

# Consolidated Financial Results for the Six Months Ended March 31, 2021 [Japanese GAAP]



May 14, 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: Ryuji Sawada, General Manager of Financial Strategy Office  
 Phone: +81-3-6431-1050  
 Scheduled date of filing quarterly securities report: May 14, 2021  
 Scheduled date of commencing dividend payments: June 25, 2021  
 Availability of supplementary briefing material on quarterly financial results: Available  
 Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and analysts)

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

## 1. Consolidated Financial Results for the Six Months Ended March 31, 2021 (October 1, 2020 to March 31, 2021)

(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	%
Six months ended March 31, 2021	78,077	3.0	4,970	15.8	4,826	13.5	2,344	(1.4)
March 31, 2020	75,838	4.1	4,293	23.0	4,250	21.6	2,377	43.4

(Note) Comprehensive income: Six months ended March 31, 2021: ¥2,821 million [47.9%]

Six months ended March 31, 2020: ¥1,907 million [105.0%]

	Profit per share	Diluted profit per share
Six months ended	Yen	Yen
March 31, 2021	61.65	60.96
March 31, 2020	64.28	63.57

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 March 31, 2021	130,074	46,979	35.7
As of September 30, 2020	103,741	36,239	34.6

(Reference) Equity: As of March 31, 2021: ¥46,411 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
Fiscal year ended September 30, 2020	Yen —	Yen 40.00	Yen —	Yen 10.00	Yen —
Fiscal year ending September 30, 2021	—	11.00			
Fiscal year ending September 30, 2021 (Forecast)			—	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	147,000	2.4	6,000	18.2	5,700	8.1	2,900	24.9	71.56

(Note) Revision of financial results forecast since the last announcement: Yes

### \* 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):

March 31, 2021: 44,633,232 shares

September 30, 2020: 42,383,232 shares

2) Total number of treasury shares at the end of the period:

March 31, 2021: 1,194,036 shares

September 30, 2020: 5,289,352 shares

3) The average number of shares during the period:

Six months ended March 31, 2021: 38,026,627 shares

Six months ended March 31, 2020: 36,991,941 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): 457,000 shares at the end of the six months ended March 31, 2021; 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): 485,686 shares at the end of the six months ended March 31, 2021; and 597,943 shares at the end of the six months ended March 31, 2020.

\* 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 10 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 .....	9
(3) Consolidated Financial Results Forecast and Other Forward-looking Statements .....	10
2. Quarterly Consolidated Financial Statements and Primary Notes .....	11
(1) Quarterly Consolidated Balance Sheets .....	11
(2) Quarterly Consolidated Statements of Income and Comprehensive Income .....	13
(3) Quarterly Consolidated Statements of Cash Flows .....	15
(4) Notes to the Quarterly Consolidated Financial Statements .....	17
(Notes on Going Concern Assumption) .....	17
(Notes When There is Significant Changes in Amounts of Equity) .....	17
(Application of Special Accounting Treatments in Preparing Quarterly Consolidated Financial Statements) .....	17
(Additional Information) .....	18
(Segment Information, etc.) .....	20
(Significant Subsequent Events) .....	21

## 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. In addition, the Common Test for University Admissions was held, replacing the previous National Center Test for University Admissions. In adult education, the recurrent education market grew in response to changes in work styles. Partly due to the state of emergency declared for the second time from January through March following the spread of the new coronavirus infection, education’s digitalization is further accelerating.

While demand for in-person learning remains high in the learning center market, countermeasures to prevent infection have become a turning point to spread online lessons not only in private tutoring but also in group lectures and learning support at home.

Although the publishing industry has faced severe conditions for magazines, demand for reading has increased due to more time spent at home. As a result, 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 to develop the educational ICT environment has been expedited, with a learning device being distributed to every student. 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 has grown from increased time for self-learning and in corporate training.

