BRIDGE REPORT　　　　　　　　　　　　　　　　　　　Bridge Salon

President Takahiko Yunokawa	SuRaLa Net Co., Ltd. (3998)

Company Information

Market	TSE Growth Market
Industry	Information and communication
President	Takahiko Yunokawa
HQ Address	7F, PMO Uchikanda, 1-14-10, Uchikanda, Chiyoda-ku,Tokyo
Year-end	December
Homepage	https://surala.jp/en/

Stock Information

Share Price	Shares Outstanding (Term-end)	Total Market Cap	ROE Act.	Trading Unit
¥715	6,694,764 shares	¥4,786 million	17.5%	100 shares
DPS Est.	Dividend Yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
0.00	-	¥39.83	18.0x	¥303.29	2.4x

* Share price as of closing on April 6. All figures are taken from the financial statements for FY 12/22

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
December 2019 Act.	1,141	64	65	43	6.94	0.00
December 2020 Act.	1,649	540	548	379	59.67	0.00
December 2021 Act.	1,952	521	552	399	60.09	0.00
December 2022 Act.	2,147	475	501	355	53.10	0.00
December 2023 Est.	2,322	391	392	266	39.83	0.00

* Estimates are those of the company. Unit: million yen, yen. The company adopted consolidated accounting from FY 12/22

This report includes the corporate profile and business performance trend of SuRaLa Net Co., Ltd., the interview with President Yunokawa, etc.

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Key Points

- Under the corporate ethos: "Bringing transformation to education and empowerment to children," SuRaLa Net supplies "Surala" and "Surala Drill," which are adaptive teaching tools based on AI and information & communication technology (ICT), to over 300,000 pupils and students of schools, cram schools, etc. The company also gives learning opportunities to children with developmental disabilities, truant children, and underprivileged pupils and students. The company is pursuing growth by entering overseas markets, too, and solving more educational issues.

- "Surala" is an adaptive e-learning tool that helps pupils and students learn 5 major subjects (the Japanese language, arithmetic/mathematics, the English language, science, and social studies) from elementary to high school together with animated characters serving as their teachers according to the comprehension level of each child. With its unique systematic curricula, "Surala" aims to facilitate the "understanding of the fundamentals" and the "acquisition of basic academic skills."

- SuRaLa Net has established an unrivaled unique position with "Surala," an advanced digital teaching tool, targeted at a broad range of children with a deviation value of 30-60. In addition to the development and provision of "Surala," the company possesses consultation skills to propose solutions to the problems with the management and affairs of cram and ordinary schools and support them in adopting the solutions. This is their primary characteristic that cannot be imitated by competitors. The company's competitiveness is derived also from the adoption of cutting-edge technologies, including the installation of AI functions of leading-edge enterprises, the utilization of big data on learning activities, and so on.

- In the term ending December 2023, sales are projected to grow 8.1% from the previous term to 2,322 million yen and operating income is forecast to drop 17.7% from the previous term to 391 million yen. The sales of the e-learning business are expected to increase 7.1% from the previous term to 2,212 million yen. It is forecast that the sales from schools and BtoC business will rise, but the sales from cram schools will decline. Although sales are expected to grow, profit is projected to decrease, due to investments in development, personnel for development, recruitment of support staff, etc. as well as the augmentation of operation and maintenance costs in the wake of release of new functions.

- In the cram school market, which is becoming mature, the company will make efforts to expand its markets aggressively in several fields, based on its "AI," "adaptive tools," and "online systems." As schools are faced with difficulty in utilizing the equipment and software they have installed, the company will give proposals and strengthen its support system. By taking advantage of the GIGA School Scheme targeting high schools, the company will try to find new client public high schools and create a new pillar of revenue. In the BtoC market, the company will strengthen its unique position of offering the only service that allows even children with developmental or learning disabilities and truant children to understand each subject in a systematic manner, with the aim of solving social issues and growing the company. In developing and emerging countries, where there are significant problems with academic skills, the company will promote the adoption of ICT in education and aim to grow in the medium/long term.

● We interviewed President Yunokawa about competitive advantages, future growth strategies, his message toward shareholders and investors, etc. He mentioned, "Our company's existence in society becomes meaningful, when we support children with learning disabilities, truant children, and children with low academic skills and solve the social issue of educational inequality, and such activities will lead to the improvement in our corporate value. It has been nearly 20 years since our company was established, but we will keep endeavoring to do something new without losing our venture spirit, so we would appreciate your support from the medium/long-term viewpoint."

● So that SuRaLa Net will remain full of the venture spirit, President Yunokawa makes efforts to develop an environment in which employees can express their opinions without considering their superior-inferior relationships while sharing a common mindset in a flat organization. In addition, he encourages employees to ponder by themselves and give proposals without sticking to previous cases, and have discussions thoroughly to make decisions.

● The originality and advantage of the company are derived from the concept of "even without studying in school, students can understand each subject from scratch." However, in order to keep its pioneering position amid the intensifying competition, the company needs to continue development with unique ideas competitors do not have. We would like to pay attention to the release and progress of new functions and services, as well as the variations in the number of schools that have adopted its services and the number of IDs, which are KPIs.

1. Company Overview

Under the corporate ethos: "Bringing transformation to education and empowerment to children," SuRaLa Net supplies "Surala" and "Surala Drill," which are adaptive teaching tools based on AI and information & communication technology (ICT), to over 300,000 pupils and students of about 2,500 schools, cram schools, etc. While these tools are increasingly used in public schools, famous private middle and high schools, and leading cram schools around Japan, the company gives learning opportunities to children with developmental disabilities, truant children, and underprivileged pupils and students. The company is pursuing growth by entering overseas markets, too, and solving more educational issues.

Trend of sales and operating income (unit: million yen)
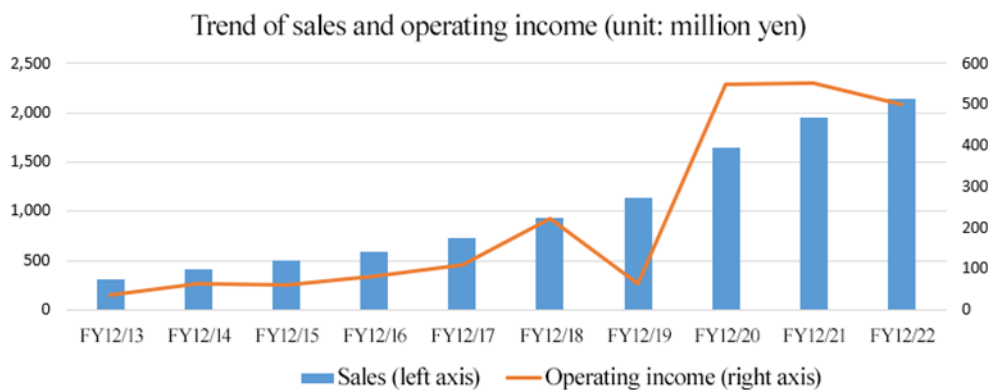
*This figure is created by Investment Bridge Co., Ltd. based on disclosed materials.

【1-1 History】
When Mr. Takahiko Yunokawa (the current representative director and president of SuRaLa Net Co., Ltd.) was supporting the franchise business and direct management of tutoring schools in CatchOn Co., Ltd., which is a group company of C&I Holdings Co., Ltd. (the former Venture Link Co., Ltd.) in 2004, he was struggling to improve the academic skills of low-performing students although the marketing for attracting students progressed well. In 2005, the company started developing ideal e-learning tools.
During the development, he noticed that there were no effective solutions to improve the academic skills of low-performing students in the world, and started business operation on a full-scale basis, while believing that it is socially meaningful to improve the academic skills of such students and the market is a blue ocean where large companies had not yet started business.
In 2007, the "Surala" for junior high school students was released, targeting the cram and ordinary school markets. In 2008, SuRaLa Net Co., Ltd. was established mainly for the purposes of offering educational services with e-learning systems, supporting the operation of e-learning systems, marketing, promotion, and managing websites.

In the same year, the "Surala" for high school students was released, and in 2010, the number of students using "Surala" exceeded 10,000. In the same year 2010, SuRaLa Net Co., Ltd. took over the e-learning business "Surala" for cram and ordinary schools throughout Japan from C&I Holdings Co., Ltd. through an absorption-type split contract, and all shares of SuRaLa Net Co., Ltd. were transferred from FC Education Co., Ltd., which is a subsidiary of C&I Holdings Co., Ltd., to Mr. Takahiko Yunokawa, as a management buyout (MBO). Then, the company released "Surala" for entrepreneurs and home-learners (2011 and 2012), and obtained a patent with the "adaptive learning" function in 2013.

The company brushed up "Surala," increased sales, and expanded its business domains, including the support for the opening and independence of cram schools. These activities accelerated its growth, raising sales and profit steadily. In 2017, the company got listed on Mothers of TSE. In 2022, it was listed on the Growth Market of TSE through stock market structuring.

