Financial Results for the First Half of the Year Ending March 31, 2019 (J-GAAP)

November 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)	Executive Officer, Acting Division Director Accounting Division	(Name) Kazuya Shiiya	TEL: 03-3291-2121
Scheduled date for filing the quarterly financial report:		November 9, 2018	Scheduled date to start dividends distribution:	December 6, 2018

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 half of the year ending March 31, 2019(April 1, 2018 – September 30, 2018)

(1) Consolidated operating results (Percentage figures represent changes from same period of previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2018	142,596	0.8	4,154	10.7	1,947	7.2	251	(72.6)
Six months ended September 30, 2017	141,426	2.7	3,753	360.4	1,815	—	918	—

(Note) Comprehensive income: First six months of FY2019: 311million yen (-61.0%) First six months of FY2018: 799million yen (—%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2018	3.92	3.91
Six months ended September 30, 2017	14.32	14.29

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	192,583	37,316	18.8
As of March 31, 2018	190,239	37,656	19.1

(Reference) Shareholders' equity: As of September 30, 2018 36,153 million yen As of March 31, 2018 36,363 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	—	11.00	—	11.00	22.00
Year ending March 31, 2019	—	15.00			
Year ending March 31, 2019 (forecast)			—	15.00	30.00

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

3. Forecast of consolidated financial results for the year ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentage figures represent changes from previous year)

	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	293,500	3.4	14,700	92.7	9,600	164.6	5,100	496.9	79.39

(Note) Revisions to most recently announced financial results forecast: Yes

* 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 September 30, 2018	73,017,952	As of March 31, 2018:	73,017,952
2) Number of treasury stock	As of September 30, 2018	8,670,871	As of March 31, 2018:	8,825,572
3) Average number of shares issued and outstanding in each period	Six months ended September 30, 2018	64,237,050	Six months ended September 30, 2017	64,193,111

* 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 7 of the attached document, regarding the assumptions upon which forecasts are based and the use of forecasts.

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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.

In addition, ASBJ Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting (February 16, 2018) and other guidelines were applied from the beginning of the first quarter of the consolidated fiscal year. With respect to the financial position, the figures at the end of the previous consolidated fiscal year after retrospective processing were used in comparison.

(1) Details of business results

During the first half of the fiscal year under review, the Nichii Group implemented organizational reforms, including the drastic revision of its marketing system, the improvement of the human resources infrastructure, and other activities to strengthen its business structure with the aim of growing net sales and ensuring stable profit for the establishment of the foundation for the medium-term management plan VISION 2025 (from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2025).

The business achieved revenue growth thanks to the contribution of the Childcare Business, which increased the number of service facilities comprising mostly corporate-run childcare centers, the Long-term Care Business, and the Health Care Business to net sales. Both operating income and ordinary income grew owing to an increase in the operation of fee-charging elderly care facilities and childcare facilities and the effect of increased labor productivity and cost management based primarily on higher operation efficiency. Profit attributable to owners of parent, however, decreased chiefly due to a loss on sales of subsidiaries and associates upon the dissolution of joint ventures with 15 companies, including regional operating companies in China, as part of the Group’s reorganization in its global business.

Net sales for the first six months of the first half under review were 142,596 million yen (compared with 141,426 million yen in the same period of the previous fiscal year). Operating income was 4,154 million yen (compared with 3,753 million yen in the same period of the previous fiscal year). Ordinary income was 1,947 million yen (compared with 1,815 million yen in the same period of the previous fiscal year). Net income attributable to owners of parent was 251 million yen (compared with 918 million yen in the same period of the previous fiscal year).

(Operating results by business segment)

The business results by segment are as shown below.

From the fiscal year ending March 31, 2019, the categories of the reporting segments were changed. The China Business and services abroad were transferred from each department to the global segment in presentation by segment. In addition, health care product sales were transferred from the Health Care Segment to the Long-Term Care Segment. In this regard, with respect to the comparison with the same quarter of the previous fiscal year below, figures obtained by reclassifying the figures for the same quarter of the previous fiscal year under the changed segment categories were used in comparison.

<Medical Support Segment>

Net sales were 53,667 million yen (compared with 53,671 million yen in the same period of the previous fiscal year). Operating income was 4,448 million yen (compared with 4,522 million yen in the same period of the previous fiscal year).

The Group has been working continuously to strengthen its human resources infrastructure by, for instance, stabilizing the employment of on-site employees, including indefinite-term hiring, to achieve sustainable growth by improving its service delivery capacity. While focusing on increasing productivity and quality, persistent negotiations for contract rationalization and obtaining contracts for high value-added services consisting largely of support operations for medical administration during the period in preparation for physicians’ workstyle reforms resulted in an increase in sales of the hospital department, growth in the number of contracts for the clinic department remained sluggish and led to a fall in net sales and income for the segment.

