Financial Results for the First Quarter of the Year Ending March 31, 2021 (J-GAAP)

August 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, Representative Director and President
Contact: Kazuya Shiiya, Executive Officer and General Manager-Accounting TEL 03-3291-2121
Scheduled date for filing the quarterly financial report: August 13, 2020 Scheduled date to start dividends distribution: –
Supplementary quarterly materials prepared: Yes
Results information meeting held: None

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the first quarter of the year ending March 31, 2021 (April 1, 2020 – June 30, 2020)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2020	72,736	△1.1	353	△87.0	△767	―	△1,081	―
Three months ended June 30, 2019	73,523	3.8	2,723	115.5	1,574	―	927	―

(Note) Comprehensive income: First three months of FY2020:△1,064million yen（―%） First three months of FY2020:1,022million yen（―%）

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2020	△16.56	―
Three months ended June 30, 2019	14.42	14.32

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	188,539	38,915	20.2
As of March 31, 2020	192,804	44,025	22.4

Reference: Shareholders' equity: As of June 30, 2019: 38,088million yen As of March 31, 2019: 43,180 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2020	―	20.00	―	20.00	40.00
Year ending March 31, 2021	―				
Year ending March 31, 2021 (forecast)		―	―	―	―

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

(Note) As announced in the press release "Notice Regarding Implementation of Management Buyout and Recommendation to Tender Shares" on May 8, 2020, the Company is scheduled to become a wholly owned subsidiary of K.K. BCJ-44 (hereinafter the "Tender Offeror") as a result of a tender offer by the Tender Offeror for common shares outstanding (hereinafter the "Company's Shares") and share acquisition rights of the Company (hereinafter the "Tender Offer") and a series of subsequent transactions, and the Company's Shares are scheduled to be delisted. Therefore, the forecast of dividends for the fiscal year ending March 31, 2021 is not stated. If the disclosure of a dividend forecast becomes necessary in the future as a result of the Tender Offer, etc., the Company will promptly disclose it.

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2021 (April 1, 2020 to March 31, 2021)

As announced in the press release "Notice Regarding Implementation of Management Buyout and Recommendation to Tender Shares" on May 8, 2020, the Company is scheduled to become a wholly-owned subsidiary of the Tender Offeror as a result of the Tender Offer by the Tender Offeror and a series of subsequent transactions, and the Company's Shares are scheduled to be delisted. Therefore, the forecast of consolidated financial results for the fiscal year ending March 31, 2021 is not stated.

* Notes

(1) Changes in subsidiaries during the fiscal year (Changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

New: None

Exclusion:

(2) Applications of special accounting Methods for the Preparation of Consolidated Quarterly 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): Yes

3) Changes in accounting estimates: None

4) Restatement: None

(Note) The details appear in P.12 [consolidated financial statements and major notes (3)] [Notes to quarterly consolidated financial statements (change in accounting policy)]

(4) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury stock)	As of June 30, 2020	73,017,952	As of June 30, 2019	73,017,952
2) Number of treasury stock	As of June 30, 2020	7,690,517	As of June 30, 2019	7,682,005
3) Average number of shares issued and outstanding in each period	As of June 30, 2020	65,333,082	As of June 30, 2019	64,346,210

* Financial reports are not subject to audits by a certified public accountant or an audit corporation.

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

As announced in the press release “Notice Regarding Implementation of Management Buyout and Recommendation to Tender Shares” on May 8, 2020, the Company is scheduled to become a wholly-owned subsidiary of the Tender Offeror as a result of the Tender Offer by the Tender Offeror and a series of subsequent transactions, and the Company’s Shares are scheduled to be delisted. Therefore, the forecast of consolidated financial results for the fiscal year ending March 31, 2021 is not stated.

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1. Qualitative information on quarterly financial results

(1) Overview of business results

During the first quarter of the fiscal year under review, the Japanese economy decelerated sharply due to the state and local governments' requests for the voluntary suspension of business to business operators and the continuation of the voluntary restraint on leaving home by individuals associated with the worldwide spread of the COVID-19 coronavirus.

In this environment, the Nichii Group was engaged in business activities, with ensuring the safety and security of customers and employees as the top priority mission for the Group.

The Group worked to maintain the provision of services by implementing measures to prevent the spread of infections based on the state government's policies and the guidance of local governments, given that the Company's mainstay businesses (the medical support, long-term care and childcare businesses) are social infrastructure indispensable for people's lives.