[1-2 Corporate Philosophy]
Under the corporate ethos of "Bringing transformation to education and empowerment to children," the company aims to offer optimal "educational opportunities" to all kinds of children without being swayed by the environment.
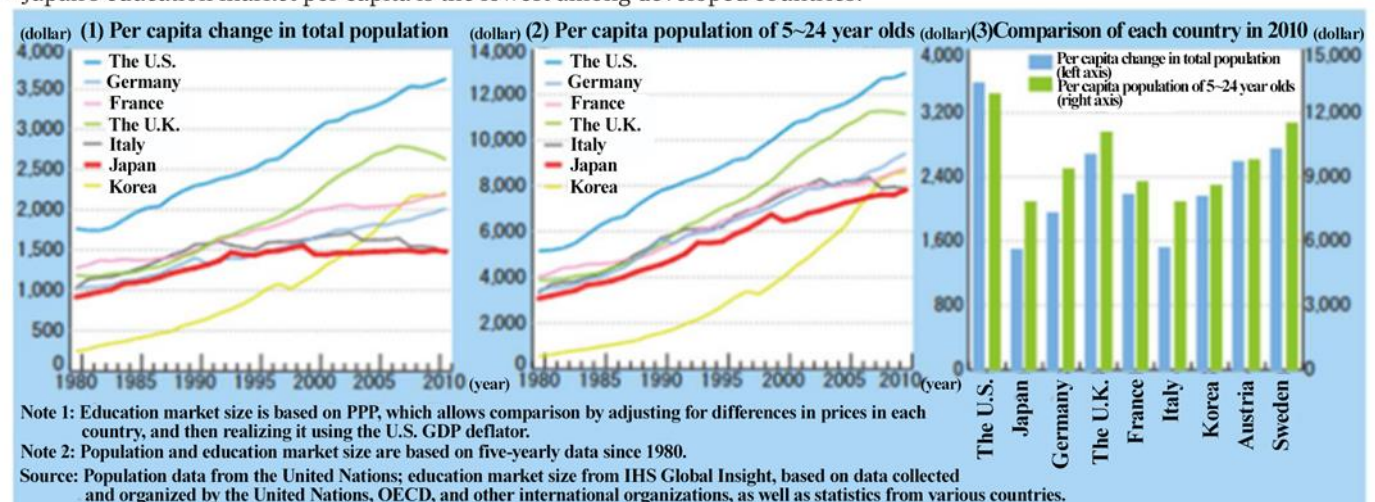
The mission and strategy of "SuRaLa Net" are to solve the global social problem of educational inequality for children suffering from poverty and disabilities and low-performing students with cutting-edge technologies and then eliminate the educational inequality.

[1-3 Market Environment]
According to the reference material of the Ministry of Economy, Trade and Industry (Jan. 2018), "the scale of the Japanese educational industry in the private sector is around 2.5 trillion yen per year. As a whole, the market is shrinking due to the decline in birthrate." "The difference in growth rate of the educational market between Japan and other advanced countries is increasing." "In many advanced countries, the growth rate of the scale of the educational industry exceeds that of GDP. In particular, those in the U.S. and South Korea are about two times the GDP growth rate." "Meanwhile, the educational market scale per capita is the lowest among advanced countries, and the market growth rate per capita is lower than that of GDP in Japan, and this gap is expanding."

Comparison of education market per capita with developed countries (2011)
· In many developed countries, the growth rate of the education industry's market size has outpaced the growth rate of GDP.
· The growth rate of the education market per capita in Japan is lower than the GDP growth rate, and the gap is widening.
· In particular, the growth rate of the U.S. and South Korea's market sizes are about twice as high as the GDP growth rates.
· Japan's education market per capita is the lowest among developed countries.

Note 1: Education market size is based on PPP, which allows comparison by adjusting for differences in prices in each country, and then realizing it using the U.S. GDP deflator.
Note 2: Population and education market size are based on five-yearly data since 1980.
Source: Population data from the United Nations; education market size from IHS Global Insight, based on data collected and organized by the United Nations, OECD, and other international organizations, as well as statistics from various countries.

(Source) Mitsui & Co. Global Strategic Studies Institute "An overview of the global education industry"

(Taken from the reference material of the Ministry of Economy, Trade and Industry)

That reference material also mentions the growth potential of EdTech (Education × Technology), which is a business field aimed at innovating conventional educational scenes with technology, and introduces pioneering cases in Japan.

The company enumerated the following three concrete points to revise educational guidelines, etc., with the aim of "realizing educational curricula open to society" so that students can share the goal of creating a better society through better school education and acquire necessary qualities and skills for leading the future, while recognizing the problems with education in Japan that need to be dealt with for enhancing competitiveness and cooperating with society.

*What students will become able to do: To nurture necessary qualities and skills for the new age and enrich learning assessment
*What students will learn: To establish new subjects, courses, etc. for acquiring necessary qualities and skills for the new age, and revise goals and contents
*How students will learn: To improve learning processes from the viewpoint of "active learning" (proactive, interactive, profound learning).

Recognizing this status quo, the Ministry of Education, Culture, Sports, Science and Technology issued the new educational guidelines for "elementary schools" in 2020, those for "junior high schools" in 2021, and those for "high schools" in 2022.
In accordance with the "GIGA School Scheme," a five-year plan for adopting ICT in education, terminals and WiFi were installed in elementary and junior high schools throughout Japan by the end of fiscal 2020, and are scheduled to be installed in high schools throughout Japan by the end of fiscal 2022.
Furthermore, the Ministry of Economy, Trade and Industry partially subsidizes the costs for adopting EdTech tools for "EdTech providers," so that schools can try ICT-based educational services through the "subsidy for installing EdTech," and they are conducting a demonstration experiment of a "Future Classroom" in which students design their learning processes by themselves.

Like this, Japan hopes to reform and grow its educational environment and market by proactively adopting ICT.
In particular, it is expected that ICT will fulfill a significant role in the above-mentioned item **"How students will learn: To improve learning processes from the viewpoint of active learning (proactive, interactive, profound learning),"** and it is forecast that the Japanese EdTech market will keep growing amid the declining birthrate.

(Taken from the reference material of the company)

[1-4 Business Description]

(1)　Outline

The company's business segments are the e-learning business, the commissioned development business, and the app development business.

In the e-learning business, the company offers services, including the online learning tools "Surala" and "Surala Drill," etc. to mainly elementary school pupils and middle and high school students. In addition, the company gives proposals for educational curricula utilizing its services to clients adopting the services, supports the clients in starting business, and regularly holds charge-free study sessions, to support business administration, and also provides contents in collaboration with other companies.

In the commissioned development business, the company undertakes the entrusted development of educational contents and offers maintenance services.

In the app development business, the company develops learning contents based on gamification by itself, and provides intellectual training apps, which can be downloaded from Apple Store, etc.

*The e-learning business accounts for over 90% of total sales and profit, while the commissioned development and app development businesses make up only small percentages, so they are not significant as information to be disclosed. Accordingly, the company omits the results of each segment in disclosed material, etc.

(2)　e-learning business

①　AI × adaptive learning tool "Surala"

The following section describes the outline, strengths, and features of the AI × adaptive learning* tool "Surala," which is the mainstay of the e-learning business.

*Adaptive learning

This is a method of providing individuals with optimal learning contents for more efficient learning. It enables meticulous teaching and guidance, and leads to the enrichment of learning activities based on the comprehension level, interest, etc. of each learner.

◎　Outline

The AI × adaptive learning* tool "Surala" is an adaptive e-learning tool that helps pupils and students learn 5 major subjects (the Japanese language, arithmetic/mathematics, the English language, science, and social studies) from elementary to high school together with animated characters serving as their teachers according to the comprehension level of each child. With its unique systematic curricula, "Surala" aims to facilitate the "understanding of the fundamentals" and the "acquisition of basic academic skills."

(Taken from the reference material of the company)

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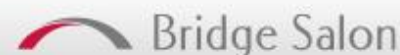
"Surala" is composed of the following five functions, which are reflected in its features and merits as an adaptive learning tool.

01	Understandable!	Lectures with interactive animation understandable to even novice learners *Unique systematic learning system designed without considering academic years while assigning top priority to understandability so that any subject can be understood by novice learners. *Lectures with animation and famous voice actors stir the interest of learners. *As teachers give questions in the form of a quiz, students can concentrate without becoming bored. *Students can play, pause, rewind, and fast-forward lecture videos freely, so they can learn according to their respective comprehension levels. *Each unit is finished in about 15 minutes, so students can learn in small steps without cramming contents into their heads too much. *During exercises in arithmetic/mathematics, it is possible to immediately check whether equations used for solving a problem are correct by intermediate formula judgement system.
02	Attainable!	The patented AI-based exercise program that automatically returns to subjects at which students are not good, enabling the students to relearn them *The difficulty level control function automatically adjusts the difficulty level of questions according to the comprehension level of each student. *The patented mistake analysis function automatically clarifies subjects at which respective students are not good, and returns to once-completed units for relearning.
03	Motivating!	Gamification function for motivating students *Achieve Egg function According to the learning status of each student, it suggests units the student should learn and assigns missions to learn to an appropriate degree, and gives points according the mission achievement level. *My Page function By using the points obtained through the Achieve Egg function, students can conduct some activities, such as the setting of an avatar, the selection of partners, the development of partners, the change of clothes, and the exchange among students via avatars.
04	Usable!	Academic achievement tests for immediately checking how much each student has learned *Automatic production of questions for tests, automatic scoring, and prior review registration With just one click, students can access lectures and exercises that are considered necessary from test results. *With the test function, it is possible to give questions for overcoming the weaknesses of each student.
05	Track-keeping!	Learning management function for supporting each student *Setting of learning goals It suggests the period and range of learning, and each student selects the range of learning from the textbook schedule. *Learning progress management It manages the learning status of each student in a unified manner, and examines the questions students could not solve and how they made a mistake. *Communication function It can receive questions from pupils and students, and send encouraging messages to respective pupils and students. *Real-time monitor It grasps the learning statuses of pupils and students on a real-time basis. *Administrative window for guardians Guardians, too, can check the learning statuses of their respective children.

