



President Takahiko Yunokawa

SuRaLa Net Co., Ltd. (3998)



## Company Information

Market	TSE Growth Market
Industry	Information and communication
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Year-end	December
Homepage	<a href="https://surala.jp/en/">https://surala.jp/en/</a>

## Stock Information

Share Price	Shares Outstanding (Term-end)	Total Market Cap	ROE Act.	Trading Unit	
¥449	6,694,764 shares	¥3,005 million	14.3%	100 shares	
DPS Est.	Dividend Yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
0.00	-	¥29.81	15.1x	¥338.44	1.3x

\* Share price as of closing on February 5. The figures were taken from the financial statements for the fiscal year ended December 2023.

## Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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 Act.	2,145	387	392	304	46.30	0.00
December 2024 Est.	2,295	324	330	195	29.81	0.00

\* Estimates are those of the company. Unit: million yen, yen. The company adopted consolidated accounting from the fiscal year ended December 2022.

This report includes the earning results of the fiscal year ended December 2023 and the Medium-term Management Policy of SuRaLa Net Co., Ltd.

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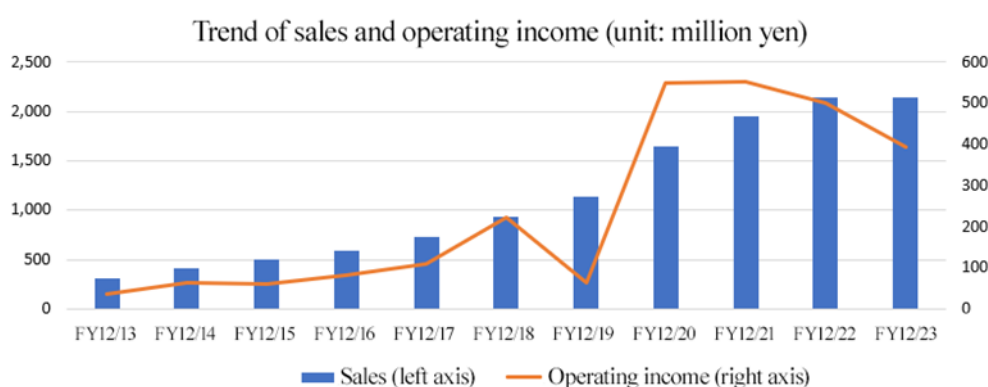
## Key Points

- 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 400,000 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, etc. The company is pursuing growth by entering overseas markets, too, and solving more educational issues.
- In the fiscal year ended December 2023, sales of the e-learning business were 2,073 million yen, almost unchanged from the previous fiscal year. Despite a decline of sales on the cram school market, sales on other markets were steady. Operating income dropped 11.4% year on year to 441 million yen. Gross profit decreased 3.9% year on year due to the increase in cost of sales caused by the augmentation of development expenses, depreciation expenses, etc. Sales on markets other than the BtoC market fell short of the forecast. As the sum of cost of sales and SGA was smaller than the forecast, operating income was almost in line with the forecast.
- For the fiscal year ending December 2024, sales in the e-learning business are projected to grow 4.1% year on year to 2,159 million yen. Sales of the school and BtoC businesses are forecast to increase despite a decrease in sales from subsidies. Operating income is forecast to drop 19.9% year on year to 354 million yen. In addition to increase in depreciation expenses of software required for the plan for proactive investment in development, increase in cost of sales, maintenance fees for servers, etc., the company is going to focus on SEO measures and online marketing. They will keep engaging in the enhancement of the quality of human resources.
- Taking into account the favorable changes of the business environment both in Japan and overseas, the company is going to utilize their strengths and competitive advantages to enter new markets while further raising the market penetration rate in existing businesses. Concretely, they are going to launch “SuRaLa NIHONGO” and “Surala Satellyzer,” released in 2023, on new markets and expand sales channels. From now on, they plan to release 3D content and “Neo Surala,” a next-generation learning management system (LMS), in preparation for NEXT GIGA. They will also focus on the enhancement of human capital, such as the training and education of personnel, in order to reinforce their business foundation.
- On February 1, 2024, the AI-based teaching material “Surala” was adopted on a full scale at Kai Seminar, a general preparatory school run by Sankyo Co., Ltd. (Kofu City, Yamanashi Prefecture), which is major in Yamanashi Prefecture. Cram schools in the countryside are facing challenges such as declining birthrates and securing of lecturers, while needs for individually optimized learning guidance are growing. At Kai Seminar, “Surala” was introduced as a solution for resolving such challenges.
- Although the environment for the management of cram schools is not favorable due to declining birthrates, it appears that major cram schools rooted in the countryside, which are the targets of the company, are not quite willing to adopt EdTech in many cases. Amid such situation, Kai Seminar, run by Sankyo Co., Ltd., which was founded in 1974 and thus has a long history, adopted “Surala.” It seems that this news was met with surprise in the cram school industry as well. The company

intends to set this case as a precedent to approach major cram schools in the countryside. While it is expected that it will take some more time until “NEXT GIGA” contributes to revenues, we would like to keep watching the situation of the business progress on each market.

## 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 400,000 pupils and students of about 2,500 schools, cram schools, etc. While the use of the system is expanding in local governments, public high schools, school corporations, vocational schools, and major cram schools across the country, it also offers learning opportunities to students with developmental disabilities and learning disabilities, and truant students. The company is pursuing growth by entering overseas markets, too, and solving more educational issues.



