

Summary of Business Results for the Second Quarter Ended September 30, 2018

[Japan GAAP] (Consolidated)

November 7, 2018

Company **JP-HOLDINGS, INC.** Listed on the TSE 1
 Stock Code 2749 URL: <https://www.jp-holdings.co.jp>
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 Expected date of filing of quarterly securities report: November 13, 2018 Expected starting date of dividend payment: —
 Preparation of quarterly supplementary financial document: Yes
 Quarterly results briefing: Yes (for media members, institutional investors and analysts)

(Rounded down to million yen)

1. Consolidated business results for the six months ended September 2018

(April 1, 2018 through September 30, 2018)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sept. 2018	14,278	12.0	168	-62.6	399	-32.7	235	-32.1
Six months ended Sept. 2017	12,748	16.2	449	50.3	593	54.1	347	41.5

(Note) Comprehensive income

Six months ended September 2018: 171 million yen (-46.8%)

Six months ended September 2017: 322 million yen (32.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sept. 2018	2.75	—
Six months ended Sept. 2017	4.09	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Sept. 30, 2018	24,045	7,738	32.2
As of Mar. 31, 2018	25,758	7,756	30.1

(Reference) Shareholders' equity:

As of September 30, 2018: 7,738 million yen

As of March 31, 2018: 7,752 million yen

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Mar. 31, 2018	—	0.00	—	3.50	3.50
Year ending Mar. 31, 2019	—	0.00	—	3.50	3.50
Year ending Mar. 31, 2019 (forecast)	—	—	—	3.50	3.50

(Notes) Revisions to dividend forecast for the current quarter: None

3. Forecast of consolidated business results for the fiscal year ending March 2019

(April 1, 2018 through March 31, 2019)

(% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending Mar. 31, 2019	30,001	12.0	1,847	41.8	2,196	38.8	980	7.7	11.52

(Notes) Revisions to business forecast for the current quarter: None

***Notes**

(1) Changes in significant subsidiaries during the period: None

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements:
None

(3) Changes in accounting policies, accounting estimates and restatement

- | | |
|--|--------|
| ① Changes in accounting policies associated with revision of accounting standards: | : None |
| ② Changes in accounting policies other than ① | : None |
| ③ Changes in accounting estimates | : None |
| ④ Restatement | : None |

(4) Shares outstanding (common stock)

① Number of shares outstanding at the end of period (treasury stock included)

As of September 30, 2018	87,849,400 shares
As of March 31, 2018	87,849,400 shares

② Treasury stock at the end of period

As of September 30, 2018	1,870,607 shares
As of March 31, 2018	2,315,806 shares

③ Average number of stock during period (quarterly cumulative period)

Six months ended September 2018	85,749,294 shares
Six months ended September 2017	84,915,637 shares

(Note) The number of treasury stock deducted for the calculation of the number of treasury stock at the end of period and the average number of stock during period includes the company's shares held by Trust & Custody Services Bank, Ltd. as trust property of "Stock Benefit Trust (Employee Stock Ownership Plan)".

***Quarterly financial summary is not subject to the quarterly review procedures by certified public accountants or auditing firms.**

***Explanation regarding appropriate use of business forecasts and other special instructions**

- Forecasts regarding future performance in this material are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable at the time this report was prepared. Actual results may differ significantly from the forecasts due to various factors. For information regarding the assumptions that form the basis for the business results forecasts and notes about using business forecasts, please refer to "1. Qualitative Information on Quarterly Financial Results (3) Consolidated Earnings Forecasts" (Page 3).
- The company plans to hold results briefing for media members, institutional investors and analysts on November 8, 2018 (Thursday). After the results briefing, the Company will promptly post presentation materials distributed at the results briefing on the Company website. Please confirm the results briefing schedule and other information on the Company website.

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1. Qualitative Information on Quarterly Financial Results

(1) Results of Operations

In the second quarter of the current fiscal year, the Japanese economy remained on a moderate recovery trend as the environment for both employment and personal income is improving. However, the global economy continued to remain unclear, partly because of the impact of trade problems started with the United States on the global economy and uncertainty about political trends in Europe and the United States.

