

COMPANY RESEARCH AND ANALYSIS REPORT

AIAI Group Corporation

6557

Tokyo Stock Exchange Growth Market

1-Aug.-2022

FISCO Ltd. Analyst

Masanobu Mizuta



FISCO Ltd.

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

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Summary

Targets aggressive expansion of AIAI PLUS in medium-term business plan

AIAI Group Corporation. <6557> (the company name was changed from global bridge HOLDINGS Co., Ltd. on January 1, 2022) (hereafter, also “the Company”) aims to be a “comprehensive welfare company” that helps to solve Japan’s population problem through its welfare businesses. The Company conducts the management of authorized nursery schools, support facilities for children with disabilities, nursing care facilities, and other facilities that support the “quantity” of welfare in Japan. It also conducts the sale of the Child Care System (CCS), a nursery school management support system it developed in-house that supports the “quality” of welfare. With the number of children on nursery waiting lists heading towards zero and the number of children with disabilities on the rise, the Company announced in its AIAI Group Medium-term Business Plan 2022-2024 on May 11, 2022 that it would pursue a growth strategy of aggressively expanding AIAI PLUS that provides an optimal program for the care of children with disabilities, in addition to the management of its mainstay AIAI NURSERY business.

1. The Company’s childcare business comprises AIAI PLUS care for children with disabilities, and AIAI NURSERY authorized nursery schools.

The Company’s business segments comprise the childcare business (child development support, authorized nursery schools, etc.), lifecare business (serviced housing for the elderly, etc.) and tech business (sale of in-house developed CCS, etc.). In the mainstay childcare business, the Company operates mixed-use facilities under the brand name AIAI PLUS in its AIAI PLUS business which involves care for children with disabilities, and operates directly managed authorized nursery schools under the brand name AIAI NURSERY, and operates small-scale childcare facilities under the brand name AIAI MINI mainly in Tokyo’s 23 wards, Chiba Prefecture, and Osaka Prefecture. Its authorized nursery schools have a dominant market share in Chiba Prefecture. Its proprietary educational program for nursery school children has unique features and has been highly evaluated. In the tech business, the Company provides solutions for improving the work efficiency of childcare facilities nationwide, such as through its in-house developed CCS nursery school management support system.

2. AIAI NURSERY becomes profitable in the third or fourth year after opening, and AIAI PLUS is aggressively expanding

In terms of the earnings characteristics of AIAI NURSERY authorized nursery schools, at the time a new facility is opened, costs are incurred in advance for its opening, including initial costs and recruitment costs. Meanwhile, facilities tend to incur a loss for several years after they are opened due to the low number of students enrolled and the low enrollment rate, as the number of students in the higher-age class (three to five years) are less than the capacity. However, after the passage of a few years from the opening the enrollment rate improves with the increase in the number of students enrolled. In general, it is said that from the third or fourth year after opening, the facility becomes profitable with the improvement in the number of students enrolled and the enrollment rate. The mixed-use facilities of AIAI PLUS, meanwhile, require a smaller opening and management investment than AIAI NURSERY authorized nursery schools. The synergies generated by attaching AIAI PLUS to AIAI NURSERY authorized nursery schools include the merits of boosting customer appeal and recruiting, and the strategic placement of human resources.

Summary

3. Operating loss narrowed significantly in FY3/22 (15-month results due to accounting period change)

FY3/22 consolidated results (15-month results due to accounting period change). In the childcare business, various costs incurred before opening facilities were reclassified from cost of sales to preparation costs for opening facilities under non-operating expenses) were net sales of ¥11,975mn, operating loss of ¥440mn, ordinary profit of ¥461mn, and profit attributable to owners of parent of ¥116mn. Although simple comparisons are not possible due to the change of accounting period, the operating loss narrowed significantly compared to FY12/20 results (12-month results after reclassification of preparation costs for opening facilities, net sales of ¥8,318mn, operating loss of ¥1,266mn, ordinary profit of ¥276mn, and profit attributable to owners of parent of ¥150mn). This was due to factors such as new childcare facility openings and progress toward profitability at existing facilities, coupled with the optimization of staff placement and improvement in work efficiency. Sales increased as the number of facilities grew, improving operating profitability.

4. Operating profit expected to turn positive in FY3/23 (12-month accounting period)

For FY3/23 consolidated results (12-month accounting period), the Company projects net sales of ¥10,600mn, operating profit of ¥100mn, ordinary profit of ¥200mn, and profit attributable to owners of parent of ¥120mn. Although simple comparisons with FY3/22 results are not possible because FY3/22 was a 15-month accounting period, it is expected that AIAI NURSERY authorized nursery schools will firmly establish a structure to achieve profitability and secure stable profits through factors such as increased profitability at existing facilities and optimization of staff placement, which will absorb upfront investment and push the Company into an operating profit orbit. The Company will aggressively open AIAI PLUS mixed-use facilities, and continue upfront investments for the tech business.

5. Formulating a medium-term business plan

The Company's medium- to long-term vision is to support children's development through appropriate care for the increasing number of children with disabilities as the issue of children on waiting lists for nursery schools is being resolved. At the same time, it will establish a business foundation for an aging society that is set to peak in the 2030s, and develop business that will comprehensively solve Japan's population problem. In its medium-term business plan formulated in May 2022, for numerical targets, it aims for net sales of roughly ¥12.0-¥13.0bn, and operating profit of roughly ¥0.3-¥0.5bn in FY3/25. The Company intends to invest a total of roughly ¥2,500mn over the three-year period of the medium-term business plan for future sustainable growth and business scale expansion.

