Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending September 30, 2019 (Six Months Ended March 31, 2019)

[Japanese GAAP]

May 14, 2019

Company name: Global Kids Company Corp. Stock Exchange Listing: TSE (1st section)
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Scheduled date of filing of Quarterly Report: May 15, 2019
Scheduled date of payment of dividend: -
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending September 30, 2019 (October 1, 2018 to March 31, 2019)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Mar. 31, 2019	9,284	13.0	247	(29.0)	234	(26.7)	141	(15.3)
Six months ended Mar. 31, 2018	8,214	37.5	349	21.7	319	(11.8)	167	(48.6)

Note: Comprehensive income (million yen) Six months ended Mar. 31, 2019: 150 (down 28.0%)
Six months ended Mar. 31, 2018: 209 (down 12.5%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Mar. 31, 2019	15.53	15.12
Six months ended Mar. 31, 2018	19.01	18.17

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Mar. 31, 2019	20,972	6,742	32.1
As of Sep. 30, 2018	15,691	6,577	41.8

Reference: Shareholders' equity (million yen) As of Mar. 31, 2019: 6,723 As of Sep. 30, 2018: 6,558

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Sep. 30, 2018	-	0.00	-	0.00	0.00
Fiscal year ending Sep. 30, 2019	-	0.00			
Fiscal year ending Sep. 30, 2019 (Forecast)			-	0.00	0.00

Reference: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending September 30, 2019 (October 1, 2018 to September 30, 2019)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	20,000	17.4	340	0.6	1,930	0.7	1,250	123.5	137.27

Reference: Revisions to the most recently announced dividend forecast: None

***Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements
1) Changes in accounting policies due to revisions in accounting standards, others: None
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting-based estimates: None
4) Restatements: None

(4) Number of shares issued (common stock)
1) Number of shares issued as of the end of the period (including treasury shares)

As of Mar. 31, 2019:	9,150,058 shares	As of Sep. 30, 2018:	9,105,071 shares

2) Number of treasury shares as of the end of the period

As of Mar. 31, 2019:	171 shares	As of Sep. 30, 2018:	171 shares

3) Average number of shares issued during the period

Six months ended Mar. 31, 2019:	9,117,532 shares	Six months ended Mar. 31, 2017:	8,793,805 shares

* The current quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts and other special items

Forecasts and other forward-looking statements in these materials are based on assumptions judged to be valid and information available to the Company's management at the time these materials were prepared, but are not promises by the Company regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

Please refer to the section "1. Qualitative Information on Quarterly Consolidated Financial Performance, (4) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements" on page 2 of the attachments for details on the above forecasts.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first half of the fiscal year ending September 30, 2019 (hereinafter, "the period under review"), while the Japanese economy saw a moderate recovery due to solid corporate earnings and improvements in the employment and income environment, the outlook remained uncertain as a result of factors such as growing concern about a global economic slowdown resulting from the trade friction between the U.S. and China..

As for the child-rearing support business in this economic environment above, a change in awareness of the social advancement of women and government efforts to encourage them to take active roles have helped maintain the upward trend in the number of double-income households and the employment rate of women, and demand for childcare services remains at a high level.

In response to this increase in demand for childcare services, both the central and local governments are implementing measures to secure childcare workers and develop nursery schools to expand service capacity, based on a policy of adding capacity for a total of 320,000 children by the end of fiscal 2020. Furthermore, in conjunction with the start of free early childhood education and preschool programs in October 2019, the number of parents seeking admission to nursery schools for their children may increase, and the demand for establishing new nursery schools is expected to continue for the time being.

Given the concern over Japan's declining workforce due to its aging population and a decrease in its total population, the development of a sound child-rearing environment is urgent in the course of promoting the social advancement of women to boost the country's economic vitality. In this context, the child-rearing support service providers are playing an increasingly important social role.

At the end of the period under review, Global Kids Company Corp. (hereinafter "the Company") and its consolidated subsidiaries (hereinafter collectively, "the Group") operate a total of 142 facilities: 70 central government licensed nursery schools in Tokyo, 20 in Kanagawa, three in Chiba, one in Saitama and four in Osaka; 25 local government licensed nursery schools or centers for early childhood education and care; seven employer-sponsored nurseries; and 12 after-school day care centers or children's houses.

Meanwhile, we arranged to open new facilities during the second quarter and opened 22 new nursery schools and one new after-school day care center on April 1, 2019 as listed below.

