare products and educational toys, and the development of non-cognitive abilities.
- 3) Development of childcare human resources and improvement of childcare quality: We will develop an efficient business operation model in the childcare industry by developing capabilities through such means as joint training, fusing our mutual expertise through interaction between employees, enhancing career paths, and developing and introducing educational curricula, and we will drive adoption of this model in the industry.
- 4) Enhancement of services for parents and families: We will develop and deploy services including childcare consultation and support, develop and deploy services and content to support education and learning at home, and open facilities including facilities to support child development.
- 5) Mutual use of assets and infrastructure, and R&D collaboration: We will improve costs by rationalizing facility management costs, including collaborative procurement and shipping of consumables, hygiene products, equipment, food, site development, and building and maintaining facility environments; joint use of corporate and headquarters operations and IT systems and other infrastructure; and collaborating in the creation of Community-based Integrated Care System through collaboration in the operation of facilities for childcare and elderly care; and by promoting improvement to productivity and the development of new products and services through the joint use of expertise and data in each domain.

After acquiring shares in JPHD, the Company and JPHD will continue to discuss the management system of JPHD and personnel exchanges.

(3) Timing of concluding the business alliance agreement

January 14, 2021

(4) Overview of the business alliance partner

Name	JP-HOLDINGS, INC.
Location	3-15-31 Aoi, Higashi-ku, Nagoya-shi, Aichi
Name and title of the representative	Tohru Sakai, President and Representative Director
Business	Management and supervision of subsidiaries, and consulting services including opening facilities to support child raising
Capital	¥1,603 million
Date founded	March 31, 1993