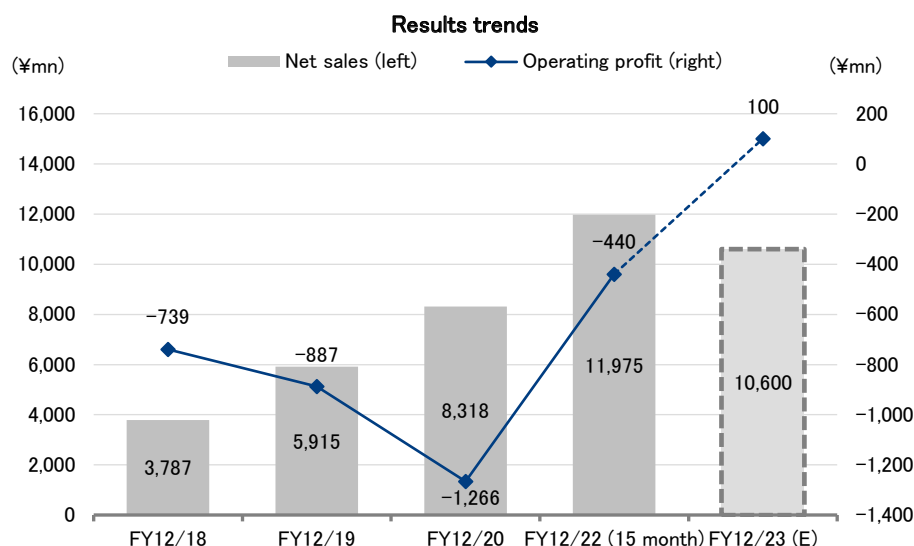
6. AIAI NURSERY to shift to stable earnings foundation stage and accelerate the Company's growth

The Company's acceleration in opening new AIAI NURSERY authorized nursery schools to build an earnings foundation had resulted in successive operating losses from upfront investments, but the percentage of existing facilities opened three to four years ago is now higher, turning AIAI NURSERY authorized nursery schools into profit. The Company's policy is to promote a gradual shift to AIAI PLUS, which involves care for children with disabilities, in response to meet a changing business environment, as well as target an early return to profitability in the tech business. We at FISCO believe that AIAI NURSERY authorized nursery schools' transition to a stable earnings foundation stage can be expected to accelerate growth.

Key Points

- A "comprehensive welfare company" helping to solve Japan's population problem through welfare businesses, centering on nursery schools
- Expects operating profit to turn positive in FY3/23
- Aggressively develop mixed-use facilities AIAI PLUS

Summary



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

Company profile

A “comprehensive welfare company” helping to solve Japan’s population problem

1. Company profile

The Company aims to be a “comprehensive welfare company” that helps to solve Japan’s population problem through its welfare businesses. The Company conducts the management of authorized nursery schools, support facilities for children with disabilities, nursing care facilities, and other facilities that support the “quantity” of welfare in Japan. It also conducts the sale of the CCS, a nursery school management support system it developed in-house that supports the “quality” of welfare. The Company’s growth strategy is to expand AIAI PLUS that provides an optimal program for the care of children with disabilities, in addition to the management of its mainstay AIAI NURSERY business.

The Company’s head office is located in Kinshi, Sumida Ward, Tokyo. As of the end of FY3/22, the Group comprised the Company (holding company) and three consolidated subsidiaries. On January 1, 2022, the Company changed its company name (former company name: global bridge HOLDINGS Co., Ltd., new company name: AIAI Group Corporation), and changed the names of consolidated subsidiaries. global child care Co., Ltd. to AIAI Child Care Corporation, and global life care Co., Ltd. to AIAI Life Care Corporation. The tradename of CHaiLD Co., Ltd. remained unchanged. The accounting periods for the Company and its three consolidated subsidiaries were changed from the end of December each year to the end of March each year from FY3/22.

Company profile

As of the end of FY3/22, the Company's total assets were ¥12,066mn, net assets were ¥1,590mn, share capital was ¥45mn, the equity ratio was 12.9%, the number of issued shares was 2,737,190 (including 110 treasury shares), and the consolidated number of employees was 1,235. Following approval by resolution of the sixth Ordinary General Meeting of Shareholders held on March 26, 2021, the Company transitioned to a company with an audit and supervisory committee, in order to improve the transparency of management and speed up decision-making.

The Company's largest shareholder, ANNIVERSAIRE HOLDINGS Inc., is an investment company owned by Mr. Hironori Aoki, who is the founder of AOKI Holdings <8214>. The Company was established through a company split with ANNIVERSAIRE HOLDINGS. Considering this background, ANNIVERSAIRE HOLDINGS plans to continue to hold the shares of the Company. It has no business or personnel relations with the Company, so the Company's management is expected to remain independent.

2. History

In January 2007, global bridge Co., Ltd. was established in Shinkoiwa, Katsushika Ward, Tokyo, in order to conduct childcare and nursing care businesses. It started a childcare business in March 2007 and a nursing care business in May 2008. Then in July 2011, it launched the CCS nursery school management support system that it had developed in-house. Subsequently in November 2015, the holding company global bridge HOLDINGS Co. Ltd. was established through a company split (new establishment split) with ANNIVERSAIRE HOLDINGS Inc., and the head office was relocated to its current location in October 2017. Thereafter, global bridge HOLDINGS reorganized the group and expanded its business through M&As and other means. It changed its company name to the current AIAI Group in January 2022.

In December 2015, global bridge was made a wholly owned subsidiary (it subsequently absorbed Tokyo Life Care Co., Ltd. through a merger in April 2020 and its company name was changed to global child care, and then changed again to its current name of AIAI Child Care in January 2022), the ICT business (currently, the tech business) was separated from global bridge, and social solutions Co., Ltd. (in January 2021, its company name was changed to CHaiLD Co., Ltd.) was established. In July 2018, Tokyo Life Care Co., Ltd. was made a wholly owned subsidiary (it was absorbed by global bridge through a merger in April 2020) and began the management of serviced housing for the elderly. In November 2018, YUAN Co., Ltd. (its company name was changed to global life care in 2019, and subsequently changed to AIAI Life Care in January 2022) was made a wholly owned subsidiary and began management of residential-type, fee-paying homes for the elderly.

In relation to shares, the Company was listed on the Tokyo Stock Exchange (TSE) TOKYO PRO Market in October 2017, and its listing was changed to the TSE Mothers Market in December 2019. The Company was transferred and listed on the TSE Growth Market as a result of the TSE's reorganization of its market categories in April 2022.