With the lecture, exercise, and test functions, the cycle of "comprehension → memorization → utilization" is repeated according to the proficiency of each student, so that students can master learning contents on one-stop basis.

As even novice learners can proceed with learning by themselves, the system is increasingly utilized in elementary, middle, and high schools, cram schools, afterschool day-care centers, etc.

Based on "Surala," the company also offers "Surala Drill," "Pitadori," and "Surala Ninja!"

"Surala Drill" "Pitadori"	They are composed of adaptive drills and tests with the functions to automatically produce questions and score students' performance. As the twin versions of "Surala," the company offers "Surala Drill" to mainly public elementary and junior high schools, and "Pitadori" to leading cram schools.
Surala Ninja!	It was developed as the overseas version of "Surala" for elementary school pupils. It is an e-learning tool that allows pupils to enjoyably learn arithmetic, mainly the four basic arithmetic operations (addition, subtraction, multiplication, and division), through interactive animation. It is used at schools and other institutions in Sri Lanka, Indonesia, Egypt, and the Philippines.

◎ **Strengths and features**

As SuRaLa Net pioneered in utilizing ICT for teaching materials in this industry, "Surala" has many strengths and features. In particular, it has the adaptive learning function, and have a significant lead over competitors' products as a teaching tool that can optimize contents according to each learner's status.

☑ Lectures that anyone can understand from scratch, in pursuit of fundamental understanding

☑ Adaptive learning in 5 subjects

☑ Unparalleled number of questions (3,413 units, over 200,000 questions)

☑ Patented "adaptive learning" functionality allows students to go back to past units

☑ Various types of question types based on big data analysis

☑ Efficient review with a test function that allows students to grade their own questions

☑ Teacher management screen to support students' learning by showing their learning status at a glance

☑ Messages, progress management, and a page for parents to promote learning

(Taken from the reference material of the company)

② **Business model**

◎ **Clients/users of the company's products**

"Surala" are supplied to mainly cram schools, ordinary schools, and consumers (BtoC) (individual learners).

Users	Outline
Cram School	The company offers services in various ways according to the scale, style, etc. of each cram school. <Entrepreneurs> The company provides clients who aim to open cram schools with "support for procurement of real estate and funds, interior finishing, and promotion of enrollment," "successful cases and the know-how to operate cram schools through regular charge-free study sessions," "charge-free promotional flyers," proposals for cram school management, including the opening of a cram school and the promotion of enrollment, and also supports the entry to the educational business market from other industries. <Local medium-sized cram schools> The company offers plans for transforming the existing business models and proposals for new cram schools. <Afterschool day-care centers>

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	The company offers learning opportunities to welfare facilities for children with developmental disabilities. <Support for the entry to the educational business market from other industries > The company supports house builders and others in non-educational fields in entering the educational industry.
School (corporate clients and municipalities)	The company proposes solutions utilizing "Surala" and "Surala Drill" to the challenges of improving academic skills and attracting students and goals of improving academic scores, etc. The company also supports school management by proposing educational curricula used in "Surala" and offering successful cases and know-how, and educates and enlightens teachers about ICT.
BtoC	The company provides students learning at home with "Surala." Learners include truant students and children with developmental and learning disabilities. As many of their families are deeply worried about such children, the company aims to give comprehensive support to their guardians, and offers coaching for guardians via "Surala Coach," training for guardians, and mental and educational assessment services. In addition, the company gives comprehensive support to distressed families, to solve their trouble by holding seminars and giving advice for utilizing the system in which truant students can be deemed to have attended classes by using ICT-based teaching materials.

The company is also operating overseas business. At present, the company offers "Surala Ninja!," the overseas version of "Surala," to elementary schools in Indonesia, Sri Lanka, and Egypt.

◎ **Revenues**
The company collects service usage fees from schools, cram schools, and individual learners.
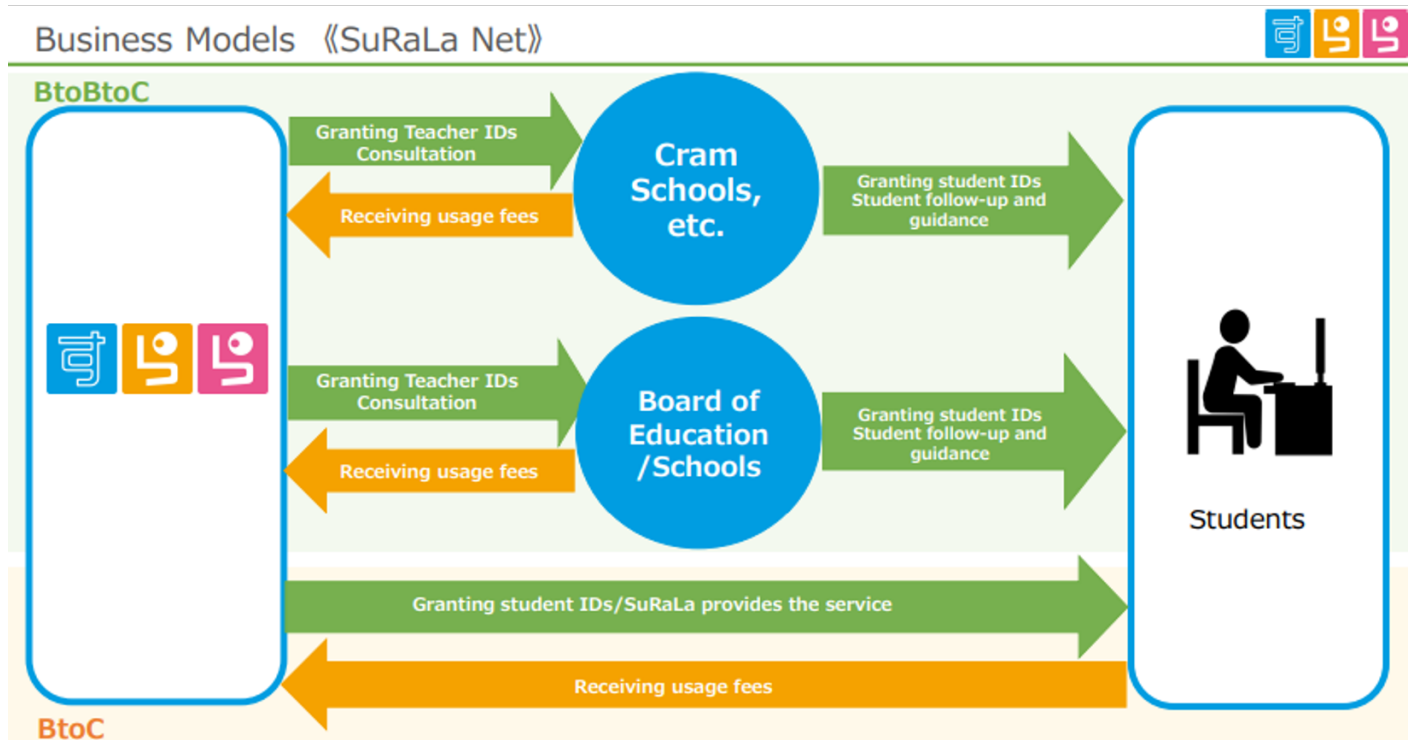
(Taken from the reference material of the company)

*Business model targeted at cram and ordinary schools (BtoBtoC)
The company issues administrative IDs (teachers' IDs) for using "Surala" at schools that have adopted it, and students' IDs for students of the schools. Students use "Surala" via their schools.

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The schools give follow-up lectures to students by using the functions of "Surala," which curtails personnel expenses and management costs.

<Cram School>
The company earns revenues mainly from a monthly "serve usage fee" charged for each building of schools using this service and a monthly "ID usage fee" charged for each student's ID registered in the Surala system.

<School>
The company earns revenues mainly from the "initial installation fee" at the time of conclusion of a contract and a monthly "ID usage fee" charged for each student's ID registered in the Surala system.

*(BtoC) business model targeted at individual learners
The company issues students' IDs for "Surala" to individual learners. The teachers of cram schools that have adopted "Surala" (Surala coaches), which have cooperative relationships with the company, "set monthly goals" for learning and conduct "follow-up activities, such as the check of progress by contacting students by telephone or email about once a week," for students who have IDs.
The company earns revenues mainly from a monthly "ID usage fee" charged for each student's ID. In addition, the company pays the remuneration for follow-up lectures to school teachers so that the revenues of cram schools will grow in parallel with the increase of end users. Like this, the company has established a business model based on win-win relationships with schools.

The number of clients, the number of IDs, and the sales composition in the term ended Dec. 2022 are as follows. The company considers that the ratio of sales from schools will increase through the progress of the GIGA School scheme.

