Financial Results for the First Quarter of the Year Ending March 31, 2020 (J-GAAP)

August 7, 2019

Name of listed company: NICHIIGAKKAN CO., LTD. Listed on: Tokyo Stock Exchange 1st Section
Securities code: 9792 URL: http://www.nichiigakkan.co.jp
Representative: Nobusuke Mori, President and COO
Contact: Kazuya Shiiya, Executive Officer, Acting Division Director Accounting Division TEL: 03-3291-2121
Scheduled date for filing the quarterly financial report: August 9, 2019
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 first quarter of the year ending March 31, 2020 (April 1, 2019 – June 30, 2019)

(1) Consolidated operating results (Percentage figures represent changes from the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2019	73,523	3.8	2,723	115.5	1,574	–	927	–
Three months ended June 30, 2018	70,835	0.7	1,263	(16.8)	139	(75.1)	(158)	–

(Note) Comprehensive income: First three months of FY2020: 1,022 million yen (－%) First three months of FY2019: (124) million yen (–%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2019	14.42	14.32
Three months ended June 30, 2018	(2.47)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2019	194,005	40,867	20.5
As of March 31, 2019	193,640	41,077	20.6

Reference: Shareholders' equity: As of June 30, 2019: 39,677 million yen As of March 31, 2019: 39,986 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	–	15.00	–	20.00	35.00
Year ending March 31, 2020	–				
Year ending March 31, 2020 (forecast)		20.00	–	20.00	40.00

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

3. Forecast of consolidated financial results for the year ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(Percentage figures represent changes from previous year for full year figures and from same period of previous year for interim period 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
First six months	149,200	4.6	6,200	49.2	4,000	105.4	2,400	853.3	37.30
Full year	303,000	5.3	15,200	51.5	11,000	92.9	6,700	9.7	104.12

(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

(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 June 30, 2019:	73,017,952	As of March 31, 2019:	73,017,952

2) Number of treasury stock

As of June 30, 2019:	8,672,119	As of March 31, 2019:	8,671,247

3) Average number of shares issued and outstanding in each period

Three months ended June 30, 2019:	64,346,210	Three months ended June 30, 2018:	64,193,048

* Quarterly financial results are outside the scope of the quarterly review by certified public accountants or audit corporations.

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

The above forecasts are based on information Nichii Gakkan had as of the time this report was prepared and on certain assumptions judged to be reasonable. Various factors may cause actual results to differ significantly from forecasts. Please refer to the disclaimers, provided under “(3) Information on the future outlook, including consolidated financial results forecasts” of “1. Qualitative information on quarterly financial results” on page 4 of the attached document, regarding the assumptions upon which forecasts are based and the use of forecasts.

Table of Contents for the Attached Document

1. Qualitative information on quarterly financial results

The forward-looking statements contained in the descriptions below are forecasts determined at the end of the current quarter.

(1) Details of business results

The Nichii Group has been restructuring its business portfolio through selection and concentration to build a sustainable management foundation based on its long-term vision and improving the profit base of its core businesses, the Medical Support Segment and the Long-Term Care Segment, and human resources that become the source of growth potential.

During the first quarter of the fiscal year under review, the Group increased its stable profitability, particularly in its mainstays, the Medical Support Segment and the Long-Term Care Segment, through successful business reform led by on-site personnel. To increase its human resources supply capacity, the Group improved its approach to persons taking human resources development courses in the process from application to completion, which resulted in an upward trend in the number of persons taking the medical administration course and contributed to steady achievements in the Group’s measures to promote human resources development. In the Long-Term Care Segment, the Group aggressively carried out measures such as the launch of a short-term intensive course to train new nursing care professionals, the development of an environment for a range of human resources to use their skills, and the improvement of the situation for working multiple jobs in housekeeping services by employing foreign personnel, in an effort to increase its capacity to meet growing demand.

In the business restructure of the Education Segment and the China Business, the further reduction of operational costs contributed to an increase in gross margin and operating margin.

Net sales for the first three months of the first quarter under review were 73,523 million yen (up 3.8% year on year). Operating income was 2,723 million yen (up 115.5% year on year). Ordinary income was 1,574 million yen (up 1,029.7% year on year). Profit attributable to owners of parent was 927 million yen (compared with loss attributable to owners of parent of 158 million yen in the same period of the previous fiscal year).

Yao Medical PFI Co., Ltd., which was a non-consolidated subsidiary in the previous fiscal year, has been included in the scope of consolidation (the Medical Support Segment) since the first quarter of the fiscal year under review.

The business results by segment are as shown below.

<Medical Support Segment>

Net sales were 28,467 million yen (compared with 26,791 million yen in the same period of the previous fiscal year).
Operating income was 2,359 million yen (compared with 2,119 million yen in the same period of the previous fiscal year).