Newly opened nursery schools:

Tokyo

- Global Kids Myogadani
- Global Kids Otsuka 4-chome
- Global Kids Musashi-Nitta
- Global Kids Nishirokugo
- Global Kids Kamiikedai
- Global Kids Yahiro
- Global Kids Ookayama
- Global Kids Numabukuro
- Global Kids Hamadayama
- Global Kids Shimo
- Global Kids Machiya
- Global Kids Sakuradai
- Global Kids Ukitacho
- Global Kids Keizaisangyosho
- Global Kids Ark Hills
- Mebae Hoiku Room Kaminoge
- Mebae Hoiku Room Toritsu Daigaku
- Mebae Hoiku Room Shimokitazawa

Kanagawa

- Global Kids Utsukushigaoka
- Global Kids Isogo
- Global Kids Kamiooka

Osaka

- Global Kids Kamishinjo

Newly opened after-school day care center:

Tokyo

- Global Kids Iidabashi Gakudo Club No. 2

While net sales increased along with a rise in the number of nursery school children mainly due to an increase in the number of facilities under operation in line with the expansion strategy, the cost of sales and selling, general and administrative expenses increased due to an increase in recruiting expenses and company housing expenses, as a result of the active recruitment of on-site childcare workers for nursery schools opening in the next fiscal year.
Consequently, the Group reported net sales for the period under review of 9,284 million yen (up 13.0% year on year) with operating profit of 247 million yen (down 29.0% year on year), ordinary profit of 234 million yen (down 26.7% year on year), and profit attributable to owners of parent of 141 million yen (down 15.3% year on year).

(2) Explanation of Financial Position

Assets

Total assets amounted to 20,972 million yen at the end of the period under review, an increase of 5,281 million yen from the end of the previous fiscal year.
Current assets increased 3,040 million yen to 6,304 million yen. This was mainly attributable to a piling-up of cash and deposits to prepare for the opening of new nursery schools in April and also an increase of 434 million yen in prepaid expenses.
Non-current assets increased 2,241 million yen to 14,668 million yen. This was attributable to an increase of 2,393 million yen in construction in progress to prepare for the opening of new nursery schools.

Liabilities

Total liabilities amounted to 14,230 million yen at the end of the period under review, an increase of 5,116 million yen from the end of the previous fiscal year.
Current liabilities increased 4,379 million yen to 7,475 million yen. This was mainly attributable to an increase of 4,300 million yen in short-term loans payable for the opening of new nursery schools and an increase of 245 million yen in accounts payable-other.
Non-current liabilities increased 736 million yen to 6,754 million yen. This was attributable to an increase of 727 million yen in long-term loans payable.

Net assets

Net assets increased 164 million yen to 6,742 million yen at the end of the period under review. This was mainly attributable to an increase of 141 million yen in retained earnings as a result of the booking of profit attributable to owners of parent.

(3) Cash Flows

Cash and cash equivalents (hereinafter, “net cash”) at the end of the period under review amounted to 3,901 million yen.

Cash flows from operating activities

Net cash provided by operating activities amounted to 66 million yen, mainly due to profit before income taxes of 234 million yen, an increase in accounts payable-other of 245 million yen and deprecation of 326 million yen, which were partially offset by an increase in prepaid expenses of 421 million yen due to payments relating to the opening of new nursery schools.

Cash flows from investing activities

Net cash used in investing activities amounted to 2,511 million yen, mainly due to purchase of property, plant and equipment of 2,414 million yen.

Cash flows from financing activities

Net cash provided by financing activities amounted to 5,045 million yen, mainly due to a net increase of 4,300 million yen in short-term loans payable and proceeds from long-term loans payable of 1,222 million yen, which were partially offset by repayments of long-term loans payable of 457 million yen.

(4) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

The Company maintains its consolidated forecasts for the fiscal year ending September 30, 2019 that was announced on November 13, 2018.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY9/18 (As of Sep. 30, 2018)	Second quarter of FY9/19 (As of Mar. 31, 2019)
Assets		
Current assets		
Cash and deposits	1,301	3,901
Accounts receivable-other	1,597	1,606
Prepaid expenses	349	784
Other	15	12
Total current assets	3,264	6,304
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,668	8,399
Construction in progress	566	2,959
Other, net	476	448
Total property, plant and equipment	9,711	11,808
Intangible assets		
Software	108	103
Total intangible assets	108	103
Investments and other assets		
Investment securities	37	29
Long-term prepaid expenses	721	811
Lease and guarantee deposits	1,492	1,546
Construction assistance fund receivables	346	335
Deferred tax assets	9	6
Other	0	26
Total investments and other assets	2,607	2,756
Total non-current assets	12,427	14,668
Total assets	15,691	20,972
Liabilities		
Current liabilities		
Short-term loans payable	-	4,300
Current portion of long-term loans payable	869	906
Current portion of bonds	35	41
Accounts payable-other	1,240	1,486
Income taxes payable	224	91
Advances received	90	1
Provision for bonuses	445	447
Other	189	202
Total current liabilities	3,095	7,475
Non-current liabilities		
Bonds payable	23	-
Long-term loans payable	4,205	4,933
Net defined benefit liability	188	207
Deferred tax liabilities	1,407	1,420
Other	193	193
Total non-current liabilities	6,017	6,754
Total liabilities	9,113	14,230

