Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending September 30, 2022
(Nine Months Ended June 30, 2022)

[Japanese GAAP]

July 29, 2022

Company name: Global Kids Company Corp. Stock Exchange Listing: TSE (Prime)
Securities code: 6189 URL: https://www.gkids.jp/
Representative: Yuichi Nakasho, Representative Director & CEO
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Scheduled date of filing of Quarterly Report: August 5, 2022
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, 2022 (October 1, 2021 to June 30, 2022)

(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, 2022	18,264	4.2	502	42.6	978	14.2	(482)	(247.7)
Nine months ended Jun. 30, 2021	17,531	5.9	352	(15.2)	856	(1.0)	326	(27.6)

Note: Comprehensive income (million yen) Nine months ended Jun. 30, 2022: (463) (down 233.8%)
Nine months ended Jun. 30, 2021: 346 (down 26.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Jun. 30, 2022	(51.56)	(51.26)
Nine months ended Jun. 30, 2021	35.29	34.83

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2022	16,443	8,210	49.8
As of Sep. 30, 2021	18,110	8,658	47.7

Reference: Shareholders' equity (million yen) As of Jun. 30, 2022: 8,191 As of Sep. 30, 2021: 8,639

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Sep. 30, 2021	-	0.00	-	0.00	0.00
Fiscal year ending Sep. 30, 2022	-	0.00	-		
Fiscal year ending Sep. 30, 2022 (Forecast)				25.00	25.00

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

3. Consolidated Earnings Forecast for the Fiscal Year Ending September 30, 2022 (October 1, 2021 to September 30, 2022)

(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	24,300	3.3	650	12.8	1,130	(1.6)	(380)	(178.9)	(40.56)

Note: Revisions to the most recently announced earnings 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: Yes
   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, 2022:	9,392,341 shares	As of Sep. 30, 2021:	9,328,511 shares

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

As of Jun. 30, 2022:	6,859 shares	As of Sep. 30, 2021:	6,797 shares

   3) Average number of shares issued during the period

Nine months ended Jun. 30, 2022:	9,363,564 shares	Nine months ended Jun. 30, 2021:	9,261,385 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.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In Japan, dealing with the declining workforce due to the low birthrate and aging population has become an issue of the utmost urgency, and the significance of the child-rearing business is growing year by year, as an infrastructure to support the social advancement and active participation of women who are expected to boost the country's economic vitality.

To reduce the number of wait-listed children at nursery schools, both the central and local governments are implementing measures that aim to expand service capacity by securing childcare workers and developing nursery schools. Specifically, free early childhood education and preschool programs began in October 2019, and in December 2020, the government announced the New Child-rearing Security Plan, setting a goal of securing additional capacity for approximately 140,000 children over the four years from fiscal 2021 to the end of fiscal 2024.

While the number of wait-listed children is decreasing, thanks to these initiatives taken by the government, the situation is still far from the government's goal of zero wait-listed children. The demand for establishing new nursery schools is expected to continue to a certain extent to achieve the goal of expanding service capacity under the government's New Child-rearing Security Plan.

Furthermore, in an effort to unify its measures regarding children, the government plans to create a new "Agency for Children and Families" in April 2023, under the banner of a "child-centered society" which centrally positions child-related initiatives and policies within society. The establishment of Agency for Children and Families is expected to raise the percentage of childcare-related expenditures against GDP to the latter 3% levels, comparable to European countries, and to improve the compensation and social standing of childcare workers, and the stance of promoting children-centric policies has become increasingly marked.

Under such circumstances, the Group opened six central government licensed nursery schools (including one facility that was transitioned from local government licensed nursery school status), as indicated below, during the period under review as a result of our continued efforts to develop new facilities in Tokyo and Kanagawa.

As a result, at the end of the period under review, the Group operates a total of 174 facilities: 141 central government licensed nursery schools (103 in Tokyo, 28 in Kanagawa, four in Chiba, one in Saitama and five in Osaka); 20 local government licensed nursery schools or centers for early childhood education and care; 10 after-school day care centers or children's houses; and three child developmental support facilities.