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 child-care industry, demand for child-care services is increasing due to the increase in households in which both parents work. Although national measures to support child care, such as the New Child-rearing Security Plan and the provision of free preschool education and child care, have increased the number of students admitted to nursery schools and is paving the way for addressing the issue of children on the waiting list for nursery schools, the shortage of after-school children’s clubs still continues, and many companies from a wide variety of industries are entering the business.

Elderly care and child-care 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.

From the first quarter of the fiscal year ending September 30, 2021, the Group changed its reportable segments and transferred products and services among its businesses. These changes are intended to optimize

the allocation of management resources from the perspective of the Group as a whole, as well as to create new customer value and maximize customer contacts at places of learning (the home, classrooms, learning centers, kindergartens, and schools). Major changes are as follows:

I. Changes in reportable segments

Former) Education Service	⇒	New) Educational Domain
Former) Education Contents	⇒	New) Educational Domain
Former) Educational Solution	⇒	New) Educational Domain
Former) Healthcare and Nursing	⇒	New) Healthcare and Nursing Domain

II. Businesses of segments

Educational Domain	⇒	Classroom and learning center business, published content business, and kindergarten and school business
Healthcare and Nursing Domain	⇒	Elderly housing business, group homes for the elderly with dementia business, and child raising support business

III. Major transfers of products and services

Learning materials publishing:

Former) Education Service ⇒ New) Educational Domain, published content business

Toddler classes:

Former) Educational Solution ⇒ New) Educational Domain, classroom and learning center business

Consulting services for official development assistance (ODA) projects:

Former) Educational Solution ⇒ New) Other

\* Medical Care Service Co., Ltd. (MCS), which had been included in the elderly care business of Healthcare and Nursing until the previous fiscal year, is reported separately as the group homes for the elderly with dementia business of Healthcare and Nursing Domain from the current fiscal year.

Classification of the Group's products and services is as follows:

Educational Domain	Classroom and learning center business	Operation of Gakken Classroom for a range of children from preschoolers to junior high school students (mainly elementary school students)
		Operation of classes for toddlers and children
		Operation of cram schools for a range of children from elementary school students to senior high school students
	Published content business	Publishing and sale of publications including children's books and study-aid books through agencies and bookstores
		Development and sale of learning materials for learning centers
		Publishing and sale of books on nursing and medicine, sale of e-learning for training programs targeting nurses
		Development and sale of digital content linked with publishing and educational toys
	Kindergarten and school business	Production and sale of publications, child-care products, equipment, and playground equipment for kindergartens, nursery schools, and children's daycare centers, as well as clothing for teachers
		Production and sale of textbooks, instruction guides for teachers, supplementals, ICT learning materials, special needs education materials, short essay exams, etc.
		Operation of recruitment support services and corporate training programs
Healthcare and Nursing Domain	Elderly housing business	Planning, development, and operation of serviced apartments for the elderly, bases for elderly care services, etc.
	Group homes for the elderly with dementia business	Planning, development, and operation of various services including group homes for the elderly with dementia
	Child raising support business	Planning, development, and operation of nursery schools, children's daycare centers, after-school children's clubs, etc.

Based on the three-year plan "Gakken 2023," the Group is advancing the following concrete measures. (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 child care 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 the 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

As for the plans for the fiscal year ending September 30, 2023, the final fiscal year of the plan, the Company aims to achieve net sales of ¥165.0 billion, operating profit of ¥7.5 billion, profit of ¥3.8 billion, operating profit margin of 4.5%, ROE of 8.0%, and payout ratio of 30%.