For medical institutions with which the Group is under contract, the Group worked to improve its service proposal skills, rationalize working hours by closely examining contract operations, and increase customer satisfaction by improving work accuracy.

Under new contracts, the number of persons who take the medical administration course continues to increase, and the Group used this trend to acquire new contracts, etc. with large hospitals by employing human resources that can be immediate assets.

Yao Medical PFI Co., Ltd., the newly consolidated subsidiary, is a special purpose company carrying out the PFI business for Yao Municipal Hospital in Osaka, and the Group has been funding 51% of its capital since 2004. The Group signed a 15-year contract extension that commenced in May this year and consolidated it as a subsidiary in the first quarter of the fiscal year under review.

Consequently, net sales and income rose, thanks primarily to the new consolidation and an increase in the number of persons taking the medical administration course.

<Long-Term Care Segment>

Net sales were 38,059 million yen (compared with 37,439 million yen in the same period of the previous fiscal year). Operating income was 4,191 million yen (compared with 3,649 million yen in the same period of the previous fiscal year).

In the In-home care service segment, the Group raised its capacity to accept patients in a moderate or severe condition in response to sickbed reorganization, etc., which resulted in an increase in the number of patients in a moderate or severe condition using the services and growth in the average sales per customer.

In the residential care service segment, the Group maintained stable, high occupancy and focused on collaboration between service providers and facilities to reduce vacancies after the vacation of users.

As a result, the high occupancy of residential care service facilities and the stabilization of profit associated with an increase in sales per customer contributed to growth in net sales and income.

<Childcare Segment>

Net sales were 3,153 million yen (compared with 2,568 million yen in the same period of the previous fiscal year).

Operating loss was 546 million yen (compared with operating loss of 404 million yen in the same period of the previous fiscal year).

In the three months under review, the Group opened 34 new facilities, including licensed nursery schools, which resulted in a total of 285 facilities. In its sales activities, the Group worked to acquire corporate-user contracts for corporate-run childcare centers and to increase recognition in each region by promoting the expansion of regional usage limits.

As a result, net sales increased thanks to an increase in the occupancy of nursery schools and the opening of new centers. The operating result was a loss due to upfront expenses incurred for the opening of new facilities, however.

<Health Care Segment>

Net sales were 423 million yen (compared with 381 million yen in the same period of the previous fiscal year). Operating loss was 493 million yen (compared with operating loss of 115 million yen in the same period of the previous fiscal year).

The Group worked to improve its sales capabilities for the Nichii Life housekeeping service and the Sunny Maid Service housekeeping support business provided by foreign personnel in the National Strategic Special Zone.

In the Sunny Maid Service business, the Group has been promoting the employment of foreign personnel to respond to the housekeeping market and build a full-time service system for staff in the Long-term Care Segment and the Health Care Segment. As of the end of June, the number of foreign staff members totaled 627.

The Group is preparing for employee training, area needs analysis, and other activities to further improve its service capacity. As a new development, the Group plans to start providing services in Aichi Prefecture in September 2019. It submitted an application for an office to launch services in the city of Chiba in Chiba Prefecture in the second half of the fiscal year under review.

As a result, net sales rose, reflecting an increase in the number of service users due to promotions meeting users' seasonal needs. Meanwhile, operating loss increased due to an increase in prior expenses for the acceptance of foreign staff.

<Education Segment>

Net sales were 2,784 million yen (compared with 2,891 million yen in the same period of the previous fiscal year). Operating loss was 56 million yen (compared with operating loss of 1,210 million yen in the same period of the previous fiscal year).

In the three months under review, the Group closed 15 schools and completed the closure of all 72 schools by the end of June due to the withdrawal from the COCO Juku business. (A resolution to close 199 franchise schools by the end of March 2020 has been passed.)

In the segment of Gaba One-to-one English Conversation, the existing Gaba Learning Studio ("LS") continued to perform well, and the Group worked to develop the business in new areas based on the six former COCO Juku LSs (JR Tower Sapporo LS, Sendai LS, Funabashi LS, Tsukuba LS, Kyoto LS Annex, and Hiroshima LS) to acquire new customers and encourage continuous attendance.

While net sales decreased due to the withdrawal from the COCO Juku business, operating loss was reduced chiefly by a decrease in rents and advertising expenses after the school closures.

<Therapy Segment>

Net sales were 145 million yen (compared with 88 million yen in the same period of the previous fiscal year). Operating loss was 85 million yen (compared with operating loss of 152 million yen in the same period of the previous fiscal year).

