



Third Quarter Financial Report for the Fiscal Year Ending March 31, 2020 [Japan GAAP] (Consolidated)

February 7, 2020

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
 Contact: Kazuya Shiiya, Executive Officer, Acting Division Director for Accounting Division TEL: 03-3291-2121
 Scheduled date for filing the quarterly financial report: February 10, 2020
 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, 2019 (April 1, 2019 – December 31, 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	%
Nine months ended December 31, 2019	223,471	3.6	9,444	28.7	6,083	50.4	3,378	60.3
Nine months ended December 31, 2018	215,723	1.3	7,336	23.0	4,043	34.1	2,107	23.7

(Note) Comprehensive income: Nine months ended December 31, 2019 3,576millionyen (62.0%) Nine months ended December 31, 2018 2,208millionyen (31.3%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2019	52.48	52.00
Nine months ended December 31, 2018	32.79	32.71

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2019	193,989	42,234	21.1
As of March 2019	193,640	41,077	20.6

(Reference) Shareholders' equity: As of December 31, 2019 41,019millionyen As of March 31, 2019 39,986millionyen

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	Δ23.1	73.02

(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 December 31, 2019	73,017,952
As of December 31, 2018	8,600,202	As of December 31, 2019	8,671,247
As of December 31, 2018	64,381,984	As of December 31, 2019	64,270,038

2) Number of treasury stock

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

* 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.....	2
(1) Details of business results	2
(2) Details of financial position	3
(3) Information on the future outlook, including consolidated financial results forecasts	3
2. Quarterly consolidated financial statements and major notes	4
(1) Quarterly consolidated balance sheets.....	4
(2) Quarterly consolidated statements of income and comprehensive income	6
Quarterly consolidated statements of income	
Consolidated cumulative third quarter.....	6
Quarterly consolidated statements of comprehensive income	
Consolidated cumulative third quarter.....	7
(3) Notes to quarterly consolidated financial statements	8
(Notes on the premise of a going concern)	8
(Notes on significant fluctuation in the amount of shareholders' equity)	8

1. Qualitative information on quarterly financial results

(1) Details of business results

The Nichii Group (the “Group”) is working to achieve sustainable growth under the vision of becoming an excellent company that contributes to the resolution for social issues and establishes stable long-term profit growth, and makes a global contribution.

During the consolidated cumulative third quarter under review, the Group implemented business reforms carried out by all members from on-site employees to the management working in cooperation through the vision progress project, VIPRO, improved the current business model of supporting “from education to employment,” and conducted structural reforms of the education business and the global (China) business. The Group also implemented growth strategies in view of its future, including investment in the growth of the Long-Term Care segment, the improvement of employee treatment, and human resources investment related to the acceptance of foreign workers.

Net sales increased as a result of contract rationalization in the medical support business and continuous efforts to raise facility operating rates in the long-term care and childcare businesses.

Regarding operating income, an increase in efficiency achieved through the “selection and concentration” of business areas and services in the education and China businesses and higher productivity in the medical support business contributed to a rise in profitability.

As a result, net sales totaled 223,471 million yen (up 3.6% year on year), operating income amounted to 9,444 million yen (up 28.7% year on year), ordinary income came to 6,083 million yen (up 50.4% year on year), and profit attributable to owners of parent stood at 3,378 million yen (up 60.3% year on year) for the first nine months of the fiscal year under review.

The business results by segment are as shown below.

<Medical Support Segment>

Net sales were 85,593 million yen (compared with 80,729 million yen in the same period of the previous fiscal year). Operating income was 7,190 million yen (compared with 6,693 million yen in the same period of the previous fiscal year).

The Group continued its negotiations for contract rationalization in addition to increasing operation efficiency and rationalizing working hours based on workload investigations and analysis in medical institutions by which the Group is contracted. The Group improved its proposal skills based on extensive information acquired through its nationwide network and worked to win new contracts during the period under review.

The number of students taking the medical administration course increased steadily, and the Group continued to support their employment more effectively.

Consequently, revenue and profit increased thanks to a rise in sales per user through negotiations for contract rationalization.

<Long-Term Care Segment>

Net sales were 115,606 million yen (compared with 114,148 million yen in the same period of the previous fiscal year). Operating income was 12,183 million yen (compared with 12,474 million yen in the same period of the previous fiscal year).

The in-home care service segment is restructuring its system of delivering services by splitting home-visit care service offices as a growth strategy that contributes to the development of the community-based integrated care system. A total of 380 new offices had been established as of the end of December, 2019, and the segment is organizing the operation system and improving the management system based on the home-visit care service organization that has 1,383 offices.

The residential care service segment established one fee-based nursing home in October 2019 and one group home in November 2019 and worked to shorten the vacant period after occupants moved out to raise the occupancy rate.

The long-term care education segment focused on acquiring students using promotional campaigns, and the number of trainees in the training for new members of long-term care service staff increased 16.0% year on year.

As a result, net sales grew based on a further increase in the operating rate of residential care service facilities. Operating income decreased due to expenses incurred for the split of home-visit care service offices that preceded profit.

