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Presentation Materials for the Earnings Briefing

for the First Half of the Fiscal Year Ending September 30, 2018

May 14, 2018 (TSE 1st Section 6189)

Global Group Corp.



Caution Concerning Forward-looking Statements

The plans, forecasts, strategies, and other information contained in these materials forecast future performance based on information available at the time the materials were prepared, and these include inherent risk and uncertainty.

Actual performance may differ from forecasts and predictions due to such risk and uncertainty.

Information considered useful for explaining our business environment has been provided in these materials. The results in the data may vary depending on the method or timing of the survey.

Information within these materials on topics not concerning the Company is quoted from published information and other sources. As such, the accuracy and appropriacy of the information has not been verified, nor are any guarantees provided thereof.



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Overview of Results for the First Half of the Fiscal Year Ending September 30, 2018 (FY9/18)

Highlights for the first half of FY9/18

1. Achieved a substantial increase in sales

- Net sales: ¥8,214 million (up ¥2,238 million, or 37.5%, year-on-year)
- The increase is attributable primarily to the opening of new facilities in FY9/17, leading to a rise in the number of nursery school children (with the average number of nursery school children per month increased from 5,068 to 6,243) and a substantial increase in subsidies from municipalities.
- Sales increased more than expected thanks to increases in subsidies to improve compensation for child-care workers and also rent subsidies.

2. Achieved a substantial increase in operating profit

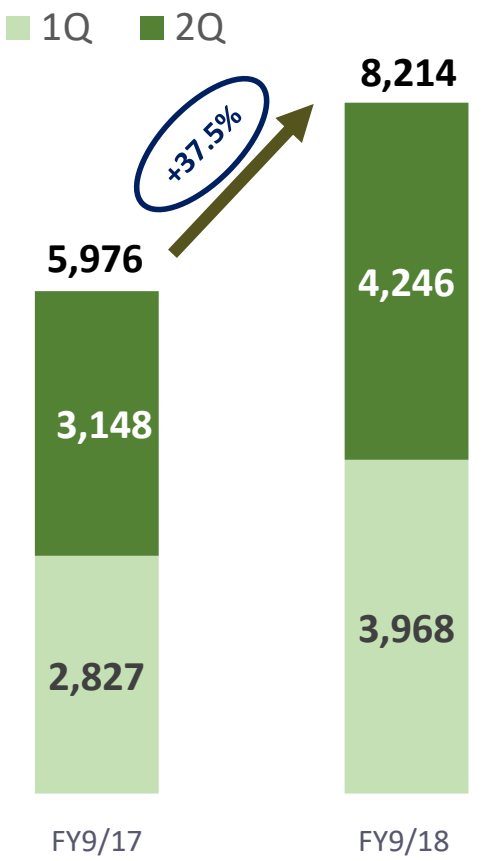
- Operating profit: ¥349 million (up ¥62 million, or 21.7%, year-on-year)
  - Increased due to an increase in sales despite a temporary increase in personnel expenses due to a change in the period in which they were incurred as a result of the improved compensation and also an increase in taxes and dues, business consignment expenses, and other SG&A expenses.
- Ordinary profit: ¥319 million (down ¥42 million, or 11.8%, year-on-year)
  - As contrasted with an increase in operating profit, ordinary profit decreased due to a decrease in non-operating income (because the opening of new facilities lead to posting subsidy income of ¥100 million in 1H FY9/17, while there are no openings in 1H FY9/18).
- We have announced the upward revision to the earnings forecast as both operating and ordinary profits remain at the levels higher than expected.

3. Opened 16 new facilities (15 central government licensed nursery schools, one small-scale nursery school) in April

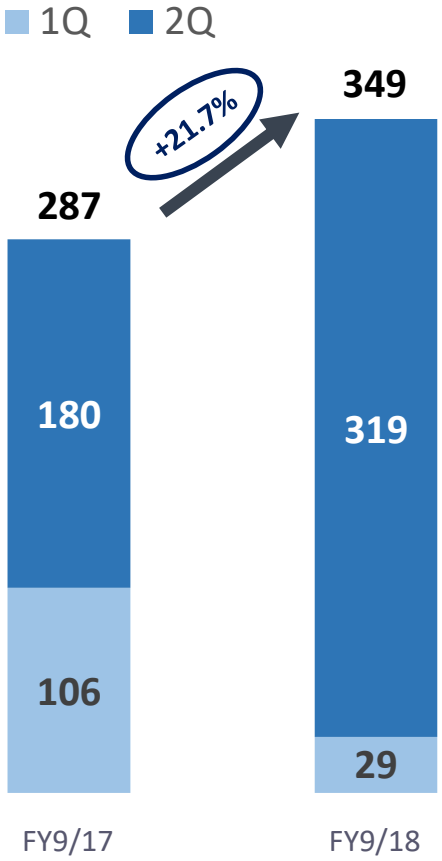
- We are going to open Minami-Hanahata Nursery School (a company-sponsored nursery) in June and Minamisuna Nursery School (a central government licensed nursery) in August.