	No. of clients	No. of IDs
Cram School	1,204	19,430
School	1,191	328,882
Overseas	95	7,819
BtoC	-	4,161
Total	2,490	360,292

*As of the end of Dec. 2022

(Taken from the reference material of the company)

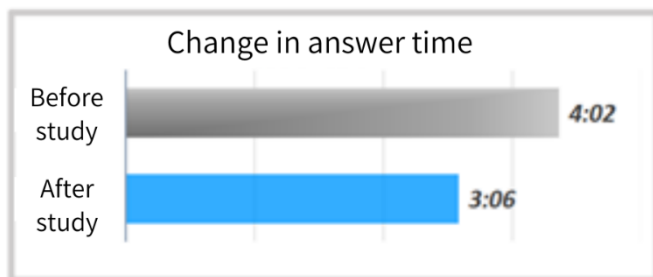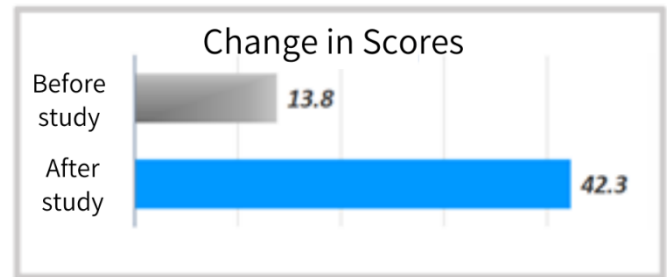**BRIDGE REPORT**   Bridge Salon
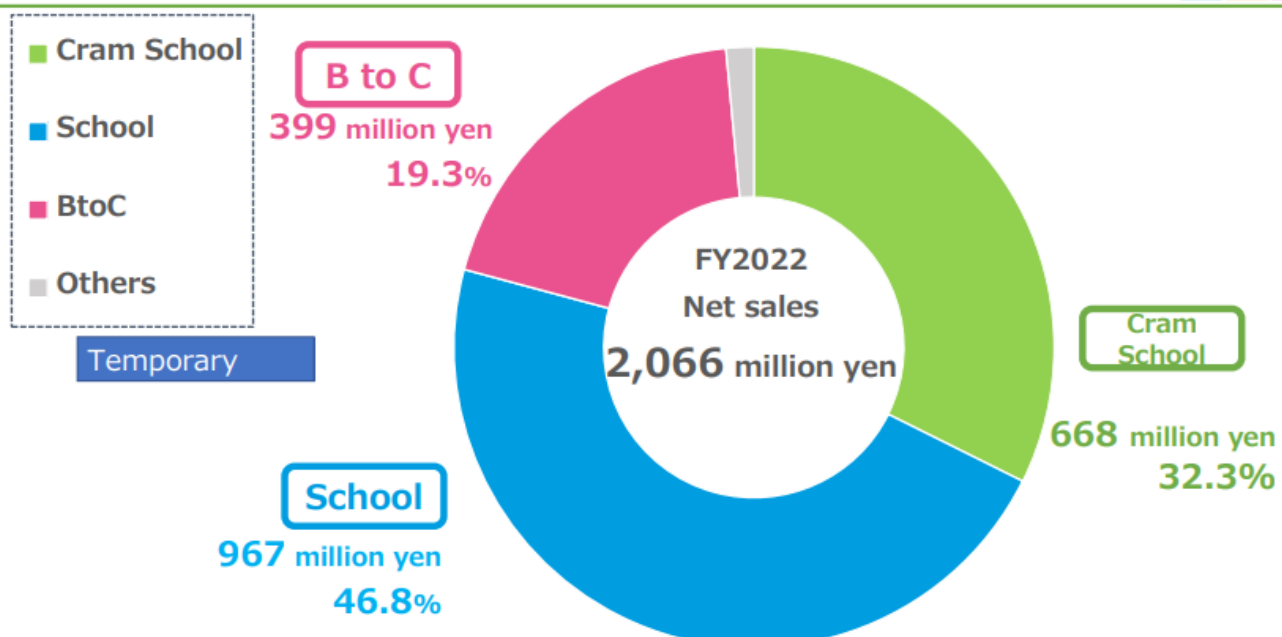
③ Effects of adoption of "Surala"

As a "demonstrative project for future classrooms" in local public standard schools, "Surala" was adopted in three major subjects (the English and Japanese languages, and mathematics) in Sakaki High School in Nagano Prefecture, and the effectiveness of learning improved remarkably as mentioned below.

Before and after comparison of Japanese language tests

Change in Scores
- Before study: 34.4
- After study: 55.3

Change in answer time
- Before study: 4:02
- After study: 3:06
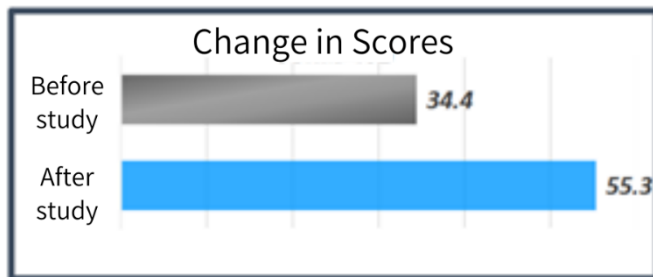
Before and after comparison of English language tests
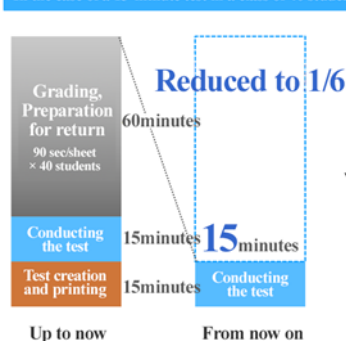
Change in Scores
- Before study: 13.8
- After study: 42.3

- Japanese test score average improved by 20.9 points.
- English test score average improved by 28.5 points.
- The average time to answer the questions was reduced by 56 seconds, 23%.

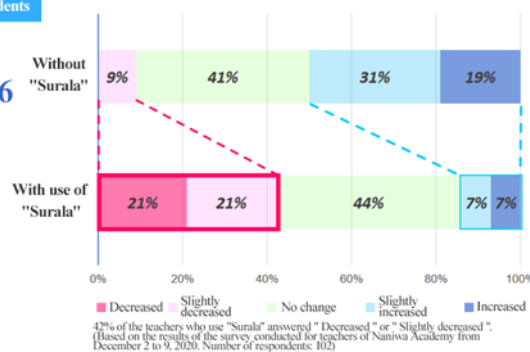(Taken from the reference material of the company)

In recent years, the reform of workstyles of teachers has been a significant issue. According to the questionnaire survey targeted at teachers of Naniwa School in Osaka Prefecture in December 2020, the time required for a test was shortened to one sixth, and 42% of teachers using "Surala" replied that "their workloads have decreased somewhat/slightly."

"Surala" helps reform the workstyles of teachers by streamlining the process of acquiring fundamental academic skills and realize an environment in which teachers can concentrate on the nurturing of students' capabilities of thinking, judging, expressing, and learning things, and humanity.

<Illustration> In the case of a 15-minute test in a class of 40 students

Grading, Preparation for return — 60minutes (90 sec/sheet × 40 students)
Conducting the test — 15minutes
Test creation and printing — 15minutes

Reduced to 1/6

15 minutes — Conducting the test

Up to now   From now on

Use of "Surala" and increase/decrease in teacher workload

	Decreased	Slightly decreased	No change	Slightly increased	Increased
Without "Surala"		9%	41%	31%	19%
With use of "Surala"	21%	21%	44%	7%	7%

42% of the teachers who use "Surala" answered " Decreased " or " Slightly decreased ". (Based on the results of the survey conducted for teachers of Naniwa Academy from December 2 to 9, 2020. Number of respondents: 102)

(Taken from the reference material of the company)

### ④ Growth potential and future developments of "Surala"

As mentioned in the section "1-3 Market Environment," the Japanese EdTech market is expected to keep growing despite the declining birthrate. The above-mentioned effects of adoption were highly evaluated, and the number of clients and the number of IDs for "Surala" and "Surala Drill" increased. As of the end of December 2022, the market penetration rates of "Surala" and "Pitadori" are 2.3% for cram
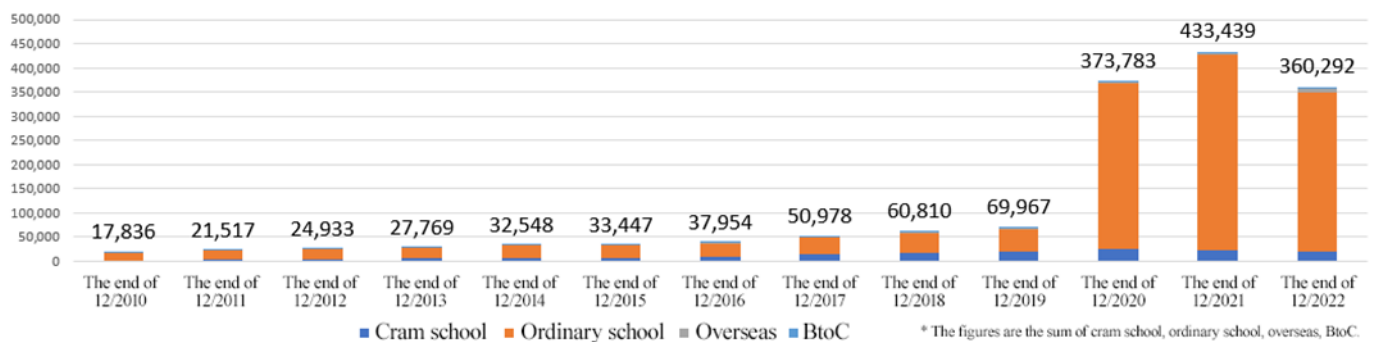
schools (1,204 schools) and 3.5% for ordinary schools (1,191 schools). The company is also actively cultivating overseas markets, so there is significant room for growth.