Company profile

History

Date	Event
January 2007	global bridge Co., Ltd., was established in Shinkoiwa, Katsushika Ward, Tokyo, in order to conduct childcare and nursing care businesses
March 2007	Opened AIAI Group's first nursery facility AIAI Nursery School Makuhari Garden (currently AIAI NURSERY MAKUHARIEN) in Hanamigawa Ward, Chiba City, Chiba Prefecture, and launched the childcare business
September 2009	Relocated the head office to Ryogoku, Sumida Ward, Tokyo
July 2011	Launched the Child Care System (CCS), a nursery school management support system that the Company developed in-house
October 2011	Opened the Kansai Office (Honmachi, Chuo Ward, Osaka City, Osaka Prefecture)
April 2014	Opened AIAI Group's first small nursery facility AIAI Nursery OMURAIEN (currently AIAI MINI Omurai) in Sumida Ward, Tokyo
October 2014	Opened small nursery facility AIAI Nursery School (currently AIAI MINI) in Nishi Ward, Ikuno Ward, Naniwa Ward, Miyakojima Ward, Asahi Ward and Fukushima Ward in Osaka City, Osaka Prefecture).
November 2014	Acquired a patent for CCS support equipment (Patent No. 5648142)
April 2015	AIAI Nursery School Makuhari Garden (currently AIAI NURSERY MAKUHARIEN) becomes an authorized nursery school
June 2015	Relocated the head office to Kamezawa, Sumida Ward, Tokyo
November 2015	Relocated the Kansai Office to Shimanouchi, Chuo Ward, Osaka City, Osaka Prefecture
November 2015	Established global bridge HOLDINGS Co., Ltd. (currently AIAI Group Corporation) through a company split (new establishment split) with ANNIVERSAIRE HOLDINGS, Inc.
December 2015	Acquired shares of global bridge Co., Ltd. (currently AIAI Child Care Corporation) and made it a wholly owned subsidiary
December 2015	Established social solutions Co., Ltd. (currently ChaiLD Co., Ltd.) through a company split (new establishment split) of the tech business from global bridge Co., Ltd. (currently AIAI Child Care Corporation)
January 2016	Launched the AIAI Group's first living-support nursing care facility Nijinoie Matsudo (currently AIAI FACTORY Matsudo) in Matsudo City, Chiba Prefecture
September 2016	Launched the AIAI Group's first child development support facility "Nijinohiroba Imai (currently AIAI PLUS Imai)" in Chuo Ward, Chiba City, Chiba Prefecture
July 2017	Relocated the Kansai Office to its current location (Utsubohonmachi, Nishi Ward, Osaka City, Osaka Prefecture)
October 2017	Listed on the TSE TOKYO PRO Market
October 2017	Relocated the head office to its current location (Kinshi, Sumida Ward, Tokyo)
July 2018	Acquired shares of Tokyo Life Care Co., Ltd. (currently AIAI Child Care Corporation) and made it a wholly owned subsidiary. Started management of serviced housing for the elderly
November 2018	Acquired shares of YUAN Co., Ltd. (currently AIAI Life Care Corporation) and made it a wholly owned subsidiary. Started management of residential-type, fee-paying homes for the elderly
December 2019	Listing was transferred to the TSE Mothers Market (currently the Growth Market)
April 2020	global bridge Co., Ltd. absorbed Tokyo Life Care Co., Ltd. through a merger, and changed the company name of global bridge Co., Ltd. to global child care Co., Ltd. (currently AIAI Child Care Corporation)

Source: Prepared by FISCO from the Company's website

Business overview

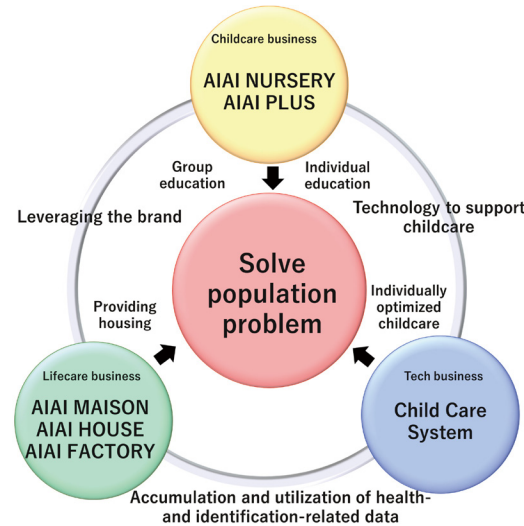
The Company conducts the childcare business, lifecare business, and tech business

1. Business segments

Business segments were reclassified and renamed from FY3/22 (15-month accounting period due to accounting period change) as the childcare business (child development support, authorized nursery schools, etc.), lifecare business (serviced housing for the elderly, etc.) and tech business (sale of in-house developed systems that aim to provide individually optimized childcare, etc.). FY3/22 segment sales were ¥11,322mn (94% of total net sales) for the childcare business, ¥487mn (4%) for the lifecare business, and ¥374mn (3%) for the tech business.

Business overview

Business outline



Source: Reprinted from the "Business plan and growth potential"

Childcare business operates mixed-use facilities and authorized nursery schools

2. Childcare business

In the mainstay childcare business, AIAI Child Care, which is a subsidiary, operates mixed-use facilities for care for children with disabilities (child development support, day services including after-school services, and support through visits to childcare and other facilities) under the brand name AIAI PLUS, authorized nursery schools under the brand name AIAI NURSERY and small-scale childcare facilities under the brand name AIAI MINI. These facilities are primarily located in Tokyo's 23 wards, Chiba Prefecture, and Osaka Prefecture.

AIAI PLUS mixed-use facilities offer child development support to pre-school children (children yet to enter elementary school) with delayed development in the form of guidance on basic actions in daily life, imparting of skills and knowledge, and adaptive training for communal life. These facilities also offer day services including after-school services, and support through visits to childcare and other facilities. 90-minute programs (exercise program, thinking program, etc.) attended at least twice a week nurtures sensory integration to take appropriate actions and supports development. Development specialists offer individual services to meet the diverse needs of child development support. Earnings are derived from welfare service fees for people with disabilities from national health insurance organizations and co-payment service fees from users.

AIAI NURSERY authorized nursery schools are child welfare facilities based on the Child Welfare Act. These schools satisfy the standards established by the national government, such as for the floor area and the number of staff, including nursery school teachers, and are also authorized by the prefectural governor or others. They are managed while receiving facilities-type subsidies (subsidies for nursery school children and nursery school teachers, subsidies for the lease of facilities, etc.) provided by national and local governments. AIAI MINI small-scale childcare facilities are childcare facilities newly established through the support system for children and child raising and are authorized by municipalities. They have a capacity of 19 students or less and are for children ages 0 years to 2 years. The facilities operate while receiving childcare fees from the users and regional-type childcare subsidies from local governments.

Business overview

The trend in the number of facilities in the childcare business (after restatement to reflect the new segment classification) is as follows. At the end of FY3/22, the Company had 91 facilities in total (71 authorized nursery schools, 8 small-scale childcare facilities, and 12 mixed-use facilities). The Company ranks 6th in the industry in terms of the number of authorized nursery schools under management. In an effort to establish an earnings foundation, the Company is pushing ahead with openings of directly managed AIAI NURSERY authorized nursery schools, as well as focusing on openings of AIAI PLUS mixed-use facilities as a new growth driver.