Meanwhile, the education business cancelled classes at all Learning Studios ("LSs") of one-to-one English conversation lessons operated by GABA Corporation, a subsidiary of the Company. The Group also decided to close lessons at 10 LSs where revenue improvement was delayed until November 30, 2020 in light of the uncertain future outlook for economic activities and an improvement in the economy.

As a result, net sales decreased to 72,736 million yen (73,523 million yen in the same period of the previous fiscal year) because an increase in sales in the medical support, long-term care and childcare businesses due to the maintained provision of services and the expanded base to provide services was unable to offset a fall in sales attributable to the cancellation of lessons in the education business.

In terms of profits, operating income fell to 353 million yen (2,723 million yen in the same period of the previous fiscal year) and an ordinary loss was 767 million yen (ordinary income of 1,574 million yen in the same period of the previous fiscal year) mainly due to a rise in personnel expenses as a result of paying special service bonus to local staff engaging in the three core businesses and employees in branch offices who supervised job sites, in addition to the cancellation of lessons in the education business.

In addition, loss attributable to owners of parent was 1,081 million yen (profit attributable to owners of parent of 927 million yen in the same period of the previous fiscal year) due to the fall in operating income and the posting of extraordinary losses of 249 million yen associated with the closure of lessons at 10 LSs of one-to-one English conversation lessons in the first quarter under review.

Business results for the fiscal year under review are as follows.

<Medical Support Segment>

Net sales were 29,294 million yen (compared with 28,467 million yen in the previous fiscal year). Operating income was 2,139 million yen (compared with 2,359 million yen in the previous fiscal year).

In the first quarter under review, the Group enhanced its basic strength through negotiations for contract rationalization, on which the Group had been working continuously.

In the hospital segment, the Group sought to ensure the safety of local staff and focused on support activities to maintain the medical care delivery system at contract medical institutions amid the spread of novel coronavirus infections.

In the clinic and medical education segments, sales decreased affected by suspended consultation at some clinics, a fall in the number of patients and the cancellation of medical work processing courses.

As a result, sales decreased in the clinic and medical education segments, but sales in the medical support segment as a whole increased due to a rise in the unit price of users thanks to negotiations for contract rationalization. Operating income declined given a rise in personnel expenses as a result of paying a special service bonus to staff, in addition to the fall in sales in the clinic and medical education segments.

<Long-Term Care Segment>

Net sales were 38,319 million yen (compared with 38,059 million yen in the previous fiscal year). Operating income was 3,633 million yen (compared with 4,191 million yen in the previous fiscal year).

The long-term care segment focused on the continuation of operation by fully enforcing measures to prevent infections and paying a special service bonus to staff.

In the in-home care service segment, users refrained from using day-care service offices for fear of infection, but the Group responded flexibly to needs for long-term care services by proposing the use of home-visit care services as an alternative, taking advantage of its strength in providing comprehensive long-term care services.

In addition, the number of home-visit care offices increased by about 400 from the end of June 2019 due to the reorganization of the service supply system through the division and the new establishment of home-visit care service offices, which the Group had been working on since September 2019.

In the residential care service segment, the Group newly established two group homes in the first quarter under review.

As a result, sales increased due to a rise in the number of users of residential care services as a result of the new establishment of group homes, but profits decreased due to a rise in costs such as rents, reflecting an increase in the number of home-visit care service offices.

<Childcare Segment>

Net sales were 3,701 million yen (compared with 3,153 million yen in the previous fiscal year). Operating loss was 309 million yen (compared with an operating loss of 546 million yen in the previous fiscal year).

In the first quarter under review, the Group opened 24 new childcare facilities including licensed childcare centers. In the childcare segment, the Group also focused on the continuation of operations by fully enforcing measures to prevent infections.

As a result, sales increased due to a rise in the number of children using the facilities associated with the establishment of new childcare facilities, and the operating loss was reduced by controlling recruitment costs associated with progress in the retention of human resources.

<Health Care Segment>

Net sales were 374 million yen (compared with 423 million yen in the previous fiscal year). Operating loss was 597 million yen (compared with an operating loss of 493 million yen in the previous fiscal year).

Nichii Life, which offers housekeeping and family long-term care services, and the Sunny Maid Service, which provides housekeeping services by foreign housekeepers in Japan’s National Strategic Special Zones, also continued to provide services by fully enforcing measures to prevent infections. However, demand for the use of housekeeping services declined temporarily because customers spent more time at home in April and May when a state of emergency was declared.