(Millions of yen)

	FY9/18 (As of Sep. 30, 2018)	Second quarter of FY9/19 (As of Mar. 31, 2019)
Net assets		
Shareholders' equity		
Capital stock	1,267	1,274
Capital surplus	1,955	1,962
Retained earnings	3,405	3,547
Treasury shares	(0)	(0)
Total shareholders' equity	6,629	6,784
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(0)
Remeasurements of defined benefit plans	(69)	(60)
Total accumulated other comprehensive income	(70)	(61)
Subscription rights to shares	19	19
Total net assets	6,577	6,742
Total liabilities and net assets	15,691	20,972

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(For the Six-month Period)

(Millions of yen)

	First six months of FY9/18 (Oct. 1, 2017 –Mar. 31, 2018)	First six months of FY9/19 (Oct. 1, 2018 –Mar. 31, 2019)
Net sales	8,214	9,284
Cost of sales	6,926	7,860
Gross profit	1,288	1,424
Selling, general and administrative expenses	939	1,176
Operating profit	349	247
Non-operating income		
Interest and dividend income	4	4
Other	0	0
Total non-operating income	4	5
Non-operating expenses		
Interest expenses	16	16
Other	17	2
Total non-operating expenses	34	19
Ordinary profit	319	234
Profit before income taxes	319	234
Income taxes	152	92
Profit (Loss)	167	141
Profit (loss) attributable to		
Profit (loss) attributable to owners of parent	167	141
Profit attributable to non-controlling interests	-	-
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	0
Remeasurements of defined benefit plans, net of tax	42	9
Total other comprehensive income	42	9
Comprehensive income	209	150
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	209	150
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	First six months of FY9/18 (Oct. 1, 2017 –Mar. 31, 2018)	First six months of FY9/19 (Oct. 1, 2018 –Mar. 31, 2019)
Cash flows from operating activities		
Profit before income taxes	319	234
Depreciation	284	326
Increase (decrease) in provision for bonuses	3	2
Increase (decrease) in net defined benefit liability	27	34
Interest and dividend income	(4)	(4)
Interest expenses	16	16
Decrease (increase) in accounts receivable-other	(432)	(8)
Decrease (increase) in prepaid expenses	(351)	(421)
Increase (decrease) in accounts payable-other	515	245
Increase (decrease) in advances received	(150)	(89)
Other, net	(38)	(49)
Subtotal	191	285
Interest and dividend income received	2	2
Interest expenses paid	(15)	(16)
Income taxes paid	(142)	(205)
Net cash provided by (used in) operating activities	35	66
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,783)	(2,414)
Purchase of intangible assets	(3)	(5)
Payments for lease and guarantee deposits	(70)	(81)
Proceeds from refund of lease and guarantee deposits	-	18
Collection of construction assistance fund receivables	12	12
Purchase of shares of affiliated companies	-	(18)
Other, net	72	(22)
Net cash provided by (used in) investing activities	(1,773)	(2,511)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	2,700	4,300
Proceeds from long-term loans payable	1,719	1,222
Repayments of long-term loans payable	(376)	(457)
Redemption of bonds	(17)	(17)
Repayments of lease obligations	(3)	(2)
Proceeds from exercise of share options	6	0
Proceeds from issuance of subscription rights to shares	19	-
Net cash provided by (used in) financing activities	4,047	5,045
Net increase (decrease) in cash and cash equivalents	2,309	2,600
Cash and cash equivalents at beginning of period	1,246	1,301
Cash and cash equivalents at end of period	3,555	3,901

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements

Not applicable.

Segment and Other Information

Segment information

Omitted since the Group has only a single business segment, which is the "child-rearing support business."

Material Subsequent Events

(Merger of consolidated subsidiaries)

The company has resolved at a meeting of the Board of Directors held on September 20, 2018 to perform an absorption-type merger of its consolidated subsidiaries, Global Kids K.K. and Roku K.K., effective April 1, 2019, with Global Kids K.K. as the surviving company and Roku K.K. as the absorbed company. The absorption-type merger was implemented on April 1, 2019.

1. Outline of transaction

(1) Name and business of combined companies

(Absorption-type merger surviving company)

Name: Global Kids K.K.

Business: Child-rearing support business

(Absorption-type merger absorbed company)

Name: Roku K.K.

Business: Child-rearing support business

(2) Date of business combination

April 1, 2019

(3) Legal form of business combination

Absorption-type merger with Global Kids K.K. as the surviving company and Roku K.K. as the absorbed company

(4) Name of the company following business combination

Global Kids K.K.

(5) Other matters concerning outline of transaction

The aim of the merger is to enhance the business base by effectively utilizing management resources and improving operational efficiency through streamlining the corporate structure.

2. Outline of the accounting treatment

Based on the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013), the transaction has been treated as a transaction under common control.

3. Others

Material Events Regarding Going Concern Assumption

Not applicable.

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.