Trend of the number of education providers which use "Surala" and "Surala Drill"
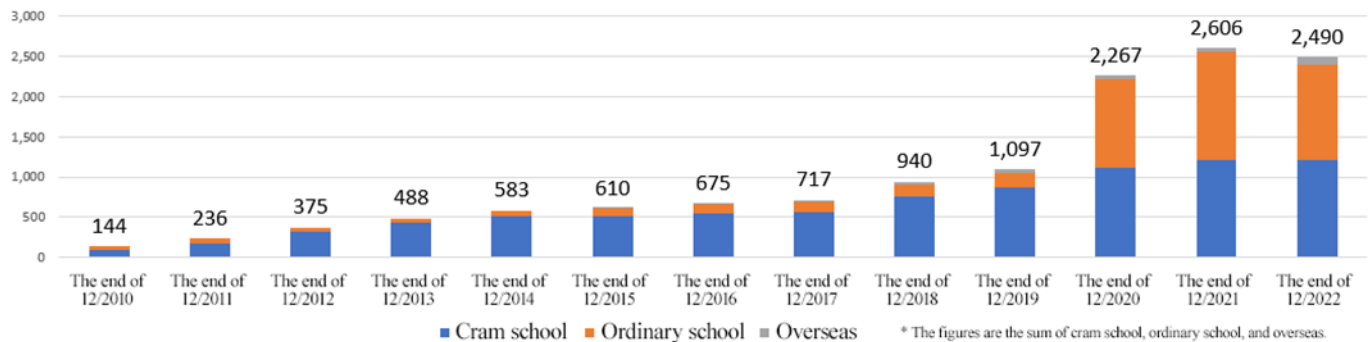
Trend of the number of IDs for "Surala" and "Surala Drill"

⑤ **Active formation of alliances**
The company is striving to improve contents by actively forming alliances with external enterprises.

Alliance partners	Purpose of alliance	Outline
AIed, Inc.	Development of new contents of pronunciation tests	By incorporating the speaking AI "CHIVOX" of AIed, Inc., which checks the speaking skill and give feedback about improvement points into "Surala" English, which has helped students obtain "reading," "listening," and "writing" skills with its lecture, exercise, and test functions, they will develop and offer "Surala" for improving the "speaking" skill in addition to the above three skills, and then contribute to the English education in Japan.
NEC Space Technologies, Ltd.	Joint development of profound learning tools focused on space, targeted at high school students	This is for discussing solutions to attain SDGs by utilizing space technology. Students will discuss social issues they want to solve in groups, and seek solutions utilizing artificial satellites. In this joint development, they will combine the knowledge of space technology, including the satellites owned by NEC Space Technologies, and the know-how to design effective learning contents and technology for developing teaching software of SuRaLa Net, which have been accumulated through "Surala" and "Surala Active Learning."
NTT DOCOMO, INC.	Implementation of joint	They found that when students' emotions of

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|	demonstrative experiments utilizing emotion recognition technology	"excitement," "curiosity," and "joy" are stirred up before learning, they can memorize things more efficiently during learning. By helping students memorize more contents by taking advantage of this effect, it is possible to improve the efficiency of learning. Accordingly, they aim to realize services for improving academic skills through guidance and follow-up activities for learning while considering students' emotions.
Fantamstick, Ltd.	To acquire Fantamstick, which develops intellectual training apps and learning contents for children, as a subsidiary (holding 52.2% of voting rights as of Jan. 2022)	The track record and technologies in the field of commissioned development for educational institutions and the knowledge in the design field are expected to lead to the further improvement and growth of services of SuRaLa Net. In addition, they are expected to generate synergetic effects, such as the increase of overseas users and the expansion of the customer base.

SuRaLa Net plans to cooperate with Fantamstick in developing new services, and aims to increase personnel for strengthening the system for commissioned development, whose transactions are increasing, increase users of existing app services by enhancing marketing and brand development activities, and release new services utilizing gamification.

[1-5 Features and Strengths]
（1）Positioning
The company has established an unrivaled unique position with "Surala," an advanced digital teaching tool, targeted at a broad range of children with a deviation value of 30-60.
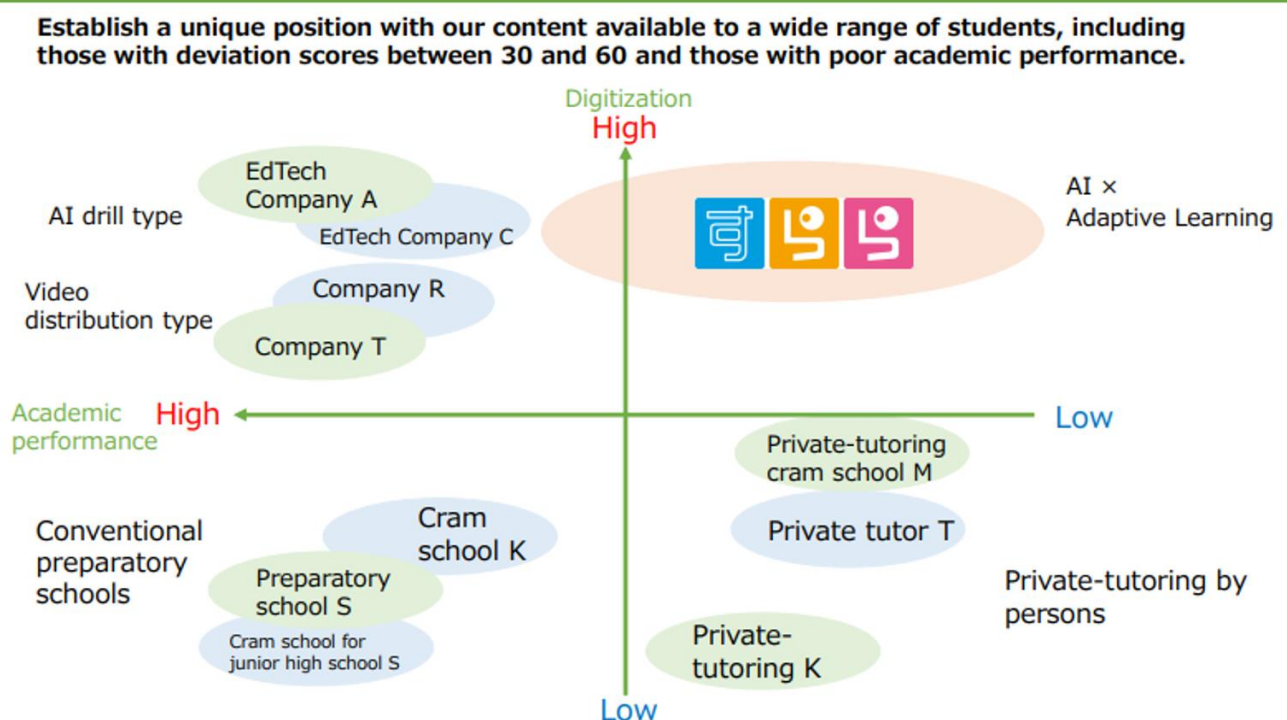
(Taken from the reference material of the company)

（2）Source of competitiveness
The competitive advantage of the company is attributable to mainly the development and provision of "Surala," which is based on AI

and adaptive learning and has significant advantages over competing products. In addition to them, the company possesses consultation skills to propose solutions to the problems with the management and affairs of cram and ordinary schools and support them in adopting the solutions. This is their primary characteristic that cannot be imitated by competitors.

The company's competitiveness is derived also from the adoption of cutting-edge technologies, including the installation of AI functions developed by leading-edge enterprises, such as AI chatbots and AI speaking functions, in "Surala" with patented functions, the utilization of big data on learning activities to evolve and upgrade teaching materials, and so on.

[1-6 ROE Analysis]

	FY 12/17	FY 12/18	FY 12/19	FY 12/20	FY 12/21	FY 12/22
ROE (%)	14.8	17.8	5.1	34.9	26.7	17.5
Net income margin (%)	10.68	14.72	3.85	23.04	20.47	16.55
Total asset turnover [times]	1.10	1.00	1.11	1.17	1.00	0.80
Leverage [times]	1.26	1.21	1.19	1.29	1.30	1.32

*ROE was taken from the brief financial report. The figures until FY 12/21 are nonconsolidated, while the figures in FY 12/22 are consolidated. Until FY 12/21, total asset turnover and leverage were calculated from the average of values of total assets and equity capital at the beginning and end of each term. In FY 12/22, the values at the end of the term were used, as consolidated accounting was adopted.

