Consolidated Financial Results
for the Nine Months Ended June 30, 2022
[Japanese GAAP]

August 10, 2022

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: Takashi Sawada, General Manager of Financial Strategy Office
Phone: +81-3-6431-1050
Scheduled date of filing quarterly securities report: August 10, 2022
Scheduled date of commencing dividend payments: —
Availability of supplementary briefing material on quarterly financial results: Yes
Schedule of quarterly financial results briefing session: None

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

1. Consolidated Financial Results for the Nine Months Ended June 30, 2022 (October 1, 2021 to June 30, 2022)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2022	117,011	3.1	4,785	(23.2)	5,010	(18.4)	2,847	39.3
June 30, 2021	113,505	4.0	6,233	23.8	6,139	19.8	2,043	(25.3)

(Note) Comprehensive income: Nine months ended June 30, 2022: ¥2,193 million [(18.6)%]
Nine months ended June 30, 2021: ¥2,692 million [(1.7)%]

	Profit per share	Diluted profit per share
Nine months ended	Yen	Yen
June 30, 2022	65.18	64.58
June 30, 2021	51.53	50.98

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2022	126,546	48,965	38.3
As of September 30, 2021	116,900	47,413	40.2

(Reference) Equity: As of June 30, 2022: ¥48,521 million
As of September 30, 2021: ¥46,961 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, 2021	–	11.00	–	11.00	22.00
Fiscal year ending September 30, 2022	–	12.00	–		
Fiscal year ending September 30, 2022 (Forecast)				12.00	24.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending September 30, 2022 (October 1, 2021, to September 30, 2022)

(% 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	157,000	4.5	6,700	7.4	6,800	11.0	3,400	29.9	77.84

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

*** 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: Yes
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):
June 30, 2022: 44,633,232 shares
September 30, 2021: 44,633,232 shares

2) Total number of treasury shares at the end of the period:
June 30, 2022: 748,279 shares
September 30, 2021: 1,113,082 shares

3) The average number of shares during the period:
Nine months ended June 30, 2022: 43,676,568 shares
Nine months ended June 30, 2021: 39,657,926 shares

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): 107,900 shares at the end of the nine months ended June 30, 2022; and 375,600 shares at the end of the fiscal year ended September 30, 2021. 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): 269,030 shares at the end of the nine months ended June 30, 2022; and 469,530 shares at the end of the nine months ended June 30, 2021.

* 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 9 of the Attachments.

Table of Contents - Attachments

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

(1) Explanation of Business Results

1) Explanation of market conditions

Unlike previous strains of COVID-19, the Omicron variant spread to toddlers and children, resulting in a series of school and nursery school closures from the beginning of the year. In addition, prices in Japan have been rising sharply in response to the global surge in resource prices and commodity prices, primarily caused by Russia's invasion of Ukraine and accelerating inflation. The education industry has seen prices for paper, logistics, and other costs increase, while the elderly care industry has seen utilities, food, and other costs soar, resulting in a wide range of effects.

The digital transformation (DX) trend is accelerating in the education industry. In schools, the introduction of digital textbooks and ICT learning materials is spreading with the aim of using the learning devices distributed through the GIGA (Global and Innovation Gateway for All) School Program. Learning centers are seeing the increasing popularity of online instruction in addition to in-person learning. Furthermore, the demand for digital reskilling is rising in corporate training as well. In publishing media, the multi-use of content has taken hold, and there is an active movement to evolve from "content sales" to "provision of experiences" utilizing digital technology. In publishing distribution, publishers, sales companies, bookstores, and others are collaborating to reduce the rates of returned goods unsold, by improving the accuracy of book distribution based on AI-backed demand forecasts. Meanwhile, with respect to matters related to young children, the establishment of the Agency for Children and Families in April of next year is attracting attention. The agency is expected to establish "guidelines for the creation of children's places" and promote the "socialization of child-rearing," bringing positive impacts to schoolchildren and the operation of nursery schools.