(Million yen)

	Fiscal year ended September 30, 2020	Fiscal year ending September 30, 2021	Fiscal year ending September 30, 2023
	Results	Plan	Plan
Net sales	143,564	146,000	165,000
Operating profit	5,075	5,600	7,500
Operating profit margin	3.5%	3.8%	4.5%
Profit	2,321	2,800	3,800
Net profit margin	1.6%	1.9%	2.3%
ROE	6.2%	6.5%	8.0%
Payout ratio	31.9%	29.1%	30.0%

(\* Profit: Profit attributable to owners of parent)

In regard to the Company's consolidated financial results for the six months ended March 31, 2021, net sales amounted to ¥78,077 million (up 3.0% year on year), operating profit was ¥4,970 million (up ¥677 million year on year), ordinary profit was ¥4,826 million (up ¥575 million year on year), and profit attributable to owners of parent was ¥2,344 million (down ¥33 million year on year). Due to the nature of the Group's business, sales of books for elementary school and junior high school students and goods for kindergartens, nursery schools, and children's daycare centers tend to concentrate in the second quarter.

Business performance by segment is summarized below.

Reportable segments have been changed since the first quarter of the fiscal year ending September 30, 2021. Therefore, 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, (4) Notes to the Quarterly Consolidated Financial Statements (Segment Information, etc.), II For the six months ended March 31, 2021, 2. Changes in reportable segments."

(Million yen)

	Six months ended March 31, 2020		Six months ended March 31, 2021		Change	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Reportable segments						
Educational Domain	43,543	2,845	43,040	3,843	(503)	997
Healthcare and Nursing Domain	29,648	1,255	32,106	1,285	2,458	30
Other	2,646	192	2,930	(168)	284	(360)
Adjustment	—	(0)	—	10	—	10
Group total	75,838	4,293	78,077	4,970	2,239	677



[Educational Domain]

Net sales: ¥43,040 million (down 1.2% year on year); operating profit: ¥3,843 million (up ¥997 million year on year)

(Million yen)

	Six months ended March 31, 2020		Six months ended March 31, 2021		Change	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Main businesses						
Classroom and learning center business	14,949	370	15,673	485	724	115
Published content business	18,209	1,512	17,758	2,317	(450)	804
Kindergarten and school business *1	10,385	1,156	9,608	1,206	(777)	50
Goodwill *2	—	(193)	—	(166)	—	27
Segment total	43,543	2,845	43,040	3,843	(503)	997

\*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 six months ended March 31, 2020 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)

Regarding Gakken Classroom, while it is taking time for the number of members to recover, the ratio of members concurrently taking English classes has increased mainly due to a revamping of learning materials, leading to an increase in sales per customer. Furthermore, the Company also worked to reduce costs, including member recruitment expenses, travel and transportation expenses, and entertainment expenses. In addition, both revenue and profit increased due to transferring toddler classes for kindergartens from the kindergarten and school business, and acquiring the Shogakukan Academy business.

Although the number of students taking online classes has increased at learning centers, the pace of recovery in the number of students taking in-person classes varies by learning center. Although the total number of students has decreased, profit increased despite a decrease in revenue due to growth at some learning centers and cost reductions, including advertising expenses.

(Published content business)

For publishing, children's books such as workbooks for preschoolers and educational comics remained strong, as well as previously published how-to guides thanks to best sellers and hit products. However, owing to the company split of the media business executed in July 2020 and a decline in study-aid books compared with the stay-at-home demand in the previous fiscal year, revenue decreased and profit remained at the same level as the previous corresponding period.

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 due to reorganizing unprofitable stationery card and letter products and growth in the English business.

(Kindergarten and school business)

In toddler education, revenue declined due to the transfer of toddler classes for kindergartens, nursery schools, and children's daycare centers to the classroom and learning center business. However, profit increased due to strong sales of kindergarten building designing works, large playground equipment, and clothing for teachers and increased orders received for hygiene products to prevent the new coronavirus.

Both revenue and profit decreased for school education due to a decrease in the number of instruction guides for teachers on junior high school textbooks accepted, compared with elementary schools in the previous fiscal year.

In social education, revenue decreased due to a decrease in the number of job-seeker seminars held and a decline in orders received for corporate training. Still, profit increased from suppression of cost of sales with the digitalization of products and services.