<Long-Term Care Segment>

Net sales were 75,509 million yen (compared with 75,382 million yen in the same period of the previous fiscal year). Operating income was 8,019 million yen (compared with 7,509 million yen in the same period of the previous fiscal year).

The Long-Term Care Segment has positioned acquiring and retaining nursing personnel and improving the services to patients in a moderate or severe condition as its priority measures, and has been implementing such measures.

In the at-home type care services, the number of patients eligible for nursing care benefits in the visiting nursing care service has been gradually recovering from the previous year, the payment per patient has also increased due to a rise in the percentage of patients in a moderate or severe condition, and the number of users of at-home type care services grew steadily, resulting in an increase in segment sales. Profits also increased, chiefly as a result of raising the availability per caregiver as part of efforts to increase productivity, increasing operation efficiency, and high occupancy maintained at fee-charging elderly care facilities.

<Childcare Segment>

Net sales were 5,433 million yen (compared with 3,922 million yen in the same period of the previous fiscal year). Operating loss was 477 million yen (compared with operating loss of 728 million yen in the same period of the previous fiscal year).

The Group has been actively establishing corporate-run childcare centers, which were institutionalized based on the government's plan for reducing the number of children on waiting lists, in order to meet childcare needs and contribute to women's social advancement. The Group opened a total of 45 new childcare facilities during the first half of the fiscal year under review, including licensed nursery schools and other childcare-related facilities, and now operates 247 childcare-related facilities across Japan.

Net sales grew 38.5% year on year thanks to the increase in the number of facilities. Profit increased thanks to an increase in the operation of childcare facilities, which resulted from higher recognition of corporate-run childcare centers in each region and the acquisition of corporate-user contracts; consequently, the loss was reduced by 53.6% (84 million yen) year on year during the second quarter under review (July through September).

<Health Care Segment>

Net sales were 779 million yen (compared with 674 million yen in the same period of the previous fiscal year). Operating loss was 309 million yen (compared with operating income of 36 million yen in the same period of the previous fiscal year).

In response to growing demand for housekeeping services, due in part to the declining birthrate and aging population and an increase in women working outside their homes, the Group has been actively promoting the Nichii Life housekeeping service and the Sunny Maid Service housekeeping support business provided by foreign personnel in the National Strategic Special Zone and improving its sales activities to acquire customers. As a result, net sales grew 15.7% year on year, to 779 million yen. Meanwhile, prior expenses for the preparation for the launch of the Sunny Maid Service in the Kansai region and the acceptance of foreign employees resulted in an operating loss.

<Education Segment>

Net sales were 5,926 million yen (compared with 5,959 million yen in the same period of the previous fiscal year). Operating loss was 2,041 million yen (compared with operating loss of 2,043 million yen in the same period of the previous fiscal year).

The Group has integrated services for adults into Gaba one-to-one English conversation lessons and services for children into COCO Juku Junior, and has been operating these two brands in parallel since April this year as part of its structural reform of the education business.

The Group has been working to acquire new customers through events, campaigns, and other forms of promotional activities and by improving its enterprise sales activities; however, it incurred a decrease in sales and operating loss due to a delay in structural reform, including raising the operation efficiency through collaborative operation between GABA and COCO Juku Junior.

<Therapy Segment>

Net sales were 182 million yen (compared with 92 million yen in the same period of the previous fiscal year). Operating loss was 288 million yen (compared with operating loss of 175 million yen in the same period of the previous fiscal year).

As of the end of September 2018, the Group operates A-LOVE pet salons, providing lifelong support for life with a dog, in 21 locations across Japan. In addition to campaigns and events held using Instagram and other social media and websites, the Group focused on acquiring customers by improving counseling services and the launch of a coloring service at some of the salons. Net sales grew as a result; however, prior investment in salon openings led to an operating loss.

<Global Segment>

Net sales were 966 million yen (compared with 1,644 million yen in the same period of the previous fiscal year). Operating loss was 694 million yen (compared with operating loss of 885 million yen in the same period of the previous fiscal year).

In the China business, which constitutes the core of the Global Segment, the Group continued to focus on building a local service infrastructure in China using the Nichii (Riyi) brand and selling long-term care training and seminars to the market and promote the Japanese style of nursing care.

In July this year, Nichii's project for building a nursing facility complex in China was selected for the project for promoting the development of international healthcare centers organized by the Ministry of Economy, Trade, and Industry, and the Group is now set to establish a nursing care facility complex. This project will contribute to the Group's operation of nursing care facilities in China in the future.