(Central government licensed nursery schools)

Tokyo

- Global Kids Shoinjinjamae
- Global Kids Hamacho
- Global Kids Toyosu
- Global Kids Matsushima
- Global Kids Higashifushimi

Kanagawa

- Global Kids Shinkoyasu No. 2

Net sales for the period under review increased attributable to the opening of new nursery schools during the period under review and a rise in the number of nursery school children at nursery schools in their second year of operation. In terms of expenses, although personnel expenses and company housing rent expenses rose year on year in conjunction with the hiring of additional personnel during the period under review, the cost to sales ratio rose by 0.5 points, primarily due to the Group's efforts to keep recruiting expenses down. In addition, in terms of selling, general and administrative expenses, although the amount of investment in operation efficiency improvements rose, head office personnel expenses fell, and the selling, general and administrative expenses ratio improved by 0.3 points over the previous fiscal year.

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, the recognition of subsidy income tends to be heavily skewed in the third quarter (from April 1 to June 30). The Group reported 642 million yen in subsidy income for this quarter as a result of opening new nursery schools.

The Group also recorded, under extraordinary losses, 1,677 million yen in impairment loss on non-current assets in the form of facilities for which the effectiveness of future profit/loss improvements remains unclear. The Group recorded extraordinary losses totaling 1,721 million yen, including 36 million yen of system failure handling expense incurred for responding to malware infection.

Consequently, the Group reported net sales for the period under review of 18,264 million yen (up 4.2% year on year) with operating profit of 502 million yen (up 42.6% year on year), ordinary profit of 978 million yen (up 14.2% year on year), and loss attributable to owners of parent of 482 million yen (down 247.7% year on year).

(2) Explanation of Financial Position

Assets

Total assets amounted to 16,443 million yen at the end of the period under review, a decrease of 1,666 million yen from the end of the previous fiscal year.

Current assets increased 41 million yen to 4,171 million yen. This was mainly attributable to an increase of 601 million yen in cash and deposits, despite a decrease of 490 million yen in accounts receivable-other and contract assets (indicated as "accounts receivable-other" until the previous fiscal year).

Non-current assets decreased 1,707 million yen to 12,271 million yen. This was mainly attributable to decreases in property, plant and equipment of 637 million yen due to depreciation and 1,677 million yen due to impairment loss, despite an increase of 774 million yen due to the opening of new nurseries in April, as well as a decrease of 11 million yen in software due to amortization and a decrease of 22 million yen in lease and guarantee deposits, and decreases due to recording expenses of 56 million yen in long-term prepaid expenses and 14 million yen in construction assistance fund receivables.

Liabilities

Total liabilities amounted to 8,233 million yen at the end of the period under review, a decrease of 1,218 million yen from the end of the previous fiscal year.

Current liabilities decreased 303 million yen to 2,908 million yen. This was mainly attributable to a decrease of 316 million yen in provision for bonuses due to the payment of bonuses.

Non-current liabilities decreased 915 million yen to 5,324 million yen. This was mainly attributable to a decrease of 565 million yen in long-term loans payable due to repayments, as well as a decrease of 374 million yen in deferred tax liabilities.

Net assets

Net assets amounted to 8,210 million yen at the end of the period under review, a decrease of 447 million yen from the end of the previous fiscal year. This was mainly attributable to a decrease of 482 million yen in retained earnings as a result of the booking of loss attributable to owners of parent.

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

With regard to the Company's consolidated forecasts for the fiscal year ending September 30, 2022, please see the "Notice regarding booking of non-operating income (subsidy income), non-operating expenses (capital expenses), and extraordinary losses (impairment loss), and revisions to the Company's earnings forecast," issued today (July 29, 2022).