In the elderly care industry, total demand continues to grow due to the increasing elderly population. Although there was some reluctance to use some home-based services at the beginning of the spread of the Omicron variant, a certain level of residence needs remained steady in the facility-based services. At the same time, the costs of raw materials and utilities are rising further and beginning to affect facility operations.

As for the caregivers who take a role of providing these services, the industry as a whole continues to face an ongoing shortage. In response to this situation, relevant government ministries and organizations are actively discussing ways to reduce workloads and promoting the use of technology in the nursing care sector, such as the Cabinet Office's Council for Promotion of Regulatory Reform, which has taken up the issue of relaxing staffing standards.

2) Explanation of business results

Under the market conditions described above, consolidated net sales for the nine months ended June 30, 2022 increased by 3.1% year on year to ¥117,011 million. Looking at the results by segment, in the educational domain, the classroom and learning center business and publishing and content business maintained revenue growth despite the impact of the Omicron variant. However, the kindergarten and school business and experience-based learning facilities mainly for school use suffered from the prolonged impact of the Omicron variant, leading to a reluctance to buy the relevant products/services and use such facilities, resulting in an overall decline in revenue in the educational domain. In the healthcare and nursing domain, in addition to promoting the opening of new facilities for the elderly, occupancy rates at existing facilities remained high, generating an increase in revenue.

The consolidated operating profit for the nine months ended June 30, 2022 amounted to ¥4,785 million, down 23.2% year on year. The main causes of the decrease in profit were the absence of temporary profit such as a gain on the sale of real estate and a subsidy for COVID-19 that were recorded in the previous year in the healthcare and nursing domain, as well as the enhancement of investments in the digital and global domains and the equalization of expenses recorded during the year through more systematic expense management. On the business front, the classroom and learning center business, the publishing business, and the healthcare and nursing domain performed well even during the spread phase of the Omicron variant infections. However, the effects of the deteriorating business environment became apparent in the kindergarten and school business and experience-based learning facilities for schools.

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

<table>
<tr><td rowspan="10">Educational Domain</td><td rowspan="3">Classroom and learning center business</td><td>Operation of Gakken Classroom for a range of children from preschoolers to junior high school students (mainly elementary school students)</td></tr>
<tr><td>Operation of classes for toddlers and children</td></tr>
<tr><td>Operation of learning centers for a range of children from elementary school students to senior high school students</td></tr>
<tr><td rowspan="4">Publishing and content business</td><td>Publishing and sale of publications including children's books and study-aid books through distributors and bookstores</td></tr>
<tr><td>Development and sale of learning materials for learning centers</td></tr>
<tr><td>Publishing and sale of books on nursing and medicine, sale of e-learning for training programs targeting nurses</td></tr>
<tr><td>Development and sale of digital content linked with publishing and educational toys</td></tr>
<tr><td rowspan="3">Kindergarten and school business</td><td>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</td></tr>
<tr><td>Production and sale of textbooks, instruction guides for teachers, supplementals, ICT learning materials, special needs education materials, short essay exams, etc.</td></tr>
<tr><td>Operation of recruitment support services and corporate training programs</td></tr>
<tr><td rowspan="3">Healthcare and nursing Domain</td><td>Elderly housing business</td><td>Planning, development, and operation of serviced apartments for the elderly, bases for elderly care services, etc.</td></tr>
<tr><td>Group homes for the elderly with dementia business</td><td>Planning, development, and operation of various services including group homes for the elderly with dementia</td></tr>
<tr><td>Child raising support business</td><td>Planning, development, and operation of nursery schools, children's daycare centers, afterschool children's clubs, etc.</td></tr>
</table>

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 opening of new facilities in growth businesses with a focus on the Tokyo metropolitan area (after-school children's clubs and child development support)
- 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 30.0%.