Trend in the number of facilities in the childcare business

(Unit: facilities)

	End-FY12/16	End-FY12/17	End-FY12/18	End-FY12/19	End-FY12/20	End-FY3/23
Authorized nursery schools	13	23	34	48	65	71
Small-scale childcare facilities	7	7	8	8	8	8
Outsourced and non-authorized	4	1	1	-	-	-
Mixed-use facilities	-	-	-	-	-	12
Day services including after-school services	6	7	10	9	7	-
Child development support	3	4	2	2	2	-
Total	33	42	55	67	82	91

Notes 1: Childcare business AIAI NURSERY is made up of authorized nursery schools and small-scale childcare facilities

2: From FY3/22, day services including after-school services and child development support, etc. were unified, and after the change of business structure, are counted as AIAI PLUS mixed-use facilities

Source: Prepared by FISCO from the Company's materials

In terms of the features and strengths of the childcare business, the Company is efficiently opening facilities through a dominance strategy, of specializing in authorized nursery schools for which the barriers to entry are high, and concentrating openings in Tokyo's 23 wards, Chiba Prefecture, and Osaka Prefecture. As a result, it has a dominant market share particularly in Chiba Prefecture, and the conditions in Chiba Prefecture are that is easier for it to obtain information on sites for facilities and for building rentals, and conditions are also advantageous for its recruitment of newly graduated nursery school teachers.

The Company's educational program for nursery school children has unique features and has been highly evaluated. Specifically, its nursery schools do not simply take care of children, they also aim to enhance preschool active learning as "nursery schools to raise children," including that each facility has installed a dedicated learning room and "AINI" large school play equipment (comprehensive athletic equipment that extends the children's athletic abilities) to enrich the children's senses, such as relating to numbers, figures, and characters. At the child development support facilities, the service content was renewed in April 2021 and a new development support program was started as a "program specialist" that supports the children's learning and exercise. The Company's AINI BOX large-scale play equipment, which can be used even during rainy weather, was a winner at the 15th Kids Design Award in August 2021.

The lifecare business conducts business such as serviced housing for the elderly

3. Lifecare business

In the lifecare business, AIAI Life Care, which is a subsidiary, operates AIAI MAISON (serviced housing for the elderly) in Tokyo and AIAI HOUSE (residential-type, fee-paying homes for the elderly) in Osaka Prefecture. The hand-made toy factory AIAI FACTORY (living-support nursing-care facility) operates a facility that provides toy production activities for users requiring living support.

Business overview

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

The lifecare business operated three facilities at the end of FY3/22 (one living support nursing care facility, one serviced housing for the elderly, and one residential-type, fee-paying homes for the elderly). There has been no change in the number of facilities as the Company is currently at the stage of creating the business model for increasing profitability at existing facilities. The Company is promoting the use of ICT such as managing health by introducing sensors to beds.

The tech business is increasing sales of the in-house developed nursery school management support system

4. Tech business

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

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

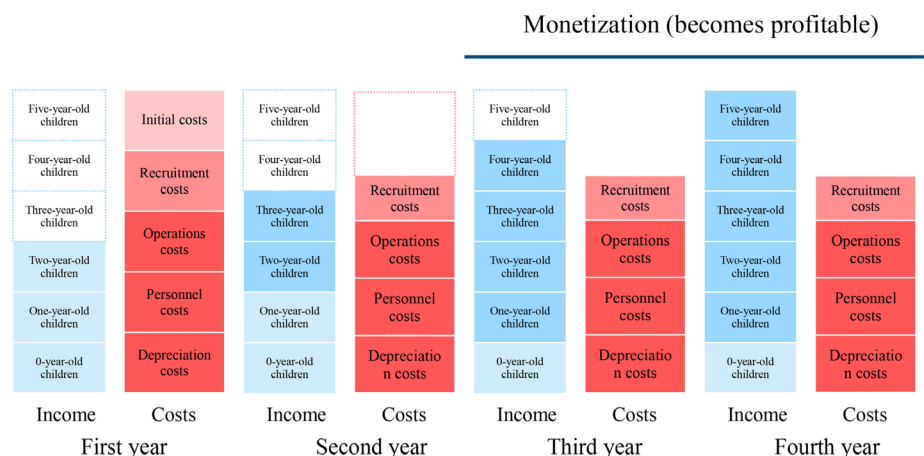
The services provided by the Company's nursery school management support system includes CCS, a comprehensive management support system for work efficiency, CCS SENSOR, a child nap check sensor, and CCS MEMORU, which sells photos and video to guardians, and an app for parent-teacher communication logs that connects nursery schools and guardians. For example, CCS is provided in a subscription format (monthly fee of around ¥20,000) to simplify clerical work and improve the efficiency of the management of childcare facilities. Additionally, the Company released a fever prediction function that analyzes the temperature of children while they are sleeping, in May 2021. In November of that same year, CCS SENSOR and the fever prediction function received awards of excellence in the health management category at the BabyTech® Award Japan 2021.

AIAI NURSERY becomes profitable in the third or fourth year after opening, and AIAI PLUS is aggressively expanding

5. Earnings characteristics

In terms of the earnings characteristics of AIAI NURSERY authorized nursery schools, at the time a new facility is opened, costs are incurred in advance for its opening, including initial costs and recruitment costs. Meanwhile, facilities tend to incur a loss for several years after they are opened due to the low number of students enrolled and the low enrollment rate, as the number of students in the higher-age class (three to five years) are less than the capacity. However, after the passage of a few years from the opening, the number of students enrolled and the enrollment rate improve due to the repeated advance of children in the lower-age class (zero to two years) into the higher-aged class, and net sales and gross profit both increases. In general, it is said that from the third or fourth year after opening, the facility becomes profitable with an increase in the number of students enrolled and the enrollment rate.

Image of the monetization of a nursery school



Source: Reprinted from the "Business plan and growth potential"

Looking at the trends by fiscal quarter, given that authorized nursery schools open on April 1 as a rule, new facilities' opening-related expenses increase in Jan-Mar and Apr-Jun around the time of opening, pushing up the expenses ratio. As the number of enrolled children and the enrollment rate increases in Jul-Sep and Oct-Dec, the expenses ratio tends to fall. The equipment subsidy income from the various local governments is also a factor causing fluctuations in quarterly earnings, such as because of increases or decreases in the income amount and time lags in the recording periods.

