Third Quarter Financial Report for the Fiscal Year Ending March 31, 2019 [Japan GAAP] (Consolidated)

February 6, 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:	(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:		February 8, 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 third quarter ended December 31, 2018 (April 1, 2018 – December 31, 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	%
Nine months ended December 31, 2018	215,723	1.3	7,336	23.0	4,043	34.1	2,107	23.7
Nine months ended December 31, 2017	212,914	2.7	5,963	184.4	3,014	―	1,704	―

(Note) Comprehensive income: Nine months ended December 31, 2018 2,208million yen(31.3%) Nine months ended December 31, 2017 1,681million yen(―%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2018	32.79	32.71
Nine months ended December 31, 2017	26.55	26.49

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2018	189,124	37,076	19.0
As of March 2018	190,239	37,656	19.1

(Reference) Shareholders' equity: As of December 31, 2018 36,001 million yen As of March 31, 2018 36,363million 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: 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 December 31, 2018	73,017,952	As of March 31, 2018:	73,017,952
2) Number of treasury stock	As of December 31, 2018	8,670,974	As of March 31, 2018:	8,825,572
3) Average number of shares issued and outstanding in each period	As of December 31, 2018	64,270,038	As of December 31, 2017	64,193,040

* 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 8 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.

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 consolidated cumulative third quarter under review in the first year of the medium-term management plan VISION 2025 (from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2025), the Nichii Group focused on establishing the foundation for future development by executing its priority strategies, namely targeting growth in net sales, strengthening the business structure to achieve the plans, and reforming the structure of the Education Business.

In aiming at growth in net sales, all businesses except the Global Business, which is now in the process of becoming a consolidated subsidiary, achieved an increase in net sales and the effects of strengthening the sales system began to appear. The Global (China) Business continued to move ahead with the streamlining of the business with the dissolution of unprofitable joint ventures while enhancing sales promotion through measures such as undertaking contracts for facility operations.

In strengthening the business structure, signs of improvement were seen in the securing and retention of human resources in the core businesses due to measures for stabilizing the employment of on-site employees, resulting in a gradual foundational improvement in the human resources who are providing the services.

In the structural reforms of the Education Business, the Group endeavored to improve CS and enhance management by strengthening the education of instructors and counselors. It also pursued efficient business management such as by reviewing the development of schools.

Consequently, the business resulted in an increase both in net sales and income from the same period in the previous fiscal year. Net sales for the consolidated cumulative third quarter under review were 215,723 million yen (compared with 212,914 million yen in the same period of the previous fiscal year), operating income was 7,336 million yen (compared with 5,963 million yen in the same period of the previous fiscal year), ordinary income was 4,043 million yen (compared with 3,014 million yen in the same period of the previous fiscal year) and net income attributable to owners of parent was 2,107 million yen (compared with 1,704 million yen).

(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 80,729 million yen (compared with 80,469 million yen in the same period of the previous fiscal year). Operating income was 6,693 million yen (compared with 6,541 million yen in the same period of the previous fiscal year).

The Group has been working continuously to strengthen its human resources infrastructure by employment of on-site employees with the adoption of indefinite-term hiring and enhancement of human resource matching and by proactively holding campaigns in the medical administration course in order to improve its ability to provide services. In the medical administration course, the number of students has been gradually recovering.

The Group tackled negotiations for contract rationalization with medical institutions, sought to obtain contracts during the term for assistant work for medical administration, surveys and other highly needed services and took steps to improve operations and productivity. As a consequence, both net sales and income increased compared with the same period of the previous fiscal year.

<Long-Term Care Segment>

Net sales were 114,148 million yen (compared with 113,285 million yen in the same period of the previous fiscal year). Operating income was 12,474 million yen (compared with 11,212 million yen in the same period of the previous fiscal year).

In In-home care services, the number of Long-term care benefits users in the Home-visit care service has continued to recover. In addition, the use of the services by patients whose nursing care levels are 3 to 5 has increased as the Group strengthened its response to those in a moderate or severe condition, as a result of which the payment per patient has also increased.

In the Residential care services, the trend in the number of users of Fee-baced nursing homes and group homes has been stable.

Consequently, the Long-Term Care Segment as a whole achieved an increase in net sales, and income also increased due to the high occupancy rate maintained in Fee-baced nursing homes and the continuous improvement of operational efficiency, mainly undertaken by people at the business sites.

<Childcare Segment>

Net sales were 8,739 million yen (compared with 6,332 million yen in the same period of the previous fiscal year). Operating loss was 229 million yen (compared with operating loss of 783 million yen in the same period of the previous fiscal year).

The Group has been actively expanding childcare facilities to contribute to women's social advancement and to reduce the number of children on waiting lists in each region.

In the third quarter under review, the Group opened three new childcare facilities, and operated 250 facilities across Japan as of the end of December 2018.