(Million yen)

	Fiscal year ended September 30, 2021	Fiscal year ending September 30, 2022	Fiscal year ending September 30, 2023
	Results	Plan	Plan
Net sales	150,288	157,000	165,000
Operating profit	6,239	6,700	7,500
Operating profit margin	4.2%	4.2%	4.5%
Profit*	2,617	3,400	3,800
Net profit margin	1.7%	2.1%	2.3%
ROE	6.3%	7.1%	8.0%
Payout ratio	34.1%	30.7%	30.0%

* Profit: Profit attributable to owners of parent

In regard to the Company's consolidated financial results for the nine months ended June 30, 2022, net sales amounted to ¥117,011 million (up 3.1% year on year), operating profit was ¥4,785 million (down ¥1,448 million year on year), ordinary profit was ¥5,010 million (down ¥1,128 million year on year), and profit attributable to owners of parent was ¥2,847 million (up ¥803 million year on year). Due to the application of the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29 issued on March 31, 2020; hereinafter referred to as "Revenue Recognition Accounting Standard"), etc., net sales decreased by ¥251 million. Operating profit, ordinary profit, and profit attributable to owners of parent are not affected.

Business performance by segment is summarized below.

(Million yen)

	Nine months ended June 30, 2021		Nine months ended June 30, 2022		Change	
Reportable segments	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Educational Domain	60,473	3,990	59,332	3,287	(1,141)	(702)
Healthcare and nursing Domain	48,712	2,559	53,401	2,251	4,689	(308)
Other	4,320	667	4,278	615	(42)	(52)
Adjustment	–	(984)	–	(1,369)	–	(385)
Group total	113,505	6,233	117,011	4,785	3,505	(1,448)

[Educational Domain]

Net sales: ¥59,332 million (down 1.9% year on year); operating profit: ¥3,287 million (down ¥702 million year on year)

(Million yen)

	Nine months ended June 30, 2021		Nine months ended June 30, 2022		Change	
Main businesses	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Classroom and learning center business	22,953	408	23,121	557	167	149
Publishing and content business	24,493	2,801	24,640	2,498	146	(302)
Kindergarten and school business	13,025	1,030	11,570	465	(1,455)	(564)
Goodwill	–	(249)	–	(233)	–	15
Segment total	60,473	3,990	59,332	3,287	(1,141)	(702)

(Classroom and learning center business)

In the classroom business, the spread of the Omicron variant among children limited membership recruitment and sales activities for the new school term. Although the effects lingered and membership is still in the process of making a genuine recovery, organizational development of new franchises that will receive new members is progressing faster than the previous year. In addition, increased revenue and profit were attributable to an increase in sales per customer due to the expansion of digital services such as an application to monitor members' studying and online learning courses, the contributions of the "Mebae Classroom" business which was acquired in July of the previous fiscal year, and more efficient use of expenses.

In the learning center business, multiple learning center companies within the Group posted increases in revenue and profit as sales per customer rose due to special classes held during spring break and Golden Week and the adoption of hybrid in-person and online learning models. As a whole, profit increased despite a decrease in revenue, for although the Omicron variant caused a slowdown in new student recruitment for the new school term, the Group also improved its efficiency by progressing with its consolidation of unprofitable schools. In light of this situation, each of the Group's learning center companies is pursuing various measures to improve profitability, such as new student recruitment for summer classes, virtual classrooms, and individual tutoring using AI technology.

(Publishing and content business)

For publishing, the children's book genre is performing strongly. Within the genre, the illustrated guide group, which can be said to be synonymous with the Gakken brand, have performed particularly well, with titles like "Saikyo-O" and "Gakken Illustrated LIVE" (which was updated this summer) showing remarkably fast sales, requiring additional print runs immediately after their release. In addition, the collaboration title between

Arukikata. Co., Ltd., which joined the Group last fiscal year, and the magazine Mu has sold more than 120,000 copies since its release in February – an astounding volume for a map/guidebook. On the profit front, there were concerns about the impact of high paper and other costs. These hit products, however, drove overall performance, resulting in increases in both revenue and profit for the nine months ended June 30, 2022.

Medical and nursing saw increases in revenue and profit. The number of hospitals subscribing to e-learning programs for nurses increased significantly as the impact of the Omicron variant on hospitals lessened, and the Company was able to resume full-scale operations in April, the biggest sales growth period of the year. The number of subscribing hospitals increased by 265 year on year, contributing to the revenue increase. Regarding the publishing of books on nursing and medicine, sales of e-books and nursing books grew, contributing to overall revenue growth.