Results summary for the first half of FY9/18

Net sales

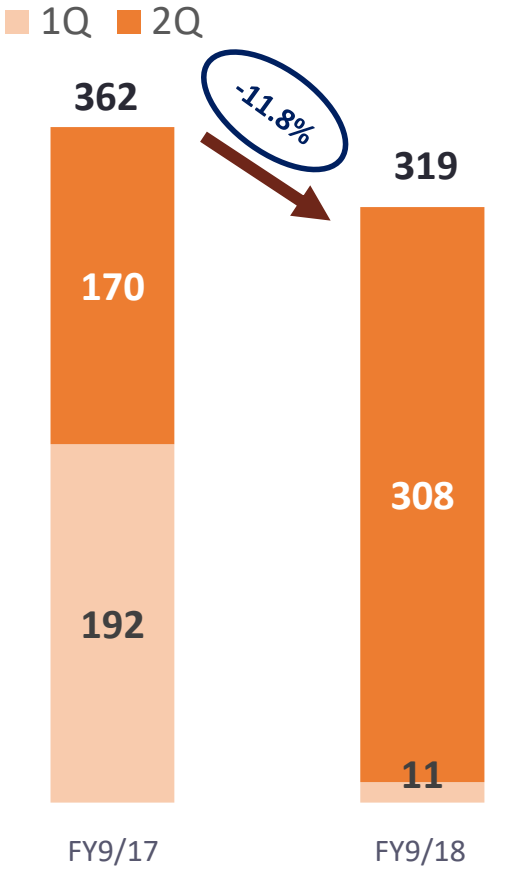


Operating profit



Ordinary profit

(Millions of yen)



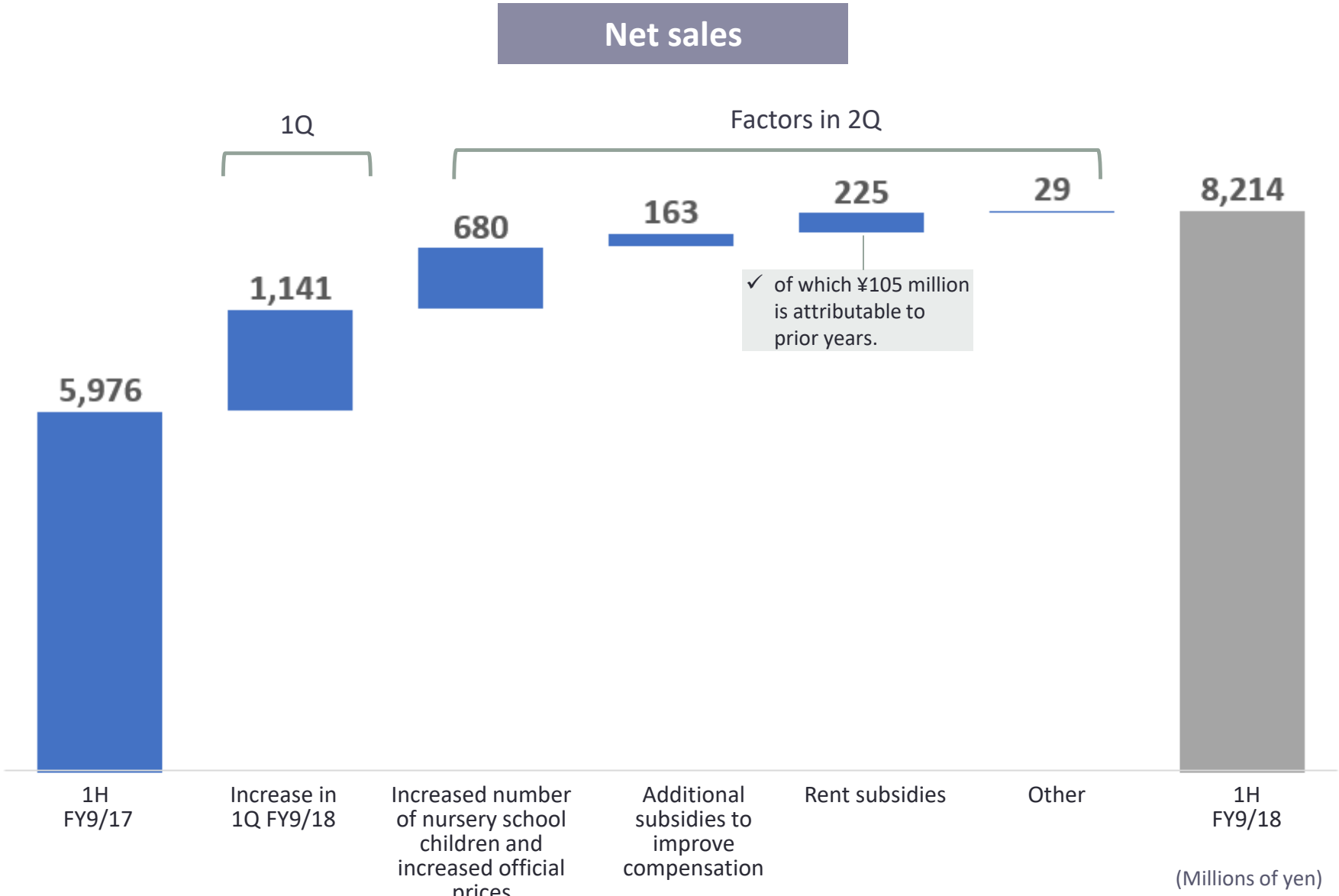
Operating results for the first half of FY9/18

(Millions of yen)

