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

November 12, 2019

Name of listed company: NICHIIGAKKAN CO., LTD. Listed on: Tokyo Stock Exchange 1st Section
Securities code: 9792 URL: https://www.nichiigakkan.co.jp
Representative: Nobusuke Mori, President
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Scheduled date for filing the quarterly financial report: November 13, 2019
Scheduled date to start dividends distribution: December 9, 2019
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, 2020 (April 1, 2019 – September 30, 2019)

(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, 2019	147,882	3.7	6,360	53.1	4,055	108.2	1,603	536.8
Six months ended September 30, 2018	142,596	0.8	4,154	10.7	1,947	7.2	251	(72.6)

(Note) Comprehensive income: First six months of FY2020 1,794million yen (475.8%) First six months of FY2019:311million yen(-61.0%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2019	24.91	24.70
Six months ended September 30, 2018	3.92	3.91

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	193,629	41,680	20.9
As of March 31, 2019	193,640	41,077	20.6

(Reference) Shareholders' equity: As of September 30, 2019: 40,479 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	—	20.00			
Year ending March 31, 2020 (forecast)			—	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)

	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	298,600	3.7	13,300	32.6	8,700	52.5	4,700	(23.1)	73.02

(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, 2019	73,017,952	As of March 31, 2019	73,017,952
2) Number of treasury stock	As of September 30, 2019	8,599,982	As of March 31, 2019	8,671,247
3) Average number of shares issued and outstanding in each period	Six months ended September 30, 2019	64,366,639	Six months ended September 30, 2018	64,237,050

* 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.

(1) Details of business results

The Nichii Group is working to strengthen its business foundations by restructuring its business portfolio and organizations to "return to its roots," a time when it was a stronger Nichii. The Group is bolstering its earnings foundation, centered on its core businesses—the medical support business and long-term care business—as well as strengthening the talent infrastructure which forms the bedrock of that initiative and restructuring the language education business and China business.

During the first half of the consolidated fiscal year under review, job site-led business restructuring including the vision progress project (VIPRO; now in its third year) and efforts to strengthen area management though the assignment of executive officers helped shore up the foundations of the Group's business models. The Group's core businesses—the medical support business and long-term care business—continued to be revenue and profit drivers. On July 1, 2019, the Company set up an organization dedicated to promoting talent development and recruitment, as a way to strengthen the Company's talent infrastructure. The Company consolidated systems to strengthen the business scheme that remains one of the Company's greatest advantages: from education through to employment.

Restructuring the language education and China businesses not only allowed the Company to reduce operation costs for both businesses, but also greatly contributed to improved earnings capacity by facilitating healthy growth in student numbers for Gaba, a Nichii Group subsidiary which provides one-on-one English conversation lessons.

As a result, net sales for the first half of the consolidated fiscal year under review totaled 147,882 million yen (up 3.7% year on year), operating income amounted to 6,360 million yen (up 53.1% year on year), and ordinary income came to 4,055 million yen (up 108.2% year on year). The Company recorded 741 million yen in extraordinary loss due to costs associated with returning classrooms to their original state as we restructured the language education business (withdrawing from the COCO Juku business), but recovery for our major businesses still boosted profit attributable to owners of parent to 1,603 million yen (a 536.8% increase year on year).

The business results by segment are as shown below.

<Medical Support Segment>

Net sales were 56,840 million yen (compared with 53,667 million yen in the same period of the previous fiscal year). Operating income was 4,949 million yen (compared with 4,448 million yen in the same period of the previous fiscal year).

For the hospital segment, the company continued working to better respond to customer needs and improve work precision by conducting customer satisfaction surveys and making other efforts to raise the level of service at medical institutions with which the Group is under contract. Additionally, the Company continued negotiations to optimize contracts and focused on securing new contracts. These included contracts concerning work that supports medical office administration, a market for which demand continues to grow as style reform progresses in the medical industry.

Student numbers for the medical administration education segment's medical administration course grew 18% year on year, an achievement which helps improve the Nichii Group's capacity to supply medical admin personnel.

This resulted in all segments—hospital, clinic, and medical administration education—recording an increase in net sales and income.

<Long-Term Care Segment>

Net sales were 76,566 million yen (compared with 75,509 million yen in the same period of the previous fiscal year). Operating income was 8,518 million yen (compared with 8,019 million yen in the same period of the previous fiscal year).