As a result of implementing the efficient operation of regional operating companies in China, through reorganization and disposition, including the dissolution of unprofitable joint ventures, deficits were reduced while net sales decreased.

<Other Segments>

Net sales were 130 million yen (compared with 80 million yen in the same period of the previous fiscal year). Operating income was 126 million yen (compared with 96 million yen in the same period of the previous fiscal year).

Through goods management and delivery, data processing, lease, and other businesses, the Group has been working to raise the efficiency of indirect operations by supporting smooth business operation in its core businesses.

Net sales increased by 50 million yen, and operating income grew by 29 million yen.

[Ref. Non-consolidated operating results]

	1st Half of Previous Fiscal Year (from April 1, 2017, to September 30, 2017) (Million yen)	1st Half of Fiscal Year under Review (from April 1, 2018, to September 30, 2018) (Million yen)	Year-on-year Change (%)
Net sales	121,644	122,599	0.8
Operating income	3,023	4,020	33.0
Ordinary income	2,678	3,429	28.0
Net income	1,925	2,051	6.5

(2) Details of financial position

At the end of the first half of the consolidated fiscal year under review, total assets increased 2,343 million yen as compared to the end of the previous consolidated fiscal year, to 192,583 million yen. This was attributable primarily to an increase of 3,299 million yen in current assets due to a rise in cash and deposits and other items, which was not offset by a decrease of 955 million yen in non-current assets due to a fall in items such as goodwill.

Liabilities increased 2,682 million yen as compared to the end of the previous consolidated fiscal year, to 155,266 million yen. Major factors included an increase of 4,414 million yen in non-current liabilities, mainly as a result of growth in lease obligations, which was not offset by a decrease of 1,731 million yen in current liabilities owing largely to a fall in short-term loans payable.

Net assets decreased 339 million yen from the end of the previous fiscal year, to 37,316 million yen.

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

The Group will revise the consolidated financial forecasts for the fiscal year under review that were announced on May 11, 2018 as described below in view of the progress made by the second quarter.

The Group will revise the full-year forecast for consolidated net sales, taking into account the results for the first half of the fiscal year mainly due to the improvement of supply capacity in the core businesses and a delay in the structural reform of the language (education) business. The Group will continue to focus on the implementation of various measures for growing net sales.

The forecast for operating income will remain unchanged from the previous announcement, considering the certain achievements made through measures such as business infrastructure development and cost management in the core businesses during the second quarter under review.

The full-year forecasts for ordinary income and profit attributable to owners of parent will be revised in view of expenses that are expected to arise in the closure of small classes (satellite classes) operated by COCO Juku Junior in the second half of the fiscal year under review, the renovation of nursing care centers (day service centers), the reorganization (dissolution of joint ventures) in the China (global) business, etc.

(Consolidated financial forecasts)

Revision of full-year consolidated financial forecasts for the fiscal year ending March 31, 2019 (April 1, 2018 through March 31, 2019)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
Previously announced forecasts (A)	Million yen 314,500	Million yen 14,700	Million yen 10,500	Million yen 6,300	Yen 98.14
Revised forecasts this time (B)	293,500	14,700	9,600	5,100	79.39
Difference (B – A)	(21,000)	—	(900)	(1,200)	
Percentage increase (decrease) %	(6.7)	—	(8.6)	(19.0)	
(Reference) Full-year results for the previous fiscal year (FY ended March 31, 2018)	283,767	7,630	3,628	854	13.31

(Non-consolidated earnings forecasts)

Revision of full-year non-consolidated financial forecasts for the fiscal year ending March 31, 2019 (April 1, 2018 through March 31, 2019)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
Previously announced forecasts (A)	Million yen 268,700	Million yen 12,100	Million yen 10,800	Million yen 7,600	Yen 118.39
Revised forecasts this time (B)	251,300	12,100	10,300	6,900	107.41
Difference (B – A)	(17,400)	—	(500)	(700)	
Percentage increase (decrease) %	(6.5)	—	(4.6)	(9.2)	
(Reference) Full-year results for the previous fiscal year (FY ended March 31, 2018)	243,588	6,241	4,939	3,300	51.41