### [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.

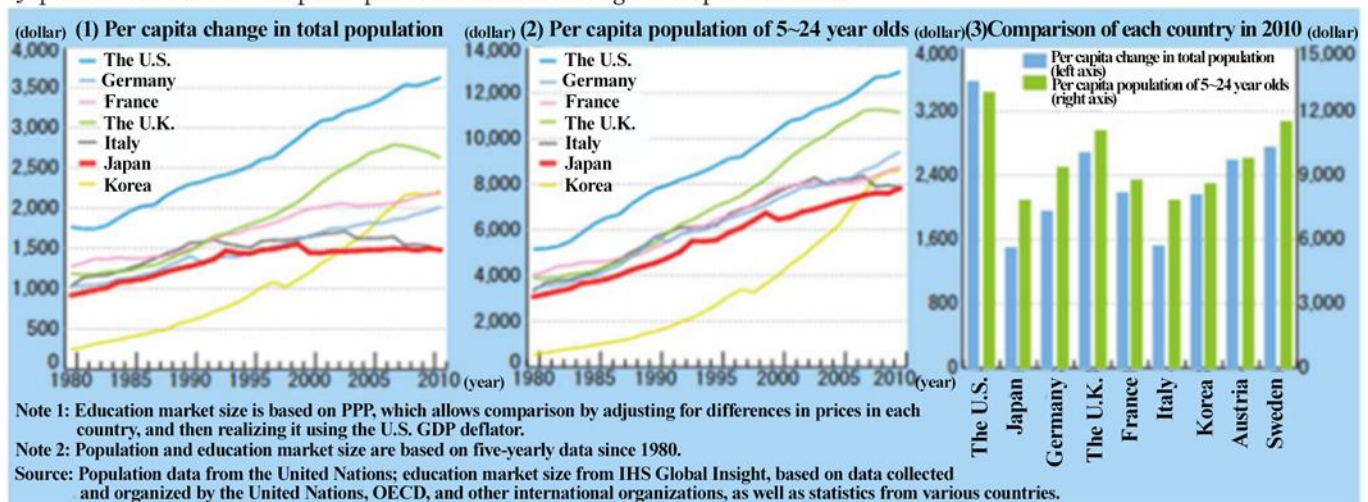
The mission and strategy of “SuRaLa Net” are to solve the global social problem of educational inequality for children suffering from poverty and disabilities and low-performing students with cutting-edge technologies and then eliminate the educational inequality.

**[1-3 Market Environment & the Company's Initiatives]**

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.



(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, the terminals and Wi-Fi installation in elementary and junior high schools throughout Japan were completed by the end of fiscal year 2020, and installation in high schools

throughout Japan is scheduled to be completed by the end of fiscal year 2022.

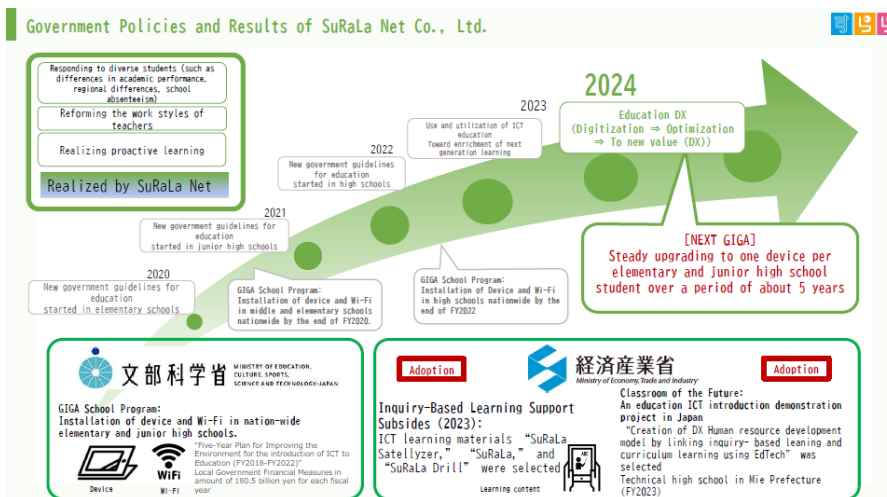
Furthermore, the Ministry of Economy, Trade and Industry partially subsidizes the costs for adopting EdTech tools for “EdTech providers,” so that schools can try ICT-based educational services through the “subsidy for installing EdTech,” and they are conducting a demonstration experiment of a “Future Classroom” in which students design their learning processes by themselves. They are also working on adopting subsidies to support for inquiry-based learning.

\*GIGA: Abbreviation for Global and Innovation Gateway for All.

In addition, in the beginning of 2023, the GIGA school scheme was concluded, and its widespread adoption in primary and junior high schools across the country was completed. Despite the variations between local governments and schools, the frequency of use has increased, and a movement known as “NEXT GIGA” has emerged, including the consistent update of devices in primary and junior high schools.

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)

In response to the policies and measures of the Japanese Government mentioned above, the company has made a significant contribution to the transformation of the Japanese education system by addressing the needs of diverse students, transforming the working styles of teachers, and implementing independent learning.

At present, the company is still aiming to enhance its corporate value by expanding business opportunities and solving educational issues by developing next-generation LSM and strengthening the sales and client systems for the “NEXT GIGA.”

The adoption of the "Subsidy for Supporting Inquiry-Based Learning 2023" in the second supplementary budget for fiscal year 2022 by the Ministry of Economy, Trade and Industry (METI) has led to increased awareness of the company and its Edtech teaching materials at a low cost.

## [1-4 Business Description]

### (1) Outline

There are three business segments: e-learning, commissioned development, and app development.

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, various management support services, 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.

# BRIDGE REPORT



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) Product Line

### 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 AI 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.



(Taken from the reference material of the company)

The key is to proceed while interacting with the character playing the teacher. Interactive lectures that can be understood by oneself.



By simply solving questions, the AI determines weak units. Drill and test functions allow efficient relearning.



Gamification, which motivates children by giving them points for their efforts in learning and making them feel like they are playing a game.



The management screen allows teachers and parents to check the progress of their children's learning.



The lecture, drill, and test functions provide a cycle of “understanding, retention, and utilization” through which basic academic skills are acquired and the learning process enables students to understand, retain and utilize the content.

Due to its unique feature of facilitating independent learning even in areas that are being studied for the first time, the system is increasingly used in elementary, junior high, and high schools, cram schools, after-school day care services, etc., as well as in learning at home.

BRIDGE REPORT

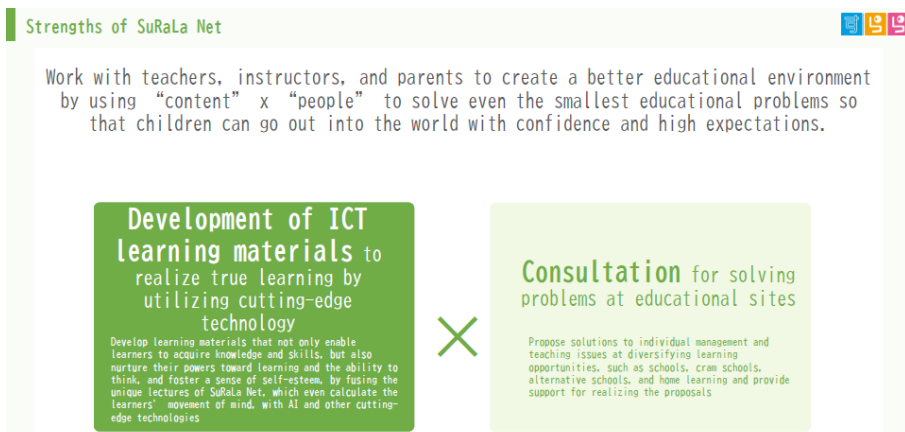
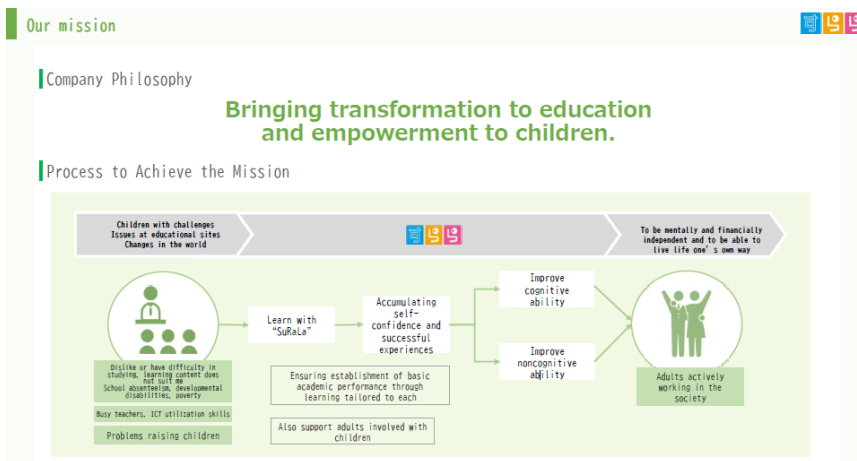


Based on the “Surala” series, the company also offers “Surala Drill,” which specializes in drill and test functions, and “Surala Ninja!” an international version that allows users to enjoy learning Japanese-style arithmetic, in addition to “Surala Satellyzer” and “SuRaLa NIHONGO” as solutions to social issues and initiatives aimed at new markets.

“Surala Drill”	AI-based teaching materials for public elementary, junior high, and high schools specializing in drill and test functions with the automatic question composition and grading functions in accordance with the academic ability of each student.
Surala Ninja!	Developed for primary school children as an international version of “Surala.” It is an e-learning material that enables students to enjoy learning arithmetic and mathematics, focusing on the four arithmetical operations of addition, subtraction, multiplication, and division through interactive animations. It is being used in schools and other institutions in Sri Lanka, Indonesia, Egypt, and the Philippines.
Surala Satellyzer	It was developed in collaboration with NEC Space Technologies, Ltd. over a period of two years, and is the first ICT-based teaching materials for high school students on SURARA Net, which ensures that students acquire the basic skills necessary for inquiry-based learning through the theme of space in the course of their activities. Released in 2023.
SuRaLa NIHONGO	Adaptive ICT-based teaching materials designed for foreigners working in Japan, Japanese language schools in Japan and overseas, and students of foreign origin, enabling them to learn Japanese up to the level required for working, studying, and living in Japan, with the help of animated characters, while enjoying learning according to the level of understanding of each individual student Released in 2023 as new teaching material in a new field.

◎ Mission/Strengths

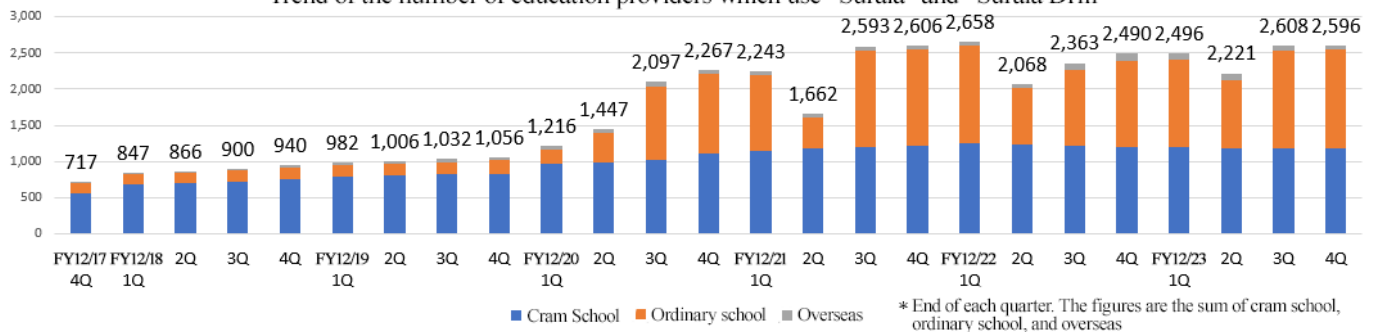
Under the corporate ethos: “Bringing transformation to education and empowerment to children,” the company aims to help solve social issues and achieve corporate growth. The company envisions the process of achieving its mission as follows:



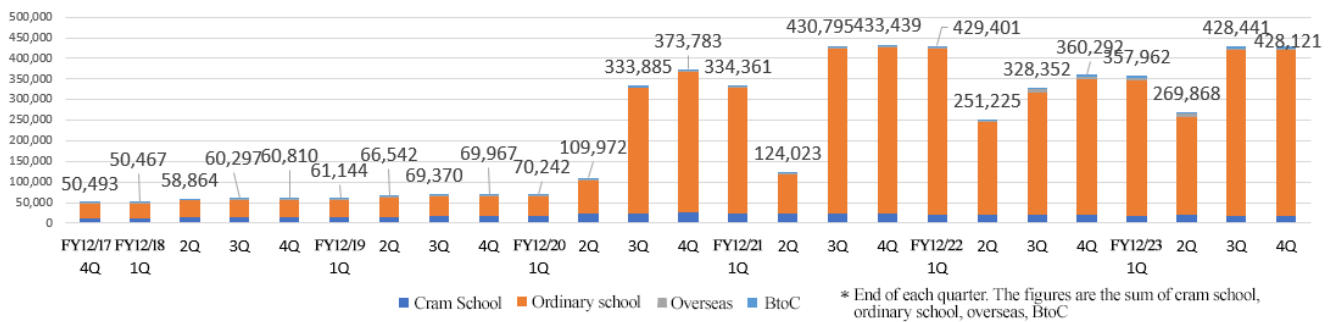
◎ Growth potential and future developments of “Surala”

As mentioned in Section "1-3 Market Environment & the Company's Initiatives," the Japanese EdTech market is expected to keep growing despite the declining birthrate. As of the end of December 2023, the market penetration rates for cram schools and schools are 2.3% (adopted by 1,177 schools) and 4.0% (adopted by 1,366 schools). The company is also actively cultivating overseas markets, so there is significant room for growth. The number of schools that have adopted “Surala” and “Surala Drill” and the number of IDs, which are key performance indicators (KPIs), have increased year on year, so it is possible to expect their 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”



(3) Business model

◎ Clients/users of the company’s products

The company's market consists of four fields: cram schools, ordinary schools, and BtoC (individual learners), and overseas.

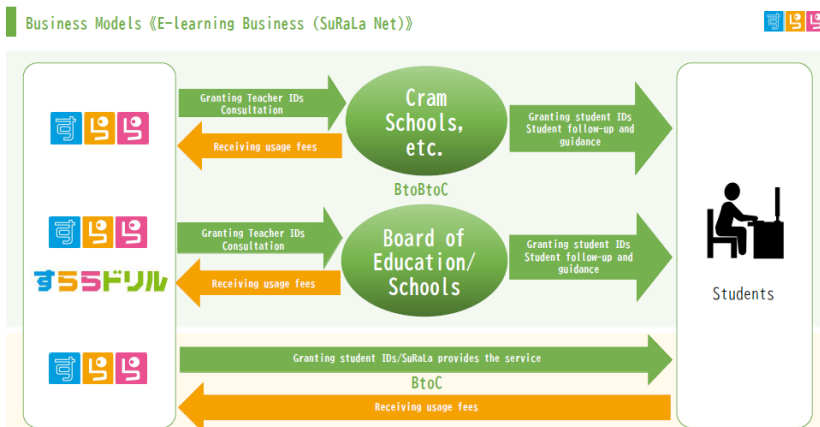
Users	Outline
<b>Cram School</b>	<p>The company offers services in various ways according to the scale, style, etc. of each cram school.</p> <p>&lt;Entrepreneurs&gt; The company provides clients who aim to start their own business with “support for procurement of real estate and funds, interior finishing, and promotion of enrollment,” “sharing successful cases and the know-how to operate cram school,” “charge-free promotional flyers,” consulting 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.</p> <p>&lt;Local medium-sized cram schools&gt; The company offers plans for transforming the existing business models and proposals for new cram schools.</p> <p>&lt;Afterschool day-care centers&gt; Providing learning opportunities to support facilities aimed at helping elementary to high school students with developmental and other disabilities learn the actions and social skills necessary for everyday life.</p> <p>&lt;Support for the entry to the educational business market from other industries &gt; It supports the entry of other industries and sectors, such as drugstores, into the education industry.</p>



<p><b>School</b> (school corporations, local governments)</p>	<p>Responsible for a wide range of areas where children can receive education, including local governments, public high schools, school corporations, vocational schools, and higher education. Providing “Surala” to school corporations and “Surala Drill” to local governments or public elementary and junior high schools. In addition to improving the academic performance of students through the operation of ICT-based teaching materials, the company provides support for comprehensive school management and implementation, including how to engage with teachers in schools and transform their working style.</p>
<p><b>BtoC</b></p>	<p>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.</p>
<p><b>Overseas</b></p>	<p>As a result of various projects adopted by the Japan International Cooperation Agency (JICA), “Surala Ninja!” is being offered in Sri Lanka, Indonesia, Egypt, and other countries. The company has participated in many government-affiliated and independent demonstration projects and has been engaged in activities through pilot projects.</p>

◎ 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.

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 ID registered by the schools that have adopted it.

<School>

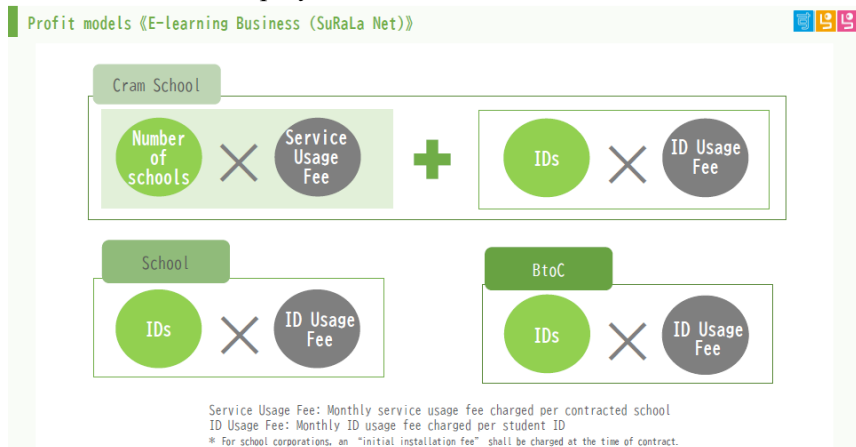
The company earns revenues mainly from the “initial installation fee” at the time of conclusion of a contract and a monthly “ID usage

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 cram school teachers (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 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.



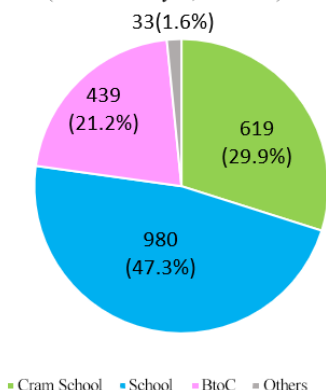
(Taken from the reference material of the company)

The number of clients, the number of IDs, and the sales composition in the fiscal year ended December 2023 are as follows.

	No. of clients	No. of IDs
Cram School	1,177	18,571
School	1,366	402,045
Overseas	53	3,204
BtoC	-	4,301
Total	2,596	428,121

\*As of the end of December 2023

Sales Composition in each field  
(Unit: million yen, FY 12/23)



**(4) Active formation of alliances**

The company is striving to improve contents by actively forming alliances with external enterprises.

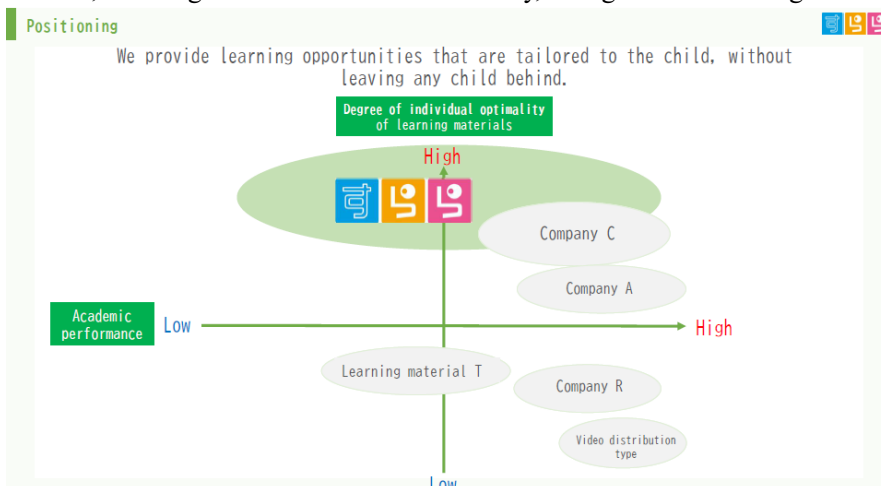
Alliance partners	Purpose of alliance	Outline
Aled, Inc.	Development of new contents of pronunciation tests	By incorporating the speaking AI “CHIVOX” of Aled, Inc., which checks the speaking skill and give feedback about improvement points into “Surala” English, which has helped students obtain “reading,” “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 “Surala Satellyzer”, profound learning tools focused on space, targeted at high school students	“Surala Satellyzer” 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.”
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 a unique, non-competitive position by providing customized learning opportunities for a wide range of children, including those with low academic ability, through its advanced digitalized teaching material, “Surala.”



(Taken from the reference material of the company)

**(2) Source of competitiveness: Ability to develop ICT-based teaching materials × consultation skills**

The competitive advantage of the company is mainly attributable to the “capability of developing ICT-based teaching materials,” which can be observed in the development and provision of “Surala,” based on AI and adaptive learning and has significant advantages over competing teaching materials. 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.

Also, “Surala” equipped with patented functions has the AI functions of cutting-edge enterprises, such as AI chatbots and AI speaking functions. By utilizing the big data, including accumulated an enormous volume of learning data, the company evolves and upgrades teaching materials. The adoption of such cutting-edge technologies has contributed to the competitive advantage.

**[1-6 ROE Analysis]**

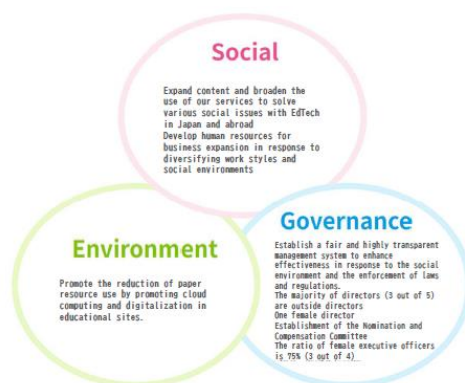
	FY 12/17	FY 12/18	FY 12/19	FY 12/20	FY 12/21	FY 12/22	FY 12/23
<b>ROE (%)</b>	<b>14.8</b>	<b>17.8</b>	<b>5.1</b>	<b>34.9</b>	<b>26.7</b>	<b>17.5</b>	<b>14.3</b>
Net income margin (%)	10.68	14.72	3.85	23.04	20.47	16.55	14.18
Total asset turnover [times]	1.10	1.00	1.11	1.17	1.00	0.80	0.80
Leverage [times]	1.26	1.21	1.19	1.29	1.30	1.32	1.27

\*ROE was taken from the brief financial report. The figures until fiscal year ended December 2021 are nonconsolidated, while the figures in fiscal year ended December 2022 are consolidated. Until fiscal year ended December 2021, 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 fiscal year ended December 2022, the values at the end of the term were used, as consolidated accounting was adopted. For the fiscal year ended December 2023, the average of the values at the beginning and end of the fiscal year was used again.

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]**

In response to the diversifying educational environment, the company continues to address social issues through its business and to improve sustainable corporate value through its management activities.



(Taken from the reference material of the company)

Society: in Japan	<p>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.</p> <ul style="list-style-type: none"> <li>*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</li> <li>*To offer optimized learning contents to children with developmental and learning disabilities</li> <li>*To offer voluntary learning optimized for combined classes in remote islands and mountain areas</li> </ul>
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	<p>*To offer learning opportunities to relatively poor children in cooperation with NPOs</p> <p>Initiatives to transform working styles</p> <p>*Introduction of a flexible working system for all employees and a remote working system for two days a week from 2021</p> <p>*The ratio of employees returning to work after childcare leave is 100%. Activities to promote the childcare leave system for fathers, and implementing measures to enhance the work-life balance and increase motivation for work</p> <p>*In November 2023, the J-ESOP-RS system was adopted as part of the welfare package. Creating an environment in which employees are highly interested in improving the share price and business performance and are motivated to work</p> <p>Improving human resources development and in-house training</p> <p>*Implementing a broad range of measures, with an emphasis on communication within and between departments</p> <p>*Promoting a one-on-one system in each department and introducing a mentoring system for new employees, where senior employees provide one-on-one supervision to junior employees</p> <p>* Organizing an annual Medium-term Management Plan development camp involving all employees to ensure that all employees have a sense of participation in management, a perspective of company-wide optimization, and a high level of insight into their own work</p> <p>*Providing necessary training based on legal compliance when necessary</p>
<p>Society: outside Japan</p>	<p>The company offers the arithmetic e-learning program “Surala Ninja!” for elementary school pupils in developing countries, including Sri Lanka and Indonesia.</p> <p>*To operate “Surala JUKU” for giving lectures on arithmetic to children of low-income families in cooperation with the microfinancing institution for women.</p> <p>*Providing services free of charge through NGOs such as “SOS Children's Villages” and “Child Fund,” which take in orphans and children who have been affected by domestic violence</p> <p>•Supporting the development of systems to provide high-quality education to children who require a wider range of support through demonstration projects by international and governmental organizations</p> <p>*To create employment opportunities by proactively hiring local women as facilitators (lecturers)</p>
<p>Environment</p>	<p>*To reduce the consumption of resources, such as paper, by utilizing ICT-based teaching materials</p> <p>*To streamline business operations, and reduce costs for printing and resources through DX</p>
<p>Governance</p>	<p>*One out of five directors (including 3 outside directors) is female</p> <p>*Three out of four executive officers are female</p> <p>*To hold company-wide training regularly, to enrich systems for having an audit committee and complying with laws and regulations</p> <p>*Establishing an appointment and remuneration committee</p>

Positioning of Education Aimed at by the Government and the Business of SuRaLa Net

By developing and providing learning materials and holding our own events, we nurture the qualities and abilities of children in a total way.



“Power toward learning, human nature, etc.” which seek to apply what they have learned to their lives and to society

“SuRaLa CUP”  
“Digital Math Contest”

“SuRaLa Active Learning Event”

“Knowledge and skills” that are alive and work in real society and in real life

“The ability to think, make decisions, express oneself, etc.” to deal with unknown situations

Surala Satellyzer

Surala Ninja!  
すららにほんご

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 2022

[https://surala.co.jp/Portals/0/images/sustainability/impact-management/SuRaLaNet\\_ImpactReport2022.pdf](https://surala.co.jp/Portals/0/images/sustainability/impact-management/SuRaLaNet_ImpactReport2022.pdf)

## 2. Fiscal Year ended December 2023 Earnings Results

### [2-1 Consolidated Business Results]

	FY 12/22	Ratio to sales	FY 12/23	Ratio to sales	YoY	Ratio to forecast
Sales	2,147	100.0%	2,145	100.0%	-0.1%	-7.6%
Gross Profit	1,573	73.2%	1,512	70.5%	-3.9%	-
SG&A	1,097	51.1%	1,125	52.4%	+2.5%	-
Operating Income	475	22.1%	387	18.1%	-18.5%	-1.0%
Ordinary Income	501	23.3%	392	18.3%	-21.6%	+0.1%
Net Income	355	16.5%	304	14.2%	-14.4%	+14.2%

\*Unit: million yen. Net income is the net income attributable to owners of parent, same as below.

### (Profit and loss of the e-learning business)

	FY 12/22	Ratio to sales	FY 12/23	Ratio to sales	YoY	Ratio to forecast
Sales	2,066	100.0%	2,073	100.0%	+0.3%	-6.3%
Gross Profit	1,543	74.7%	1,483	71.6%	-3.9%	-
SG&A	1,044	50.5%	1,041	50.3%	-0.2%	-
Operating Income	498	24.1%	441	21.3%	-11.4%	+2.7%
Ordinary Income	524	25.4%	446	21.6%	-14.7%	-
Net Income	377	18.3%	325	15.7%	-13.9%	-

\*Unit: million yen.

### Sales grew and profit dropped.

E-learning business were 2,073 million yen, almost unchanged from the previous fiscal year. Despite a decline of sales on the cram school market, sales on other markets were steady.

Operating income dropped 11.4% year on year to 441 million yen. Gross profit decreased 3.9% year on year due to the increase in cost of sales caused by the augmentation of development expenses, depreciation expenses, etc.

Sales on markets other than the BtoC market fell short of the forecast. As the sum of cost of sales and SGA was smaller than the forecast, operating income exceeded the forecast.

# BRIDGE REPORT



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



## 【2-2 Trends in the E-learning Business】

### (1) Variations in sales and KPIs

(Sales in each market)

	FY 12/22	FY 12/23	YoY
Cram school market	668	619	-7.4%
School market	967	980	+1.3%
BtoC market	399	439	+10.1%

\*Unit: million yen.

(Trends of KPIs)

\*Number of clients

	FY 12/22	FY 12/23	YoY
Cram School	1,204	1,177	-2.2%
School	1,191	1,366	+14.7%
Overseas	95	53	-44.2%
Total	2,490	2,596	+4.3%

\*Number of IDs

	FY 12/22	FY 12/23	YoY
Cram School	19,430	18,571	-4.4%
School	328,882	402,045	+22.2%
Overseas	7,819	3,204	-59.0%
BtoC	4,161	4,301	+3.4%
Total	360,292	428,121	+18.8%

\*Number of schools and IDs of Surala Net public schools

	FY 12/22	FY 12/23	YoY
Public schools			
Client schools	942	1,034	+9.8%
IDs	268,038	326,866	+21.9%
Subsidy for adopting EdTech			
Client schools	345	-	-
IDs	103,152	-	-
Support for inquiry-based learning			
Client schools	-	282	-
IDs	-	133,296	-

\* The number of schools and the number of user IDs for "support for inquiry-based learning" exclude the number of existing affiliated schools which introduced this support and the number of user IDs at these schools.

### (2) Initiatives

### ① Cram school market

Sales dropped.

The cram school market was affected by the declining birthrate. Small cram schools are facing an unfavorable situation in terms of management and the market of private cram schools is in a declining trend.

In addition, the number of user IDs at cram schools which have adopted “Surala” has decreased due to diversification of EdTech-based teaching materials.

On the other hand, new inquiries from cram schools are increasing owing to the popularization of online learning and improvement of online marketing.

The materials are steadily spreading among after-school daycare services.

### ② School market

Sales grew.

The company increased the number of salespeople for the school market from 22 to 27, to reinforce the system for sales and customer success.

While sales growth was slight as subsidies for adopting EdTech are no longer granted, so they did not achieve the goal of increasing sales by 10%, but contracts with individual public schools and municipalities, which have not utilized the materials yet, show an increasing trend.

The company is expanding marketing and sales channels based on successful cases at higher educational institutions such as vocational schools.

They will increase business opportunities in preparation for “NEXT GIGA.”

### ③ BtoC market

Sales increased.

The company is working on spreading the “Homebility,” a service for parents who have concerns about raising their children.

They are proactively engaging in activities to address the increase of truant students and spread a system that would allow counting as attendance, striving to establish a unique position.

The growth of sales was sluggish due to compulsory contract cancellations as a result of tighter lending conditions from credit companies following changes in rules for transaction approval by credit authorization.

Although the impact has been alleviated by countermeasures, it is projected that the performance in this fiscal year will still be affected.

### ④ Overseas market

Although the number of students at existing affiliated schools decreased after the end of the COVID-19 pandemic in Indonesia, “Surala” was adopted for the “Japan-ASEAN Program for Promoting DX in Asia.”

The company started to provide “SuRaLa NIHONGO” at vocational schools in Indonesia.

They expanded sales channels through an NGO that engages in activities to support children in Sri Lanka, which is facing an economic crisis, and 650 children at 9 facilities started to use “Surala Ninja!” The number of IDs in Sri Lanka hit a record high.

### ⑤ Development of new content and platforms

The company released “SuRaLa NIHONGO,” which enables learning of the Japanese language essential for working, studying and living in Japan, and “Surala Satellyzer” for engaging in comprehensive inquiry-based learning through the theme of space.

They implemented initiatives for solving social issues and entering new markets.

### ⑥ System development

Full-scale collaboration with Fantamstick, Ltd. has started and is in progress toward the release in 2025.

The company also proactively worked on the improvement of existing programs and the drastic improvement of UX/UI (students’ window and a learning management window).

Aiming for speedy and low-cost development, they will keep improving the system to allow for comfortable use from this fiscal year as well by ensuring smoothness and improving responsiveness during large-scale operations.



## [2-3 Financial Condition and Cash Flow]

### ◎Financial Condition (Consolidated)

	End of December 2022	End of December 2023	Increase/ Decrease		End of December 2022	End of December 2023	Increase/ Decrease
Current assets	1,738	1,591	-146	Current liabilities	499	457	-42
Cash and deposits	1,333	1,154	-178	Accounts payable	195	150	-45
Trade receivables	366	401	+34	Fixed liabilities	101	-	-101
Noncurrent assets	931	1,117	+186	Total liabilities	600	457	-143
Intangible assets	816	974	+158	Net assets	2,068	2,251	+182
Investments and other assets	84	115	+30	Retained earnings	1,475	1,746	+270
Total assets	2,669	2,708	+39	Total liabilities, net assets	2,669	2,708	+39

\*Unit: million yen.

Total assets grew 39 million yen from the end of the previous fiscal year to 2,708 million yen due to the decrease in cash and deposits, the increase in intangible assets (software), etc.

Total liabilities decreased 143 million yen year on year to 457 million yen due to repayment of long-term debt. Net assets grew 182 million yen year on year to 2,251 million yen due to the increase in retained earnings.

Equity ratio at the end of December 2023 was 82.0%, up 6.0% from the end of the previous fiscal year.

### ◎ Cash Flow (Consolidated)

	FY 12/22	FY 12/23	Increase/Decrease
Operating Cash Flow	542	475	-66
Investing Cash Flow	-503	-433	+69
Free Cash Flow	38	41	+2
Financing Cash Flow	50	-220	-270
Cash, Equivalents	1,333	1,154	-178

\*Unit: million yen.

The cash position declined.

## [2-4 Topics]

### ◎Adoption of the AI-based teaching material “Surala” by “Kai Seminar,” a major preparatory school in Yamanashi Prefecture

On February 1, 2024, the AI-based teaching material “Surala” was adopted on a full scale at Kai Seminar, a general preparatory school run by Sankyo Co., Ltd. (Kofu City, Yamanashi Prefecture), which is major in Yamanashi Prefecture.

#### (Background of the adoption)

Kai Seminar, which adopted “Surala” on a full scale, is a preparatory school that operates 53 cram schools mainly in Yamanashi and also in Nagano and Shizuoka. The teaching skills of its lecturers have an established reputation as the number of students who successfully advance to higher education is one of the largest in Yamanashi Prefecture.

In addition to group classes, Kai Seminar offers diverse lesson styles matching the needs of the students such as individual guidance, guidance in the style of private study rooms and lessons incorporating metaverse in recent years. However, they faced challenges such as making the teaching skills of all lecturers equally advanced, securing personnel, attending to students with a broad variety of academic abilities and bringing in new students with middle-level academic performance.

During the trial period of “Surala,” they inspected the effects of “Surala” in three classes with different styles of operation – the fully one-on-one style, the group + private study room style and the group + one-on-one style. As a result, lecturers were able to provide even

more appropriate guidance to students, motivating them to self-study and thus enabling effective support for learning. Furthermore, the reactions of students to “Surala” were more favorable than expected and it could be seen that their motivation to study improved.

While Kai Seminar has tried adopting various digital teaching materials until now, students and lecturers graded “Surala” as the best, leading to the official introduction of “Surala.”

#### (Future development and initiatives)

When it comes to adopting “Surala,” Kai Seminar will start using it in schools that seem to be facing challenges the most. It will be possible to provide a new study environment utilizing the features of “Surala,” which encourages individually optimized learning and self-directed learning matching the level of understanding and progress of each and every student, especially at schools that offer private study rooms.

They are planning to establish and develop operation that enables even one lecturer to provide consistent high-level guidance to more than 10 students. They intend to go on to extensively adopt “Surala” at more schools as a weapon for a new-era management strategy. Developing lessons that respect the lecturer’s independence and match different regional qualities and needs of the students depending on the class is one of the features and forte of Kai Seminar. Therefore, it is expected that “Surala” will be utilized in different ways depending on the class as well.

Surala Net will not only provide teaching materials, but also offer extensive support matching the environment of each classroom, such as proposals for utilization and the mindset of the lecturer, and aim together for the revitalization of the organization.

Furthermore, they intend to set the case of Kai Seminar as a precedent to focus even more on finding potential clients among major cram schools in the countryside.

### 3. Fiscal Year ending December 2024 Earnings Forecasts

#### [3-1 Earnings Forecast]

	FY 12/23	Ratio to sales	FY 12/24 Est	Ratio to sales	YoY
Sales	2,145	100.0%	2,295	100.0%	+7.0%
Operating Income	387	18.1%	324	14.1%	-16.3%
Ordinary Income	392	18.3%	330	14.4%	-15.9%
Net Income	304	14.2%	195	8.5%	-35.6%

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

#### (Profit and loss of the e-learning business)

	FY 12/23	Ratio to sales	FY 12/24 Est	Ratio to sales	YoY
Sales	2,073	100.0%	2,159	100.0%	+4.1%
Gross Profit	1,483	71.6%	1,426	66.0%	-3.9%
SG&A	1,041	50.3%	1,071	49.6%	+2.8%
Operating Income	441	21.3%	354	16.4%	-19.9%

\*Unit: million yen. Estimates are those of the company. Gross profit was calculated with reference to the material of the company.

#### Sales are projected to grow, while profit is forecast to decline.

Sales in the e-learning business are projected to grow 4.1% year on year to 2,159 million yen. The sales from the subsidy will drop, but KPIs, such as the number of school buildings and IDs have increased steadily. Accordingly, the sales in the school and BtoC businesses are expected to increase.

Operating income is forecast to drop 19.9% year on year to 354 million yen. In addition to increase in depreciation expenses of software required for the plan for proactive investment in development, increase in cost of sales, maintenance fees for servers, etc., the company is going to focus on SEO measures and online marketing. Regarding the personnel recruitment the company has actively promoted over the past few years, recruitment progressed steadily. Accordingly, the company will slow down the recruitment, and concentrate on the improvement of the skills of individual employees.

**[3-2 Trends in each field]**

(Sales in each field)

	FY 12/23	FY 12/24 Est	YoY
Cram School	619	616	-0.5%
School	980	1,058	+7.9%
BtoC	439	451	+2.5%
E-learning Business	2,073	2,159	+4.1%

\*Unit: million yen.

(Initiatives)

\*Cram Schools

While the number of student user IDs at existing affiliated cram schools can hardly be expanded, the company will promote the adoption at local middle-sized and major cram schools.

They expect that more daycare services such as after-school daycare will adopt their service.

\*Schools

As a step toward NEXT GIGA, they will reinforce the sales system and engage in identifying educational challenges and proposing solutions for each municipality.

Apart from continuing to strengthen the approach to public high schools, vocational schools, etc., they will enhance the cooperation with learning e-portals and proposals for sales channels such as agencies.

Owing to the GIGA Program, even schools that had little experience have acquired expertise concerning digital learning and are demanding more beneficial proposals. It can be expected that the strengths of the company, a pioneer of the industry, will prove useful.

\*BtoC

The company will engage in proactive Internet marketing centered on SEO measures.

They will provide support to parents who have concerns about raising their children.

**4. Medium-term Management Policy****[4-1 Business Environment]**

As mentioned in Section “1-3 Market Environment and the Company’s Initiatives,” there has been a progress in the “popularization of EdTech” on the educational market in Japan. However, from now on, it will be necessary to utilize data and produce results to firmly establish it.

The provision of subsidies for the “GIGA School Program,” launched in 2020, has ended and the market is growing at a slow pace. However, another market revitalization is projected over the span of about 4-5 years after 2024 owing to “NEXT GIGA” as devices will be updated.

It can be expected that the company with its abundant achievements, experience and high capability concerning EdTech will be successful.

In addition, the following changes are occurring:

“Possibility of utilizing generative AI in the education field as it gains prominence”

“Changes in the objectives of education”: From academic performance to qualities and abilities (more than a half of students advance to university through AO (admission offices) and recommendations)”

“Diversification of learning opportunities”: Increase of alternative schools and correspondence high schools caused by the increase in the number of truant students and pupils with developmental disorders

Regarding AI, the company has conducted various in-house discussions and research and is preparing for incorporating AI.

Overseas, there are circumstances, including “growing needs for and popularization of Japanese EdTech in emerging countries and developing countries after the COVID-19 pandemic” and “overseas development as a national policy (export of Japanese-style education).”

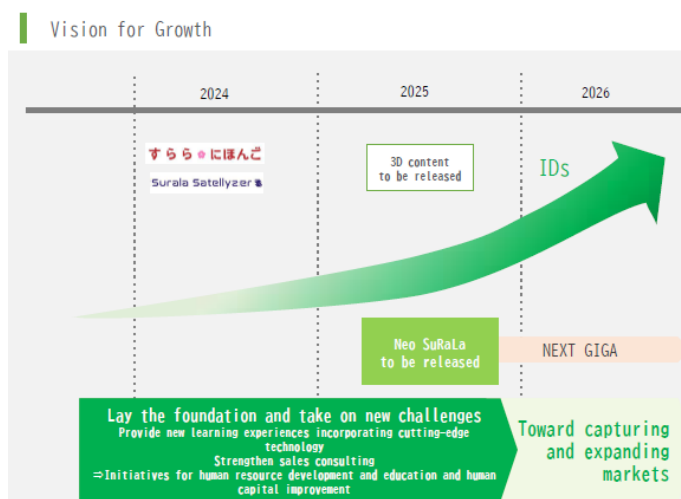
## [4-2 Vision for Growth and Management Policies]

### (1) Vision for Growth

Taking this kind of business environment into account, the company intends to utilize their strengths and competitive advantages to take new initiatives and work on acquiring and expanding market shares while further raising the market penetration rate to firmly establish their foundation.

Concretely, they are going to expand “SuRaLa NIHONGO” and “Surala Sateellyzer,” released in 2023. Furthermore, they plan to release 3D content and “Neo Surala,” a next-generation LMS, as a step toward NEXT GIGA by 2025.

They will also focus on the enhancement of human capital, such as the training and education of personnel, in order to reinforce their foundations.



(Taken from the reference material of the company)

### (2) Management Policies

The management policies of each business department toward “firmly establishing the foundation and taking new initiatives” are as follows.

#### ① Development

- Improve and expand existing content, reflecting user feedback
- Provide individualized optimization of learning with big data to “develop experiential learning content incorporating 3D and other latest technologies” and “develop functions that allow learners to feel their growth and boost their self-esteem”
- Develop next-generation learning management systems

#### ② Marketing

Market	Initiatives
School	<ul style="list-style-type: none"> <li>• Promote data utilization and enhance support for producing results at schools which have adopted Surala</li> <li>• Upgrade new proposals for NEXT GIGA</li> <li>• Expand sales channels to diverse learning opportunities</li> </ul>
Cram School	<ul style="list-style-type: none"> <li>• Strengthen approach to old-fashioned middle-sized and major schools in the countryside</li> <li>• Enhance proposals for new styles of cram school operation</li> <li>• Offer assistance with post-graduation opportunities through cooperation with employment support companies</li> </ul>
BtoC	<ul style="list-style-type: none"> <li>• Enhance brand development for truant students and children with developmental disorders</li> </ul>

	<ul style="list-style-type: none"> <li>•Strengthen support for parents (release new psychological services)</li> </ul>
Overseas	<ul style="list-style-type: none"> <li>•Expand sales channels from those for elementary school pupils to those for middle school students by boosting development of the content for middle school students</li> <li>•Enter the Japanese language education market by selling “SuRaLa NIHONGO”</li> <li>•Expand the number of IDs by promoting the adoption by NGOs and participating in projects by international institutions, etc. *Promote cross-sectional marketing of new content utilizing multi-channel development</li> </ul>

### ③ Corporate

- Develop human resources to elevate corporate value, enhance corporate brand development
- Keep up initiatives for upgrading human capital to achieve sustainability-oriented management

## 5. Conclusions

Although the environment for the management of cram schools is not favorable due to declining birthrates, it appears that major cram schools rooted in the countryside, which are the targets of the company, are not quite willing to adopt EdTech in many cases.

Amid such situation, Kai Seminar, run by Sankyo Co., Ltd., which was founded in 1974 and thus has a long history, adopted “Surala.” It seems that this news was met with surprise in the cram school industry as well.

The company intends to set this case as a precedent to approach major cram schools in the countryside. While it is expected that it will take some more time until “NEXT GIGA” contributes to revenues, we would like to keep watching the situation of the business progress on each market.

## <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.

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