The ROE of SuRaLa Net, which is an ICT enterprise, has been high, but it is considered that there remain room for further improvement in profitability, asset efficiency, and leverage.
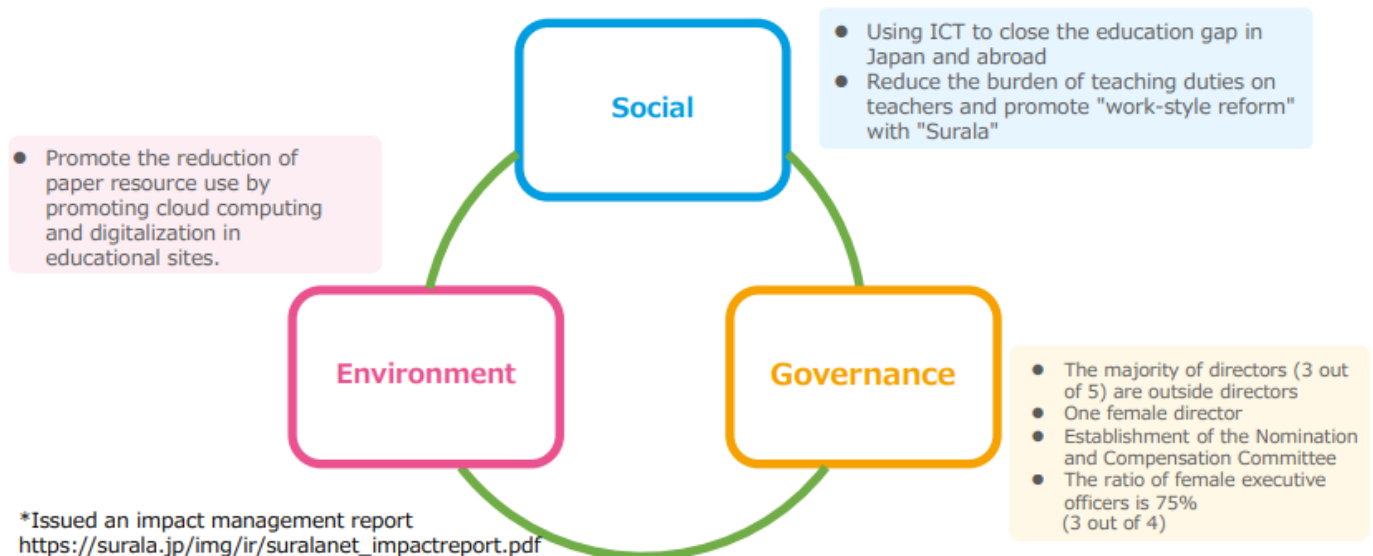
[1-7 Sustainability]

As mentioned in the section "1-2 Corporate Philosophy," the company recognizes that its existence will become socially meaningful if it solves the social issue of "educational inequality" with ICT, and considers it as a business opportunity, to achieve mid/long-term growth.
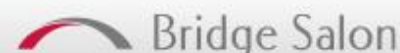

Approaches to ESG

Contributing to the medium-term growth by achieving SDGs through our main business.
Using ICT to solve the social problem of "educational inequality"

Social
- Using ICT to close the education gap in Japan and abroad
- Reduce the burden of teaching duties on teachers and promote "work-style reform" with "Surala"

Environment
- Promote the reduction of paper resource use by promoting cloud computing and digitalization in educational sites.

Governance
- The majority of directors (3 out of 5) are outside directors
- One female director
- Establishment of the Nomination and Compensation Committee
- The ratio of female executive officers is 75% (3 out of 4)

*Issued an impact management report
https://surala.jp/img/ir/suralanet_impactreport.pdf

Society: in Japan	The company offers learning opportunities to a broad range of children with ICT "Surala," which enables learning suited for the comprehension level of each student. *To provide truant children with opportunities to learn at home and advance to higher education, so that they will be deemed to have "attended classes" in accordance with the rules of the Ministry of Education, Culture, Sports, Science and Technology

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	*To offer optimized learning contents to children with developmental and learning disabilities *To offer voluntary learning optimized for combined classes in remote islands and mountain areas *To offer learning opportunities to relatively poor children in cooperation with NPOs
Society: outside Japan	The company offers the arithmetic e-learning program "Surala Ninja!" for elementary school pupils in developing countries, including Sri Lanka and Indonesia. *To operate "Surala JUKU" for giving lectures on arithmetic to children of low-income families in cooperation with the microfinancing institution for women. *To offer charge-free IDs to "SOS Children's Villages," an NGO that accepts orphans and children who have suffered from domestic violence. *To create employment opportunities by proactively hiring local women as facilitators (lecturers)
Environment	*To reduce the consumption of resources, such as paper, by utilizing ICT-based teaching materials *To streamline business operations, and reduce costs for printing and resources through DX
Governance	*One out of five directors (including 3 outside directors) is female *Three out of four executive officers are female *To hold company-wide training regularly, to enrich systems for having an audit committee and complying with laws and regulations

The company started issuing "impact management reports," including impact assessment, to logically visualize the social issues they want to solve through their business and the outcomes they hope to achieve.
These reports cover the four social issues: "truancy," "developmental and learning abilities," "poverty," and "low academic skills," and try to qualitatively and quantitatively evaluate the impact of the company's business on them.
The company considers that its endeavor to assess the impact is quite unique and new among IT venture firms.

Impact Management Report 2020   https://surala.jp/img/ir/suralanet_impactreport.pdf

2. Fiscal Year ended December 2022 Earnings Results

[2-1 Consolidated Business Results]

	FY 12/21	Ratio to sales	FY 12/22	Ratio to sales	YoY	Ratio to the initial forecast	Ratio to the revised forecast
Sales	1,952	100.0%	2,147	100.0%	+10.0%	-11.5%	+1.3%
Gross Profit	1,478	75.7%	1,573	73.2%	+6.4%	-	-
SG&A	957	49.0%	1,097	51.1%	+14.7%	-	-
Operating Income	521	26.7%	475	22.1%	-8.7%	-0.1%	+13.9%
Ordinary Income	552	28.3%	501	23.3%	-9.3%	+5.0%	+17.2%
Net Income	399	20.5%	355	16.5%	-11.1%	+16.5%	+24.7%

*Unit: million yen. The figures for FY 12/21 are non-consolidated, while the figures for FY 12/22 are consolidated. YoY rates were calculated by Investment Bridge Co., Ltd. for reference.

Sales increased, and profit dropped, but exceeded the revised forecast.

Sales grew 10.0% from the previous term to 2,147 million yen. The sales in the cram school market declined due to the decrease of students, the diversification of EdTech teaching materials, etc., but the sales in the school and BtoC markets increased.

Operating income declined 8.7% from the previous term to 475 million yen. Sales rose, but it was not enough to offset the augmentation of expenses for developing contents and systems, depreciation, online ad costs, and website upgrading expenditure, the costs for relocating the headquarters, etc.

Trend of sales and operating income (unit: million yen)

Sales (left axis) ── Operating income (right axis)
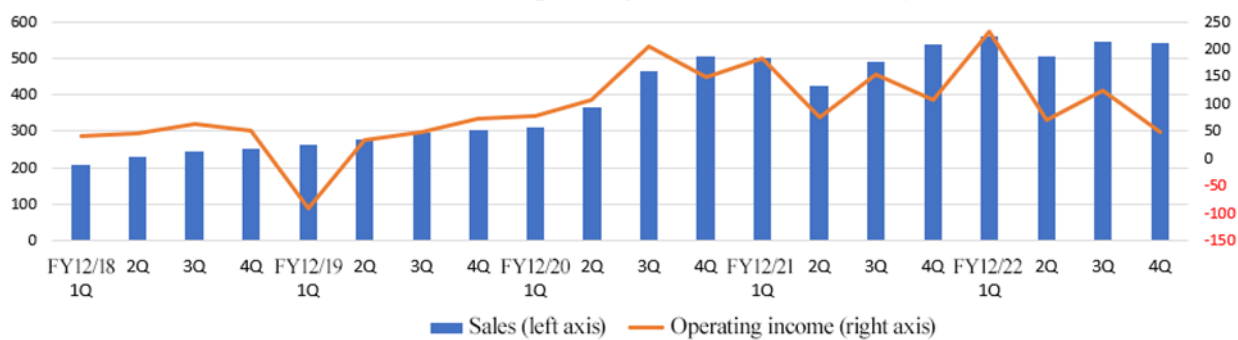
[2-2　Trend of the e-learning business in each market]

(Profit and loss of the e-learning business)

	FY 12/21	Ratio to sales	FY 12/22	Ratio to sales	YoY
Sales	1,952	100.0%	2,066	100.0%	+5.8%
Gross Profit	1,478	75.7%	1,543	74.7%	+4.4%
SG&A	957	49.0%	1,044	50.5%	+9.1%
Operating Income	521	26.7%	498	24.1%	-4.3%
Ordinary Income	552	28.3%	524	25.4%	-5.1%
Net Income	399	20.5%	377	18.3%	-5.5%

*Unit: million yen.

(Sales in each market)

	FY 12/21	FY 12/22	YoY
Cram school market	738	668	-9.4%
School market	836	967	+15.7%
BtoC market	365	399	+9.4%

*Unit: million yen.