As a result, the number of service users decreased, and sales and profits declined.

<Education Segment>

Net sales were 457 million yen (compared with 2,784 million yen in the previous fiscal year). Operating loss was 1,749 million yen (compared with an operating loss of 56 million yen in the previous fiscal year).

GABA Corporation, a subsidiary of the Company, temporarily cancelled classes at all 50 LSs of one-to-one English conversation lessons from March to May to prevent the spread of infections.

While all LSs resumed business in June, GABA Corporation decided to close 10 LSs (JR Tower Sapporo LS NEXT, Sendai LS NEXT, Shimokitazawa LS, Roppongi LS, Omotesando LS, Aobadai LS, Tsukuba LS NEXT, Kyoto Station-front LS, Hiroshima LS NEXT and Fukuoka-Tenjin LS) where revenue improvement was delayed until November 30, 2020, given that the future outlook for economic activities and the economy remained uncertain.

As a result, sales and profits declined due to stagnation in the acquisition of new students and a fall in the number of students associated with the decline in the number of business days. In addition, the segment posted extraordinary losses of 249 million yen in the first quarter under review associated with the closure of 10 LSs.

<Therapy Segment>

Net sales were 135 million yen (compared with 145 million yen in the previous fiscal year). Operating loss was 66 million yen (compared with an operating loss of 85 million yen in the previous fiscal year).

The number of A-LOVE dog salon users decreased due to the temporary suspension of business in April and May. In addition, Lakewoods Garden Himeharu-no Sato, a theme park operated by Nichii Green Farm Company, a subsidiary, was also closed in April and May.

Meanwhile, sales of Australian Labradoodle, a therapy dog sold by the Company, remained firm.

As a result, the operating loss was reduced due to a fall in operating costs associated with the closure of the theme park and a rise in the number of therapy dogs sold, although sales declined due to the temporary suspension of business at the dog salon.

<Global Segment>

Net sales were 324 million yen (compared with 411 million yen in the previous fiscal year). Operating loss was 96 million yen (compared with an operating loss of 149 million yen in the previous fiscal year).

The segment developed the long-term care business (contracts for the operation of facilities and outside sales training and consulting business, etc.) mainly in northern China. The segment made efforts in reorganization which it had been working on since the fiscal year before last, and in the continuation of the operation of contracted long-term care facilities , although the segment was unable to carry out business activities to acquire new projects due to the spread of the novel coronavirus.

The segment also commenced online outside sales training in the first quarter under review to diversify the styles of course participation. In the consulting business, services were cancelled or postponed because client companies suspended business.

This resulted in a fall in sales, reflecting stagnation in acquiring new projects and the suspension of some services, but an operating loss was reduced due to the concentration of management resources.

<Other Segments>

Net sales were 129 million yen (compared with 77 million yen in the previous fiscal year). Operating income was 72 million yen (compared with 47 million yen in the previous fiscal year).

Sales and profits increased due to goods management for the Nichii Group companies and the provision of auxiliary services for the mainstay businesses.

(2) Overview of financial position

Total assets at the end of the fiscal year under review stood at 188,539 million yen, a decrease of 4,264 million yen from the end of the previous fiscal year. The major causes were a decrease of 2,095 million yen in current assets, mainly due to a fall in cash and deposits, and a decrease of 2,169 million yen in fixed assets, mainly due to a fall in property, plant and equipment. Liabilities decreased 845 million yen from the end of the previous fiscal year, to 149,624 million yen. Major factors included a decrease of 1,501 million yen in non-current liabilities mainly due to a fall in long-term loans payable and an increase of 656 million yen in current liabilities mainly as a result of growth in short-term loans payable.

Net assets increased 5,110 million yen from the end of the previous fiscal year, to 38,915 million yen.