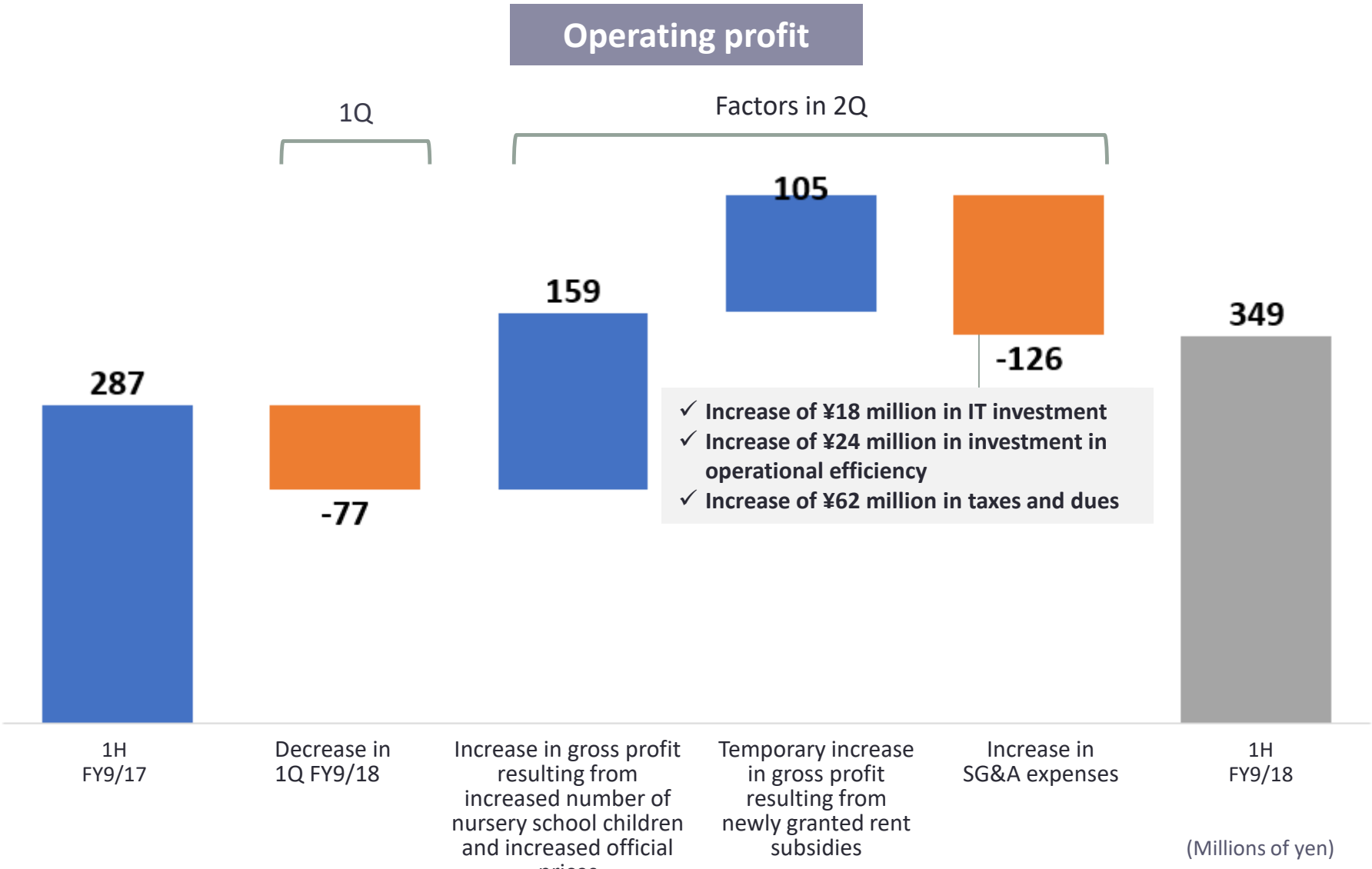
	1H FY9/17		1H FY9/18		
		%		%	YoY change
Net sales	5,976	100.0%	8,214	100.0%	+37.5%
Cost of sales	4,917	82.3%	6,926	84.3%	+40.9%
Gross profit	1,059	17.7%	1,288	15.7%	+21.6%
SG&A expenses	772	12.9%	939	11.4%	+21.6%
Operating profit	287	4.8%	349	4.3%	+21.7%
Non-operating income	115	-	4	-	(95.8)%
Non-operating expenses	40	-	34	-	(14.5)%
Ordinary profit	362	6.1%	319	3.9%	(11.8)%
Profit before income taxes	362	6.1%	319	3.9%	(11.8)%
Income taxes	37	-	152	-	+309.7%
Profit	325	5.4%	167	2.0%	(48.6)%

- Increases in the number of nursery school children and official price revisions resulted in a ¥1,440 million year-on-year increase (¥680 million for 2Q only).
- The amount of subsidies to improve compensation increased year-on-year by ¥490 million (¥160 million for 2Q only), of which ¥200 million was attributable to temporary factors.
- Rent subsidies increased year-on-year by ¥220 million due primarily to those newly granted by the municipalities in Tokyo.
- Personnel expenses increased year-on-year by ¥600 million due to the subsidies for the improved compensation, of which ¥340 million was attributable to temporary factors.
- Although tax and dues increased, SG&A expense ratio deceased due mainly to a decrease in recruiting expenses.
- No new opening of facilities in 1H FY9/18 resulted in a decrease in subsidy income.
- The effective tax rate increased because of no tax loss carryforward available in the current period.