Net sales grew 38.0% year on year thanks to the increase in the number of facilities. Profit increased (with an operating loss reduced) due to the acquisition of corporate-user contracts for corporate-run childcare centers and measures to increase recognition in each region such as childcare events.

<Health Care Segment>

Net sales were 1,228 million yen (compared with 1,051 million yen in the same period of the previous fiscal year). Operating loss was 707 million yen (compared with operating loss of 88 million yen in the same period of the previous fiscal year).

On the back of an increase in women working outside their homes and the trend toward nuclear families, the market for housekeeping services has been expanding.

In response to growing needs for the services, 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.

In the Kansai region (Hyogo Prefecture and Osaka City), the Sunny Maid Service was launched, and due to the campaign to meet the demand for the year-end general house cleaning, the number of service users increased steadily. As a result, net sales grew 16.8% year on year. Meanwhile, income decreased due to an increase in prior expenses for the preparation for the acceptance of foreign staff.

<Education Segment>

Net sales were 8,911 million yen (compared with 8,908 million yen in the same period of the previous fiscal year). Operating loss was 2,761 million yen (compared with operating loss of 2,879 million yen in the same period of the previous fiscal year).

The Group has undertaken structural reform of the Education Business and is pursuing initiatives to improve customer satisfaction, achieve efficient operation and construct a new business model for Gaba.

In the Gaba one-to-one English conversation lessons for adults, measures to improve customer satisfaction have been taken by supporting clients and strengthening counseling. The conventional Gaba is now heading for a recovery with a steady trend in the number of the students in the classes.

In COCO Juku Junior for children, the Group has prepared for closures of small, community-based schools (satellite classes) to improve efficiency of its business operations. As a result, net sales increased, and income also increased (with a reduced operating loss).

<Therapy Segment>

Net sales were 304 million yen (compared with 146 million yen in the same period of the previous fiscal year). Operating loss was 276 million yen (compared with operating loss of 184 million yen in the same period of the previous fiscal year).

The Group opened three new outlets for the pet salon, A-LOVE, which supports living with a dog under the concept Feeling Happiness Together and Forever, in the latter half of the fiscal year, so that 24 salons have opened across Japan as of the end of December 2018.

In addition to community-based events and campaigns using SNS, by holding training for salon managers across Japan and enhancing customer counseling, the Group has focused on the acquisition of customers.

As a result, net sales increased, however, prior investment in salon openings led to an operating loss.

<Global Segment>

Net sales were 1,437 million yen (compared with 2,555 million yen in the same period of the previous fiscal year). Operating loss was 1,107 million yen (compared with operating loss of 1,229 million yen in the same period of the previous fiscal year).

In China Business, which constitutes the core of the Global Segment, the Group continued its efforts to sell seminars on Japanese style nursing care and promote sales activities to undertake contracts for the operation of long-term care facilities to build a local service infrastructure in China.

The Group started the operation of a nursing facility complex equipped with both In-home care functions and Residential care functions in Zhongshan District at the center of Dalian in December 2018.

As a result of promoting efficient operation through the reorganization and disposition of local business companies in China, net sales decreased while income increased (with a reduced operating loss).

<Other Segments>

Net sales were 223 million yen (compared with 163 million yen in the same period of the previous fiscal year). Operating income was 173 million yen (compared with 150 million yen in the same period of the previous fiscal year).

Through goods management, data processing, lease and other businesses, the Group has been supporting the smooth operations of the main businesses to raise the efficiency of indirect operations and improve the revenue of the entire Group.

Net sales increased by 60 million yen, and operating income grew by 23 million yen.

[Ref. Non-consolidated operating results]

	Previous consolidated cumulative third quarter (from April 1, 2017, to December 31, 2017) (Million yen)	Current consolidated cumulative third quarter (from April 1, 2018, to December 31, 2018) (Million yen)	Year-on-year Change (%)
Net sales	182,926	184,983	1.1%
Operating income	4,480	6,226	39.0%
Ordinary income	3,640	5,064	39.1%
Net income	2,735	2,808	2.7%

(2) Details of financial position

At the end of the third quarter of the consolidated fiscal year under review, total assets decreased 1,115 million yen as compared to the end of the previous consolidated fiscal year, to 189,124 million yen. This was attributable primarily to an increase of 1,625 million yen in current assets due to a rise in cash and deposits and other items, which was not offset by a decrease of 2,741 million yen in non-current assets due to a fall in items such as goodwill.

Liabilities decreased 535 million yen as compared to the end of the previous consolidated fiscal year, to 152,047 million yen. Major factors included an increase of 3,647 million yen in non-current liabilities, mainly as a result of growth in lease obligations, which was not offset by a decrease of 4,183 million yen in current liabilities owing largely to a fall in short-term loans payable.