(3) Explanation of future forecast information such as consolidated earnings forecast

As announced in the press release "Notice Regarding Implementation of Management Buyout and Recommendation to Tender Shares" on May 8, 2020, the Company is scheduled to become a wholly owned subsidiary of K.K. BCJ-44 (hereinafter the "Tender Offeror") as a result of a tender offer by the Tender Offeror for common shares outstanding (hereinafter the "Company's Shares") and share acquisition rights of the Company (hereinafter the "Tender Offer") and a series of subsequent transactions, and the Company's Shares are scheduled to be delisted. Therefore, the forecast of dividends for the fiscal year ending March 31, 2021 is not stated.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheets

(million yen)

	Fiscal 2020 (As of March 31, 2020)	Q1 of Fiscal 2021 (As of June 30, 2020)
Assets		
Current assets		
Cash and deposits	18, 520	15, 277
Notes and accounts receivable—trade	35, 556	36, 544
Short-term investment securities	317	282
Merchandise and finished goods	407	439
Work in progress	11	20
Raw materials and supplies	164	400
Other	12, 870	12, 761
Less: allowance for doubtful accounts	△98	△72
Total current assets	67, 749	65, 654
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	21, 037	20, 944
Lease assets—net	51, 214	50, 574
Other—net	10, 948	9, 494
Total property, plant and equipment	83, 201	81, 013
Intangible assets		
Goodwill	7, 423	7, 009
Other	4, 199	4, 681
Total intangible assets	11, 623	11, 690
Investment and other asset		
Other	30, 456	30, 380
Less: allowance for doubtful accounts	△226	△199
Total investments and other assets	30, 229	30, 180
Total fixed assets	125, 054	122, 885
Total assets	192, 804	188, 539
Liabilities		
Current liabilities		
Notes and accounts payable—trade	1, 948	2, 798
Short-term loans payable	5, 658	8, 521
Income taxes payable	1, 754	622
Accrued expenses	16, 930	18, 087
Provision for bonuses	6, 206	3, 285
Provision for directors' bonuses	35	23
Other	28, 981	29, 677
Total current liabilities	61, 515	63, 016
Non-current liabilities		
Long-term loans payable	8, 962	7, 108
Lease obligations	59, 161	59, 119
Net defined benefit liability	8, 001	8, 080
Asset retirement obligations	3, 740	3, 729
Other	7, 396	8, 568
Total non-current liabilities	87, 263	86, 607
Total liabilities	148, 778	149, 624

		(million yen)
	Fiscal 2020 (As of March 31, 2020)	Q1 of Fiscal 2021 (As of June 30, 2020)
Net assets		
Shareholders' equity		
Capital stock	11, 933	11, 933
Capital surplus	17, 233	17, 233
Retained earnings	24, 166	18, 575
Treasury stock, at cost	△9, 734	△9, 747
Total shareholders' equity	43, 598	37, 995
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5	8
Foreign currency exchange adjustments	△66	403
Remeasurements of defined benefit plans	△357	△319
Total accumulated other comprehensive income	△417	93
Subscription rights to shares	252	259
Non-controlling interests	591	567
Total net assets	44, 025	38, 915
Total liabilities and net assets	192, 804	188, 539

(2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statements of income)

(Three months ended June 30)

(million yen)

	Previous consolidated cumulative first quarter (from April 1, 2019 to June 30,2019)	Current consolidated cumulative firstr quarter (from April 1, 2019 to June 30,2019)
Net sales	73, 523	72, 736
Cost of sales	58, 882	60, 781
Gross profit	14, 641	11, 955
Selling, general and administrative expenses	11, 917	11, 601
Operating income	2, 723	353
Non-operating income		
Interest income	35	32
Rent income	48	83
Subsidy income	30	16
Foreign exchange gains	—	21
Other	78	98
Total non-operating income	192	251
Non-operating expenses		
Interest expenses	1, 253	1, 277
Rent expenses	8	7
Foreign exchange losses	30	—
Share of loss of entities accounted for using equity method	5	12
Other	44	74
Total non-operating expenses	1, 341	1, 373
Ordinary profit (loss)	1, 574	△767
Extraordinary income		
Gain on sales of investments in capital of subsidiaries and associates	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	8	6
Impairment loss	—	208
Structural reform expenses	224	—
Other	15	40
Total extraordinary losses	248	255
net income (loss) before income taxes	1, 325	△1, 022
Income taxes—current	166	108
Income taxes—deferred	218	△48
Total income taxes	385	60
Net income(loss)	940	△1, 083
Profit (loss) attributable to non-controlling interests	12	△1
Profit (loss) attributable to owners of parent	927	△1, 081

(Quarterly consolidated statements of comprehensive income)

(Three months ended June 30)

(million yen)

	Previous consolidated cumulative first quarter (from April 1, 2019 to June 30,2019)	Current consolidated cumulative first quarter (from April 1, 2019 to June 30,2019)
Net income (loss)	940	△1, 083
Other comprehensive income		
Valuation difference on available-for-sale securities	△1	2
Foreign currency exchange adjustments	37	△22
Remeasurements of defined benefit plans	46	38
Total other comprehensive income	82	18
Comprehensive income	1, 022	△1, 064
(Breakdown)		
Comprehensive income attributable to owners of parent	1, 009	△1, 062
Comprehensive income attributable to non-controlling interests	13	△2

(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.