2. Quarterly Consolidated Financial Statements and Notes
(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY9/21 (As of Sep. 30, 2021)	Third Quarter of FY9/22 (As of Jun. 30, 2022)
Assets		
Current assets		
Cash and deposits	1,327	1,929
Accounts receivable-other	2,168	-
Accounts receivable-other and contract assets	-	1,678
Prepaid expenses	629	558
Other	4	5
Total current assets	4,130	4,171
Non-current assets		
Property, plant and equipment		
Land	635	692
Buildings and structures, net	10,317	8,742
Construction in progress	52	-
Other, net	356	331
Total property, plant and equipment	11,360	9,766
Intangible assets		
Software	42	31
Total intangible assets	42	31
Investments and other assets		
Investment securities	50	47
Long-term prepaid expenses	455	399
Lease and guarantee deposits	1,746	1,723
Construction assistance fund receivables	285	271
Deferred tax assets	38	31
Other	0	0
Total investments and other assets	2,576	2,473
Total non-current assets	13,979	12,271
Total assets	18,110	16,443
Liabilities		
Current liabilities		
Current portion of long-term loans payable	820	757
Accounts payable-other	1,280	1,386
Income taxes payable	177	37
Advances received	86	84
Provision for bonuses	617	301
Other	229	341
Total current liabilities	3,212	2,908
Non-current liabilities		
Long-term loans payable	3,711	3,145
Net defined benefit liability	408	438
Deferred tax liabilities	1,755	1,380
Asset retirement obligations	364	359
Other	0	-
Total non-current liabilities	6,239	5,324
Total liabilities	9,452	8,233

(Millions of yen)

	FY9/21 (As of Sep. 30, 2021)	Third Quarter of FY9/22 (As of Jun. 30, 2022)
Net assets		
Shareholders' equity		
Capital stock	1,288	1,296
Capital surplus	1,976	1,984
Retained earnings	5,442	4,959
Treasury shares	(6)	(6)
Total shareholders' equity	8,701	8,234
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	-
Remeasurements of defined benefit plans	(61)	(43)
Total accumulated other comprehensive income	(62)	(43)
Subscription rights to shares	19	19
Total net assets	8,658	8,210
Total liabilities and net assets	18,110	16,443

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(For the Nine-month Period)

(Millions of yen)

	First nine months of FY9/21 (Oct. 1, 2020 – Jun. 30, 2021)	First nine months of FY9/22 (Oct. 1, 2021 – Jun. 30, 2022)
Net sales	17,531	18,264
Cost of sales	15,453	16,014
Gross profit	2,077	2,249
Selling, general and administrative expenses	1,725	1,747
Operating profit	352	502
Non-operating income		
Interest and dividend income	4	5
Subsidy income	668	642
Other	36	4
Total non-operating income	709	652
Non-operating expenses		
Interest expenses	18	15
Capital expenses	186	155
Other	0	4
Total non-operating expenses	205	175
Ordinary profit	856	978
Extraordinary losses		
Impairment loss	*1 258	*1 1,677
Loss on valuation of investment securities	*2 59	-
Loss on closing of nursery schools	*3 13	*3 8
System failure handling expense	-	*4 36
Total extraordinary losses	332	1,721
Profit (loss) before income taxes	524	(743)
Income taxes	197	(260)
Profit (loss)	326	(482)
Profit (loss) attributable to		
Profit (loss) attributable to owners of parent	326	(482)
Profit attributable to non-controlling interests	-	-
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	0
Remeasurements of defined benefit plans, net of tax	20	18
Total other comprehensive income	19	19
Comprehensive income	346	(463)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	346	(463)
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Quarterly Consolidated Statement of Income

*1 Impairment loss

First nine months of FY9/21 (Oct. 1, 2020 – Jun. 30, 2021)

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

Purpose	Type	Location	Impairment loss (Millions of yen)
Facility (17 facilities)	Buildings and structures “Other” under property, plant and equipment	Ota-ku, Tokyo, etc.	258

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 (244 million yen for buildings and structures and 14 million yen for “Other” under property, plant and equipment) as an extraordinary loss 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.