Net assets decreased 579 million yen from the end of the previous fiscal year, to 37,076 million yen.

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

There is no change in the consolidated financial results forecasts that were announced on November 7, 2018 concerning the fiscal year ending March 31, 2019.

As announced in the Notice of Structural Reform of Education Business released on January 31, 2019, the Groups will close all of COCO Juku Junior’s main schools and satellite classes and a part of GABA LSs (former COCO Juku classes). The influence of these closures on the consolidated financial results forecasts for the fiscal year ending March 31, 2019 is now being investigated. If any revision is required, the Group will announce it as soon as possible.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheets

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Current consolidated third quarter (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	18,447,925	19,307,937
Notes and accounts receivable—trade	33,072,792	33,569,274
Short-term investment securities	—	172,074
Merchandise and finished goods	890,572	483,438
Work in progress	6,859	41,644
Raw materials and supplies	222,620	195,016
Other	12,639,841	13,223,642
Less: allowance for doubtful accounts	(31,360)	(118,025)
Total current assets	65,249,251	66,875,000
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	22,260,337	21,325,711
Lease assets—net	47,283,743	49,863,339
Other—net	10,230,927	9,756,017
Total property, plant and equipment	79,775,008	80,945,069
Intangible assets		
Goodwill	11,424,497	9,813,854
Other	5,592,039	4,156,203
Total intangible assets	17,016,537	13,970,058
Investment and other asset		
Other	28,464,166	27,587,365
Less: allowance for doubtful accounts	(265,077)	(253,039)
Total investments and other assets	28,199,088	27,334,326
Total fixed assets	124,990,634	122,249,453
Total assets	190,239,886	189,124,454
Liabilities		
Current liabilities		
Notes and accounts payable—trade	1,170,987	980,042
Short-term loans payable	5,336,220	1,229,774
Income taxes payable	2,563,388	804,464
Accrued expenses	17,836,819	19,282,829
Provision for bonuses	5,611,659	2,920,615
Provision for directors’ bonuses	38,000	3,450
Other	27,902,439	31,054,678
Total current liabilities	60,459,515	56,275,854
Non-current liabilities		
Long-term loans payable	22,007,024	21,388,929
Lease obligations	53,596,996	56,817,308
Net defined benefit liability	7,524,273	7,793,835
Asset retirement obligations	2,446,418	2,478,676
Other	6,549,487	7,293,248
Total non-current liabilities	92,124,200	95,771,998
Total liabilities	152,583,715	152,047,853

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Current consolidated third quarter (As of December 31, 2018)
Net assets		
Shareholders' equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,026,495	17,009,418
Retained earnings	19,636,670	18,866,525
Treasury stock, at cost	(11,376,709)	(11,177,336)
Total shareholders' equity	37,220,245	36,632,397
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,091	12,262
Foreign currency exchange adjustments	(366,488)	(279,115)
Remeasurements of defined benefit plans	(509,191)	(364,329)
Total accumulated other comprehensive income	(856,588)	(631,182)
Subscription rights to shares	560,694	594,375
Non-controlling interests	731,819	481,009
Total net assets	37,656,170	37,076,601
Total liabilities and net assets	190,239,886	189,124,454

(2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statements of income)

(Consolidated cumulative third quarter)

(Thousand yen)

	Previous consolidated cumulative third quarter (from April 1, 2017 to December 31, 2017)	Current consolidated cumulative third quarter (from April 1, 2018 to December 31, 2018)
Net sales	212,914,135	215,723,471
Cost of sales	171,725,054	172,805,016
Gross profit	41,189,081	42,918,455
Selling, general and administrative expenses	35,225,195	35,581,463
Operating income	5,963,885	7,336,991
Non-operating income		
Interest income	114,093	107,395
Rent income	159,531	149,219
Subsidy income	34,876	15,236
Foreign exchange gains	101,471	—
Equity method investment gain	48,714	40,477
Other	277,601	279,256
Total non-operating income	736,288	591,586
Non-operating expenses		
Interest expenses	3,482,299	3,654,759
Rent expenses	26,796	19,181
Other	176,446	210,744
Total non-operating expenses	3,685,542	3,884,685
Ordinary income	3,014,631	4,043,892
Extraordinary income		
Gain on sales of investments in capital of subsidiaries and associates	—	137,114
Gain on reversal of subscription rights to shares	5,310	1,691
Other	85	652
Total extraordinary income	5,396	139,458
Extraordinary losses		
Loss on retirement of non-current assets	44,605	63,643
Loss on sales of non-current assets	—	1,787
Loss on sales of investment securities	—	149,705
Loss on sales of investments in capital of subsidiaries and associates	—	305,191
Other	1,118	1,035
Total extraordinary losses	45,723	521,363
Net income before income taxes	2,974,304	3,661,987
Income taxes—current	1,440,915	1,569,089
Income taxes—deferred	(38,456)	8,475
Total income taxes	1,402,458	1,577,565
Net income	1,571,846	2,084,421
Profit (loss) attributable to non-controlling interests	(132,418)	(23,001)
Profit attributable to owners of parent	1,704,265	2,107,423