Up to now, the Company has been aggressively opening facilities with a view to building an earnings foundation. For this reason, it has continuously recorded operating losses due to strategic upfront investments. Looking ahead, the Company expects the pace of new childcare facilities openings to slow, and profitability to improve at existing facilities, pushing up the percentage of profitable existing facilities, and lifting the overall business into a stable profit orbit. The Company has adopted a policy of recording preparation costs for opening facilities as non-operating expenses from FY3/22 in order to classify profit and loss items more appropriately by clearly and distinctly presenting the actual cost burden. Previously, these costs were recorded as cost of sales.

Business overview

Looking at the earnings characteristics of AIAI PLUS mixed-use facilities, one feature is that they can be operated in the same building as authorized nursery schools, and so require a smaller investment than AIAI NURSERY. The synergies generated by attaching them to AIAI NURSERY authorized nursery schools include the merits of boosting customer appeal and recruiting, and the strategic placement of human resources. Further, while authorized nursery schools open on April 1 as a rule, mixed-use facilities have the flexibility to set their opening dates freely. There were 12 mixed-use facilities at the end of FY3/22. Although the average occupancy rate of all facilities combined falls significantly when a new facility is opened, the occupancy rate at existing facilities is high.

AIAI PLUS business model (income/expenditure model)

Facilities income/expenditure (attached facilities: third year after opening)			Number of personnel on location each day		
	AIAI NURSERY	AIAI PLUS		AIAI NURSERY (Example for 60-person capacity)	AIAI PLUS (Capacity 10 people/day)
(¥mn)					
Net Sales	88	44	Facility manager	1	1
Costs	75	29	Staff	Approx. 13 (breakdown) Nursery school teacher Approx. 10 Kitchen staff Approx. 3	4 (Breakdown) Child development manager 1 Occupational therapist 1 Instructor 2
Gross profit	13	14			
Gross profit margin	15%	30%			

* Based on authorized nursery schools and mixed-use facilities in Chiba Prefecture
 * Income/expenditure model when the number of students reaches the expected level in the third year
 * Fractions rounded to nearest whole unit

Source: Reprinted from AIAI Group Medium-term Business Plan 2022-2024 Briefing Materials

Competitive advantages from a dominance strategy and an ICT strategy

6. Risk factors

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

In the childcare field, there has been an increase in demand for nursery schools due to the rise in the female employment rate and support such as the Japanese government's "New Plan for Raising Children with Peace of Mind" (Shin Kosodate Anshin Plan) and "Plan to Set up a Children's Agency" (Kodomocho Sousetsu Plan). Meanwhile, progress is being made on solving the issue of child waiting lists, and in the future, it is anticipated that competition may intensify and profitability may decline due to a decrease in user numbers. In response to this risk, the Company is maintaining its competitive advantages by advancing a dominance strategy and other elements centered on Chiba Prefecture. Moreover, in the future, the number of children on waiting lists for nursery schools will likely decrease, and the number of children with disabilities will likely increase. In response to these changes in the market environment, the Company has decided to shift from the opening of new AIAI NURSERY authorized nursing schools to the opening of new AIAI PLUS mixed-use facilities.

AIAI Group Corporation
6557 Tokyo Stock Exchange Growth Market

1-Aug.-2022
<https://aiai-group.co.jp/ir/>

Result trends

Operating loss narrowed significantly in FY3/22

1. FY3/22 consolidated results review

FY3/22 consolidated results (15-month results due to accounting period change. In the childcare business, various costs incurred before opening facilities were reclassified from cost of sales to preparation costs for opening facilities under non-operating expenses) were net sales of ¥11,975mn, operating loss of ¥440mn, ordinary profit of ¥461mn, and profit attributable to owners of parent of ¥116mn. Although simple comparisons are not possible due to the change of accounting period, the operating loss narrowed significantly compared to FY12/20 results (12-month results after reclassification of preparation costs for opening facilities, net sales of ¥8,318mn, operating loss of ¥1,266mn, ordinary profit of ¥276mn, and profit attributable to owners of parent of ¥150mn). This was due to factors such as an increase in the number of new childcare facilities opening and profitability at existing facilities, coupled with the optimization of staff placement and improvement in work efficiency. Sales increased as the number of facilities grew, improving operating profitability.

FY3/22 consolidated results review

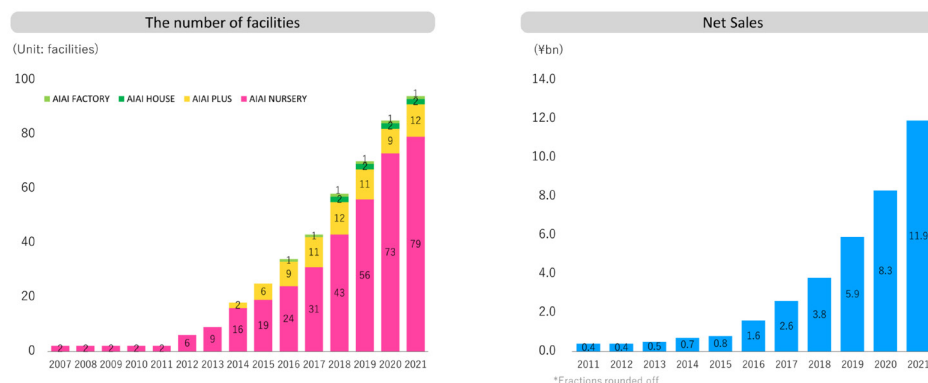
	(¥mn)	
	FY12/20 (12 months)	FY3/22 (15 months)
Net Sales	8,318	11,975
Gross profit	428	1,417
SG&A expenses	1,695	1,857
Operating profit	-1,266	-440
Non-operating income	1,794	1,110
Non-operating expenses	250	209
Ordinary profit	276	461
Profit attributable to owners of parent	150	116

Note: Figures for FY12/20 have been restated to reflect the reclassification of preparation costs for opening facilities

Annual change not provided due to 15-month accounting period in FY3/22 and 12-month accounting period in FY3/23

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

Trend in the number of facilities and net sales



Source: Reprinted from Outline of Results

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Result trends

Gross profit margin was 11.8%, SG&A expenses ratio was 15.5% (FY12/20 gross profit margin was 5.2% and SG&A expenses ratio was 20.4%). The Company recorded subsidy income of ¥1,058mn (¥1,770mn) under non-operating income, and preparation costs for opening facilities of ¥78mn (¥114mn) under non-operating expenses. A decrease in new openings of facilities resulted in lower subsidy income and preparation costs for opening facilities for new facility investments. Extraordinary losses included impairment loss of ¥116mn and loss on sale of investment securities of ¥202mn.