The Group worked to open the A-LOVE dog grooming salons. The Group worked to acquire new customers using the Golden Week campaign and other promotional activities to meet seasonal demand and through active promotion using social media. The Group also focused on sharing and increasing the quality of grooming techniques through cooperation with personnel at other salons in an effort to increase the number of regular customers.

This resulted in an increase in new and regular customers, which contributed to sales growth and reduced operating loss.

<Global Segment>

Net sales were 411 million yen (compared with 484 million yen in the same period of the previous fiscal year). Operating loss was 149 million yen (compared with operating loss of 326 million yen in the same period of the previous fiscal year).

In the three months under review, the Group improved sales activities to acquire contracts for the operation of long-term care facilities accepting dementia patients and outside sales training in China. It also launched a consulting business for the establishment and operation of long-term care facilities as part of the efforts to create new business opportunities.

In the three months under review, while net sales fell, due in part to the reorganization of a joint venture in China that was launched in the previous fiscal year, operating loss was reduced by concentrating management resources through corporate reorganization.

<Other Segments>

Net sales were 77 million yen (compared with 190 million yen in the same period of the previous fiscal year). Operating income was 47 million yen (compared with 76 million yen in the same period of the previous fiscal year).

The Group supported an increase in the operation efficiency of goods management, data processing, leases, and other core businesses. In the three months under review, net sales and income decreased in Other Segments due to the restructure of consolidated subsidiaries.

(2) Details of financial position

At the end of the first quarter of the consolidated fiscal year under review, total assets increased 364 million yen as compared to the end of the previous consolidated fiscal year, to 194,005 million yen. The major causes were an increase of 1,566 million yen in current assets, mainly due to an increase in notes and accounts receivable – trade, and a decrease of 1,201 million yen in fixed assets, mainly due to a decrease in goodwill.

Liabilities increased 574 million yen as compared to the end of the previous consolidated fiscal year, to 153,137 million yen. Major factors included an increase of 2,171 million yen in current liabilities, mainly as a result of growth in short-term loans payable and a decrease of 1,596 million yen in non-current liabilities, owing largely to a fall in long-term loans payable.

Net assets decreased 209 million yen from the end of the previous fiscal year, to 40,867 million yen.

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

The forecast of consolidated financial results for the year ending March 31, 2020 that was announced on May 10, 2019 remains unchanged.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheets

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Q1 of Fiscal 2020 (As of June 30, 2019)
Assets		
Current assets		
Cash and deposits	18,255,916	18,220,823
Notes and accounts receivable—trade	33,434,278	35,275,913
Short-term investment securities	256,310	299,458
Merchandise and finished goods	364,426	459,277
Work in progress	11,159	22,021
Raw materials and supplies	175,533	182,122
Other segments	13,291,468	12,886,723
Less: allowance for doubtful accounts	(104,166)	(94,647)
Total current assets	65,684,926	67,251,693
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	21,950,524	22,096,364
Lease assets—net	49,992,221	49,840,690
Other—net	10,369,489	10,007,430
Total property, plant and equipment	82,312,235	81,944,484
Intangible assets		
Goodwill	9,120,932	8,688,998
Other	3,977,138	3,876,002
Total intangible assets	13,098,071	12,565,001
Investment and other asset		
Other	32,790,254	32,486,772
Less: allowance for doubtful accounts	(244,715)	(242,349)
Total investments and other assets	32,545,539	32,244,423
Total fixed assets	127,955,845	126,753,909
Total assets	193,640,771	194,005,602
Liabilities		
Current liabilities		
Notes and accounts payable-trade	747,571	2,114,195
Short-term loans payable	2,512,273	7,260,588
Income taxes payable	2,941,364	597,680
Accrued expenses	17,914,622	18,748,621
Provision for bonuses	5,937,697	3,216,944
Provision for directors' bonuses	36,000	19,940
Allowance for structural reform	486,086	60,627
Other	30,088,847	30,817,091
Total current liabilities	60,664,463	62,835,687
Non-current liabilities		
Long-term loans payable	15,998,372	14,265,166
Lease obligations	57,113,991	57,272,343
Net defined benefit liability	7,742,022	7,784,163
Asset retirement obligations	3,582,707	3,603,074
Other	7,461,436	7,377,281
Total non-current liabilities	91,898,531	90,302,028
Total liabilities	152,562,995	153,137,716

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Q1 of Fiscal 2020 (As of June 30, 2019)
Net assets		
Shareholders’ equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,009,418	17,009,401
Retained earnings	22,867,282	22,476,861
Treasury stock, at cost	(11,177,438)	(11,177,505)
Total shareholders’ equity	40,633,052	40,242,548
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,481	11,066
Foreign currency exchange adjustments	(244,124)	(207,224)
Remeasurements of defined benefit plans	(414,813)	(368,469)
Total accumulated other comprehensive income	(646,456)	(564,627)
Subscription rights to shares	605,781	617,080
Non-controlling interests	485,398	572,884
Total net assets	41,077,776	40,867,885
Total liabilities and net assets	193,640,771	194,005,602