[Healthcare and Nursing Domain]

Net sales: ¥32,106 million (up 8.3% year on year); operating profit: ¥1,285 million (up ¥30 million year on year)

(Million yen)

	Six months ended March 31, 2020		Six months ended March 31, 2021		Change	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Main businesses						
Elderly housing business	11,443	408	12,944	381	1,501	(27)
Group homes for the elderly with dementia business	15,841	1,065	16,614	1,215	773	149
Child raising support business	2,363	13	2,547	(78)	183	(92)
Goodwill *3	—	(231)	—	(231)	—	—
Segment total	29,648	1,255	32,106	1,285	2,458	30

\*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 an increased burden for management and administration fees to the holding company.

(Elderly housing business)

In serviced apartments for the elderly, three new sites were opened during the second quarter, and two sites acquired in the past were transferred, bringing the total number of sites to 156, including franchise locations. Occupancy rates declined at new facilities opened during the pandemic partly due to a decrease in facility tours for the self-supporting elderly and weak demand for relocation. However, elderly care insurance services such as home-visit care increased, leading to an increase in revenue and profit at the same level as the previous corresponding period.

(Group homes for the elderly with dementia business)

In group homes, both revenue and profit increased owing to continued high occupancy rates at existing facilities as well as contributions from growth in new facilities opened during the previous fiscal year and the execution of the sale of two facilities held by the Company, despite an increase in costs due to labor shortages and infection countermeasures.

(Child-care business)

For nursery schools, profitability was improved mainly by obtaining authorizations for unauthorized nursery schools and changing the form of business at unprofitable nursery schools, with the total number of nursery schools at 43. Revenue increased but profit decreased due to increased expenses for preparing new nursery schools opened in April as well as increased recruitment expenses, and incurring expenses for countermeasures on the new coronavirus infection.

[Other]

Net sales: ¥2,930 million (up 10.8% year on year); operating profit: ¥(168) million (down ¥360 million year on year)

Profit decreased due to investments in systems and human resources associated with the Group-wide promotion of DX.

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  
(Financial position)

(Million yen)

Item	Fiscal year ended September 30, 2020	Second quarter of the fiscal year ending September 30, 2021	Change
Current assets	60,030	72,718	12,688
Cash and deposits	25,596	29,097	3,500
Non-current assets	43,711	57,356	13,644
Total assets	103,741	130,074	26,332
Current liabilities	36,476	52,834	16,357
Non-current liabilities	31,025	30,260	(765)
Total liabilities	67,502	83,094	15,592
Interest-bearing debt *1	37,808	46,638	8,829
Total net assets	36,239	46,979	10,740
Total liabilities and net assets	103,741	130,074	26,332
Equity ratio (%) *2	34.6	35.7	1.1
D/E ratio (times) *3	1.05	1.00	(0.05)

\*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 second quarter of the fiscal year ending September 30, 2021 amounted to ¥130,074 million, increasing by ¥26,332 million from the end of the preceding fiscal year. The main changes were an increase of ¥3,500 million in cash and deposits, an increase of ¥6,761 million in notes and accounts receivable - trade, an increase of ¥1,653 million in merchandise and finished goods, a decrease of ¥4 million in work in process, an increase of ¥960 million in property, plant and equipment, and an increase of ¥11,198 million in investment securities.

The total liabilities amounted to ¥83,094 million, increasing by ¥15,592 million from the end of the preceding fiscal year. The main changes were an increase of ¥4,447 million in notes and accounts payable - trade, an increase of ¥9,850 million in short-term borrowings, and a decrease of ¥686 million in long-term borrowings.

The total net assets amounted to ¥46,979 million, increasing by ¥10,740 million from the end of the preceding fiscal year. The main changes were an increase of ¥1,460 million in share capital, an increase of ¥4,304 million in capital surplus, an increase of ¥1,818 million in retained earnings, a decrease of ¥2,485 million in treasury shares, and an increase of ¥521 million in valuation difference on available-for-sale securities.

(Cash flows)

(Million yen)

Item	Six months ended March 31, 2020	Six months ended March 31, 2021	Change
Net cash provided by (used in) operating activities	(125)	2,139	2,265
Net cash provided by (used in) investing activities	(2,307)	(15,184)	(12,876)
Free cash flow	(2,433)	(13,044)	(10,611)
Net cash provided by (used in) financing activities	3,023	16,674	13,650
Cash and cash equivalents at end of period	21,000	28,231	7,231

Cash and cash equivalents (hereinafter, “CCE”) at the end of the six months ended March 31, 2021 increased by ¥3,466 million from the beginning of the six months ended March 31, 2021 to ¥28,231 million. The status and factors for each type of cash flows are as described below.

Cash flows from operating activities resulted in a net inflow of ¥2,139 million (a net outflow of ¥125 million was reported in the six months ended March 31, 2020). The main changes were the recording of profit before income taxes of ¥4,463 million and depreciation of ¥948 million, an increase in provisions of ¥558 million, an increase in trade receivables of ¥6,707 million, an increase in trade payables of ¥4,372 million, and income taxes paid of ¥1,021 million.

Cash flows from investing activities resulted in a net outflow of ¥15,184 million (a net outflow of ¥2,307 million was reported in the six months ended March 31, 2020). The main changes were the purchase of property, plant and equipment and intangible assets of ¥2,401 million and the purchase of investment securities of ¥10,738 million.

Cash flows from financing activities resulted in a net inflow of ¥16,674 million (a net inflow of ¥3,023 million was reported in the six months ended March 31, 2020). The main changes were a net increase in short-term borrowings of ¥9,850 million, repayments of long-term borrowings of ¥1,412 million, proceeds from the issuance of shares of ¥2,889 million, and proceeds from sales of treasury shares of ¥5,284 million.

### (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 ¥147,000 million, operating profit of ¥6,000 million, ordinary profit of ¥5,700 million, and profit attributable to owners of parent of ¥2,900 million, due to the following factors. Compared with the forecast figures announced on November 13, 2020, net sales, operating profit, and profit attributable to owners of parent have been increased by ¥1,000 million, ¥400 million, and ¥100 million, respectively.

- Strong sales in publishing for the published content business of the educational domain, associated decreases in returns and write-offs, and growth of the number of contracts for e-learning targeting nurses
- Growth of the group homes for the elderly with dementia business of the healthcare and nursing domain and sale of real estate
- Share of loss of entities accounted for using equity method

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 March 31, 2021
<b>Assets</b>		
Current assets		
Cash and deposits	25,596	29,097
Notes and accounts receivable - trade	19,889	26,651
Merchandise and finished goods	8,477	10,131
Real estate for sale	54	—
Work in process	3,109	3,105
Raw materials and supplies	143	133
Other	2,785	3,636
Allowance for doubtful accounts	(25)	(36)
<b>Total current assets</b>	<b>60,030</b>	<b>72,718</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,862	8,874
Machinery, equipment and vehicles, net	58	54
Land	4,013	4,014
Construction in progress	342	1,213
Other, net	850	929
<b>Total property, plant and equipment</b>	<b>14,126</b>	<b>15,087</b>
Intangible assets		
Goodwill	7,620	7,194
Other	2,855	3,313
<b>Total intangible assets</b>	<b>10,476</b>	<b>10,508</b>
Investments and other assets		
Investment securities	8,689	19,887
Other	10,605	12,058
Allowance for doubtful accounts	(186)	(185)
<b>Total investments and other assets</b>	<b>19,108</b>	<b>31,759</b>
<b>Total non-current assets</b>	<b>43,711</b>	<b>57,356</b>
<b>Total assets</b>	<b>103,741</b>	<b>130,074</b>

(Million yen)

	As of September 30, 2020	As of March 31, 2021
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	7,275	11,723
Short-term borrowings	11,497	21,347
Current portion of long-term borrowings	3,500	3,174
Income taxes payable	984	1,978
Provision for bonuses	1,901	1,850
Provision for sales returns	822	1,327
Provision for point card certificates	3	2
Provision for loss on business liquidation	—	146
Other	10,491	11,283
Total current liabilities	36,476	52,834
Non-current liabilities		
Bonds payable	6,000	6,000
Long-term borrowings	16,437	15,750
Retirement benefit liability	3,222	3,270
Provision for retirement benefits for directors (and other officers)	60	—
Other	5,305	5,239
Total non-current liabilities	31,025	30,260
Total liabilities	67,502	83,094
<b>Net assets</b>		
Shareholders' equity		
Share capital	18,357	19,817
Capital surplus	8,303	12,607
Retained earnings	11,286	13,105
Treasury shares	(3,509)	(1,023)
Total shareholders' equity	34,437	44,506
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	948	1,470
Foreign currency translation adjustment	(19)	(35)
Remeasurements of defined benefit plans	528	468
Total accumulated other comprehensive income	1,458	1,904
Share acquisition rights	275	275
Non-controlling interests	68	293
Total net assets	36,239	46,979
Total liabilities and net assets	103,741	130,074

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

(Million yen)

	For the six months ended March 31, 2020	For the six months ended March 31, 2021
Net sales	75,838	78,077
Cost of sales	52,436	53,980
Gross profit	23,401	24,096
Provision for sales returns	664	504
Gross profit - net	22,737	23,592
Selling, general and administrative expenses	18,443	18,621
Operating profit	4,293	4,970
Non-operating income		
Interest income	7	8
Dividend income	80	56
Other	129	171
Total non-operating income	217	237
Non-operating expenses		
Interest expenses	72	87
Share of loss of entities accounted for using equity method	103	227
Bond issuance costs	37	—
Other	46	66
Total non-operating expenses	260	381
Ordinary profit	4,250	4,826
Extraordinary income		
Gain on sales of non-current assets	1	0
Gain on sales of investment securities	0	26
Gain on sales of golf memberships	14	—
Gain on liquidation of subsidiaries and associates	19	15
Gain on sale of businesses	35	—
Other	0	0
Total extraordinary income	70	43
Extraordinary losses		
Loss on sales and retirement of non-current assets	27	26
Impairment loss	24	199
Loss on valuation of investment securities	14	15
Provision for loss on business liquidation	—	165
Consumption taxes for prior periods	120	—
Other	67	0
Total extraordinary losses	254	406
Profit before income taxes	4,067	4,463
Income taxes	1,527	2,084
Profit	2,540	2,378
Profit attributable to non-controlling interests	162	34
Profit attributable to owners of parent	2,377	2,344



Quarterly Consolidated Statements of Comprehensive Income

(Million yen)

	For the six months ended March 31, 2020	For the six months ended March 31, 2021
Profit	2,540	2,378
Other comprehensive income		
Valuation difference on available-for-sale securities	(611)	528
Foreign currency translation adjustment	32	(18)
Remeasurements of defined benefit plans, net of tax	(57)	(65)
Share of other comprehensive income of entities accounted for using equity method	3	(1)
Total other comprehensive income	(633)	442
Comprehensive income	1,907	2,821
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,738	2,790
Comprehensive income attributable to non-controlling interests	169	30

## (3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended March 31, 2020	For the six months ended March 31, 2021
<b>Cash flows from operating activities</b>		
Profit before income taxes	4,067	4,463
Depreciation	827	948
Impairment loss	24	199
Amortization of goodwill	445	426
Loss (gain) on sales and retirement of property, plant and equipment and intangible assets	26	25
Loss (gain) on sales and valuation of investment securities	13	(11)
Increase (decrease) in provisions	735	558
Decrease (increase) in retirement benefit asset	—	(217)
Increase (decrease) in retirement benefit liability	(1,265)	(36)
Interest and dividend income	(88)	(65)
Interest expenses	72	87
Bond issuance costs	37	—
Share of loss (profit) of entities accounted for using equity method	103	227
Decrease (increase) in trade receivables	(7,055)	(6,707)
Decrease (increase) in inventories	(496)	(1,582)
Increase (decrease) in trade payables	3,702	4,372
Other, net	(261)	494
<b>Subtotal</b>	<b>888</b>	<b>3,183</b>
Interest and dividends received	88	65
Interest paid	(70)	(88)
Income taxes paid	(1,032)	(1,021)
<b>Net cash provided by (used in) operating activities</b>	<b>(125)</b>	<b>2,139</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and intangible assets	(2,163)	(2,401)
Proceeds from sales of property, plant and equipment and intangible assets	1	9
Purchase of investment securities	(392)	(10,738)
Proceeds from sales of investment securities	7	29
Long-term loan advances	(12)	(1,063)
Other, net	252	(1,020)
<b>Net cash provided by (used in) investing activities</b>	<b>(2,307)</b>	<b>(15,184)</b>

(Million yen)

	For the six months ended March 31, 2020	For the six months ended March 31, 2021
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	950	9,850
Proceeds from long-term borrowings	70	500
Repayments of long-term borrowings	(1,371)	(1,412)
Proceeds from issuance of bonds	5,962	—
Proceeds from issuance of shares	—	2,889
Proceeds from sales of treasury shares	88	5,284
Purchase of treasury shares	(3)	(1)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,232)	—
Dividends paid	(375)	(376)
Other, net	(64)	(60)
Net cash provided by (used in) financing activities	3,023	16,674
Effect of exchange rate change on cash and cash equivalents	9	(17)
Net increase (decrease) in cash and cash equivalents	598	3,612
Cash and cash equivalents at beginning of period	19,838	24,765
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	562	(146)
Cash and cash equivalents at end of period	21,000	28,231

#### (4) Notes to the Quarterly Consolidated Financial Statements

##### (Notes on Going Concern Assumption)

There is no relevant information.

##### (Notes When There is Significant Changes in Amounts of Equity)

On March 15, 2021, the Company issued new shares by way of public offering and disposed of its treasury shares. In addition, on March 29, 2021, the Company issued new shares by way of third-party allotment in relation to a secondary offering by way of overallotment.

Mainly due to these events, during the six months ended March 31, 2021, share capital increased by ¥1,460 million, capital surplus increased by ¥4,304 million, and treasury shares decreased by ¥2,485 million, and as of March 31, 2021, share capital amounted to ¥19,817 million, capital surplus amounted to ¥12,607 million, and treasury shares amounted to ¥1,023 million.

##### (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 second 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 ¥583 million and 457,000 shares in the second 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

Second quarter of the fiscal year ending September 30, 2021: ¥518 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 six months ended March 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	43,543	29,648	73,192	2,646	75,838	—	75,838
Inter-segment net sales or transfers	124	6	131	5,067	5,198	(5,198)	—
Total	43,668	29,655	73,323	7,713	81,037	(5,198)	75,838
Segment profit	2,845	1,255	4,101	192	4,293	(0)	4,293

(Notes)

1. “Other” includes logistics and other businesses that are not included in the reportable segments.
2. The adjustment of ¥(0) million for “segment profit” includes ¥(0) 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 six months ended March 31, 2021

### 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	43,040	32,106	75,146	2,930	78,077	—	78,077
Inter-segment net sales or transfers	140	14	154	4,700	4,855	(4,855)	—
Total	43,180	32,121	75,301	7,631	82,933	(4,855)	78,077
Segment profit (loss)	3,843	1,285	5,129	(168)	4,960	10	4,970

(Notes)

1. “Other” includes logistics and other businesses that are not included in the reportable segments.
2. The adjustment of ¥10 million for “segment profit (loss)” includes ¥6 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 six months ended March 31, 2020, 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)

There is no relevant information.