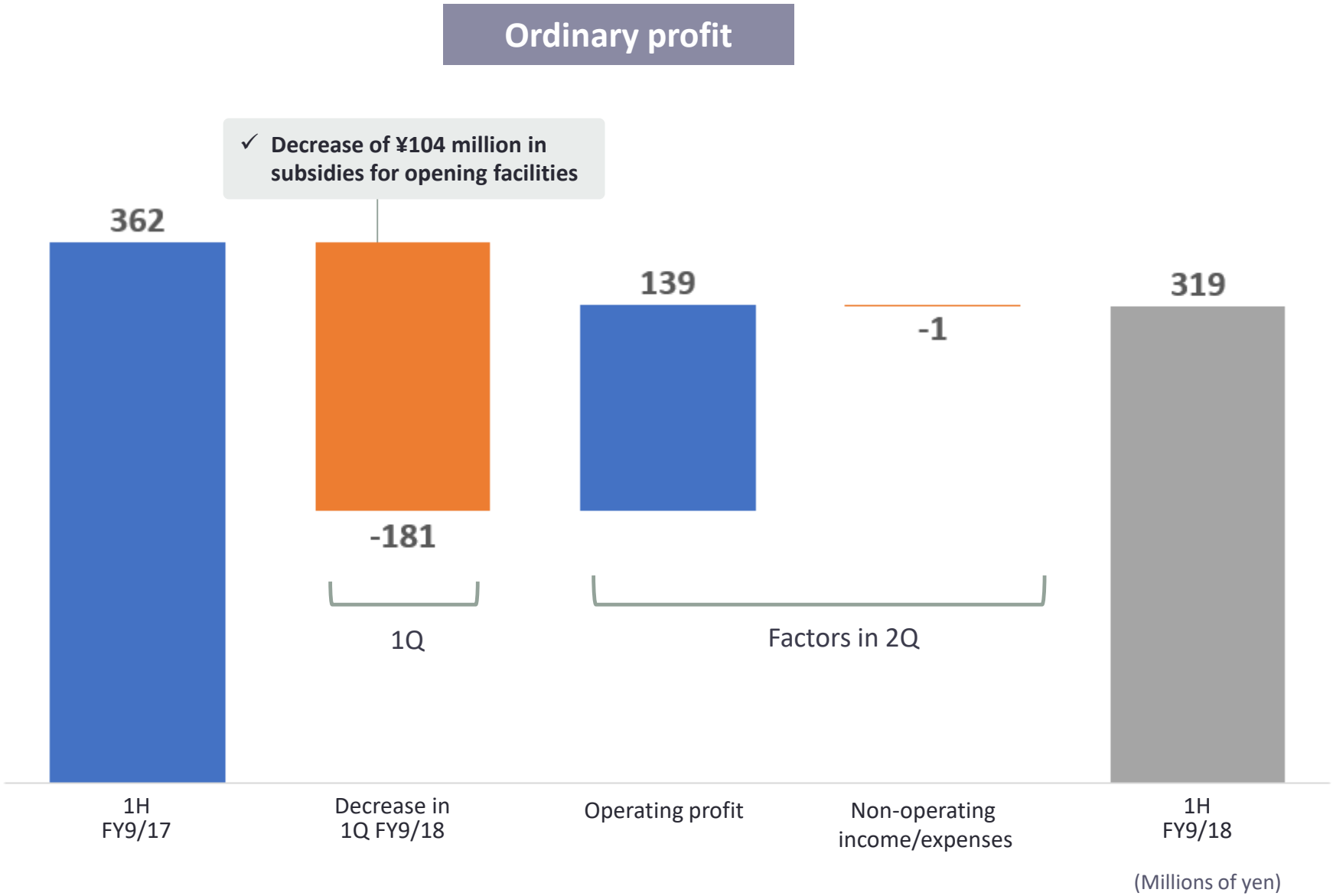
Factors of year-on-year change in net sales for first half of FY9/18