For businesses other than publishing, the slump in the toy market due to a reactionary decline in stay-at-home demand combined with higher costs at that time pushed down revenue. At the same time, the Tokyo Global Gateway, an experience-based English learning facility, saw a dropping off of contracted sales as of the previous year, which reduced revenue. Furthermore, although the impact of the Omicron variant prevented some users from visiting such facility, the Company strengthened its reach by developing a number of literally “experience-based” programs, such as summer camps and training programs for companies and corporations. These efforts proved successful, and this summer’s reservations are on pace to exceed those of the previous year. Although overall revenue and profit declined for the nine months ended June 30, 2022, the Company is making steady progress toward recovery.

(Kindergarten and school business)

In toddler education, the number of new nursery school openings, sales of monthly magazines, and sales of supplies needed for new semesters all decreased against the backdrop of the declining birthrate. In addition, there was a significant slowdown in orders for equipment, hygiene products, and nursery school building renovations related to a subsidy for COVID-19. Furthermore, there was a noticeable deterioration in the business environment due to the outbreak of the Omicron variant, which led to the closure of a number of nursery schools and kindergartens. These factors resulted in overall decreases in both revenue and profit. On the other hand, the Company continues to invest in the development of child-care ICT and related human resources to promote DX in the child-care field and create a new market. In particular, contracts for “hugmo,” which supports communication between nursery schools and families, are increasing steadily, contributing to improved profitability.

In school education, the period under review was between textbook revisions, and therefore there was a reactionary decline in revenue from instruction guides for junior high school teachers, as compared to the revenue recorded in the previous fiscal year. In addition, the number of textbooks, supplementals, and examinees for short essay exams decreased due to the declining birthrate, resulting in overall decreases in revenue and profit. To break out of this predicament and accelerate readiness to the GIGA School Program, the Company is promoting investment to grow the educational ICT business, such as by strengthening its content production and sales structure for digital textbooks and ICT learning materials.

In social education, face-to-face events were cancelled in the recruitment support service business due to the effects of the Omicron variant, and the number of companies exhibiting in online seminars also declined significantly. The sector faces other difficult challenges, such as the cancellation of the new e-learning business for teachers’ license renewal due to the abolition of the renewal system. Even within such market conditions, the corporate training business operated by JTEX Management Center Co., Ltd., a Group company, steadily expanded its business, resulting in overall increases in revenue and profit. The courseware offers online learning on a wide variety of topics ranging from new employee training to labor management and has become a booster for business growth, meeting the needs of companies listed on the Tokyo Stock Exchange’s Prime Market that are under pressure to accelerate their human resource investments. The Company is focusing on further content expansion, as demand for corporate training is expected to increase further in light of Corporate Governance

(CG) Code revisions and environmental, social, and governance (ESG) factors.

[Healthcare and nursing Domain]

Net sales: ¥53,401 million (up 9.6% year on year); operating profit: ¥2,251 million (down ¥308 million year on year)

The burden for management and administration fees to the holding company has increased by ¥70 million from the previous fiscal year in the healthcare and nursing domain as a whole. Actual operating profit decreased by ¥238 million, a 7.3% decrease year on year.

*The previous fiscal year recorded an ¥81 million gain on the sale of real estate in the second quarter and ¥230 million in subsidy for COVID-19 in the third quarter.

*The impact of increased utilities costs has been estimated at ¥275 million for the current cumulative period.

(Million yen)

	Nine months ended June 30, 2021		Nine months ended June 30, 2022		Change	
Main businesses	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Elderly housing business	20,083	860	23,718	939	3,634	79
Group homes for the elderly with dementia business	24,759	2,057	25,373	1,528	613	(528)
Child raising support business	3,868	(11)	4,309	130	441	141
Goodwill	–	(347)	–	(347)	–	–
Segment total	48,712	2,559	53,401	2,251	4,689	(308)

(Elderly housing business)

In serviced apartments for the elderly for the nine months ended June 30, 2022, three new facilities were opened, bringing the total number of sites to 182 including franchise locations, with a total of 9,191 rooms. In addition, the Gakken Group is promoting sustainable community development with the aim of becoming a leading company in the healthcare and nursing domain and opened two "Gakken Community-based Integrated Care System" locations in the second quarter of the fiscal year, bringing together the Group's educational, healthcare, and nursing services. New occupancies also progressed steadily in those two locations during the third quarter of the fiscal year. Suita Sustainable Smart Town (SST), the second site of collaboration with Panasonic Group after Fujisawa SST, is focusing on technological development in the field of DX, including a monitoring system that detects abnormalities in bathrooms and a demonstration experiment for detecting mild cognitive impairment (MCI) through lifestyle log analysis. As a high value-added, multifunctional site, Suita SST is contributing to building the brand in the community and enhancing the presence of Gakken.

In addition, effective sales techniques in the COVID-19 pandemic became more widespread and well established in existing facilities, resulting in a 2.9% increase in the occupancy rate year on year, primarily in the facilities opened during and before the previous fiscal year. These successful efforts more than offset a decrease in the number of daycare service users due to the resurgence of the COVID-19 pandemic and an increase in costs due to higher utilities and other costs, resulting in overall increases in revenue and profit.

(Group homes for the elderly with dementia business)

In group homes for the elderly with dementia, one new facility was opened in the third quarter of the fiscal year, bringing the total number of facilities of 286. Even with the spread of the Omicron variant infections, the Company has continued to conduct attentive sales activities tailored to local conditions, and the occupancy rate has remained high and stable at around 97%-98%, sustaining an upward trend in revenue. The dispensing pharmacy business for facility users, which was launched in September 2021, has also grown steadily, becoming profitable in the third quarter of this fiscal year and contributing to an increase in overall sales. In addition, "Kentatsu Net," a digital media for health and dementia prevention launched as a business in the area of dementia prevention, has become one of the largest distributors of dementia-related articles in Japan, with steadily increasing site hits.

In addition to the upfront investment for these new businesses, higher utilities and other costs, a gain on the sale of real estate recorded in the second quarter of the previous fiscal year, and transient profit from a COVID-19-related subsidy received in the third quarter of the previous fiscal year also contributed to higher revenue and lower profit, despite solid performance in existing businesses.

(Child-care business)

Utilization rates at nursery schools are stable and trending upwards. In addition, during this fiscal year, the Company has been rebranding its nursery schools to make them more attractive by emphasizing the unique characteristics of Gakken, reopening two nursery schools under the new brand "Gakken Hoikuen" in April. The Group optimized operating costs and improved profitability by changing the capacity of or closing unprofitable nursery schools. In addition, an increase in the number of users of after-school children's clubs contributed, resulting in increases in revenue and profit.

[Other]

Net sales: ¥4,278 million (down 1.0% year on year); operating profit: ¥615 million (down ¥52 million year on year)

ODA to emerging countries and the business consulting business performed well in overseas projects. The new operating company that was established in the current fiscal year to secure DX personnel for the overall Group and invest in DX for the development of new DX products and others, has been going well. On the other hand, the logistics business was severely impacted by the poor performance of major clients, resulting in overall decreases in both revenue and profit.

Previously, company-wide expenses were included under "Other," but they have been removed from the "Other" category and presented as "Adjustment" in order to provide a more accurate understanding of the Group's situation.

(2) Explanation of Financial Position

(Million yen)

Item	As of September 30, 2021	As of June 30, 2022	Change
Current assets	56,554	62,704	6,150
Cash and deposits	19,772	23,931	4,158
Non-current assets	60,345	63,841	3,495
Total assets	116,900	126,546	9,646
Current liabilities	39,177	42,261	3,084
Non-current liabilities	30,309	35,319	5,010
Total liabilities	69,486	77,580	8,094
Interest-bearing debt*1	38,753	45,292	6,539
Total net assets	47,413	48,965	1,551
Total liabilities and net assets	116,900	126,546	9,646
Equity ratio (%)*2	40.2	38.3	(1.8)
D/E ratio (times)*3	0.83	0.93	0.11

*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 third quarter of the fiscal year ending September 30, 2022 amounted to ¥126,546 million, increasing by ¥9,646 million from the end of the preceding fiscal year. The main changes were an increase of ¥4,158 million in cash and deposits, an increase of ¥1,947 million in notes and accounts receivable - trade, an increase of ¥1,239 million in merchandise and finished goods, an increase of ¥738 million in property, plant and equipment, and an increase of ¥2,188 million in investment securities.