<Childcare Segment>

Net sales were 10,709 million yen (compared with 8,739 million yen in the same period of the previous fiscal year). Operating loss was 393 million yen (compared with an operating loss of 229 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. Four new childcare centers were established in the three months under review (October through December), making a total of 303 across Japan. The segment has been preparing for the start of operation in April 2020 and carrying out sales activities to win contracts for corporate-run childcare centers.

This led to an increase in net sales derived from improved marketing that was rooted in local communities and growth in the number of children using the facilities thanks to the increase in locations. The segment turned a profit after growth in operating income for the three months under review thanks to increased facility operation, which more than offset a rise in operating loss caused by higher personnel expenses.

<Health Care Segment>

Net sales were 1,299 million yen (compared with 1,228 million yen in the same period of the previous fiscal year).

Operating loss was 1,488 million yen (compared with an operating loss of 707 million yen in the same period of the previous fiscal year).

The segment operates two brands, including Nichii Life, which offers housekeeping, childcare, and family long-term care services, and the Sunny Maid Service, which provides housekeeping services in Japan's National Strategic Special Zones. The segment worked to acquire new customers, taking advantage of demand for year-end housecleaning, improve its service quality, and enhance its ability to encourage a shift to fixed-term plans.

The segment is also making human resource investments related to the acceptance of foreign workers in order to shift from the system under which personnel qualified as long-term care service providers concurrently provide housekeeping services to a system that allows such personnel to concentrate on long-term care services.

Consequently, net sales rose thanks to an increase in customers generated by actively taking advantage of seasonal demand. Operating loss increased due to expenses incurred for human resource investments that preceded profit.

<Education Segment>

Net sales were 8,326 million yen (compared with 8,911 million yen in the same period of the previous fiscal year).

Operating loss was 323 million yen (compared with an operating loss of 2,761 million yen in the same period of the previous fiscal year).

The withdrawal from the COCO Juku business as part of the structural reforms implemented since the previous fiscal year was completed, and preparations for the closure of franchise schools and the New York University School of Professional Studies Tokyo (March 31, 2020) are currently underway.

Gaba Corporation worked to improve the quality of lessons and the student support system, ran promotions using TV ads and other media, and worked to strengthen corporate sales with the aim of increasing student numbers in its one-to-one English conversation lessons.

While net sales fell due to a decrease in the number of students after the closure of the former COCO Juku classes, operating loss was reduced by cutting fixed costs and increasing profit from Gaba.

<Therapy Segment>

Net sales were 450 million yen (compared with 304 million yen in the same period of the previous fiscal year). Operating loss was 121 million yen (compared with an operating loss of 276 million yen in the same period of the previous fiscal year).

The segment operates the A-LOVE dog salon and hotel brand. It ran promotional campaigns, offered special courses, and used other means, taking advantage of year-end and New-Year demand, in an effort to increase customer numbers. The salons strove to increase sales per customer by serving the needs of each customer and offering optimal optional services.

This resulted in sales growth and a reduction in operating loss thanks to an increase in customers through the year-end and New-Year sales promotions and sales per customer.

<Global Segment>

Net sales were 1,245 million yen (compared with 1,437 million yen in the same period of the previous fiscal year).

Operating loss was 406 million yen (compared with an operating loss of 1,107 million yen in the same period of the previous fiscal year).

The segment is strengthening sales promotion for contract operation of facilities for dementia patients and Japanese-style caregiver training by concentrating business in northern China, the center of the Chinese economy. In the expansion of the

long-term care business in China, the segment began to see effects such as receiving contracts for designing care facilities and consulting services for facility operation.

While a fall in the number of offices through the reorganization implemented in the previous fiscal year led to a decline in sales, operation efficiency was successfully increased through the selection and concentration of offices, resulting in reduced operating loss.

<Other Segments>

Net sales were 239 million yen (compared with 223 million yen in the same period of the previous fiscal year). Operating income was 151 million yen (compared with 173 million yen in the same period of the previous fiscal year).

Operation efficiency and revenue were raised using the synergy of companies in the Nichii Group, which resulted in growth in sales and but a decline in profit.

(2) Details of financial position

Total assets at the end of the third quarter of the fiscal year under review stood at 193,989 million yen, an increase of 348 million yen from the end of the previous fiscal year. Major factors included an increase of 2,655 million yen in current assets, caused mainly by an increase in notes and accounts receivable—trade, and a decrease of 2,307 million yen in fixed assets, largely due to a decrease in goodwill.

Liabilities decreased 808 million yen from the end of the previous fiscal year, to 151,754 million yen. Major factors included an increase of 2,128 million yen in current liabilities, mainly as a result of growth in short-term loans payable, and a decrease of 2,937 million yen in non-current liabilities, owing largely to a fall in long-term loans payable.