For the in-home care service segment, the Group worked to enhance operating frameworks with a focus on future initiatives, such as by acquiring and retaining long-term care service personnel and shoring up measures for patients in a moderate or severe condition.

Meanwhile, for the residential care service segment, the Group strengthened collaboration between facilities to reduce vacancies after users move out, as well as worked to increase user numbers and improve occupancy rates.

This resulted in increased net sales and income owing to higher sales per customer (due to more patients in a moderate or severe condition in the in-home care service segment) and better occupancy rates at residential care facilities.

<Childcare Segment>

Net sales were 6,684 million yen (compared with 5,433 million yen in the same period of the previous fiscal year). Operating loss was 711 million yen (compared with operating loss of 477 million yen in the same period of the previous fiscal year).

In the three months under review, the Group opened 14 new childcare facilities, coming to a total of 299 facilities nationwide. By promoting corporate-run childcare centers and the expansion of regional usage limits, the Group also helped to expand supply of childcare resources and take a step towards solving Japan's nursery waitlisting problem.

The opening of new facilities and increased recognition from local communities brought more nursery enrollments and increased net sales. Operating loss also increased, however, due to increased upfront expenses and nursery staff recruitment costs accompanying the opening of new facilities.

<**Health Care Segment**>

Net sales were 853 million yen (compared with 779 million yen in the same period of the previous fiscal year). Operating loss was 977 million yen (compared with operating loss of 309 million yen in the same period of the previous fiscal year).

The Group focused on campaign-based sales promotions and corporate sales for the Nichii Life housekeeping service and the Sunny Maid Service housekeeping support business, a business which services Japan's National Strategic Special Zones. In September 2019, the Group started offering Sunny Maid Service in Aichi Prefecture. Now, the Group is constructing a system where long-term care staff, who previously had to cover both long-term care service and housekeeping duties, can instead be charged with providing long-term care services exclusively. The Group is also conducting human resources investment to bring in foreign staff with an eye towards the expansion of the housekeeping market.

Net sales rose thanks to the Group's active sales promotion driving up service user and corporate contract numbers. However, an increase in expenses associated with human resources investment for Sunny Maid Service led to an increase in operating loss.

<**Education Segment**>

Net sales were 5,650 million yen (compared with 5,926 million yen in the same period of the previous fiscal year). Operating loss was 104 million yen (compared with operating loss of 2,041 million yen in the same period of the previous fiscal year).

Restructuring (withdrawal from the COCO Juku business) brought the closure of 15 schools at the end of June 2019, thereby completing the closure of all 72 COCO Juku schools. The Group passed a resolution to close the 185 franchised schools as well, by the end of March 2020.

The Group worked to increase the number of new students for subsidiary Gaba Corporation's one-on-one English conversation classes, by strengthening corporate sales and augmenting the measures to acquire contracts with customers who took trial lessons at its 50 Learning Studios.

Restructuring (withdrawal from the COCO Juku business) led to lower net sales, but operating loss was minimized by closing schools to reduce labor costs, rents, and advertising expenses.

<**Therapy Segment**>

Net sales were 288 million yen (compared with 182 million yen in the same period of the previous fiscal year). Operating loss was 164 million yen (compared with operating loss of 288 million yen in the same period of the previous fiscal year).

In July, the Group opened one new salon under its A-LOVE dog salon and hotel brand, bringing the total to 25 salons nationwide as of the end of September 2019. The Group focused on creating repeat customers by improving service quality and raising regional brand recognition. The Group also aimed to improve the optional services on offer, increasing sales per customer.

The increase in regional patrons due to higher recognition and increase in sales per customer led to higher net sales and minimized operating loss.

<**Global Segment**>

Net sales were 811 million yen (compared with 966 million yen in the same period of the previous fiscal year). Operating loss was 291 million yen (compared with operating loss of 694 million yen in the same period of the previous fiscal year).

The Group continued to focus on acquiring contracts for operation of long-term care facilities in China, as well as new projects consulting on Japanese-style caregiver training and the establishment of care facilities. In terms of contracts received for operation of long-term care facilities, the Group has four outstanding contracts as of the end of September 2019 and continued working to receive more contracts. For training-related business, the number of contracts steadily increased alongside a greater number of repeat customers, and the Group worked on promoting the Japanese style of nursing care.

Net sales fell due to the dissolution of an underperforming joint venture in China which the Group launched last year, but operating loss was minimized by streamlining operations through organizational restructuring.