(Trends of KPIs)

	FY 12/21	FY 12/22	YoY
Cram schools			
No. of client cram schools	1,215	1,204	-0.9%
No. of IDs	22,494	19,430	-13.6%
Schools			
No. of client schools	1,336	1,191	-10.9%
No. of client public schools	1,126	942	-16.3%
No. of charged IDs	403,621	328,882	-18.5%
No. of public IDs	339,330	268,038	-21.0%
BtoC			
No. of IDs	3,677	4,161	+13.2%
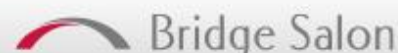
Outside Japan			
No. of client schools	55	95	+72.7%
No. of IDs	2,710	7,819	+188.5%

*Sum of the values of "Surala" and its twin version "Surala Drill"

(1) Cram school market

Due to the impact of the novel coronavirus and the diversification of EdTech-based teaching materials, the number of students of existing cram schools that have adopted the company's product is decreasing, but the number of business inquiries is increasing due to the popularization of online education and the improvement in online marketing. The distribution of the products to afterschool day-care centers for kids is increasing steadily.

(2) School market

The number of cases in which the subsidy for adopting EdTech was granted decreased from the previous year.

The number of client schools and the number of IDs dropped from the end of the previous term, but multiple municipalities have been using the product since the conclusion of contracts in August 2021, so sales are healthy.

Based on the track record of practical application in institutions for higher education, such as vocational schools, sales channels are expected to expand.

(3) BtoC market

Learning at home by using online systems has been increasing.

The company responded to the growth of the truancy market and proactively made efforts to diffuse the system in which truant students can be deemed to have attended classes, establishing its unique position.

There are an increasing number of pupils who use the product to study subjects for higher grades in advance, and an increasing number of children living abroad who use the product.

(4) Overseas market

Schools were continuously closed in Indonesia and the Philippines due to the spread of COVID-19, and in Sri Lanka due to the instability.

The joint large-scale pilot project with Asian Development Bank Institute (ADBI) is ongoing in Indonesia.

In Sri Lanka, the government decided to adopt "Surala Ninja!" for public schools.

[2-3　Financial Condition and Cash Flow]

◎**Financial Condition**

	End of December 2021	End of December 2022	Increase/ Decrease		End of December 2021	End of December 2022	Increase/ Decrease
Current assets	1,608	1,738	+129	Current liabilities	415	499	+84
Cash and deposits	1,244	1,333	+88	Accounts payable	152	195	+43
Trade receivables	329	366	+37	Fixed liabilities	-	101	+101
Noncurrent assets	519	931	+412	Total liabilities	415	600	+185
Intangible assets	480	816	+335	Net assets	1,713	2,068	+355
Investments and other assets	32	84	+52	Retained earnings	1,120	1,475	+355
Total assets	2,128	2,669	+541	Total liabilities, net assets	2,128	2,669	+541

*Unit: million yen. The figures as of the end of Dec. 2021 are nonconsolidated, while the figures as of the end of Dec. 2022 are consolidated. Increase/decrease amounts were calculated by Investment Bridge Co., Ltd. for reference.

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The capital-to-asset ratio as of the end of Dec. 2022 was 76.0%.

◎　**Cash Flow**

	FY 12/21	FY 12/22	Increase/Decrease
Operating Cash Flow	502	542	+39
Investing Cash Flow	-222	-503	-280
Free Cash Flow	279	38	-241
Financing Cash Flow	11	50	+38
Cash, Equivalents	1,244	1,333	+88

*Unit: million yen. The figures in FY 12/21 are nonconsolidated, while the figures in FY 12/22 are consolidated. Increase/decrease amounts were calculated by Investment Bridge Co., Ltd. for reference.

3. Fiscal Year ending December 2023 Earnings Forecasts

[3-1　Earnings Forecast]

	FY 12/22	Ratio to sales	FY 12/23 Est	Ratio to sales	YoY
Sales	2,147	100.0%	2,322	100.0%	+8.1%
Sales from the e-learning business	2,066	96.2%	2,212	95.3%	+7.1%
Operating Income	475	22.1%	391	16.8%	-17.7%
Ordinary Income	501	23.3%	392	16.9%	-21.7%
Net Income	355	16.5%	266	11.5%	-25.0%

*Unit: million yen. Estimates are those of the company.

Sales are expected to grow, but profit is projected to drop.

Sales are forecast to increase 8.1% from the previous term to 2,322 million yen, while operating income is projected to decline 17.7% to 391 million yen.

The sales from the e-learning business are expected to grow 7.1% from the previous term to 2,212 million yen. The sales from schools and BtoC businesses are expected to grow, and the sales from cram schools are projected to drop.

Although sales are expected to grow, profit is projected to decrease, due to investments in development for differentiating their products further from competitors' products, increase of personnel for development of contents and systems, recruitment of support staff in response to the emergence of problems with on-site use, etc. as well as the augmentation of operation and maintenance costs in the wake of release of new functions.

【3-2　Initiatives】

The trends of the e-learning business, etc. are as follows.

(Sales in each field)

	FY 12/22	FY 12/23 Est	YoY
Cram School	668	655	-1.9%
School	967	1,079	+11.6%
BtoC	399	438	+9.8%
E-learning Business	2,066	2,212	+7.1%

*Unit: million yen.

(KPI)

	FY 12/22	FY 12/23 Est	YoY
No. of client schools	2,490	2,323	-6.7%
No. of IDs	360,292	299,928	-16.8%

Due to the termination of the subsidy for adopting EdTech, the numbers of school buildings and students in the school market will decrease, but in order to deal with the emergence of problems with use in school under the GIGA School scheme, the company will increase marketing staff for enhancing support, with the aim of increasing sales by 10% or more in the school market. The performance in the cram school, BtoC, and overseas markets is expected to be healthy.

4. Future Priority Measures

The basic policies of the business plan are "response to the acceleration of adoption of ICT in educational scenes," "utilization of big data and adoption of cutting-edge technologies," and "initiatives for sustainability." Under these basic policies, the company will implement the following priority measures in each market.

【4-1 Cram School】

Despite the declining birthrate, the market scale has been stable. However, the cram school market is becoming "mature," so the company considers that cram schools will undergo the full-scale "competition to survive."

Under these circumstances, the company will strive to expand business in multiple fields, based on "AI," "adaptive tools," and "online systems."

For entrepreneurs who hope to expand business with new business models, which solved the problems with conventional franchised tutoring schools, the company will support their low-cost management by setting initial fees and loyalties at zero and doing without part-time lecturers. The company will support a broad range of cram schools, including private small-sized ones, afterschool childcare centers, English conversation schools, and facilities for truant pupils.

Leading cram schools, too, have been merged or integrated, indicating fierce competition. For local medium-sized and leading cram schools, which face difficulty in differentiation and promotion of enrollment, the company will propose original exercises with E-Te Editor and strategies for attracting students in the post-pandemic era amid the declining population. The company will also support clients in transforming into an organization that can use EdTech.

As offices and users are increasing year by year and competition is intensifying, the company will support afterschool day-care centers, which need to differentiate their services, in transforming into facilities where school subjects can be learned, while giving operation consultation services by proposing the use of ICT and educational plans to make students employed.

In April 2023, the company will revise the area management system, to introduce its services to more cram schools.

【4-2 School】

Regarding the GIGA School scheme for elementary and junior high schools, schools face the difficulty in actually using the installed equipment and software, so the company will give proposals for solutions, and strengthen its support system.

On the other hand, the company aims to increase client public high schools and create a new pillar of revenues, by utilizing the GIGA School scheme for high schools.
In detail, they will concentrate on the development of contents and marketing, and aim to achieve the linkage and connection with e-portal sites for utilizing learning data, accumulate experiences in growing fields, including vocational schools and high schools offering correspondence courses, and conduct marketing. The company will focus on the improvement in the know-how to fully utilize them in schools, academic skills, and non-cognitive abilities. In addition to "learning programs for students with low academic results," the company will enhance its capability of dealing with each of new educational values.

【4-3 BtoC】

It is said that there are about 600,000 children with developmental disabilities, including learning disabilities, and about 24 truant students. In addition, the company aims to grow its business by grasping the characteristics of the BtoC market, in which the demand for learning

at home has grown due to the coronavirus pandemic and the product is increasingly used by Japanese children living abroad, and solving social issues.

The company will strengthen its unique position of offering the only one service that enables children with developmental and learning disabilities and truant children to learn systematically from scratch.
The company will offer comprehensive support to customers facing trouble in learning, including "Surala Coach" to coach guardians, "Homebility" to train guardians, and mental and educational assessment services.

【4-4 Overseas】

The company will promote the adoption of ICT in education in developing and emerging countries, where populations have grown and the ratio of young people is high, but educational infrastructure has not been developed and there are significant problems with the number and quality of teachers, with the aim of achieving mid/long-term growth.

In detail, the company will enrich content and target junior high schools as well as elementary schools.
In Indonesia, the company will make efforts to introduce ICT to 100 public middle schools and produce good results.
In Sri Lanka, the company will strive to expand the BtoC business and cement the cooperation with international NGOs.
In Egypt, full-scale commercialization targeted at private schools started.