Net assets increased 1,157 million yen from the end of the previous fiscal year, to 42,234 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 12, 2019 concerning the fiscal year ending March 31, 2020.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheets

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Current consolidated third quarter (As of December 31, 2019)
Assets		
Current assets		
Cash and deposits	18,255,916	17,580,179
Notes and accounts receivable—trade	33,434,278	36,559,658
Short-term investment securities	256,310	241,007
Merchandise and finished goods	364,426	511,277
Work in progress	11,159	40,966
Raw materials and supplies	175,533	181,076
Other	13,291,468	13,306,451
Less: allowance for doubtful accounts	△104,166	△80,390
Total current assets	65,684,926	68,340,225
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	21,950,524	21,419,858
Lease assets—net	49,992,221	51,359,069
Other—net	10,369,489	9,857,713
Total property, plant and equipment	82,312,235	82,636,642
Intangible assets		
Goodwill	9,120,932	7,818,983
Other	3,977,138	4,055,072
Total intangible assets	13,098,071	11,874,055
Investment and other asset		
Other	32,790,254	31,368,556
Less: allowance for doubtful accounts	△244,715	△230,449
Total investments and other assets	32,545,539	31,138,106
Total fixed assets	127,955,845	125,648,804
Total assets	193,640,771	193,989,030
Liabilities		
Current liabilities		
Notes and accounts payable—trade	747,571	2,303,592
Short-term loans payable	2,512,273	5,360,272
Income taxes payable	2,941,364	627,240
Accrued expenses	17,914,622	20,332,255
Provision for bonuses	5,937,697	3,024,339
Provision for directors' bonuses	36,000	5,810
Allowance for structural reform	486,086	—
Other	30,088,847	31,139,452
Total current liabilities	60,664,463	62,792,963
Non-current liabilities		
Long-term loans payable	15,998,372	10,678,412
Lease obligations	57,113,991	59,098,223
Net defined benefit liability	7,742,022	8,023,454
Asset retirement obligations	3,582,707	3,696,843
Other	7,461,436	7,464,301
Total non-current liabilities	91,898,531	88,961,234
Total liabilities	152,562,995	151,754,197

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Current consolidated third quarter (As of December 31, 2019)
Net assets		
Shareholders' equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,009,418	17,066,109
Retained earnings	22,867,282	23,467,655
Treasury stock, at cost	Δ11,177,438	Δ10,980,538
Total shareholders' equity	40,633,052	41,487,016
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,481	13,880
Foreign currency exchange adjustments	Δ244,124	Δ205,115
Remeasurements of defined benefit plans	Δ414,813	Δ275,782
Total accumulated other comprehensive income	Δ646,456	Δ467,017
Subscription rights to shares	605,781	637,136
Non-controlling interests	485,398	577,696
Total net assets	41,077,776	42,234,832
Total liabilities and net assets	193,640,771	193,989,030

(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, 2018 to December 31, 2018)	Current consolidated cumulative third quarter (from April 1, 2019 to December 31, 2019)
Net sales	215,723,471	223,471,719
Cost of sales	172,805,016	179,013,283
Gross profit	42,918,455	44,458,435
Selling, general and administrative expenses	35,581,463	35,014,249
Operating income	7,336,991	9,444,185
Non-operating income		
Interest income	107,395	102,689
Rent income	149,219	143,502
Subsidy income	15,236	35,932
Foreign exchange gains	40,477	77,646
Equity method investment gain	279,256	295,567
Other	591,586	655,339
Total non-operating income		
Non-operating expenses	3,654,759	3,778,254
Interest expenses	19,181	24,238
Rent expenses	210,744	213,960
Other	3,884,685	4,016,453
Total non-operating expenses	4,043,892	6,083,071
Ordinary income		
Extraordinary income	—	68
Gain on sales of investments in capital of subsidiaries and associates	137,114	—
Gain on reversal of subscription rights to shares	1,691	—
Other	652	—
Total extraordinary income	139,458	68
Extraordinary losses		
Loss on retirement of non-current assets	63,643	101,000
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	—
Structural reform expenses	—	734,791
Other	1,035	53,959
Total extraordinary losses	521,363	889,751
Net income before income taxes	3,661,987	5,193,388
Income taxes—current	1,569,089	1,431,899
Income taxes—deferred	8,475	361,242
Total income taxes	1,577,565	1,793,142
Net income	2,084,421	3,400,246
Profit (loss) attributable to non-controlling interests	△23,001	21,540
Profit attributable to owners of parent	2,107,423	3,378,706

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

(Thousand yen)

	Previous consolidated cumulative third quarter (from April 1, 2018 to December 31, 2018)	Current consolidated cumulative third quarter (from April 1, 2019 to December 31, 2019)
Net income	2,084,421	3,400,246
Other comprehensive income		
Valuation difference on available-for-sale securities	Δ6,859	1,258
Foreign currency exchange adjustments	Δ14,333	35,574
Remeasurements of defined benefit plans	144,862	139,030
Total other comprehensive income	123,668	175,863
Comprehensive income	2,208,090	3,576,109
(Breakdown)		
Comprehensive income attributable to owners of parent	2,243,955	3,557,944
Comprehensive income attributable to non-controlling interests	Δ35,864	18,165

(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.