First nine months of FY9/22 (Oct. 1, 2021 – Jun. 30, 2022)

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

Purpose	Type	Location	Impairment loss (Millions of yen)
Facility (23 facilities)	Buildings and structures “Other” under property, plant and equipment	Koto-ku, Tokyo, etc.	1,677

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 (1,640 million yen for buildings and structures and 36 million yen for “Other” under property, plant and equipment) as an extraordinary loss as well as writing down the carrying amount of facilities with deteriorating operating performance to their recoverable amount.

*2 Loss on valuation of investment securities

First nine months of FY9/21 (Oct. 1, 2020 – Jun. 30, 2021)

Of the securities held by the Company that are classified as available-for-sale securities, the Company recognized a loss on valuation for those whose actual value has deteriorated significantly.

*3 Loss on closing of nursery schools

First nine months of FY9/21 (Oct. 1, 2020 – Jun. 30, 2021)

The Company recognized a loss on closing of nursery schools as a result of incurring restoration costs of 13 million yen, due to the closing of a local government licensed nursery school in conjunction with the establishment of a new central government licensed nursery school in its neighborhood.

First nine months of FY9/22 (Oct. 1, 2021 – Jun. 30, 2022)

The Company recognized a loss on closing of nursery schools as a result of incurring restoration costs of 8 million yen, due to the closing of a local government licensed nursery school in conjunction with the establishment of a new central government licensed nursery school in its neighborhood.

*4 System failure handling expense

First nine months of FY9/22 (Oct. 1, 2021 – Jun. 30, 2022)

Expenses were incurred as a result of the system failure that was caused by malware that used malicious emails, discovered on February 24, 2022. Expenses primarily consisted of the costs involved in having an outside expert perform investigation and analysis.

Significant Changes in Shareholders’ Equity

Not applicable.

Changes in Accounting Policies

(Application of Accounting Standard for Revenue Recognition, Etc.)

The Group has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Revenue Recognition Accounting Standard"), etc., from the beginning of the first quarter of the fiscal year ending September 30, 2022. Under this standard, revenue is recognized as being the amount expected to be received for promised goods and services at the time of transfer of control of such goods and services to the customer.

The Group has only a single business segment, which is the child-rearing support business. The primary sales produced by the Group's businesses are categorized as indicated below.

(1) Central government licensed nursery schools, etc.

Central government licensed nursery schools are childcare facilities which meet the establishment standards (facility size, number of childcare workers and other personnel, school meal equipment, disaster management, hygiene management, etc.) stipulated by the national government in accordance with the Child Welfare Act. They have been licensed by prefectural governors, etc. and by the mayors of municipal governments, and meet the approval standards stipulated by the ordinance of municipal governments. Under the Comprehensive Support System for Children and Child-rearing, the operation of these facilities is funded by public institutional and regional childcare facility benefits provided by the national and municipal governments in the form of consignment fees.

Performance obligations for the majority of their revenue are fulfilled by providing childcare services to users. Based on the authorized prices stipulated by the Cabinet Office and the subsidization guidelines stipulated by municipal governments, revenue is recognized at the specific point in time when requests for consignment fees and subsidies are submitted to municipal governments based on the number of enrolled children, the number of workers, etc.

On the other hand, performance obligations for some of the revenue are fulfilled gradually through the payment of wages to staff and the payment of nursery school rent, in accordance with the subsidization guidelines of municipal governments. Such revenue is recognized over the span of time during the fulfillment of performance obligations.

(2) Unlicensed childcare facilities

Unlicensed childcare facilities are childcare facilities that are not licensed by prefectural governors, etc., and are funded by childcare fees paid by users and operation expense subsidies received from municipal governments and the Foundation for Child Well-being.

Of this revenue, the amount requested to municipal governments is recognized based on equivalent standards to those used for central government licensed nursery schools, etc. With regard to the amount charged to users, childcare consignment contracts are concluded directly with users, performance obligations are fulfilled at the point at which childcare services are offered, and revenue is recognized at that specific point in time.

(3) After-school day care centers and children's houses

The purpose of these facilities is to provide children who are enrolled in elementary school, generally under the age of 10, whose guardians are not at home during the day due to work, etc., with appropriate after-school play spaces and spaces to stay using children's houses, etc., with the aim of promoting their healthy development. Their operation is funded by the receipt of operation expenses from municipal governments and usage fees from users.

