Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending September 30, 2019 (Nine Months Ended June 30, 2019)

[Japanese GAAP]

August 13, 2019

Company name: Global Kids Company Corp. Stock Exchange Listing: TSE (1st section)
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Scheduled date of filing of Quarterly Report: August 14, 2019
Scheduled date of payment of dividend: -
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: None

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

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending September 30, 2019 (October 1, 2018 to June 30, 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	%
Nine months ended Jun. 30, 2019	14,487	14.7	189	(51.7)	1,743	5.1	1,092	24.2
Nine months ended Jun. 30, 2018	12,631	32.7	392	28.8	1,658	25.0	879	23.3

Note: Comprehensive income (million yen) Nine months ended Jun. 30, 2019: 1,105 (up 19.4%)
Nine months ended Jun. 30, 2018: 925 (up 45.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Jun. 30, 2019	119.69	116.56
Nine months ended Jun. 30, 2018	99.20	96.07

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2019	18,318	7,697	41.9
As of Sep. 30, 2018	15,691	6,577	41.8

Reference: Shareholders' equity (million yen) As of Jun. 30, 2019: 7,677 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

Note: 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	19,650	15.4	115	(66.0)	1,750	(8.7)	1,090	94.9	119.31

Note: Revisions to the most recently announced dividend forecast: Yes

***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 Jun. 30, 2019:	9,155,058 shares	As of Sep. 30, 2018:	9,105,071 shares

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

As of Jun. 30, 2019:	171 shares	As of Sep. 30, 2018:	171 shares

3) Average number of shares issued during the period

Nine months ended Jun. 30, 2019:	9,129,269 shares	Nine months ended Jun. 30, 2018:	8,868,609 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, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements" on page 3 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 nine months 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.

Under such circumstances, Global Kids Company Corp. (hereinafter “the Company”) and its consolidated subsidiaries (hereinafter collectively, “the Group”) opened 22 new nursery schools and one new after-school day care center as listed below during the third quarter of the current fiscal year as a result of our continued efforts to develop nursery school facilities in Tokyo, Kanagawa, Saitama and Osaka.

The Group also leveraged our previous experience in the nurseries business to launch the child developmental support business as a new business, and opened Global Kids Act Kiyosumi-shirakawa, the Group’s first child developmental support facility.

Consequently, at the end of the period under review, the Group operates a total of 166 facilities: 86 central government licensed nursery schools in Tokyo, 23 in Kanagawa, three in Chiba, one in Saitama and five in Osaka; 23 local government licensed nursery schools or centers for early childhood education and care; 11 employer-sponsored nurseries; 13 after-school day care centers or children’s houses; and one child developmental support facility.

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

The Group recognizes subsidy income as non-operating income when it receives municipal subsidies to cover part of capital expenditures (mainly for interior construction costs) to open new facilities. As opening of the Group's new nurseries concentrates in April and thus the recognition of subsidy income tends to be heavily skewed in the third quarter (from April 1 to June 30). For this reason, the Group reported a large amount of subsidy income for this quarter as a result of opening new nursery schools.
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, the cost of sales and selling, general and administrative expenses increased due to an increase in personnel-related and recruiting expenses, etc., as a result of the recruitment of on-site childcare workers in anticipation of nursery school children entering in the next fiscal year.
Consequently, the Group reported net sales for the period under review of 14,487 million yen (up 14.7% year on year) with operating profit of 189 million yen (down 51.7% year on year), ordinary profit of 1,743 million yen (up 5.1% year on year), and profit attributable to owners of parent of 1,092 million yen (up 24.2% year on year).

(2) Explanation of Financial Position

Assets

Total assets amounted to 18,318 million yen at the end of the period under review, an increase of 2,627 million yen from the end of the previous fiscal year.
Current assets increased 324 million yen to 3,588 million yen. This was mainly attributable to a decrease of 138 million yen in accounts receivable-other, despite an increase of 348 million yen in cash and deposits as a result of receiving subsidies on capital expenditures to open new facilities in April.
Non-current assets increased 2,303 million yen to 14,730 million yen. This was mainly attributable to an increase of 2,201 million yen in buildings and structures as a result of opening new nursery schools.

Liabilities

Total liabilities amounted to 10,621 million yen at the end of the period under review, an increase of 1,508 million yen from the end of the previous fiscal year.
Current liabilities decreased 217 million yen to 2,878 million yen. This was mainly attributable to a decrease of 188 million yen in income taxes payable, and also a decrease of 167 million yen in provision for bonuses due to the difference of the period for which the provision is recognized.
Non-current liabilities increased 1,725 million yen to 7,743 million yen. This was mainly attributable to an increase of 1,051 million yen in long-term loans payable.

Net assets

Net assets increased 1,119 million yen to 7,697 million yen at the end of the period under review. This was mainly attributable to an increase of 1,092 million yen in retained earnings as a result of the booking of profit attributable to owners of parent.

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

With regard to the consolidated forecasts for the fiscal year ending September 30, 2019, please see the "Notification Regarding the Recognition of Non-operating Income (Subsidy Income) and Non-operating Expenses (Capital Expenses) and Revision of Earnings Forecasts," which was announced today (August 13, 2019).