<**Other Segments**>

Net sales were 187 million yen (compared with 130 million yen in the same period of the previous fiscal year). Operating income was 96 million yen (compared with 126 million yen in the same period of the previous fiscal year).

The Group helped streamline and improve profitability for every service through product control and telephone reception services between Nichii Group companies.

As a result, net sales grew while income decreased.

(2) Details of financial position

At the end of the first half of the consolidated fiscal year under review, total assets decreased 11 million yen as compared to the end of the previous consolidated fiscal year, to 193,629 million yen. The major causes were an increase of 1,313 million yen in current assets, mainly due to an increase in notes and accounts receivable—trade, and a decrease of 1,324 million yen in fixed assets, mainly due to a decrease in goodwill.

Liabilities decreased 613 million yen as compared to the end of the previous consolidated fiscal year, to 151,949 million yen. Major factors included an increase of 1,585 million yen in current liabilities, mainly as a result of growth in short-term loans payable and a decrease of 2,198 million yen in non-current liabilities, owing largely to a fall in long-term loans payable.

Net assets increased 602 million yen from the end of the previous fiscal year, to 41,680 million yen.

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

The Group formally amends the year-end results forecast for the current consolidated fiscal year announced on May 10, 2019, as below, based on progress as of the second quarter and investment plans for the long-term care segment going forward.

The long-term care segment and health care segment have fallen behind in securing new users, leading the Group to believe net sales will fall short of the original target.

The Group believes operating income will fall below the estimate as well, due to increased expenses associated with enhancing long-term care service infrastructure and installation of IT infrastructure, increased taxes and dues accompanying Japan's consumption tax hike, and other factors.

Given both the reasons above and having completed large-scale renovation of the nursing care centers (day service centers) ahead of schedule, thereby increasing interest expenses related to lease repayment, the Group predicts ordinary income will fall below target.

Profit attributable to owners of parent has been revised given both the aforementioned reasons and the fact that the Group recorded 741 million yen in extraordinary loss from language education business restructuring the first half.

(Consolidated financial forecasts)

Revision of full-year consolidated financial forecasts for the fiscal year ending March 31, 2020 (April 1, 2019 through March 31, 2020)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
Previously announced forecasts (A)	Million yen 303,000	Million yen 15,200	Million yen 11,000	Million yen 6,700	Yen 104.12
Revised forecasts this time (B)	298,600	13,300	8,700	4,700	73.02
Difference (B – A)	(4,400)	(1,900)	(2,300)	(2,000)	
Percentage increase (decrease) %	(1.5)	(12.5)	(20.9)	(29.9)	
(Reference) Full-year results for the previous fiscal year (FY ended March 31, 2019)	287,882	10,032	5,703	6,108	95.01

(Non-consolidated earnings forecasts)

Revision of full-year non-consolidated financial forecasts for the fiscal year ending March 31, 2020 (April 1, 2019 through March 31, 2020)

	Net sales	Operating income	Ordinary income	Net income	Net income per share
Previously announced forecasts (A)	Million yen 256,700	Million yen 12,500	Million yen 10,900	Million yen 7,100	Yen 110.34
Revised forecasts this time (B)	252,400	10,800	8,800	4,750	73.80
Difference (B – A)	(4,300)	(1,700)	(2,100)	(2,350)	
Percentage increase (decrease) %	(1.7)	(13.6)	(19.3)	(33.1)	
(Reference) Full-year results for the previous fiscal year (FY ended March 31, 2019)	246,560	8,687	7,084	503	7.83