Performance obligations for the majority of their revenue are fulfilled by providing childcare services to users, and are fulfilled over a span of time by providing childcare services based on consignment contracts with municipal governments. Consequently, revenue is recognized over the span of time during the fulfillment of performance obligations.

The Group has applied the Revenue Recognition Accounting Standard, etc., in accordance with the transitional treatment provided in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The application had no effect on the beginning balance of retained earnings. In addition, the Group has applied the method set forth in Paragraph 86 of the Revenue Recognition Accounting Standard and did not apply the new accounting policy retrospectively to contracts in which almost all of the revenue amounts were recognized using the previous accounting practice prior to the beginning of the first quarter of the fiscal year ending September 30, 2022. As a result, this had no effect on the quarterly consolidated financial statements for the nine months ended June 30, 2022 compared to the previous accounting practice.

Due to the application of the Revenue Recognition Accounting Standard, etc., the "accounts receivable-other" indicated within "current assets" in the consolidated balance sheet of the previous fiscal year is indicated as "accounts receivable-other and contract assets" from the first quarter of the fiscal year ending September 30, 2022. In accordance with the transitional treatment provided in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the prior year's consolidated financial statements have not been reclassified to conform to the new presentation method. In addition, in accordance with the transitional treatment provided in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), the breakdown of information regarding revenues arising from contracts with customers for the nine months ended June 30, 2021 was not stated.

(Application of Accounting Standard for Fair Value Measurement, Etc.)

The Group has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the "Fair Value Measurement Accounting Standard"), etc., from the beginning of the first quarter of the fiscal year ending September 30, 2022. In accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Group will apply prospectively the new accounting policy set forth in the Fair Value Accounting Standard, etc. The application has no effect on the quarterly consolidated financial statements.

Segment and Other Information

Segment information

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

Significant Subsequent Events

(Conclusion of Important Contracts, Etc.)

In accordance with the Board of Directors' resolution of July 19, 2022, the Company concluded a basic agreement (the "Basic Agreement") regarding a business merger with Sakurasaku plus Co., Ltd. (the "Merger") on July 19, 2022. Below is an overview of the contract.

(1) Objective of the contract

The Merger aims to establish the Company's position as a leading company in the industry, one of Japan's largest nursery school operators with 246 nursery schools, 224 of which will be central government licensed nursery schools.

The Company and Sakurasaku plus are both primarily operators of central government licensed nursery schools, mainly in and around the Tokyo area. The integrated use of the head office functions to support nursery school operation will make it possible to further improve productivity. Both companies share the same strategic approach of providing high value-added services in the nursery care and child-rearing support business segments. We will accelerate our growth by maximally leveraging the two companies' management resources, such as human resources, infrastructure, and expertise.

The Basic Agreement was concluded with the recognition that the productivity improvements and revenue diversification resulting from the Merger will contribute to the improvement of the Company's corporate value.

(2) Name of contract partner company

Trade name	Sakurasaku plus Co., Ltd.
Address	Toho Hibiya Building, 1-2-2 Yurakucho, Chiyoda-ku, Tokyo
Representative	Yoshitaka Nishio, Representative Director & CEO
Capital stock	572 million yen
Main business	Child-rearing support business

(3) Content of the Merger and the partnership

1) Merger method

The two companies will adopt a fundamental policy of establishing a holding company through the joint share transfer, on the assumption that the Merger is approved at the General Meetings of Shareholders of both companies and that all necessary permissions for the Merger are granted by relevant authorities. The companies will deliberate and consult with each other regarding the specific methods to be used to carry out the Merger and will decide on them by the time of the conclusion of the final merger agreement.

2) Merger dates

July 19, 2022	Conclusion of the Basic Agreement
October 2022 (tentative)	Conclusion of the final agreement regarding the Merger
December 2022 (tentative)	General Meetings of Shareholders by both companies (resolution approving the Merger)
April 3, 2023 (tentative)	Date on which the Merger goes into effect