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income (Three months ended June 30)

(Thousand yen)

	Q1 of Fiscal 2019 (from April 1, 2018 to June 30, 2018)	Q1 of Fiscal 2020 (from April 1, 2019 to June 30, 2019)
Net sales	70,835,690	73,523,266
Cost of sales	57,358,847	58,882,077
Gross profit	13,476,842	14,641,188
Selling, general and administrative expenses	12,213,155	11,917,533
Operating income	1,263,686	2,723,654
Non-operating income		
Interest income	34,632	35,410
Rent income	46,241	48,133
Subsidy income	16,854	30,003
Other	85,290	78,755
Total non-operating income	183,019	192,302
Non-operating expenses		
Interest expenses	1,205,044	1,253,264
Rent expenses	6,945	8,302
Foreign exchange losses	66,243	30,527
Share of loss of entities accounted for using equity method	8,475	5,203
Other	20,665	44,572
Total non-operating expenses	1,307,374	1,341,870
Ordinary income	139,331	1,574,087
Extraordinary income		
Gain on sales of property, plant and equipment, net	–	6
Gain on reversal of subscription rights to shares	1,691	–
Total extraordinary income	1,691	6
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	357	8,942
Loss on sales of investment securities	149,705	–
Structural reform expenses	–	224,310
Other	–	15,339
Total extraordinary losses	150,062	248,592
Net income (loss) before income taxes	(9,039)	1,325,501
Income taxes—current	134,259	166,609
Income taxes—deferred	36,408	218,765
Total income taxes	170,667	385,374
Net income (loss)	(179,707)	940,126
Profit (loss) attributable to non-controlling interests	(21,293)	12,386
Profit (loss) attributable to owners of the parent company	(158,413)	927,739

Quarterly consolidated statements of comprehensive income (Three months ended June 30)

(Thousand yen)

	Q1 of Fiscal 2019 (from April 1, 2018 to June 30, 2018)	Q1 of Fiscal 2020 (from April 1, 2019 to June 30, 2019)
Net income (loss)	(179,707)	940,126
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,131)	(1,554)
Foreign currency exchange adjustments	9,239	37,804
Remeasurements of defined benefit plans	48,287	46,343
Total other comprehensive income	55,395	82,593
Comprehensive income	(124,312)	1,022,719
(Breakdown)		
Comprehensive income attributable to owners of parent	(96,489)	1,009,427
Comprehensive income attributable to non-controlling interests	(27,822)	13,292

(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.

(Significant subsequent events)

Disposal of treasury stock as stock-based compensation with restrictions on transfer

The Company resolved at the meeting of the board of directors held on July 10, 2019 to dispose of treasury stocks as stock-based compensation with restrictions on transfer (hereinafter referred to as the "Disposal of Treasury Stocks" or the "Disposal").

1. Purposes of and reasons for the Disposal

The Company resolved at a meeting of its Board of Directors held on May 11, 2018 to introduce the stock-based compensation plan with restrictions on transfer (hereinafter referred to as the "Transfer") for the purposes of providing appropriate incentives toward the achievement of the sustainable enhancement of corporate value and the medium-term management plan of the Company to directors of the Company other than outside directors (hereinafter referred to as the "Directors"), executive officers who are not directors of the Company and the directors of the subsidiaries of the Company, and promote the further sharing of values with shareholders. In addition, the 46th annual general meeting of shareholders held on June 26, 2018 (hereinafter referred to as the "General Meeting of Shareholders"), approved, among other matters, that under the said plan, the right to claim monetary compensation would be provided to directors of the Company as monetary compensation for the property contributed to acquire shares with restrictions on transfer up to the annual amount of 1,320,000 thousand yen only for seven (7) years from the date of the general meeting of shareholders.

2. Outline of the Disposal

(1)	Date of the Disposal	August 2,2019
(2)	Class and number of shares to be disposed of	Common stocks of the Company: 153,550 shares
(3)	Price for the Disposal	1,658 yen per share
(4)	Total amount of the Disposal	254,585,900 yen
(5)	Buyers and number of buyers and number of stocks to be disposed of	Directors (other than outside directors) of the Company: 8 persons, 132,000 shares Executive officers of the Company: 41 persons, 16,500 shares Directors of the subsidiaries of the Company: 9 persons, 5,050 shares
(6)	Others	The securities report required by the Financial Instruments and Exchange Act has been submitted for the Disposal of Treasury Stocks.