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheets

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	H1 of Fiscal 2020 (As of September 30, 2019)
Assets		
Current assets		
Cash and deposits	18,255,916	17,665,981
Notes and accounts receivable—trade	33,434,278	35,018,429
Short-term investment securities	256,310	268,774
Merchandise and finished goods	364,426	459,809
Work in progress	11,159	33,426
Raw materials and supplies	175,533	181,465
Other	13,291,468	13,459,221
Less: allowance for doubtful accounts	(104,166)	(89,044)
Total current assets	65,684,926	66,998,064
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	21,950,524	21,940,786
Lease assets—net	49,992,221	50,742,296
Other—net	10,369,489	9,794,025
Total property, plant and equipment	82,312,235	82,477,108
Intangible assets		
Goodwill	9,120,932	8,253,335
Other	3,977,138	3,960,644
Total intangible assets	13,098,071	12,213,980
Investment and other asset		
Other	32,790,254	32,179,393
Less: allowance for doubtful accounts	(244,715)	(238,996)
Total investments and other assets	32,545,539	31,940,397
Total fixed assets	127,955,845	126,631,486
Total assets	193,640,771	193,629,550
Liabilities		
Current liabilities		
Notes and accounts payable—trade	747,571	2,253,453
Short-term loans payable	2,512,273	6,029,505
Income taxes payable	2,941,364	2,565,581
Accrued expenses	17,914,622	17,095,512
Provision for bonuses	5,937,697	6,645,700
Provision for directors’ bonuses	36,000	19,940
Allowance for structural reform	486,086	7,416
Other	30,088,847	27,632,386
Total current liabilities	60,664,463	62,249,496
Non-current liabilities		
Long-term loans payable	15,998,372	12,350,929
Lease obligations	57,113,991	58,255,107
Net defined benefit liability	7,742,022	7,896,528
Asset retirement obligations	3,582,707	3,659,421
Other	7,461,436	7,537,589
Total non-current liabilities	91,898,531	89,699,576
Total liabilities	152,562,995	151,949,073

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	H1 of Fiscal 2020 (As of September 30, 2019)
Net assets		
Shareholders' equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,009,418	17,066,075
Retained earnings	22,867,282	22,927,399
Treasury stock, at cost	(11,177,438)	(10,980,102)
Total shareholders' equity	40,633,052	40,947,163
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,481	12,201
Foreign currency exchange adjustments	(244,124)	(157,629)
Remeasurements of defined benefit plans	(414,813)	(322,126)
Total accumulated other comprehensive income	(646,456)	(467,554)
Subscription rights to shares	605,781	628,987
Non-controlling interests	485,398	571,880
Total net assets	41,077,776	41,680,476
Total liabilities and net assets	193,640,771	193,629,550

(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, 2018 to September 30, 2018)	1st Half of Fiscal Year under Review (from April 1, 2019 to September 30, 2019)
Net sales	142,596,669	147,882,887
Cost of sales	114,557,464	118,110,697
Gross profit	28,039,205	29,772,189
Selling, general and administrative expenses	23,884,305	23,411,256
Operating income	4,154,899	6,360,932
Non-operating income		
Interest income	72,458	71,920
Rent income	104,663	100,164
Subsidy income	19,790	33,135
Equity method investment gain	24,133	35,552
Other	205,288	166,863
Total non-operating income	426,334	407,636
Non-operating expenses		
Interest expenses	2,416,896	2,515,424
Rent expenses	13,121	16,270
Other	203,666	181,174
Total non-operating expenses	2,633,685	2,712,869
Ordinary income	1,947,548	4,055,699
Extraordinary income		
Gain on sales of property, plant and equipment, net	—	6
Gain on sales of investments in capital of subsidiaries and associates	128,950	—
Gain on reversal of subscription rights to shares	1,691	—
Other	535	—
Total extraordinary income	131,177	6
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	3,532	55,553
Loss on sales of investment securities	149,705	—
Loss on sales of investments in capital of subsidiaries and associates	305,191	—
Structural reform expenses	—	633,657
Other	620	52,759
Total extraordinary losses	459,049	741,970
Net income before income taxes	1,619,676	3,313,734
Income taxes—current	1,890,419	1,698,293
Income taxes—deferred	(501,716)	(1,539)
Total income taxes	1,388,703	1,696,753
Net income	230,973	1,616,981
Profit (loss) attributable to non-controlling interests	(20,790)	13,825
Profit attributable to owners of parent	251,764	1,603,155

(Quarterly consolidated statements of comprehensive income)

(Six months ended September 30)

(Thousand yen)

	1st Half of Previous Fiscal Year (from April 1, 2018 to September 30, 2018)	1st Half of Fiscal Year under Review (from April 1, 2019 to September 30, 2019)
Net income	230,973	1,616,981
Other comprehensive income		
Valuation difference on available-for-sale securities	481	(420)
Foreign currency exchange adjustments	(16,439)	84,978
Remeasurements of defined benefit plans	96,574	92,687
Total other comprehensive income	80,616	177,245
Comprehensive income	311,590	1,794,226
(Breakdown)		
Comprehensive income attributable to owners of parent	343,700	1,781,938
Comprehensive income attributable to non-controlling interests	(32,109)	12,288

(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.