For new facility openings, 11 facilities (6 AIAI NURSERY authorized nursery schools, 5 AIAI PLUS mixed-use facilities) were opened in the childcare business. The total number of facilities within the AIAI Group at the end of FY3/22 was 94 facilities, with 91 facilities in the childcare business (71 AIAI NURSERY authorized nursery schools and 8 small-scale childcare facilities for a total of 79 facilities, and 12 AIAI PLUS mixed-use facilities), and 3 facilities in the lifecare business.

2. Trends by segment

By segment childcare business net sales were ¥11,322mn and segment profit (operating profit before company-wide expenses, etc. adjustment) was ¥186mn. The lifecare business posted net sales of ¥487mn and segment loss of ¥25mn, and the tech business recorded net sales of ¥374mn and operating loss of ¥50mn.

Trends by segment in FY3/22

	(¥mn)	
	FY12/20 (12 months)	FY3/22 (15 months)
Net Sales		
Childcare business	7,832	11,322
Lifecare business	336	487
Tech business	239	374
Other	14	0
Total	8,422	12,184
Adjustment amount	-104	-209
Consolidated net sales	8,318	11,975
Segment profit		
Childcare business	-340	186
Lifecare business	-19	-25
Tech business	-59	-50
Other	-9	0
Total	-429	111
Adjustment amount	-837	-551
Consolidated operating profit	-1,266	-440

Notes 1: new segment from FY3/22

2: Figures for FY12/20 have been restated to reflect the reclassification of segments, changes to common costs distribution method, and reclassification of preparation costs for opening facilities

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

Result trends

The childcare business turned profitable, aided by steady occupancy of existing facilities and new facilities, together with other factors such as a contribution from optimization of staff placement. The spread of COVID-19 caused some temporary enrollment hesitancy in April 2021, but recovered quickly. Eleven new facilities were opened (three AIAI NURSERY authorized nursery schools in Chiba Prefecture, two in Tokyo and one in Osaka Prefecture, and four AIAI PLUS mixed-use facilities in Chiba Prefecture and one in Tokyo). Total enrolled nursery school children numbered 4,077 at the end of March 2022, and the total occupancy rate stood at 91% (101% of children less than one year old, and 103% of one-year old children). In the lifecare business, occupancy of existing facilities was steady. In the tech business, upfront investments were undertaken, with resources intensively allocated to the replacement of existing systems, and the building of a new sales structure.

3. Financial condition

Looking at the Company's financial condition, total assets at the end of FY3/22 increased ¥1,568mn from the end of FY12/20 to ¥12,066mn. Cash and deposits rose ¥123mn due to borrowings for capital investment. Accounts receivable increased ¥307mn due to the increase in net sales, while property, plant and equipment grew ¥1,046mn due to new openings of facilities. Total liabilities increased ¥1,410mn to ¥10,476mn. While short-term borrowings decreased ¥193mn, long-term borrowings increased ¥1,417mn in connection with new openings of facilities. Total net assets increased ¥158mn to ¥1,590mn. Although share capital was decreased due to a transfer to capital surplus, capital surplus increased due to issuance of share with restriction on transfer and proceeds from issuance of shares resulting from exercise of share acquisition rights, and retained earnings increased through the recording of profit attributable to owners of parent. This resulted in the equity ratio declining 0.3pp to 12.9%.

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

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Result trends

Main financial indicators

	(¥mn)		
Item	FY12/19	FY12/20	FY3/22 (15 months)
Net Sales	5,915	8,318	11,975
Cost of sales	5,480	7,889	10,557
Gross profit	434	428	1,417
Gross profit margin (%)	7.4	5.2	11.8
SG&A expenses	1,322	1,695	1,857
SG&A expenses ratio (%)	22.4	20.4	15.5
Operating profit	-887	-1,266	-440
Operating profit margin (%)	-	-	-
Non-operating income	1,016	1,794	1,110
Non-operating expenses	123	250	209
Ordinary profit	5	276	461
Ordinary profit margin (%)	0.1	3.3	3.9
Extraordinary income	-	4	0
Extraordinary losses	4	1	329
Profit before income taxes	0	279	132
Total income taxes	32	129	16
Profit attributable to owners of parent	-31	150	116
Net profit margin (%)	-	1.8	1.0
Comprehensive income	-39	149	118
Total assets	7,777	10,498	12,066
Current assets	1,821	2,183	2,996
Non-current assets	5,945	8,308	9,067
Total liabilities	6,815	9,066	10,476
Current liabilities	1,663	2,192	2,015
Non-current liabilities	5,152	6,873	8,460
Total net assets	961	1,431	1,590
Shareholders' equity	913	1,397	1,564
Share capital	176	329	45
Total number of issued shares at the end of the period excluding treasury shares	2,470,300	2,661,335	2,737,080
Earnings per share (EPS) (¥)	-13.39	57.51	42.98
Net assets per share (¥)	366.82	521.84	569.17
Dividend per share (¥)	0.00	0.00	0.00
Equity ratio (%)	11.7	13.2	12.9
Return on Equity (%)	-	10.9	7.9
Cash flow from operating activities	287	385	595
Cash flow from investing activities	-1,905	-2,924	-1,711
Cash flow from financing activities	1,350	2,206	1,247
Cash and cash equivalents at end of period	1,159	817	948

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

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■ Outlook

Forecasts operating profit to turn positive in FY3/23

● Summary of the FY3/23 consolidated results forecasts

For FY3/23 consolidated results (a 12-month accounting period), the Company projects net sales of ¥10,600mn, operating profit of ¥100mn, ordinary profit of ¥200mn, and profit attributable to owners of parent of ¥120mn. Although simple comparisons with FY3/22 results (net sales of ¥11,975mn, operating loss of ¥440mn, ordinary profit of ¥461mn, and profit attributable to owners of parent of ¥116mn) are not possible because FY3/22 was a 15-month accounting period, it is expected that the childcare business's AIAI NURSERY authorized nursery schools will firmly establish a structure to achieve profitability and secure stable profits through factors such as increased profitability at existing facilities and optimization of staff placement, which will absorb upfront investment and push the Company into an operating profit orbit. Meanwhile, the Company is working proactively to open new AIAI PLUS mixed-use facilities in childcare business.