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY9/18 (As of Sep. 30, 2018)	Third quarter of FY9/19 (As of Jun. 30, 2019)
Assets		
Current assets		
Cash and deposits	1,301	1,649
Accounts receivable-other	1,597	1,458
Prepaid expenses	349	470
Other	15	10
Total current assets	3,264	3,588
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,668	10,869
Construction in progress	566	23
Other, net	476	973
Total property, plant and equipment	9,711	11,866
Intangible assets		
Software	108	97
Software in progress	-	24
Total intangible assets	108	122
Investments and other assets		
Investment securities	37	77
Long-term prepaid expenses	721	758
Lease and guarantee deposits	1,492	1,540
Construction assistance fund receivables	346	330
Deferred tax assets	9	7
Other	0	26
Total investments and other assets	2,607	2,740
Total non-current assets	12,427	14,730
Total assets	15,691	18,318
Liabilities		
Current liabilities		
Current portion of long-term loans payable	869	917
Current portion of bonds	35	23
Accounts payable-other	1,240	1,232
Income taxes payable	224	36
Advances received	90	87
Provision for bonuses	445	277
Other	189	303
Total current liabilities	3,095	2,878
Non-current liabilities		
Bonds payable	23	-
Long-term loans payable	4,205	5,256
Net defined benefit liability	188	214
Deferred tax liabilities	1,407	1,945
Asset retirement obligations	184	318
Other	9	7
Total non-current liabilities	6,017	7,743
Total liabilities	9,113	10,621

(Millions of yen)

	FY9/18 (As of Sep. 30, 2018)	Third quarter of FY9/19 (As of Jun. 30, 2019)
Net assets		
Shareholders' equity		
Capital stock	1,267	1,274
Capital surplus	1,955	1,963
Retained earnings	3,405	4,498
Treasury shares	(0)	(0)
Total shareholders' equity	6,629	7,735
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(1)
Remeasurements of defined benefit plans	(69)	(56)
Total accumulated other comprehensive income	(70)	(58)
Subscription rights to shares	19	19
Total net assets	6,577	7,697
Total liabilities and net assets	15,691	18,318

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(For the Nine-month Period)

(Millions of yen)

	First nine months of FY9/18 (Oct. 1, 2017 –Jun. 30, 2018)	First nine months of FY9/19 (Oct. 1, 2018 –Jun. 30, 2019)
Net sales	12,631	14,487
Cost of sales	10,779	12,558
Gross profit	1,852	1,929
Selling, general and administrative expenses	1,459	1,739
Operating profit	392	189
Non-operating income		
Interest income	2	5
Subsidy income	1,668	2,004
Other	4	5
Total non-operating income	1,675	2,015
Non-operating expenses		
Interest expenses	25	25
Capital expenses	365	432
Other	17	3
Total non-operating expenses	409	461
Ordinary profit	1,658	1,743
Extraordinary losses		
Impairment loss	*1 111	-
Loss on closing of nursery schools	*2 5	-
Loss on cancellation of systems	-	16
Total extraordinary losses	116	16
Profit before income taxes	1,541	1,727
Income taxes	661	634
Profit (Loss)	879	1,092
Profit (loss) attributable to		
Profit (loss) attributable to owners of parent	879	1,092
Profit attributable to non-controlling interests	-	-
Other comprehensive income		
Valuation difference on available-for-sale securities	0	(1)
Remeasurements of defined benefit plans, net of tax	45	13
Total other comprehensive income	45	12
Comprehensive income	925	1,105
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	925	1,105
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

(Changes in presentation)

(Quarterly consolidated balance sheet)

Because asset retirement obligations, which were included in other under non-current liabilities for the previous fiscal year, have become increasingly important in terms of their amounts, the Company has decided to state them independently from the third quarter of the current fiscal year. The consolidated balance sheet for the previous fiscal year has been adjusted to reflect this change in presentation.

As a result, 193 million yen, which was presented in other under non-current liabilities in the consolidated balance sheet for the previous fiscal year, has been restated as 184 million yen in asset retirement obligations and 9 million yen in other.

Quarterly Consolidated Statements of Income and Comprehensive Income

*1 Impairment loss

First nine months of FY9/18 (Oct. 1, 2017 –Jun. 30, 2018)

The Group reported impairment loss for the following group of assets.

Purpose	Type	Location	Impairment loss (Millions of yen)
Facility (3 facilities)	Buildings and structures "Other" under property, plant and equipment	Osaka City, Osaka Prefecture, etc.	111

The Group's assets are grouped by facility as a basic unit, which is the smallest group of assets that generates cash inflows. The Group recognized an impairment loss (109 million yen for buildings and structures and 1 million yen for "Other" under property, plant and equipment) as an extraordinary loss resulting from closing the existing licensed facilities due to a license transition for licensed facilities involving relocation as well as writing down the carrying amount of facilities with deteriorating operating performance to their recoverable amount.

Their recoverable amount is measured based on value in use, which is determined to be zero as the future cash flows cannot be expected.

*2 Loss associated with the closing of facilities

First nine months of FY9/18 (Oct. 1, 2017 –Jun. 30, 2018)

As a result of closing the existing licensed facilities due to a license transition for licensed facilities involving relocation, the construction cost for restoration of 3 million yen and the rent after the closing of facilities of 1 million yen were posted as loss on closing nursery schools.

Significant Changes in Shareholders' Equity

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."

(Business combinations)

(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.

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.