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheets

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	H1 of Fiscal 2019 (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	18,447,925	20,546,254
Notes and accounts receivable—trade	33,072,792	33,261,017
Short-term investment securities	—	189,544
Merchandise and finished goods	890,572	738,385
Work in progress	6,859	32,433
Raw materials and supplies	222,620	229,073
Other	12,639,841	13,582,370
Less: allowance for doubtful accounts	(31,360)	(30,475)
Total current assets	65,249,251	68,548,604
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	22,260,337	21,719,236
Lease assets—net	47,283,743	49,125,561
Other—net	10,230,927	9,642,037
Total property, plant and equipment	79,775,008	80,486,835
Intangible assets		
Goodwill	11,424,497	10,273,165
Other	5,592,039	5,190,183
Total intangible assets	17,016,537	15,463,349
Investment and other asset		
Other	28,464,166	28,340,446
Less: allowance for doubtful accounts	(265,077)	(255,921)
Total investments and other assets	28,199,088	28,084,524
Total fixed assets	124,990,634	124,034,709
Total assets	190,239,886	192,583,314
Liabilities		
Current liabilities		
Notes and accounts payable—trade	1,170,987	757,864
Short-term loans payable	5,336,220	1,168,927
Income taxes payable	2,563,388	2,709,877
Accrued expenses	17,836,819	18,361,023
Provision for bonuses	5,611,659	6,385,042
Provision for directors’ bonuses	38,000	22,550
Other	27,902,439	29,322,603
Total current liabilities	60,459,515	58,727,888
Non-current liabilities		
Long-term loans payable	22,007,024	23,472,008
Lease obligations	53,596,996	55,947,469
Net defined benefit liability	7,524,273	7,689,944
Asset retirement obligations	2,446,418	2,467,919
Other	6,549,487	6,961,102
Total non-current liabilities	92,124,200	96,538,444
Total liabilities	152,583,715	155,266,333

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	H1 of Fiscal 2019 (As of September 30, 2018)
Net assets		
Shareholders' equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,026,495	16,995,080
Retained earnings	19,636,670	19,088,989
Treasury stock, at cost	(11,376,709)	(11,177,243)
Total shareholders' equity	37,220,245	36,840,617
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,091	19,570
Foreign currency exchange adjustments	(366,488)	(294,095)
Remeasurements of defined benefit plans	(509,191)	(412,616)
Total accumulated other comprehensive income	(856,588)	(687,141)
Subscription rights to shares	560,694	582,969
Non-controlling interests	731,819	580,535
Total net assets	37,656,170	37,316,981
Total liabilities and net assets	190,239,886	192,583,314

(2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statements of income)

(Six months ended September 30)

(Thousand yen)

	1st Half of Previous Fiscal Year (from April 1, 2017 to September30, 2017)	1st Half of Fiscal Year under Review (from April 1, 2018 to September30, 2018)
Net sales	141,426,981	142,596,669
Cost of sales	113,946,536	114,557,464
Gross profit	27,480,445	28,039,205
Selling, general and administrative expenses	23,726,633	23,884,305
Operating income	3,753,812	4,154,899
Non-operating income		
Interest income	76,259	72,458
Rent income	116,923	104,663
Subsidy income	32,149	19,790
Equity method investment gain	30,542	24,133
Other	263,938	205,288
Total non-operating income	519,812	426,334
Non-operating expenses		
Interest expenses	2,305,801	2,416,896
Rent expenses	18,208	13,121
Other	133,667	203,666
Total non-operating expenses	2,457,678	2,633,685
Ordinary income	1,815,946	1,947,548
Extraordinary income		
Gain on sales of investments in capital of subsidiaries and associates	—	128,950
Gain on reversal of subscription rights to shares	5,310	1,691
Other	—	535
Total extraordinary income	5,310	131,177
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	4,516	3,532
Loss on sales of investment securities	—	149,705
Loss on sales of investments in capital of subsidiaries and associates	—	305,191
Other	759	620
Total extraordinary losses	5,275	459,049
Net income before income taxes	1,815,982	1,619,676
Income taxes—current	1,829,910	1,890,419
Income taxes—deferred	(810,914)	(501,716)
Total income taxes	1,018,995	1,388,703
Net income	796,986	230,973
Profit (loss) attributable to non-controlling interests	(122,000)	(20,790)
Profit attributable to owners of parent	918,987	251,764

(Quarterly consolidated statements of comprehensive income)

(Six months ended September 30)

(Thousand yen)

	1st Half of Previous Fiscal Year (from April 1, 2017 to September30, 2017)	1st Half of Fiscal Year under Review (from April 1, 2018 to September30, 2018)
Net income	796,986	230,973
Other comprehensive income		
Valuation difference on available-for-sale securities	248	481
Foreign currency exchange adjustments	(99,747)	(16,439)
Remeasurements of defined benefit plans	102,013	96,574
Total other comprehensive income	2,514	80,616
Comprehensive income	799,500	311,590
(Breakdown)		
Comprehensive income attributable to owners of parent	929,172	343,700
Comprehensive income attributable to non-controlling interests	(129,672)	(32,109)

(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.