(Quarterly consolidated statements of comprehensive income)

(Consolidated cumulative third quarter)

(Thousand yen)

	Previous consolidated cumulative third quarter (from April 1, 2017 to December 31, 2017)	Current consolidated cumulative third quarter (from April 1, 2018 to December 31, 2018)
Net income	1,571,846	2,084,421
Other comprehensive income		
Valuation difference on available-for-sale securities	4,054	(6,859)
Foreign currency exchange adjustments	(47,486)	(14,333)
Remeasurements of defined benefit plans	153,020	144,862
Total other comprehensive income	109,588	123,668
Comprehensive income	1,681,434	2,208,090
(Breakdown)		
Comprehensive income attributable to owners of parent	1,810,841	2,243,955
Comprehensive income attributable to non-controlling interests	(129,407)	(35,864)

(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 event)

Implementation of structural reform of the Education Business

In the meeting of the Board of Directors held on January 31, 2019, it was resolved to undertake a new structural reform of the Education Business to improve the corporate value and enhance the overall profitability of the Group.

1. Background of implementation of the new structural reform

To reduce the institutional risk associated with the revisions of the medical and long-term care insurance systems, the Group made GABA Corporation, which has operated one-to-one English conversation schools, one of its subsidiaries to enter the language education market. Since then, the Group has focused on the providing consistent language learning opportunities to meet the various needs of adults and children, including the development of COCO Juku and COCO Juku Junior for group lessons, provision of overseas study support services and operations of overseas language schools SELC and NYU School of Professional Studies Tokyo.

Last April, the Group reorganized lessons for adults into Gaba one-to-one English conversation lessons (Gaba) and lessons for children into COCO Juku Junior, as a move to maximize the business profitability. It has sought to improve the profitability of the business with this new school system.

However, although the conventional Gaba learning studios (LSs) have seen strong increases in student numbers, some of the former COCO Juku classes that have turned into the new Gaba have not been seen any operational effects from the reform and have continued to struggle.

Therefore, in order to promote further structural reform this time, it was decided to close all the COCO Juku Junior's main schools and satellite classes and a part of Gaba LSs (former COCO Juku classes).

2. Details of the structural reform

(1) Closure of classes

(i) Closure of all of COCO Juku Junior's 72 main school classes and all 101 satellite classes

* Operation of franchise classes will be continued

(ii) A part of Gaba LSs (among 72 LSs established in COCO Juku Junior, 51 LSs will be closed)

■LSs to be closed (51 LSs in total)

Aomori LS, Hachinohe LS, Akita LS, Koriyama LS, Yamagata LS, Niigata LS, Nagaoka LS, Toyama LS, Fukui LS, Shinjuku L Tower LS, Ikebukuro Higashiguchi LS, Hachioji LS Annex, Kichijoji LS Annex, Tachikawa LS Annex, Ochanomizu LS, Kinshicho LS Annex, Osaki LS, Aoyama LS, Kofu LS, Omiya LS Annex, Chiba LS Annex, Kashiwa LS Annex, Matsudo LS, Kawasaki LS Annex, Yokohama LS Annex, Machida LS Annex, Hiratsuka LS, Fujisawa LS Annex, Kamiooka LS, Hamamatsu LS, Nagoya LS Annex, Yokkaichi LS, Umeda LS Annex, Kyobashi LS, Sakai Higashi LS, Nara LS, Sannomiya LS, Kusatsu LS, Tokuyama LS, Matsue LS, Tottori LS, Matsuyama LS, Kochi LS, Tokushima LS, Fukuoka LS Annex, Saga LS, Nagasaki LS, Oita LS, Kumamoto LS, Miyazaki LS, and Naha LS

■LSs to be continued (21 LSs in total)

JR Tower Sapporo LS, Sendai LS, Morioka Malios LS, Nagano LS, Matsumoto LS, Kanazawa LS, Minami-Koshigaya LS, Kawagoe LS, Takasaki LS, Utsunomiya LS, Funabashi LS, Mito LS, Tsukuba LS, Shizuoka LS, Gifu LS, Wakayama LS, Kyoto LS Annex, Okayama LS, Hiroshima LS, Takamatsu LS, and Kagoshima LS

(2) Employees of closed classes

For the employees of the relevant classes, the Group will in principle secure their employment.

3. Schedule

(1) Resolution date of the Board of Directors: January 31, 2019

(2) Implementation date: March 31, 2019

4. Future forecast

At present, the Group has been scrutinizing the costs for the closure of the classes.