As for the environment surrounding the child-raising service, demand for childcare is increasing in response to women's advancement and active participation in society, and as the issue of the number of children waiting for admission continues to be serious. The government has promoted a policy to provide daycare for 320,000 children by the end of March 2020 and to further improve the levels of compensation of nursery school teachers. The government also aims to fully implement the program of providing free early childhood education from October 2019. It is expected that the size of the market will continue to expand in response to these government policies, and social role of our child-raising service is expected to become more important.

Against this backdrop, following the Ordinary General Meeting of Shareholders held on June 28, 2018, the Group transitioned to a new management structure and implemented organizational and business structure reforms to improve management efficiency. In order to respond to the rising levels of demand for nursery services, the Group is actively opening licensed nursery schools, etc. In addition, in response to diversifying needs for nursery schools, the Group launched the Group's first company-led childcare business (nursery school) in September 2018.

In the second quarter of the current fiscal year, the Group has opened the following new facilities, including 17 nursery schools and 4 school clubs, totaling 21 facilities.

(Nursery school)

Koto-ku Minamisuna No. 4 Nursery School	(Apr. 1, 2018)
Asc Toneri Nursery School	(Apr. 1, 2018)
Asc Higashi Kasai Nursery School	(Apr. 1, 2018)
Asc Minami Kugahara Nursery School	(Apr. 1, 2018)
Asc Yakuoji Nursery School	(Apr. 1, 2018)
Asc Kaname-cho Nursery School	(Apr. 1, 2018)
Asc Fuchu Honmachi Nursery School	(Apr. 1, 2018)
Asc Minowa Nursery School	(Apr. 1, 2018)
Asc Kugenuma Kita Nursery School	(Apr. 1, 2018)
Asc Ohtaka-no-mori Nursery School	(Apr. 1, 2018)
Asc Wani Nursery School	(Apr. 1, 2018)
Asc Sone Minami Nursery School	(Apr. 1, 2018)
Asc Toyotama 1-chome Nursery School A	(Apr. 1, 2018)
Asc Toyotama 1-chome Nursery School B	(Apr. 1, 2018)
GENKIDS Shinkoyasu Nursery School	(Apr. 1, 2018)
Asc Akebono Kaiho Nursery School	(Sep. 1, 2018)
Asc Noborikawa Nursery School	(Sep. 1, 2018)

(School club)

Kojimachi Kids' Club	(Apr. 1, 2018)
Taisho Elementary School After School Kids' Club	(Apr. 1, 2018)
Chofu City Chowa Elementary School Club	(Apr. 1, 2018)
Wakuwaku Takinogawa Momiji Hiroba	(Apr. 1, 2018)

As a result, the Group came to have 200 nursery schools, 72 school clubs, 11 children's houses, 5 private school clubs, and 1 kindergarten (overseas facility), making a total of 289 facilities for supporting child-raising at the end of the second quarter of the current fiscal year.

For the second quarter of the current fiscal year, the Group's consolidated net sales were 14,278 million yen (up 12.0% year on year), operating income was 168 million yen (down 62.6%), ordinary income was 399 million yen (down 32.7%), and net income attributable to owners of parent was 235 million yen (down 32.1%).

The major factors are as follows:

Net sales increased year on year because of the establishment of new facilities as well as sales growth of existing facilities due to subsidies increase for improving treatment of nursery staff etc.

Operating income decreased year on year. This is because personnel expenses incurred prior to the recording of revenue at existing facilities, as the allocation of nursery school teachers to facilities was ahead of entrance of children, and the operating rate did not reach appropriate level to the number of teachers, in addition to an increase in recruitment expenses due to the strengthening of hiring nursery school teachers for sustainable growth. However, since June 2018, the number of entrance of children has been gradually increasing in proportion to the number of teachers in the facilities, and the profitability of existing facilities has been gradually improving. As a result, operating income increased year on year in the second quarter of the current fiscal year.

In addition, both ordinary income and net income attributable to owners of parent decreased year on year, as a decrease in operating income had large impact, although non-operating revenues grew thanks to an increase in subsidies associated with an increase in users of the corporate dormitory.

(2) Financial Position

As for the financial position at the end of the second quarter of the current fiscal year, the total assets amounted to 24,045 million yen (down 1,713 million yen from the end of the previous fiscal year).

Current assets totaled 7,151 million yen (down 733 million yen from the end of the previous fiscal year), mainly because cash and deposits decreased by 434 million yen, others decreased by 155 million yen, and inventories decreased by 130 million yen.

Fixed assets totaled 16,894 million yen (down 979 million yen from the end of the previous fiscal year), mainly because buildings and structures increased by 331 million yen, deferred tax assets increased by 73 million yen, tools, furniture and fixtures increased by 42 million yen, while construction in progress decreased by 1,349 million yen, and investment securities decreased by 84 million yen.

Total liabilities amounted to 16,306 million yen (down 1,695 million yen from the end of the previous fiscal year).

Current liabilities totaled 7,958 million yen (down 250 million yen from the end of the previous fiscal year), mainly because reserve for bonuses increased by 144 million yen, income taxes payable decreased by 161 million yen, while current portion of long-term loans payable decreased by 105 million yen, accounts payable-trade decreased by 89 million yen, short-term loans payable decreased by 39 million yen.

Fixed liabilities totaled 8,348 million yen (down 1,444 million yen from the end of the previous fiscal year), mainly because asset retirement obligation increased by 76 million yen, net defined benefit liability increased by 31 million yen, while long-term loans payable decreased by 1,471 million yen, and others decreased by 78 million yen.

Total net assets as of the end of the second quarter of the current fiscal year totaled 7,738 million yen (down 17 million yen from the end of the previous fiscal year), mainly because treasury stock decreased by 122 million yen, valuation difference on available-for-sale securities decreased by 74 million yen, and retained earnings decreased by 71 million yen.

(3) Consolidated Earnings Forecasts

The full-year consolidated earnings forecasts have not been revised from the announcement on August 8, 2018, but actual results may be different from the forecast according to the changes in business situations, etc.

If there are any changes, the Company will disclose them properly.

2[Quarterly Consolidated Financial Statements]

(1)[Quarterly Consolidated Balance Sheet]

(Thousand yen)

	Previous Fiscal Year (March 31, 2018)	Current Second Quarter (September 30, 2018)
Assets		
Current assets		
Cash and deposits	4,455,750	4,021,474
Notes and accounts receivable-trade	81,250	75,436
Inventories	149,105	19,048
Accounts receivable - other	2,169,850	2,161,291
Other	1,030,385	875,218
Allowance for doubtful accounts	-730	-726
Total current assets	7,885,613	7,151,743
Fixed assets		
Tangible fixed assets		
Buildings and structures	11,278,553	11,906,684
Accumulated depreciation and impairment loss	-4,015,971	-4,312,280
Buildings and structures, net	7,262,582	7,594,403
Machinery, equipment and vehicles	5,868	5,637
Accumulated depreciation	-2,398	-2,741
Machinery, equipment and vehicles, net	3,470	2,895
Tools, furniture and fixtures	711,365	800,738
Accumulated depreciation and impairment loss	-470,331	-517,563
Tools, furniture and fixtures, net	241,033	283,175
Land	980,894	980,894
Construction in progress	1,613,898	263,919
Total tangible fixed assets	10,101,879	9,125,287
Intangible fixed assets		
Goodwill	258,280	243,087
Other	215,489	212,340
Total intangible fixed assets	473,769	455,428
Investments and other assets		
Investment securities	629,505	544,991
Long-term loans receivable	3,297,662	3,304,922
Guarantee deposits	1,823,521	1,831,629
Deferred tax assets	750,305	823,977
Other	812,703	823,884
Allowance for doubtful accounts	-16,063	-16,113
Total investments and other assets	7,297,635	7,313,291
Total fixed assets	17,873,284	16,894,007
Total assets	25,758,898	24,045,751

(Thousand yen)

	Previous Fiscal Year (March 31, 2018)	Current Second Quarter (September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	228,917	139,888
Short-term loans payable	1,500,000	1,461,000
Current portion of long-term loans payable	2,485,320	2,379,796
Accounts payable – other	1,584,376	1,549,487
Income taxes payable	344,278	182,520
Accrued consumption taxes	78,373	74,928
Reserve for bonuses	390,055	534,810
Other	1,597,673	1,635,740
Total current liabilities	8,208,995	7,958,173
Fixed liabilities		
Long-term loans payable	8,934,213	7,462,723
Net defined benefit liability	538,885	570,511
Long-term accounts payable - other	3,700	-
Asset retirement obligation	238,624	315,525
Other	78,280	-
Total fixed liabilities	9,793,703	8,348,760
Total liabilities	18,002,699	16,306,933
Net assets		
Shareholders' equity		
Capital	1,603,955	1,603,955
Capital surplus	1,449,544	1,449,544
Retained earnings	5,421,026	5,349,335
Treasury stock	-636,635	-514,205
Total shareholders' equity	7,837,890	7,888,629
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-46,654	-120,770
Deferred gains or losses on hedges	545	4,778
Foreign currency translation adjustment	3,899	-249
Remeasurements of defined benefit plans	-43,350	-33,570
Total accumulated other comprehensive income	-85,560	-149,811
Non-controlling interests	3,869	-
Total net assets	7,756,199	7,738,817
Total liabilities and net assets	25,758,898	24,045,751

(2)[Quarterly Consolidated Statement of Income and Quarterly Statement of Comprehensive Income]
[Quarterly Consolidated Statement of Income]
[Second Quarter of FY3/19]

	(Thousand yen)	
	Previous Second Quarter (April 1, 2017– September 30, 2017)	Current Second Quarter (April 1, 2018– September 30, 2018)
Net sales	12,748,825	14,278,070
Cost of sales	10,979,215	12,720,275
Gross profit	1,769,609	1,557,794
Selling, general and administrative expenses	1,320,144	1,389,535
Operating income	449,465	168,259
Non-operating revenues		
Interest income	55,079	53,767
Subsidy income	86,007	198,978
Guarantee commission received	32,804	32,804
Other	7,789	10,995
Total non-operating revenues	181,681	296,545
Non-operating expenses		
Interest expenses	25,559	26,509
Equity in losses of affiliates	7,426	-
Demobilization costs	-	34,758
Other	5,095	4,254
Total non-operating expenses	38,082	65,522
Ordinary income	593,064	399,283
Extraordinary loss		
Loss on sales of non-current assets	-	77
Loss on retirement of non-current assets	741	270
Loss on valuation of investment securities	1,404	-
Total extraordinary loss	2,146	347
Income before income taxes and others	590,917	398,935
Corporate, inhabitant and enterprise taxes	272,837	211,116
Income taxes-deferred	-28,939	-47,892
Total income taxes	243,898	163,224
Net income	347,019	235,711
Net loss attributable to non-controlling interests	-26	-64
Net income attributable to owners of parent	347,046	235,775

[Quarterly Consolidated Statement of Comprehensive Income]

[Second Quarter of FY3/19]

	(Thousand yen)	
	Previous Second Quarter (April 1, 2017– September 30, 2017)	Current Second Quarter (April 1, 2018– September 30, 2018)
Net income	347,019	235,711
Other comprehensive income		
Valuation difference on available-for-sale securities	-31,764	-74,116
Deferred gains or losses on hedges	-502	4,232
Foreign currency translation adjustment	-	-4,148
Remeasurements of defined benefit plans	7,360	9,780
Total other comprehensive income	-24,907	-64,250
Comprehensive income	322,112	171,460
(Breakdown)		
Comprehensive income attributable to shareholders of the parent company	322,139	171,524
Comprehensive income attributable to non-controlling interests	-26	-64

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Second quarter of FY3/19 (April 1, 2018 – September 30, 2018)

None

(Notes if there is a significant change in the amount of shareholders' equity)

Second quarter of FY3/19 (April 1, 2018 – September 30, 2018)

None

(Additional information)

(Application of Partial Revision, etc. of Accounting Standard for Tax Effect Accounting)

Current Second Quarter (from April 1, 2018 to September 30, 2018)

"Partial Amendment of Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and other regulations have been applied from the first quarter of the current fiscal year. Deferred tax assets are presented in the category of investments and other assets, while deferred tax liabilities are presented in the category of long-term liabilities.

(Significant subsequent events)

The Company received notification of the filing of a lawsuit against the Company, on the ground that the Company treated the exercise of the voting rights of Mother Care Japan Co., Ltd. to be unrecognized at the extraordinary shareholders meeting held on March 23, 2018, requesting the payment of damages of 264 million yen and interest thereon at the rate of 5% per annum for the period from March 23, 2018, until the payment was completed. The said lawsuit was pending at the Tokyo District Court, and the out-of-court settlement was concluded on October 9, 2018, the contents of which do not cause any financial burden, or any other burden of any kind, arising as a result of the settlement being concluded.