【4-5 Other/company-wide】

*Alliance
As mentioned in the section "1. Company Overview," the company is proactively forming alliances with external enterprises, and multiple projects are ongoing.
The company aims to generate synergetic effects with Fantamstick, which was acquired as a subsidiary, as soon as possible.

*Development
The company will develop content and platforms for new educational issues and values, such as inquiry-based learning and Japanese-language content.
The company will work on the development of a next-generation learning management system (LMS) by utilizing cutting-edge technologies. The company will continue active investment, for further optimizing learning programs for respective students.

5. Interview with President Yunokawa

In our interview with President Takahiko Yunokawa, we asked about his company's social significance, strengths, characteristics, future growth strategies, and initiatives and requested him to give a message to shareholders and investors.

Q: First of all, please tell us about the social significance of your company.

We focus on four social issues: "poverty," "developmental and learning disabilities," "school refusal," and "children with low academic skills."
By distributing Surala domestically and overseas, we will provide all children worldwide with the opportunity to receive high-quality education at a low cost, thereby resolving these issues, which is our social significance. This also presents a business opportunity that we believe can lead to growth.

Q: What are the strengths and competitive advantages that lead to your company's growth?

There are many adaptive learning materials that are based on AI these days, but our company's concept differs greatly from other companies.
Many of our competitors create learning materials that are considered supplementary for the classes the students are supposed to attend in school.
On the other hand, our company has created its learning materials based on the concept of "even without studying in school, students

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can understand each subject from scratch." This is our great strength and competitive advantage as it allows the children who refuse to go to school and those in developing countries that do not have the opportunity to get an education to understand the material.

We believe that this concept, which aims to eradicate educational disparities under the corporate philosophy of "Bringing transformation to education and empowerment to children," is unique to our company.

Let me explain in more detail. The teaching materials consist of lectures and drills (exercises). We ask students to solve problems that are made adaptively for understanding and acquiring knowledge, but the lecture part is also a significant feature.

For example, many other companies create video lectures with charismatic teachers, but in our case, we create interactive animations. Other companies also use animation, but we are the only company involved in interactive animation because it is time-consuming and costly.

In addition, classes by famous teachers are fine for students with high academic ability. However, students with low academic ability, no matter how good the lectures are, will not be able to concentrate in one-way classes and will fall asleep during class.

In our company, we teach using detailed visuals and voices rich in emotional expression by voice actors so that even such students can continue to concentrate. Also, the animation asks questions here and there to confirm that students have understand the class content and tells them "Great job!" when the answer is correct and "Hard luck!" when incorrect. Such reactions help the student maintain their focus.

So, as I have mentioned, our concept, which is based on the corporate philosophy, is "teaching from scratch, so even students with low academic abilities can understand the material." Our competitive advantage and its sources lie in adopting this concept, having it as the foundation of all our business strategies, product, and service designs, and continuously refining it since our founding.

Q: Please tell us about your initiatives and ideas for further enhancing these strengths and competitive advantages.

E-learning consists of two components: content and LMS (Learning Management System).

We have accumulated a wealth of know-how in content creation.

For a long time, "paper" was the main medium in the educational industry, so there was almost no feedback. You could not know, for example, whether "the learning materials were easy to understand or difficult to understand" or whether "students at a certain level could understand them."

Now, ICT enables us to obtain such feedback in an extremely precise manner. Other companies do not have this kind of essential expertise in content creation, and we will continue to accumulate more of it in the future.

Regarding LMS, which is the engine that drives content creation, we always focus on incorporating the latest technologies, such as AI, VR, and AR. In addition to increasing the number of internal development personnel and enhancing their capabilities, we are also actively developing alliances with external parties. One example is the acquisition of Fantamstick, which develops educational apps and educational content for children.

There is much talk about the shortage of ICT engineers globally, but we have been able to recruit them relatively smoothly.

I think that keywords such as "education," "ICT," and "overseas" are appealing to young people these days.

Q: Please tell us about your company's growth strategy and what you should focus on.

In the educational industry, the GIGA school program, which started in 2020, has had a significant impact, and our company, whose primary customers are cram schools and private schools, entered the public school market for the first time. In addition, due to the spread of the novel coronavirus in the same year, students were forced to study at home for three months, which changed everything, increasing the importance of online education rapidly and making the notion that it is impossible to study without digital learning materials.

However, after that, although the GIGA school program introduced digital devices, there were cases where they were not adequately utilized. So, we must avoid the spread of the notion that "digital devices are no good and hard to use." For that reason, I think it is essential to produce concrete results about the usage of digital learning and the students' academic ability improved by using digital teaching

materials skillfully. In other words, as we move from the introduction phase to the operation/outcome phase, we are beginning to focus on thorough support for schools, cram schools, and teachers.

We will focus on developing new markets related to cram, private, and public schools and following up on existing ones.

Results are not limited to student academic achievement. Self-affirmation, that is, the mindset that "I can do it if I try," is also one of the achievements we focus on.

E-learning allows you to visualize how many hours, minutes, and seconds you have learned. Therefore, you yourself can see the connection between your efforts and results. Empirical data show that students improve their self-esteem by receiving such feedback, so we regard this as a positive outcome.

Another significant achievement of e-learning is the realization of teachers' workstyle reform.

The overwork of teachers has become a problem. The academic ability required of students has changed from the memorizing skill to the self-thinking skill, which led to an increase in teachers' working time as they have to conduct group discussions and inquiry-based learning outside school.

Therefore, there is a growing trend to use digital materials for basic learning to save time. As for the test implementation, until now, teachers have had to create questions themselves, print them out, and distribute them. And they have had to collect, score, and summarize the results after the completion of the tests, but now it can be done with simple operations on a PC. In fact, teachers' workload has been greatly reduced because of it, which is also a significant outcome of using "Surala."

In terms of growth, overseas markets are promising over a longer span.

Currently, we are expanding our business in Indonesia, Sri Lanka, and Egypt. We are using the math teaching material, "Surala Ninja!," which has improved children's arithmetic skills drastically. Because of the high recognition of Japanese education, we would like to expand the market from Asia to the Middle East and Africa and eventually pursue growth to surpass the growth of the Japanese market.

Now, the adoption rate of "Surala" is about 2-3% for both cram schools and schools, so there is much room for growth. For the time being, we believe that we will be able to increase it to around 10-15%.

Q: On the other hand, are there any challenges you are aware of in pursuing sustainable growth?

Developing new content and new functions is still a significant challenge.

In addition to increasing the number of development personnel, we have made efforts such as making Fantamstick a subsidiary, and I believe it significantly enhanced our development capabilities. The challenge is how to improve our development capabilities while keeping costs in mind to maintain and expand our competitive advantage.

Also, as I mentioned earlier, as we move from the introduction phase to the operation/outcome phase, it is essential to follow up closely with cram schools and schools. In some cases, it may be necessary to follow up on the management issues and personnel systems of the cram schools, so increasing the number of members with high consulting skills and providing training are also important issues to be addressed.

Q: Thank you for answering my questions. Finally, could you give a message to shareholders and investors?

To reiterate, we have created the adaptive learning material, "Surala," by using AI with the concept of "even without studying in school, students can understand each subject from scratch," which is our competitive advantage and what makes us unique.

Through "Surala," we support children with learning disabilities, school refusal, and low academic ability to solve the social problem of educational disparity. This is our social significance, and will lead to improving our corporate value.

It has been nearly 20 years since our founding. We will continue to take on new challenges without losing our venture spirit. So, we hope you will support us from a medium/long-term perspective.

6. Conclusions

President Yunokawa is making efforts to develop an environment in which employees can actively express their opinions while sharing the same mindset in a flat organization without a hierarchical relationship, in order to keep the company full of the venture spirit. In addition, he encourages employees to ponder without sticking to previous cases, give proposals, and have discussions thoroughly with one another, to make a decision.

The originality and advantage of the company are derived from the concept that "even without studying in school, students can understand each subject from scratch." However, in order to keep its pioneering position amid the intensifying competition, the company needs to continue development with unique ideas competitors do not have. We would like to pay attention to the release and progress of new functions and services, as well as the variations in the number of schools that have adopted its services and the number of IDs, which are KPIs.

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<Reference: Regarding Corporate Governance>

◎ **Organizational structure and composition of directors and auditors**

Organizational structure	Company with an audit and supervisory committee
Directors	5 including 3 outside directors (including 3 independent officers)
Audit committee members	3 including 3 outside directors (including 3 independent officers)

In order to further enrich the corporate governance structure by improving the objectivity and transparency of procedures for nominating directors and determining their remuneration amounts, the company established a nomination and remuneration committee as a discretionary advisory body of the board of directors. The committee is composed of 3 or more members selected through a resolution of the board of directors, and no less than half of them shall be independent outside directors.

◎ **Corporate Governance Report (Update date: March 28, 2023)**

Basic policy

The company believes that in order for an enterprise to keep growing and advancing amid the rapidly changing business environment, it is indispensable to enhance the efficiency and effectiveness of business administration and develop a fair, transparent management structure, and considers thoroughgoing corporate governance as an important mission. In addition, the company plans to enhance risk control and supervision function to realize more effective corporate governance, in response to the changes in the social environment, the enforcement of laws, regulations, and so on.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code>

The company follows all of the basic principles of the Corporate Governance Code.