The total liabilities amounted to ¥77,580 million, increasing by ¥8,094 million from the end of the preceding fiscal year. The main changes were a decrease of ¥89 million in notes and accounts payable - trade, an increase of ¥800 million in short-term borrowings, and an increase of ¥4,651 million in long-term borrowings.

The total net assets amounted to ¥48,965 million, increasing by ¥1,551 million from the end of the preceding fiscal year. The main changes were an increase of ¥1,813 million in retained earnings, a decrease of ¥399 million in treasury shares, and a decrease of ¥613 million in valuation difference on available-for-sale securities.

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

Regarding the outlook for the fiscal year ending September 30, 2022, the rapid resurgence of the COVID-19 pandemic and the impact of surging utilities and other costs make the situation highly unpredictable.

However, the group homes for the elderly with dementia business will no longer be affected by the COVID-19-related subsidy that was exhausted in the fourth quarter of the previous fiscal year. In the publishing business, the Company expects an increase in revenue due to strong sales of children’s books and products from Arukikata. Co., Ltd. The e-learning programs for nurses and business for enterprises and working professionals such as online training programs for enterprises are also expected to perform well. Based on these factors the Company forecasts net sales of ¥157,000 million, operating profit of ¥6,700 million, ordinary profit of ¥6,800 million, and profit attributable to owners of parent of ¥3,400 million. The forecast figures announced on November 12, 2021 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, 2021	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	19,772	23,931
Notes and accounts receivable - trade	19,895	21,843
Merchandise and finished goods	8,437	9,676
Work in process	3,493	2,999
Raw materials and supplies	176	178
Other	4,826	4,090
Allowance for doubtful accounts	(47)	(13)
Total current assets	56,554	62,704
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,550	12,930
Machinery, equipment and vehicles, net	38	43
Land	4,419	4,226
Construction in progress	1,458	27
Other, net	844	823
Total property, plant and equipment	17,312	18,051
Intangible assets		
Goodwill	6,806	6,348
Other	3,326	3,382
Total intangible assets	10,132	9,730
Investments and other assets		
Investment securities	21,204	23,392
Other	11,843	12,820
Allowance for doubtful accounts	(146)	(153)
Total investments and other assets	32,900	36,059
Total non-current assets	60,345	63,841
Total assets	116,900	126,546

(Million yen)

	As of September 30, 2021	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,392	7,303
Short-term borrowings	14,380	15,180
Current portion of long-term borrowings	2,303	3,395
Income taxes payable	714	1,291
Provision for bonuses	2,149	1,444
Provision for sales returns	506	–
Provision for point card certificates	3	–
Other	11,728	13,647
Total current liabilities	39,177	42,261
Non-current liabilities		
Bonds payable	6,000	6,000
Long-term borrowings	15,721	20,372
Retirement benefit liability	3,284	3,322
Other	5,302	5,624
Total non-current liabilities	30,309	35,319
Total liabilities	69,486	77,580
Net assets		
Shareholders' equity		
Share capital	19,817	19,817
Capital surplus	12,308	12,333
Retained earnings	13,033	14,846
Treasury shares	(920)	(521)
Total shareholders' equity	44,238	46,476
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,627	1,014
Deferred gains or losses on hedges	0	(1)
Foreign currency translation adjustment	8	86
Remeasurements of defined benefit plans	1,087	945
Total accumulated other comprehensive income	2,723	2,044
Share acquisition rights	275	255
Non-controlling interests	176	188
Total net assets	47,413	48,965
Total liabilities and net assets	116,900	126,546

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Million yen)

	For the nine months ended June 30, 2021	For the nine months ended June 30, 2022
Net sales	113,505	117,011
Cost of sales	78,934	82,713
Gross profit	34,570	34,298
Reversal of provision for sales returns	2	–
Gross profit - net	34,573	34,298
Selling, general and administrative expenses	28,339	29,512
Operating profit	6,233	4,785
Non-operating income		
Interest income	12	10
Dividend income	185	190
Share of profit of entities accounted for using equity method	–	56
Other	269	255
Total non-operating income	467	511
Non-operating expenses		
Interest expenses	135	131
Share of loss of entities accounted for using equity method	333	–
Commission expenses	2	82
Other	89	72
Total non-operating expenses	561	286
Ordinary profit	6,139	5,010
Extraordinary income		
Gain on sale of non-current assets	1	18
Gain on sale of investment securities	27	121
Gain on bargain purchase	323	–
Gain on liquidation of subsidiaries and associates	17	–
Other	1	18
Total extraordinary income	371	158
Extraordinary losses		
Loss on sale and retirement of non-current assets	54	64
Impairment losses	199	0
Loss on valuation of investment securities	34	18
Provision for loss on business liquidation	165	–
Loss on refund of the subsidy	–	29
Other	22	26
Total extraordinary losses	476	139
Profit before income taxes	6,033	5,029
Income taxes	3,949	2,164
Profit	2,083	2,865
Profit attributable to non-controlling interests	40	18
Profit attributable to owners of parent	2,043	2,847

Quarterly Consolidated Statements of Comprehensive Income

(Million yen)

	For the nine months ended June 30, 2021	For the nine months ended June 30, 2022
Profit	2,083	2,865
Other comprehensive income		
Valuation difference on available-for-sale securities	672	(630)
Foreign currency translation adjustment	35	85
Remeasurements of defined benefit plans, net of tax	(98)	(150)
Share of other comprehensive income of entities accounted for using equity method	(1)	23
Total other comprehensive income	608	(672)
Comprehensive income	2,692	2,193
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,651	2,168
Comprehensive income attributable to non-controlling interests	41	24

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

There is no relevant information.

(Notes When There Are Significant Changes in Amounts of Equity)

For the nine months ended June 30, 2022

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 third quarter of the fiscal year ending September 30, 2022, and multiplying the profit before income taxes by this estimated effective tax rate.

(Changes in Accounting Policies)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 issued on March 31, 2020; hereinafter referred to as "Revenue Recognition Accounting Standard"), etc. came into effect as of the beginning of the first quarter of the fiscal year ending September 30, 2022. Under this standard, the amount of revenue expected to be received in exchange for a promised good or service is recognized when control of the good or service is transferred to the customer.

The main changes due to the application of the Revenue Recognition Accounting Standard are as follows.

With regard to sales with return rights in the Educational Domain, previously, provision for sales returns was recorded based on an amount equivalent to its gross profit. However, for merchandise or products expected to be returned, the method has been changed to recognize refund liability for the consideration amount of merchandise or products received or to be received, instead of recognizing revenue at the time of sale, in accordance with the provisions for variable consideration.

In addition, for some transactions in the Educational Domain, the method has been changed to present the rebates and other consideration paid to customers, which was previously recorded under selling, general and administrative expenses, as a deduction from net sales.

Revenue from some transactions in the Healthcare and nursing Domain was previously recognized in the gross amount, but has been changed to be recognized in the net amount, with the consideration of the role in providing goods or services to customers (principle or agent).

The application of the Revenue Recognition Accounting Standard is subject to the transitional treatment provided for in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effect of the retrospective application of the new accounting standard from the beginning of the first quarter of the fiscal year ending September 30, 2022 was added to or subtracted from the beginning balance of retained earnings for the first quarter under review, and the new accounting standard has been applied from the said beginning balance. However, due to the application of the provisions of Paragraph 86 of the Revenue Recognition Accounting Standard, the new accounting standard is not applied retrospectively to contracts where nearly all the revenue amounts were recognized in accordance with the previous treatment prior to the beginning of the first quarter under review. Furthermore, with regard to modifications to contracts carried out prior to the beginning of the first quarter under review, due to the application of the method set forth in item (1) of the supplementary provisions of Paragraph 86 of the Revenue Recognition Accounting Standard, accounting procedures are carried out based on the contractual terms reflecting all changes, and the cumulative effect thereof is added to or subtracted from the beginning balance of retained earnings for the first quarter under review.