In non-operating income, the Company expects subsidy income to fall in line with a decrease in new openings of facilities. On April 1 and May 1, the childcare business opened a total of ten new facilities (three AIAI NURSERY authorized nursery schools in Tokyo, two in Chiba Prefecture, and 5 AIAI PLUS mixed-use facilities in Chiba Prefecture).

Summary of the FY3/23 consolidated results forecasts

	(¥mn)	
	FY3/22 (15 months)	FY3/23 (12 months) E
Net Sales	11,975	10,600
Childcare business	11,322	9,900
AIAI NURSERY	-	9,300
AIAI PLUS	-	600
Lifecare business	487	400
Tech business	374	300
Operating profit	-440	100
Childcare business	186	300
AIAI NURSERY	-	300
AIAI PLUS	-	0
Lifecare business	-25	0
Tech business	-50	-200
Ordinary profit	461	200
Profit attributable to owners of parent	116	120

Note: Annual change not provided due to 15-month accounting period in FY3/22 and 12-month accounting period in FY3/23

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

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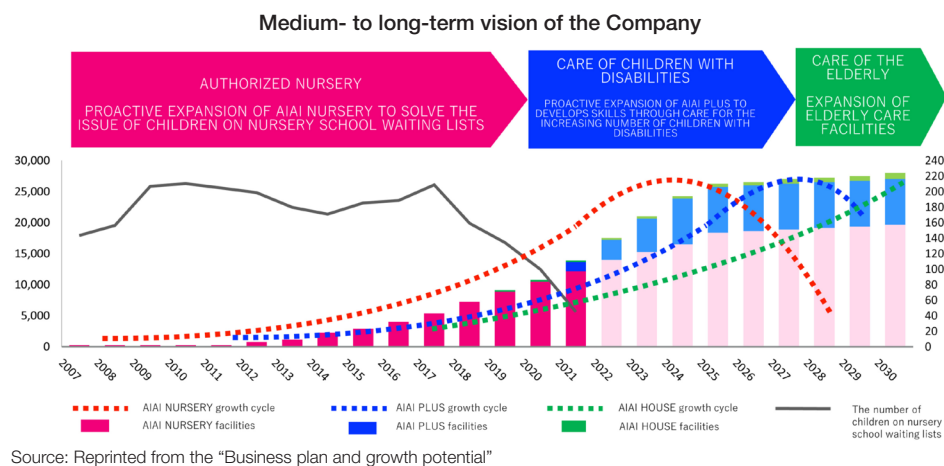
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Growth strategy

Seeks to develop a business that provides a comprehensive solution to Japan's population problem

1. Formulates medium-term business plan

The Company's medium- to long-term vision is to support children's development through appropriate care for the increasing number of children with disabilities as the issue of children on waiting lists for nursery schools is being resolved. At the same time, it will establish a business foundation for an aging society that is set to peak in the 2030s, and develop business that will comprehensively solve Japan's population problem.



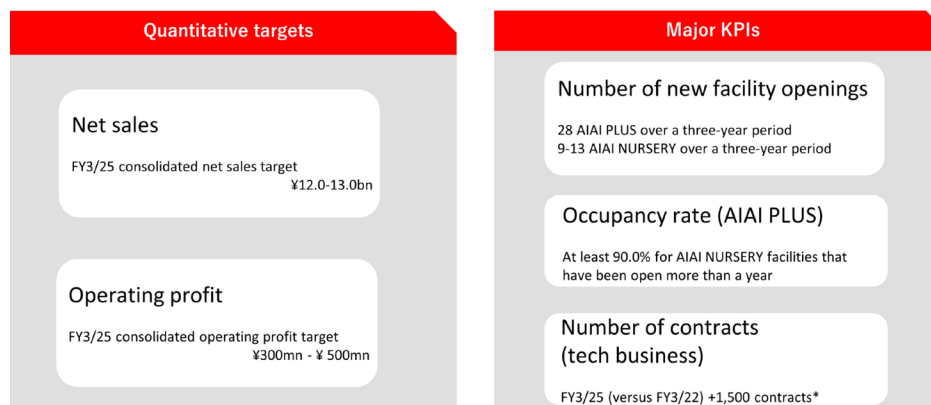
The Group formulated its AIAI Group Medium-term Business Plan 2022-2024 in May 2022. Numerical targets include net sales of roughly ¥12.0-¥13.0bn, and operating profit of roughly ¥0.3-¥0.5bn in FY3/25. Major KPI targets include the opening of 28 new AIAI PLUS mixed-use facilities for children with disabilities, and 9-13 AIAI NURSERY authorized nursery schools during the three-year plan term in new facility openings. The Company also aims to attain an occupancy rate of at least 90% for AIAI PLUS that have been open more than a year. In response to changes in the market environment in which the number of children with disabilities is increasing while the number of children on waiting lists is trending toward a decrease, the Company has decided to pursue a policy of maintaining a stable earnings foundation at AIAI NURSERY while gradually shifting focus to the development of AIAI PLUS, a growth area. The tech business will target 1,500 more new contracts than in FY3/22.

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Growth strategy

Quantitative targets, major KPIs



*The numerical contract target was changed as a result of the targets set in the previously announced "Business plan and growth potential," as well as the Company stating in its current medium-term business plan that it expected average revenue per account (ARPA) to improve.

Source: Reprinted from the "Business plan and growth potential"

As for its basic strategy by business, AIAI PLUS will aim to provide appropriate care to develop skills for the increasing number of children with disabilities. AIAI NURSERY will collaborate with AIAI PLUS in an aim for inclusive childcare and enhance its early childhood education program. The tech business will provide individually optimized childcare through tech products, while AIAI MAISON/AIAI HOUSE will seek to develop a foundation for the full-fledged development of nursing care for the 2030s.

The Company's action plan for AIAI PLUS consists of leveraging the property development know-how of AIAI NURSERY to aggressively open new facilities in regions where a return on investment is expected. Through a dominance strategy of opening new facilities in the same or a nearby municipality as an AIAI NURSERY, the Company hopes to generate business synergies in boosting customer appeal with AIAI NURSERY, the strategic human resource placement of people with certifications, and in recruitment. It also aims to achieve a high occupancy rate at an early stage after opening.

The action plan for AIAI NURSERY is to maintain two to four new nursery school openings every year in areas where a high return on investment is expected, and sustain a stable earnings foundation. With the number of children on nursery school waiting lists falling, AIAI NURSERY will pursue a differentiation strategy to maintain a high occupancy rate by enhancing its early childhood education program and developing talented human resources. It also plans to reduce the turnover rate of nursery school teachers by offering a diverse career path.