Factors of year-on-year change in operating profit for first half of FY9/18

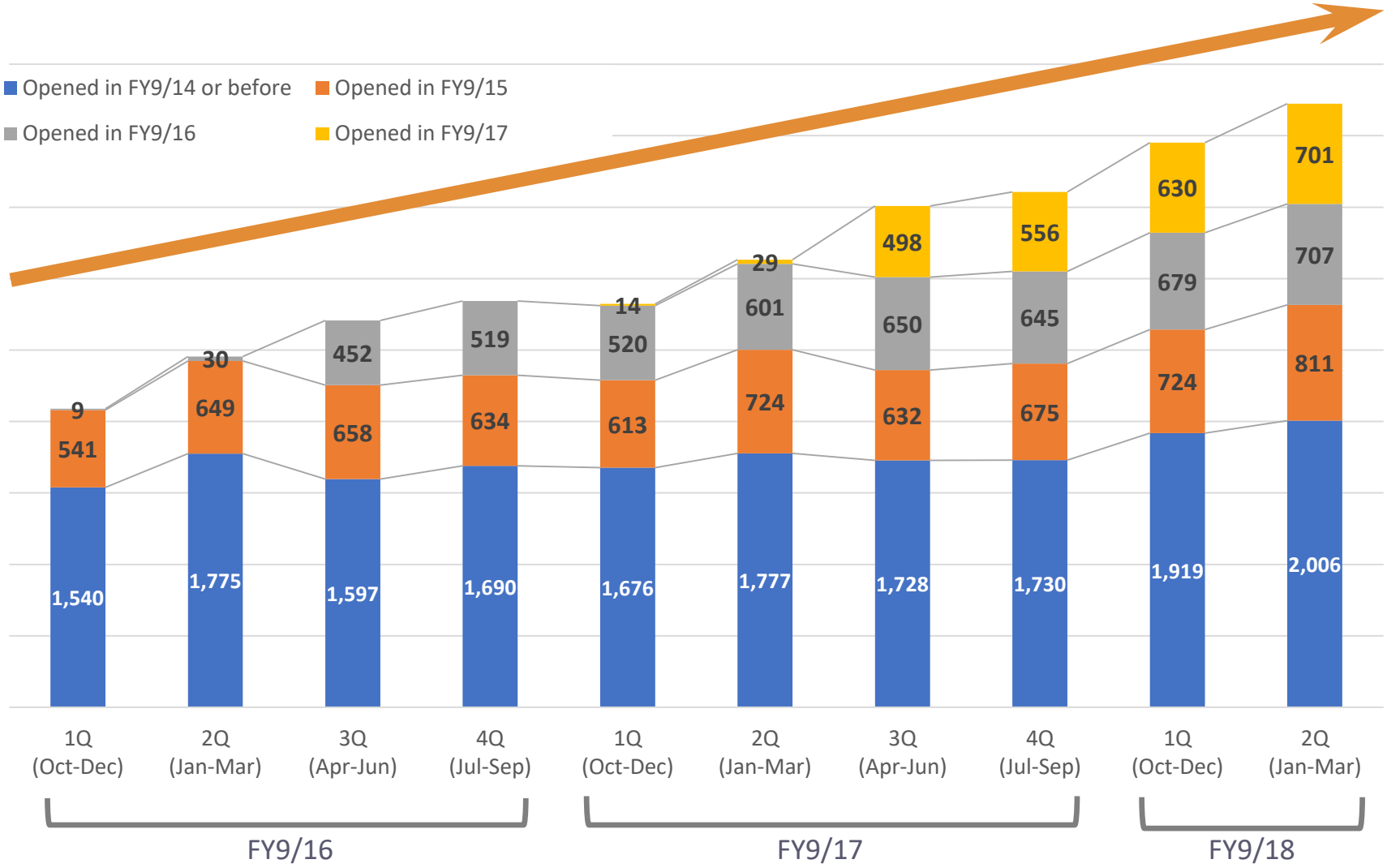


Factors of year-on-year change in ordinary profit for first half of FY9/18



Quarterly net sales by period of school opening

- Quarterly net sales have been increasing steadily.
- Net sales from newly opening schools (in FY9/17) increased along with an increase in the occupancy rate.



(Millions of yen)

Consolidated balance sheet

(Millions of yen)

	As of September 31, 2017	As of March 31, 2018	YoY Change
Current assets	**2,645**	**5,716**	**3,070**
Cash and deposits	1,246	3,555	2,309
Non-current assets	**11,307**	**12,818**	1,511
Property, plant and equipment	8,789	10,288	1,499
Total assets	**13,952**	**18,534**	**4,581**
Current liabilities	2,472	5,743	3,271
Non-current liabilities	5,555	6,617	1,062
Total liabilities	**8,028**	**12,361**	**4,333**
Net assets	**5,924**	**6,172**	**248**
Total liabilities & net assets	**13,952**	**18,534**	**4,581**
Interest-bearing debt	4,167	8,191	4,024
Equity ratio	42.5%	33.2%	-

- The drawdown of borrowings caused cash and deposits to increase.
- Non-current assets increased by ¥1,510 million due to increase in construction in progress as a result of preparation for opening of new nursery schools in April 2018.

- Increase in short-term loans payable caused current liabilities to increase.
- Increase in long-term loans payable caused non-current liabilities to increase.

- Interest-bearing debt increased due to an increase in borrowings for opening of new nursery schools.
- Equity ratio declined as a result of drawdown of borrowings.

Consolidated statement of cash flows

(Millions of yen)

	1H FY9/17	1H FY9/18
Cash flows from operating activities	**(183)**	**35**
Profit before income taxes	362	319
Depreciation	233	284
Decrease (increase) in accounts receivable-other	(139)	(432)
Decrease (increase) in prepaid expenses	(315)	(351)
Increase (decrease) in advances received	(120)	(150)
Cash flows from investing activities	**(1,987)**	**(1,773)**
Purchase of property, plant and equipment	(1,790)	(1,783)
Payments for lease and guarantee deposits	(133)	(70)
Cash flows from financing activities	**2,104**	**4,047**
Net increase (decrease) in loans payable and bonds	2,105	4,024
Net increase (decrease) in cash and cash equivalents	**(65)**	**2,309**
Cash and cash equivalents at beginning of period	**1,474**	**1,246**
Cash and cash equivalents at end of period	**1,408**	**3,555**

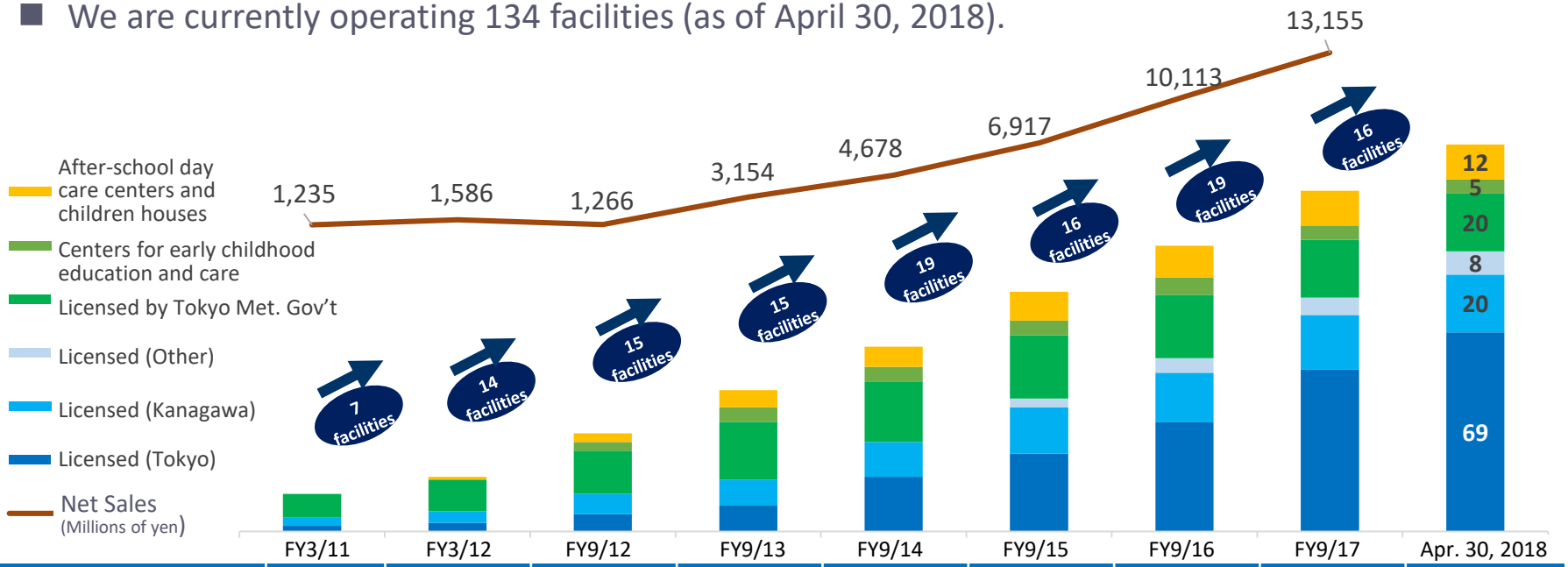
New facilities opened or scheduled to be opened in FY9/18

Location		Name of facilities (provisional name)	Planned capacity	Facility format	Schedule
Tokyo	Shinjuku-ku	**Global Kids Aizumicho / Global Kids Nishi-Shinjuku**	80/51	Licensed	Opened in April 2018
	Ota-ku	**Global Kids Unoki / Global Kids Zoshiki**	39/54	Licensed	Opened in April 2018
	Shibuya-ku	**Global Kids Hatagaya / Global Kids Yoyogi-Uehara / Global Kids Yoyogi-Hachiman**	81/79/79	Licensed	Opened in April 2018
	Suginami-ku	**Global Kids Shoan**	70	Licensed	Opened in April 2018
	Toshima-ku	**Global Kids Shiinamachi / Global Kids Ikebukuro Ekimae / Global Kids Chihaya**	25/20/26	Licensed	Opened in April 2018
	Edogawa-ku	**Global Kids Funabori**	94	Licensed	Opened in April 2018
	Koto-ku	**Global Kids Minamisuna**	99	Licensed	To be opened in August 2018
	Adachi-ku	**Global Kids Minami-Hanahata**	26	Company-sponsored	To be opened in June 2018
Kanagawa	Yokohama City	**Global Kids Koyasu Ekimae / Global Kids Tsunashima SST**	60/17	Licensed/Small-scale	Opened in April 2018
Saitama	Toda City	**Global Kids Toda Ekimae**	60	Licensed	Opened in April 2018
Osaka	Osaka City	**Global Kids Suminoe**	80	Licensed	Opened in April 2018
		18 nursery schools	1,040 children		

* The above plans are subject to change.

Number of facilities under operation

■ We are currently operating 134 facilities (as of April 30, 2018).

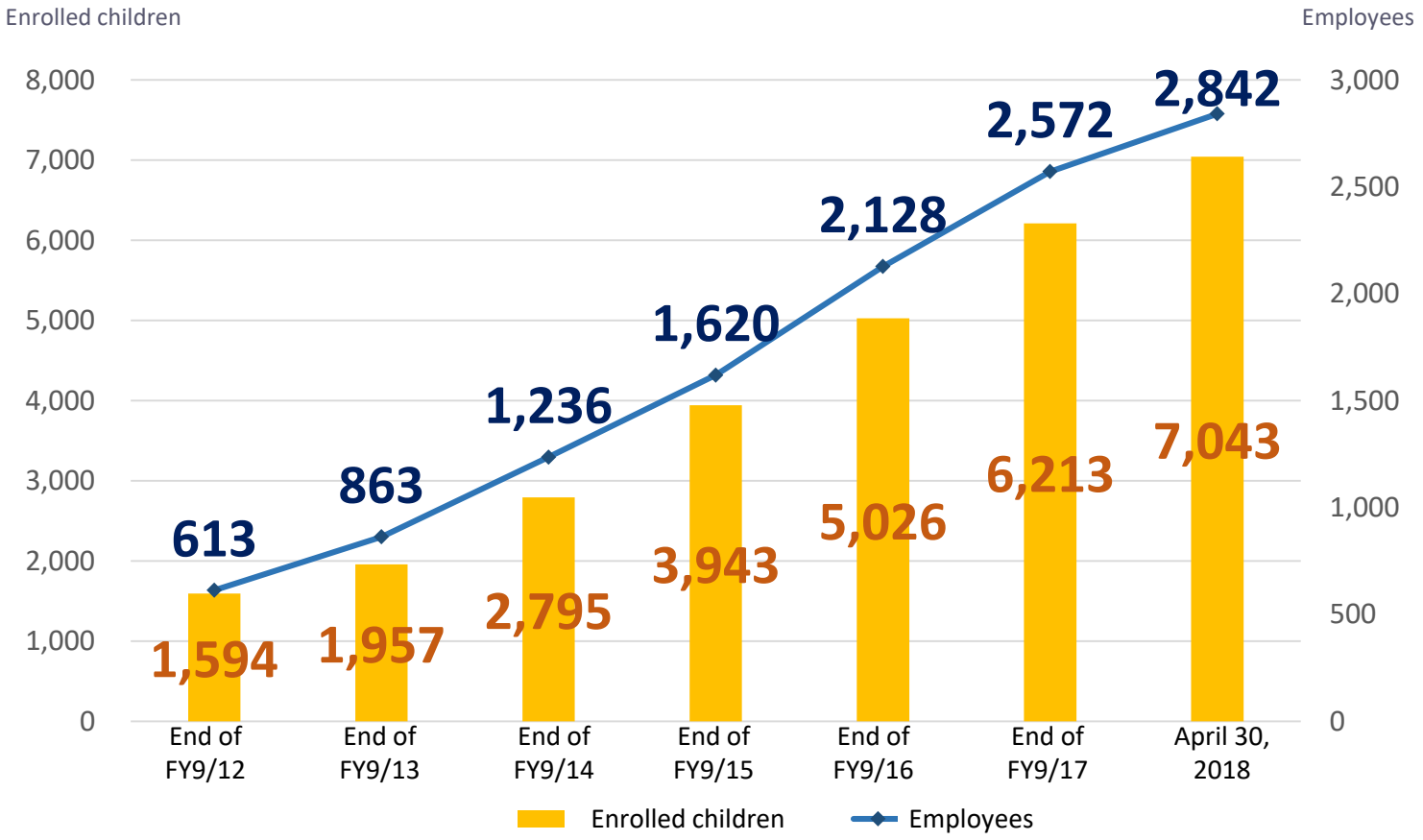


At end of	FY3/11	FY3/12	FY/9/12	FY9/13	FY9/14	FY9/15	FY9/16	FY9/17	Apr. 30, 2018
Licensed (Tokyo)	2	3	6	9	20	28	38	56	69
Licensed (Kanagawa)	3	4	7	9	12	16	17	19	20
Licensed (Chiba)	0	0	0	0	0	2	3	3	3
Licensed (Saitama)	0	0	0	0	0	0	0	0	1
Licensed (Osaka)	0	0	0	0	0	1	2	3	4
Licensed by Tokyo Met. Gov't	8	11	15	20	20	21	22	20	20
Centers for early childhood education and care	0	0	1	1	1	1	2	2	1
Small-scale nursery schools	0	1	2	4	4	4	4	3	4
After-school day care centers and children houses	0	1	3	6	7	10	11	12	12
Total	**13**	**20**	**34**	**49**	**64**	**83**	**99**	**118**	**134**

Notes: 1. Net sales for FY9/15 and before are those of Global Kids Co., Ltd. on a consolidated basis.
2. The numbers for the centers for early childhood education and care include facilities providing small-scale nursery service.

Numbers of enrolled children and employees

Enrolled children and employees



"Enrolled children" above excludes those enrolled in after-school day care centers and children houses.
"Employees" above includes corporate staff and part-time workers.

Forecast for the Fiscal Year Ending September 30, 2018 (FY9/18)

Overview of revised consolidated earnings forecast for FY9/18

(Millions of yen)

	FY9/17 Results		FY9/18 Forecast				
			Previous forecast		Revised forecast		
		%		%		%	YoY change (%)
Net sales	13,155	100.0%	16,245	100.0%	17,000	100.0%	+29.2%
Cost of sales	11,053	84.0%	13,720	84.5%	14,350	84.4%	+29.8%
Gross profit	2,102	16.0%	2,525	15.5%	2,650	15.6%	+26.1%
SG&A expenses	1,695	12.9%	2,247	13.8%	2,280	13.4%	+34.5%
Operating profit	407	3.1%	278	1.7%	370	2.2%	(9.1)%
Non-operating income	1,594	-	1,594	-	1,900	-	+19.2%
Non-operating expenses	523	-	533	-	570	-	+8.9%
Ordinary profit	1,477	11.2%	1,339	8.2%	1,700	10.0%	+15.0%
Extraordinary income (losses)	(228)	-	0	-	(20)	-	-
Profit before income taxes	1,248	9.5%	1,339	8.4%	1,680	9.9%	+34.5%
Income taxes	457	-	484	-	530	-	+15.9%
Profit	791	6.0%	855	5.3%	1,150	6.8%	+45.3%

Contributing factors for the revised earnings forecast for FY9/18

- Larger-than-expected subsidies for nursery school operations including subsidies for improving compensation and rent subsidies.
- Increase in cost of sales due to higher personnel expenses incurred in connection with subsidies for improving compensation.
- Increase in SG&A expenses due to additional investments in IT and operational efficiency planned for the 2nd half of FY9/18.
- Improvement in non-operating items reflecting that subsidy income for capital investments has exceeded our initial forecast.
- Expected growth in profit exceeding previous forecast, attributable to an increase in ordinary profit despite an impact of impairment loss that is to be reported in the 2nd half of FY9/18.

Our Business Strategy

Our vision and business strategy that fully leverages our strengths

Vision

To be the best child-rearing support company in Japan
both in quality and quantity

Strategy

- ✓ Expand facilities based on strategic dominance
- ✓ Secure and retain talents by improving work practices
- ✓ Enhance the quality of childcare service
- ✓ Comprehensively strengthen the operating structure (including use of IT)

- **Making upfront investments for the next two to three years**
- **To be a lean and strong company through investments**

Strength

Commitment to securing talents

- Management based on philosophy
- Employee-first management approach
- Diversified recruiting strategy

Facility development capability

- Abundant pipelines in the Tokyo metropolitan area
- Development track record coupled with strong execution capability
- Development led by a team of specialized professionals

Quality of childcare service

- Fulfilling childcare training programs
- Lessons learned from childcare overseas reflected in our service

Leading the industry as the largest operator in Tokyo

We are the largest operator* in Tokyo, which suffers the highest number of waited-list children in Japan.

	Operator	Facilities in Tokyo*		Total capacity in Tokyo*	
		As of Apr. 30, 2018	Change from Oct. 31, 2017	As of Apr. 30, 2018	Change from Oct. 31, 2017
1	**Global Group**	**92**	**+12**	**5,908**	**+698**
2	Company A	74	+7	Approx. 5,300	+500
3	Company B	Approx. 79	+4	Approx. 3,800	+300
4	Company C	57	+13	Approx. 3,800	+800
5	Company D	75	+9	Approx. 3,300	+400

We will have **94 facilities** with **6,033 children** in August 2018.

* The figures above are our estimates based on data obtained from each company's websites and other sources as of October 31, 2017 and April 30, 2018.

◆ Cherish people (employees) and accelerate to implement measures for them to work as “spirited adults.”

1. Spiritedness Survey

- ✓ Survey conducted to all employees to research on awareness and issues

2. Lincoln Meeting

- ✓ Committee to make changes on employees’ own initiative

3. Team Book

- ✓ Activity of employees to develop their facilities’ vision on their own initiative

4. *Genbaru* Program

- ✓ Program to have head office employees experience the work at nursery facilities

5. Child-rearing support

- ✓ Partially began payment of child benefit allowance
- ✓ Extended the period of childcare leave until the child reaches 3 years old (legal requirement is 2 years old).
- ✓ Extended the period of reduced working hours for childcare until the child graduates elementary school (legal requirement is until the child reaches 3 years old).

6. Programs to encourage utilization of paid leave

- ✓ Anniversary leave
- ✓ Any-time leave
- ✓ Grand child birth leave
- ✓ Leaves are highly flexible

7. GK App

- ✓ Communication method established to connect all employees

8. Improve compensation of on-site childcare workers

- ✓ Average increase in monthly compensation: 6.2% (Average increase in annual salary: 3.2%)

◆ “Smart Nursery” vision

- Realizing reduction in administrative works and psychological burden through active use and leverage of IT and other advanced devices and facilities.

◆ Specific measures

- ✓ Implement IT and provide supporting systems to facilities

  Measures experimentally implemented at some facilities: sensor to monitor children’s nap time, automatic thermometer, nursing support system, etc.

- ✓ A model nursery school to be opened on June 1, 2018.
- ✓ Willing to introduce image analysis and AI in childcare in the future.

Acquisition of Mebae Nursery Room

◆ Acquired a childcare business from Partner Agent, Inc.

- ✓ Acquired Mebae Hoiku Room— nursery schools in Tokyo operated by Partner Agent, Inc.
- ✓ Mebae Hoiku Room currently operates six nursey schools in Tokyo.
- ✓ Three more Mebae Hoiku Room facilities are scheduled to be opened in and after October 2018.



◆ Sharing open spots at different nurseries

➢ **Launch "En-matching" service aimed at sharing the use of company-sponsored nurseries in each region**



✓ After the acquisition of Mebae Hoiku Room, we plan to have 32 company-sponsored nurseries registered with the Global Group, and over 80 user companies.

Our initiative in Vietnam

◆ Set up a joint venture with a local company in Vietnam

◆ Concluded a basic agreement with SNB

Will establish a joint venture to promote a childcare business in Vietnam.





➢ Company Profile of SNB

Official name:	SNB KIDDEN WORLD COMPANY LIMITED
Established on:	November 16, 2007
Lines of business:	Wholesale and import of household goods, manufacturing and sale of toys, etc., and a Vietnamese sales agent for various Japanese products such as ICREO, a powdered milk by Glico Group. Also an authorized sales agent for Kao's "Merries" baby diapers in baby/maternity specialty stores within Vietnam.



SNB is the only importer and sales agent of ICREO (product of Glico Group) in Vietnam since May 22, 2015.



Thank you for your attention!

◆ Websites:

www.globalg.co.jp/ Global Group Corp. official site

http://www.gkids.co.jp/ Global Kids Co., Ltd. official site

http://www.gk-recruit.jp/ Global Kids Co., Ltd. recruiting site

https://www.facebook.com/Gkidsbook/ Official facebook page

https://www.instagram.com/globalkids/ Official Instagram page

http://shoku.hapiku.com/ Child-rearing information web magazine, “HAPIKU”



https://www.instagram.com/global_kids/ Well-received comic, “Global Kids!”

https://twitter.com/globalkids Well-received comic, “Global Kids!”