As a result, for the nine months ended June 30, 2022, net sales decreased by ¥251 million, cost of sales decreased by ¥93 million, the equivalent amount for provision for sales returns decreased by ¥35 million, and selling, general and administrative expenses decreased by ¥122 million. Operating profit, ordinary profit, and profit attributable to owners of parent were not affected. There is also no impact on the balance of retained earnings at the beginning of the period.

Additionally, in accordance with the transitional treatment stipulated in Paragraph 28-15 of the Accounting Standards for Quarterly Financial Reporting (ASBJ Statement No. 12 issued on March 31, 2020), the information on the breakdowns of revenues from contracts made with customers in the nine months ended June 30, 2021 are not included.

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 issued on July 4, 2019; hereinafter referred to as “Fair Value Measurement Accounting Standard”), etc. is applied from the beginning of the first quarter of the fiscal year ending September 30, 2022. In accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard, and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 issued on July 4, 2019), the new accounting policy stipulated in the Fair Value Measurement Accounting Standard, etc. is applied prospectively. This does not impact the quarterly consolidated financial statements.

(Segment Information, etc.)

I For the nine months ended June 30, 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	60,473	48,712	109,185	4,320	113,505	–	113,505
Inter-segment net sales or transfers	188	21	209	6,131	6,341	(6,341)	–
Total	60,661	48,733	109,395	10,451	119,847	(6,341)	113,505
Segment profit	3,990	2,559	6,550	667	7,217	(984)	6,233

(Notes)

1. “Other” includes logistics and other businesses that are not included in the reportable segments.
2. The adjustment of negative ¥984 million for “Segment profit” includes negative ¥991 million in company-wide expenses that were not allocated to specific reportable segments. Company-wide expenses are mainly general and administrative expenses that are not attributable to a reportable segment.
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

(Significant gain on bargain purchase)

In the healthcare and nursing domain, gain on bargain purchase was recognized as PeaceS., Ltd. became a consolidated subsidiary through share acquisition. The amount of gain on bargain purchase recognized with this event was ¥323 million. The gain on bargain purchase is not included in the above segment profit as it is classified into extraordinary income.

II For the nine months ended June 30, 2022

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	59,332	53,401	112,733	4,278	117,011	–	117,011
Inter-segment net sales or transfers	197	43	240	6,150	6,390	(6,390)	–
Total	59,529	53,444	112,973	10,428	123,402	(6,390)	117,011
Segment profit	3,287	2,251	5,539	615	6,155	(1,369)	4,785

(Notes)

1. “Other” includes logistics and other businesses that are not included in the reportable segments.
2. The adjustment of negative ¥1,369 million for “Segment profit” includes negative ¥1,365 million in company-wide expenses that were not allocated to specific reportable segments. Company-wide expenses are mainly general and administrative expenses that are not attributable to a reportable segment.
3. Total amount of “segment profit” is adjusted based on operating profit reported in the quarterly consolidated statements of income.
4. Previously, company-wide expenses were presented under “Other,” but as of the first quarter of the fiscal year ending September 30, 2022, they were included in “Adjustment” in order to provide a more accurate understanding of the Group’s situation. The segment information for the nine months ended June 30, 2021 was prepared based on the classification after this change.

2. Changes in reportable segments

As described in “Changes in Accounting Policies,” the Revenue Recognition Accounting Standard, etc. is applied from the beginning of the first quarter of the fiscal year ending September 30, 2022. Because the accounting procedures regarding revenue recognition have changed, the same changes have been applied to the method for calculating profit and loss for each segment.

These changes resulted in a ¥188 million decrease in net sales in the Educational Domain and a ¥62 million decrease in net sales in the Healthcare and nursing Domain for the nine months ended June 30, 2022 compared to the previous method. There is no impact on segment profit.

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.