(change in accounting policy)

(Application of the Accounting Standard for Revenue Recognition, etc.)

Applying the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29 issued on March 30, 2018), etc. from the beginning of the first quarter under review, the Company has decided to recognize promised goods or services at an amount expected to receive in exchange for the goods or services at the time when control over the goods or services has transferred to the customer. As such, the Company has decided to recognize lump-sum payments upon admission , which the Company had recognized in the contract commencement month in the past in the plan of lump-sum payment upon admission for fee-based nursing homes, over a certain period based on the degree of progress by estimating a reasonable period to satisfy the performance obligation. In addition, the Company posts the lump-sum payments upon admission as advances received.

The Company handles the application of the Accounting Standard for Revenue Recognition, etc. according to the transitional measure stipulated in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, and applies the new accounting policy to the beginning balance of retained earnings in the first quarter under review by adding and subtracting the cumulative effect of retroactive application of the new accounting policy before the beginning of the first quarter under review to and from retained earnings at the beginning of the first quarter under review. However, the Company does not apply the new accounting policy retroactively to contracts for which the Company had recognized the amount of almost all revenues before the beginning of the first quarter under review according to the previous handling by applying the method stipulated in Paragraph 86 of the Accounting Standard for Revenue Recognition. In addition, applying the method stipulated in the in-addition clause (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition, the Company accounted for changes in contracts that had been entered into before the beginning of the first quarter under review based on the terms of the contracts after reflecting all the changes in contracts and adds and subtracts their cumulative effects to and from retained earnings at the beginning of the first quarter under review.

As a result, in comparison with cases where the previous accounting standards are applied, net sales and operating income for the first quarter under review increased 205 million yen, respectively, and ordinary loss and net loss before income taxes decreased 205 million yen, respectively. In addition, the beginning balance of retained earnings decreased 2,621 million yen. At the end of the first quarter under review, other (advances received) in current liabilities increased 770 million yen while other (long-term advances received) in non-current liabilities increased 1,645 million yen.

(Additional information)

(Tender offer for the Company's shares, etc. by K.K. BCJ - 44)

At a meeting of the Board of Directors held on May 8, 2020, the Company expressed an opinion to agree on a tender offer by K.K. BCJ-44 (hereinafter the "Tender Offeror") for common shares outstanding (hereinafter the "Company's Shares") and share acquisition rights (Note 2) of the Company, which would be conducted as part of the so-called management buyout (MBO) (Note1), and resolved to recommend that the Company's shareholders and share acquisition right holders subscribe to the Tender Offer.

The resolution at the Board of Directors meeting was passed on the assumption that the Tender Offeror intended to make the Company a wholly owned subsidiary through the Tender Offer and a series of subsequent transactions and that the Company's shares was scheduled to be delisted.

For details, please refer to the "Notice Regarding Implementation of Management Buyout and Recommendation to Tender Shares" released on May 8, 2020 and the "Partial Amendment of 'Notice Regarding Implementation of Management Buyout and Recommendation to Tender Shares' [Amendment]" released on July 31, 2020.

(Note 1) "Management buyout (MBO)" is a tender offer to be made based on an agreement between the Tender Offeror and the officers of the Company and a transaction that has a common interest with the officers of the Company.

(Note 2) "Share subscription rights" is a collective term for share subscription rights (ordinary-type) issued based on the resolution at the Company's Board of Directors meeting held on June 30, 2015, share subscription rights (stock compensation-type) issued based on the resolution at the Company's Board of Directors meeting held on June 30, 2015, share subscription rights (stock compensation-type) issued based on a resolution at the Company's

Board of Directors meeting held on June 28, 2016, share subscription rights (stock compensation-type) issued based on a resolution at the Company's Board of Directors meeting held on June 27, 2017, share subscription rights (stock compensation-type) issued based on a resolution at the Company's Board of Directors meeting held on June 26, 2018 and share subscription rights (stock compensation-type) issued based on a resolution at the Company's Board of Directors meeting held on June 25, 2019.