For the tech business, the action plan is to maintain upfront investments for the time being and achieve profitability between FY3/25-FY3/26 through increasing contract numbers and ARPA. The business will also collaborate with other companies to generate new value. In Jan-Mar 2022, it conducted joint research with Unicharm Corporation in relation to ensuring an excellent sleeping environment and appropriate care using CCS and child nap check sensor CCS SENSOR.

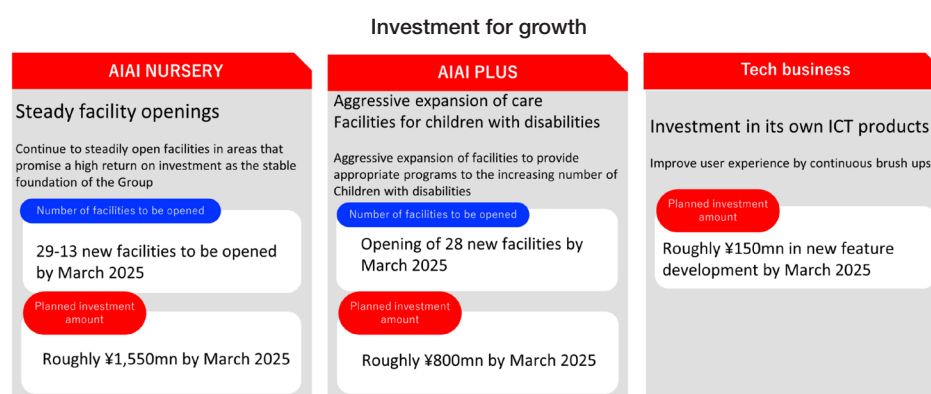
In the lifecare business (AIAI MAISON/AIAI HOUSE), with a focus on the nursing care population ratio peaking in the 2030s, the action plan is to move ahead with developing a service/business model for the full-scale development of nursing care business from 2026 onwards. It also aims to achieve high profitability through the provision of value-added services.

Growth strategy

The Company's financial and capital strategy involves it securitizing its assets (reviewing possible securitization of fixed assets and its holding of marketable securities) and the examination of diverse financing including from the stock market to improve its equity. Its human resources strategy is to promote an environment that all facilities and office employees find easy to work in (such as promotion of health management and realization of diverse work styles based on lifestyles), and develop a system for training talented human resources (career support for nursery school teachers through a license system and Master of Education training, and management support from the flagship facility manager to general facility managers through the flagship facility system). The Company was recognized as a 2022 Certified Health & Productivity Management Outstanding Organization by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi in April 2022.

2. Three-year investment plan totaling ¥2,500mn

With a view to achieving sustainable future growth and expanding its business scale, the Company expects to invest a total of around ¥2,500mn over the three years of the medium-term business plan. Breaking this down, roughly ¥1,550mn will be invested in the steady opening of AIAI NURSERY (9-13 new facilities to be opened by March 2025) by March 2025, and roughly ¥800mn will be invested in the aggressive expansion of AIAI PLUS (opening of 28 new facilities by March 2025) by March 2025. In the tech business, the Company plans to invest roughly ¥150mn in its own ICT products for new feature development by FY3/25.



Source: Reprinted from the "Business plan and growth potential"

AIAI NURSERY to shift to stable earnings foundation stage and accelerate growth

3. AIAI PLUS facility openings

The Company's acceleration in opening new AIAI NURSERY authorized nursery schools to create an earnings foundation had resulted in successive operating losses from upfront investment, but the percentage of existing facilities opened three to four years ago is now higher, turning AIAI NURSERY authorized nursery schools into profit. The Company's policy is to promote a gradual shift to AIAI PLUS, care for children with disabilities, to meet a changing business environment. We at FISCO believe that AIAI NURSERY authorized nursery schools' transition to a stable earnings foundation stage can be expected to accelerate growth.

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Shareholder return policy

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

The Company considers returning profits to shareholders to be one of its most important management policies. But it is currently in a growth phase and it considers that actively conducting capital investment and strengthening the financial foundation toward business growth will lead to returns to shareholders being maximized in the future. Therefore, it has not yet paid a dividend since its foundation, and it seems that it will continue this policy for the time being. The Company's policy is to consider returning profits to shareholders in the future, while considering the business results and financial condition in each fiscal year. But at the current time, it has not decided on the possibility or the timing of dividend payments.

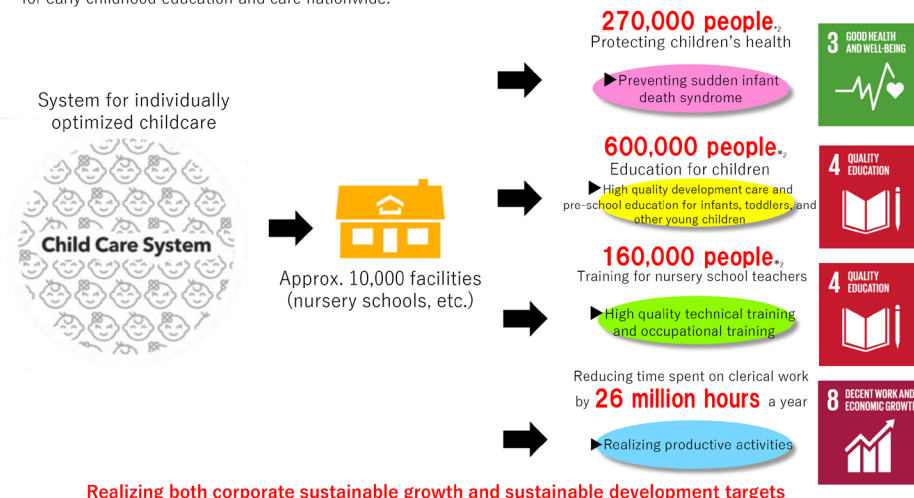
Initiatives for ESG management and SDGs

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

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

Bold reforms in which not a single person is left behind

Example: If the Child Care System is installed at around 20%*1 of nursery schools, kindergartens, and certified centers for early childhood education and care nationwide:



*1 no. of nationwide nursery schools, kindergartens, and certified centers for early childhood education and care: approx. 56,000 facilities)
*2 When assuming a facility with 16 childcare providers, 27 students aged under 1 to 2 years, and a capacity for 60 students.

Source: Reprinted from the Company's results briefing materials

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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp