

Third Quarter Financial Report for the Fiscal Year Ending March 31, 2018 [Japan GAAP] (Consolidated)

February 7, 2018

Name of listed company: NICHIIGAKKAN CO., LTD.

Listed on: Tokyo Stock Exchange 1st Section

Securities code: 9792

URL: <http://www.nichiigakkan.co.jp>

Representative: (Title) President and COO (Name) Nobusuke Mori

Contact: (Title) Acting Division Director Accounting Division (Name) Kazuya Shiya

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Scheduled date for filing the quarterly financial report: February 9, 2018

Scheduled date to start dividends distribution: —

Supplementary quarterly materials prepared: Yes

Quarterly results information meeting held: Yes (for institutional investors and financial analysts)

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the third quarter ended December 31, 2017 (from April 1, 2017 to December 31, 2017)

(1) Consolidated operating results (cumulative)

(%s are the rate of increase/decrease from the previous corresponding period)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2017	212,914	2.7	5,963	184.4	3,014	—	1,704	—
Nine months ended December 31, 2016	207,294	1.0	2,097	—	108	—	(122)	—

(Note) Comprehensive income: Nine months ended December 31, 2017: 1,681 million yen (-%); Nine months ended December 31, 2016: minus 1,240 million yen (-%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Nine months ended December 31, 2017	26.55	26.49
Nine months ended December 31, 2016	(1.92)	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
As of December 31, 2017	189,082	38,081	19.4
As of March 31, 2017	191,708	37,924	19.1

Reference: Shareholders' equity: As of December 31, 2017: 36,758 million yen ; As of March 31, 2017: 36,592 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year Ended March 31, 2017	—	11.00	—	11.00	22.00
Year Ending March 31, 2018	—	11.00			
Year Ending March 31, 2018 (forecast)				11.00	22.00

(Note) Revisions to most recently announced dividend forecast: No

3. Forecast of consolidated financial results for the year ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(Percentage figures represent changes from the previous year for full year figures and from the same period in the previous year for second quarter figures.)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		Net Income per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	300,000	8.4	9,300	121.1	6,000	319.9	3,000	113.8	46.73

(Note) Revisions to most recently announced financial results forecast: No

* Notes

(1) Significant changes in subsidiaries during the term (Changes in specified subsidiaries resulting in changes in scope of consolidation): None
New—(Company name) , Excluding—(Company name)

(2) Application of specific accounting for preparing the quarterly consolidated financial statements: None

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

1) Changes in accounting policies due to revisions of accounting standards, etc.: None

2) Changes in accounting policies due to reasons other than those stated in 1): None

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury stock)

As of December 31, 2017:	73,017,952	As of March 31, 2017:	73,017,952
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2) Number of treasury stock

As of December 31, 2017:	8,825,313	As of March 31, 2017:	8,825,656
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3) Average number of shares issued and outstanding in each period (quarterly consolidated cumulative period)

As of December 31, 2017:	64,193,040	As of December 31, 2016:	64,192,428
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*Quarterly financial results are outside the scope of the quarterly review.

*Explanation concerning the appropriate use of financial result forecasts and other special notes

The above forecasts are based on information Nichii Gakkan had when this report was prepared and on certain assumptions judged to be reasonable. Various factors may cause actual results to differ significantly from forecasts. Regarding the assumptions upon which forecasts are based and precautions in using results forecasts, please refer to "(3) Information on the future outlook, including consolidated financial results forecasts" in "1. Qualitative information on quarterly financial results" on page 6 of the quarterly consolidated financial results (attached document).

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1. Qualitative information on quarterly financial results

(1) Details of business results

[Consolidated operating results]

Consolidated operating results	Previous consolidated cumulative third quarter (from April 1, 2016 to December 31, 2016) (in million yen)	Current consolidated cumulative third quarter (from April 1, 2017 to December 31, 2017) (in million yen)	Year-over-year inc/dec rate (%)
Net Sales	207,294	212,914	2.7
Medical Support Segment	81,128	80,536	(0.7)
Long-term Care Segment	108,760	111,973	3.0
Childcare Segment	4,064	6,332	55.8
Health Care Segment	2,254	2,363	4.8
Education Segment	9,415	9,621	2.2
Therapy Segment	147	166	13.4
China Business Segment	1,397	1,755	25.6
Other Segments	127	163	28.3
Operating Income	2,097	5,963	184.4
Medical Support Segment	5,579	6,518	16.8
Long-term Care Segment	7,866	10,988	39.7
Childcare Segment	(643)	(783)	-
Health Care Segment	449	133	(70.2)
Education Segment	(3,571)	(2,980)	-
Therapy Segment	(29)	(236)	-
China Business Segment	(1,089)	(1,053)	-
Other Segments	195	150	(23.1)
Elimination or Corporate Expenses	(6,660)	(6,772)	-
Ordinary Income	108	3,014	-
Profit (loss) attributable to owners of the parent company	(122)	1,704	-

(General Summary)

In the current consolidated cumulative third quarter, we pursued improvements to the business structure of the company as a whole and strove to establish a solid business system for ensuring stable growth of long-term profits in anticipation of achieving our short-term target (period ending March 31, 2018), mid-term target (ending March 31, 2021) and future targets and vision.

On December 1, 2017, Nobusuke Mori (formerly Executive Vice President) acceded to the role of President and COO. Under a new business management system, efforts were put into the rapid and sound implementation of an area management strategy (Vision Progress Project/VIPRO activities) led by the branch companies, branch offices and business sites we have built up to date, and into continued growth of organizational and human resource capabilities as well as further enhancement of corporate value.

Business results are as follows.

Sales were 212,914 million yen (207,294 million yen in the same period last year). Operating profit was 5,963 million yen (2,097 million yen in the same period last year).

The increase in net sales was led by the Long-term Care Business, where user numbers of all services were stable thanks to the expansion of all nursing services, from at-home type care services to residence type care services, and the Childcare Business, where there was an increase in the

number of newly opened facilities, especially corporate-run childcare centers that were promoted by the government with the aim of lowering the number of children on nursery school waiting lists.

The increase in operating profit was led by the Medical Support Business, where there was progress in contract review and suitable personnel placement in contracted medical institutions, and the Long-Term Care Business, where innovative strategies brought continued improvement in business site management efficiency.

(Overviews by business segment)

Results by business segment are as follows.

We changed the reporting segment classification from the consolidated first quarter and Therapy Business and Grooming Business, which were previously grouped in the Health Care Segment, are now separately segmented in the Therapy Segment.

To compare the results in the third quarter under review and the results in the third quarter of the previous fiscal year in the following results by business segment, the business segments for the previous fiscal year have been reclassified, as described above.

<Medical Support Segment>

Sales were 80,536 million yen (81,128 million yen in the same period last year). Operating profit was 6,518 million yen (5,579 million yen in the same period last year).

In order to contribute to productivity improvement and revenue expansion in medical institutions, we put effort into retaining human resources, enhancing service quality, and establishing a positive growth cycle through optimization of the work environment for our staff. In addition, we proposed management support services, medical exchange services and other diversified services that can respond readily to changes in the health service management environment, and we strove to expand business under existing contracts.

Clinic Department sales bottomed out in the first quarter and trended upward on a quarter-by-quarter basis, but weak Hospital Department sales and student numbers for medical office work courses led to decreased sales for the Medical Support Segment as a whole. Profit rose thanks to suitable evaluation of our services from medical institutions and acquisition of suitable contracts.

<Long-term Care Segment>

Sales were 111,973 million yen (108,760 million yen in the same period last year). Operating profit was 10,988 million yen (7,866 million yen in the same period last year).

To meet the diverse long-term care needs of regional communities, we ensured productivity improvement at each business site by encouraging each and every care staff member at approximately 1,400 long-term care service facilities to upskill and progress their careers.

User numbers of at-home type care services were weak due to the transition of preventive care services to integrated business for promoting the establishment of regional comprehensive care systems, but spending per customer maintained an upward trend due to the effects of the increased subsidy for improvement of the benefits of care staff from April 2017 and the enhanced response to moderate-severe persons. We put effort into reinforcing sales activities for residence type care services at facilities where utilization was sluggish.

Net sales increased as a result of stable utilization of both at-home type care services and residence type care services, and profits rose buoyed by improved productivity achieved through greater business site management efficiency.

<Childcare Segment>

Sales were 6,332 million yen (4,064 million yen in the same period last year). Operating loss was 783 million yen (643 million yen of loss in the same period last year).

We actively strove to expand facilities, focusing on corporate-run childcare centers as modeled by the Cabinet to help lower the number of children on regional nursery school waiting lists and promote female participation in the workforce. Corporate-run childcare centers play a part in supporting both employees' working lives and child rearing, and Nichii's childcare services grew in number to about 200 facilities nationwide, including those under our basic agreement on childcare usage with Nippon Life Insurance Company, our 48 facilities as of December 31, 2017, and other childcare-related facilities.

Net sales jumped by 55.8% through expansion of facilities to meet market needs, but profit decreased due to up-front expenditure for new establishment. However, the loss amount decreased on a quarter-by-quarter basis due to the steady improvement in the utilization rate for both brand-new facilities and existing facilities.

<Health Care Segment>

Sales were 2,363 million yen (2,254 million yen in the same period last year). Operating profit was 133 million yen (449 million yen in the same period last year).

To take on diverse livelihood support needs accompanying changes in lifestyle, we strove to expand the Nichii Life housekeeping service provided by our Japanese staff, prepared to launch the Sunny Maid Service provided by our foreign staff, and promoted sales of various private brand products.

Net sales increased due to growth in the number of Nichii Life users boosted by the campaign that started in the fall and steady growth in sales quantities of private brand products driven by sales activities utilizing the nationwide sales network. Profit decreased due to up-front expenditure for preparations to launch the Sunny Maid Service foreign housekeeper program in the National Strategic Special Zone.

<Education Segment>

Sales were 9,621 million yen (9,415 million yen in the same period last year). Operating loss was 2,980 million yen (3,571 million yen of loss in the same period last year).

With the aim of training global human resources who can play an active role in the world, we expanded our two language school brands, COCOJUKU and Gaba, and leveraged our Group's capabilities in Japan and overseas to support exchanges to overseas language schools and continued learning following students' return to Japan.

Student numbers for our adult-oriented service were stable even as we put effort into preparing to transition* from COCOJUKU to one-to-one English conversation lessons at Gaba. Student numbers for our child-oriented service COCOJUKU Jr. were stable due to expansion of schools to 500 locations nationwide and we advanced preparations for facility expansion centering on community-based satellites.

Sales and profit for both the COCOJUKU and Gaba brands increased (loss decreased) as a result of efforts to enhance the utilization rate of existing schools and rapidly achieve a high utilization rate at newly established schools through aggressive communication-centered promotional activities such as campaigns and events.

*The Education Business structural reforms (integration and parallel operation of Gaba and COCOJUKU) that will be implemented full-scale from April this year will integrate our adult-oriented services into Gaba One-To-One English Conversation and our child-oriented services into COCOJUKU Jr. for even greater efficiency and customer satisfaction with promotional activities and the management system for learning studios, teachers and students.

<Therapy Segment>

Sales were 166 million yen (147 million yen in the same period last year). Operating loss was 236 million yen (29 million yen of loss in the same period last year).

We expanded our A-LOVE dog grooming salons, which are built on the concept of pet health, in Japan and Australia. At our Japan salons, we strove to expand our facilities and enhance our ability to attract customers by promoting store openings using area marketing and reviewing event activities such as private previews. We opened our first Australian salon in Adelaide and are preparing to open our second.

We expanded the number of Japan salons to 13 by December 31, 2017, including 12 salons we opened this fiscal year. Net sales increased due to strategic expansion of facilities, but profit decreased due to up-front expenditure for new establishment.

<China Business Segment>

Sales were 1,755 million yen (1,397 million yen in the same period last year). Operating loss was 1,053 million yen (1,089 million yen of loss in the same period last year).

With China's aging population, we focused on the long-term care field, providing Japanese-style services, training human resources and selling sanitary products. Services are provided mainly through 21 regional operating companies and 8 educational corporations within China. In December 2017, we opened the Itsu-un-in Beijing Chaoyang dementia-specialized facility No. 1 in Beijing, and we strove to provide personalized care to each and every patient by making the most of our know-how and experience gained through operating group homes in Japan.

Net sales increased due to the increased number of consolidated companies, and profit increased (loss decreased) due to greater management efficiency by all companies and educational corporations.

<Other Segments>

Sales were 163 million yen (127 million yen in the same period last year). Operating profit was 150 million yen (195 million yen in the same period last year)

We strove to maximize group synergy to strengthen cooperation between group companies.

[(reference) Individual operating results]

	Previous cumulative third quarter (from April 1, 2016 to December 31, 2016) (in million yen)	Current cumulative third quarter (from April 1, 2017 to December 31, 2017) (in million yen)	Year-over-year inc/dec rate (%)
Net Sales	180,063	182,926	1.6
Operating Income	1,632	4,480	174.5
Ordinary Income	1,265	3,640	187.7
Current Net Income	1,376	2,735	98.8

(2) Details of financial position

Total assets of the current third quarter were 189,082 million yen, a decrease of 2,626 million yen compared to the end of the previous fiscal year. This is mainly because current assets increased by 1,394 million yen due to an increase of cash and deposits while fixed assets decreased by 4,020 million yen due to a decrease in goodwill.

Total liabilities of the current third quarter were 151,000 million yen, a decrease of 2,783 million yen compared to the end of the previous fiscal year. This is mainly because total current liabilities decreased by 8,314 million yen due to a decrease of provision for bonuses while total non-current liabilities increased by 5,531 million yen due to an increase in long-term loans payable.

Net assets of the current third quarter were 38,081 million yen, an increase of 157 million yen compared to the end of the previous fiscal year.

(3) Information on the future outlook, including consolidated financial results forecasts

As for the consolidated result estimations for the period ending March 2018, there are no changes from the official declaration of May 12, 2017.

2. Quarterly consolidated financial statements and key notes

(1) Quarterly consolidated balance sheets

(in thousand yen)

	Fiscal 2017 (As of March 31, 2017)	Current consolidated third quarter (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	16,357,197	17,151,535
Notes and accounts receivable-trade	32,855,836	33,096,594
Short-term investment securities	200,416	-
Merchandise and finished goods	1,076,922	1,048,992
Work in progress	8,570	37,214
Raw materials and supplies	232,588	252,969
Deferred tax assets	2,314,021	2,348,342
Other Segments	11,687,703	12,210,401
Less: allowance for doubtful accounts	(9,802)	(28,341)
Total current assets	64,723,455	66,117,710
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	23,088,252	22,638,981
Lease assets—net	46,903,144	47,245,708
Other—net	10,614,144	9,460,003
Total property, plant and equipment	80,605,541	79,344,694
Intangible assets		
Goodwill	14,225,873	12,608,627
Other Segments	5,447,292	5,832,655
Total intangible assets	19,673,166	18,441,282
Investment and other asset		
Other Segments	27,085,011	25,448,601
Less: allowance for doubtful accounts	(379,098)	(270,277)
Total investments and other assets	26,705,912	25,178,323
Total fixed assets	126,984,620	122,964,300
Total assets	191,708,076	189,082,010
Liabilities		
Current liabilities		
Notes and accounts payable-trade	840,286	943,984
Short-term loans payable	20,269,380	7,766,687
Income taxes payable	1,990,593	1,085,756
Accrued expenses	15,914,778	19,979,138
Provision for bonuses	4,990,083	2,748,904
Provision for directors' bonuses	38,000	1,800
Provision for loss on store closing	-	2,337
Other Segments	24,487,658	27,687,325
Total current liabilities	68,530,780	60,215,935
Non-current liabilities		
Long-term loans payable	17,563,057	20,793,133
Lease obligations	52,192,808	53,356,404
Net defined benefit liability	7,311,817	7,598,260
Asset retirement obligations	2,378,419	2,435,813
Other Segments	5,806,811	6,600,629
Total non-current liabilities	85,252,913	90,784,241
Total liabilities	153,783,694	151,000,176

(in thousand yen)

	Fiscal 2017 (As of March 31, 2017)	Current consolidated third quarter (As of December 31, 2017)
Net assets		
Shareholders' equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,277,876	17,057,007
Retained earnings	20,006,631	20,297,750
Treasury stock, at cost	(11,376,929)	(11,376,345)
Total shareholders' equity	37,841,369	37,912,203
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	20,543	24,588
Foreign currency exchange adjustments	(457,572)	(519,781)
Remeasurements of defined benefit plans	(811,515)	(658,495)
Total accumulated other comprehensive income	(1,248,544)	(1,153,687)
Subscription rights to shares	531,839	551,119
Non-controlling interests	799,717	772,199
Total net assets	37,924,381	38,081,834
Total liabilities and net assets	191,708,076	189,082,010

(2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statements of income)

(Consolidated cumulative third quarter)

(in thousand yen)

	Previous consolidated cumulative third quarter (from April 1, 2016 to December 31, 2016)	Current consolidated cumulative third quarter (from April 1, 2017 to December 31, 2017)
Net Sales	207,294,225	212,914,135
Cost of sales	168,755,393	171,725,054
Gross profit	38,538,832	41,189,081
Selling, general and administrative expenses	36,441,499	35,225,195
Operating Income	2,097,332	5,963,885
Non-operating income		
Interest income	109,818	114,093
Rent income	142,901	159,531
Subsidy income	156,345	34,876
Foreign exchange gains	348,784	101,471
Equity method investment gain	41,676	48,714
Other Segments	381,032	277,601
Total non-operating income	1,180,559	736,288
Non-operating expenses		
Interest expenses	3,021,545	3,482,299
Rent expenses	27,559	26,796
Other Segments	120,473	176,446
Total non-operating expenses	3,169,578	3,685,542
Ordinary Income	108,313	3,014,631
Extraordinary income		
Gain on reversal of subscription rights to shares	8,158	5,310
Other Segments	783	85
Total extraordinary income	8,942	5,396
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	2,661	44,605
Impairment losses	24,464	-
Other Segments	2,082	1,118
Total extraordinary losses	29,208	45,723
Net income (loss) before income taxes	88,046	2,974,304
Income taxes—current	756,885	1,440,915
Income taxes—deferred	(426,329)	(38,456)
Total income taxes	330,555	1,402,458
Net income (loss)	(242,508)	1,571,846
Profit (loss) attributable to non-controlling interests	(119,510)	(132,418)
Profit (loss) attributable to owners of the parent company	(122,998)	1,704,265

(Quarterly consolidated statements of comprehensive income)
(Consolidated cumulative third quarter)

(in thousand yen)

	Previous consolidated cumulative third quarter (from April 1, 2016 to December 31, 2016)	Current consolidated cumulative third quarter (from April 1, 2017 to December 31, 2017)
Net income (loss)	(242,508)	1,571,846
Other comprehensive income		
Valuation difference on available-for-sale securities	9,398	4,054
Foreign currency exchange adjustments	(1,168,871)	(47,486)
Remeasurements of defined benefit plans	161,484	153,020
Total other comprehensive income	(997,988)	109,588
Comprehensive income	(1,240,496)	1,681,434
(Breakdown)		
Comprehensive income attributable to owners of the parent company	(1,047,826)	1,810,841
Comprehensive income attributable to non-controlling interests	(192,670)	(129,407)

(3) Notes to quarterly consolidated financial statements

Notes on the premise of a going concern

There are no applicable matters.

Notes on significant fluctuation in the amount of shareholders' equity

There are no applicable matters.