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

August 8, 2018

Name of listed company: NICHIIGAKKAN CO., LTD. Listed on: Tokyo Stock Exchange 1st Section
Securities code: 9792 URL: http://www.nichiigakkan.co.jp
Representative: Nobusuke Mori, President and COO
Contact: Kazuya Shiiya, Executive Officer, Acting Division Director Accounting Division TEL: 03-3291-2121
Scheduled date for filing the quarterly financial report: August 10, 2018 June 26, 2018
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 first quarter of the year ending March 31, 2019(April 1, 2018 – June 30, 2018)

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

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2018	70,835	0.7	1,263	(16.8)	139	(75.1)	(158)	―
Three months ended June 30, 2017	70,313	2.8	1,519	―	560	―	510	―

(Note) Comprehensive income: First three months of FY2019: (124) million yen(―%) First three months of FY2018: 395 million yen (－%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Three months ended June 30, 2018	(2.47)	―
Three months ended June 30, 2017	7.96	7.95

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
As of June 30, 2018	188,641	36,803	18.8
As of June 30, 2017	190,239	37,656	19.1

(Reference) Shareholders' equity: As of June 30, 2018: 35,509 million yen As of March 31, 2018: 36,363 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	―	11.00	―	11.00	22.00
Year ending March 31, 2019	―				
Year ending March 31, 2019(forecast)		15.00	―	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 for full year figures and from same period of previous year for interim period figures.)

	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
First six months	151,800	7.3	5,000	33.2	2,800	54.2	1,400	52.3	21.81
Full year	314,500	10.8	14,700	92.7	10,500	189.4	6,300	637.3	98.14

(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 June 30, 2018	73,017,952	As of March 31, 2018:	73,017,952
2) Number of treasury stock			
As of June 30, 2018	8,824,723	As of March 31, 2018:	8,825,572
3) Average number of shares issued and outstanding in each period			
Three months ended June 30, 2018	64,193,048	Three months ended June 30, 2017	64,193,132

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

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1. Qualitative information on quarterly financial results

The forward-looking statements contained in the descriptions below are forecasts determined at the end of the current quarter.

In addition, ASBJ Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting (February 16, 2018) and other guidelines were applied from the beginning of the first quarter of the consolidated fiscal year under review. 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

In May of this year, the Nichii Group launched the medium-term management plan “VISION 2025” (from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2025) to become an excellent company that achieves a contribution to social issues and the stable growth of long-term profits and makes a global contribution. Initiatives for strengthening the business structure and organizational reforms, among others, have commenced.

With respect to strengthening the business constitution, from April of this year, the hiring of regular workers and the indefinite-term hiring of part-time workers were encouraged in the core business (medical support/long-term care/childcare). Emphasis was also placed on securing and improving the retention of human resources who provide services and the improvement of autonomy on the business frontlines by stabilizing hiring. With respect to organizational reforms, the Nichii Sales and Marketing Headquarters, which is the organization under the direct control of the President and COO, was established. Activities were implemented for the growth of the top line by chained sales of all business beyond the scope of business and expansion and improvement of the placement of executive officers by business and area, among other aspects.

With respect to the business results, due to the lead of the Childcare Business, which expanded corporate-run childcare centers and other service facilities, and the Health Care Business, in which the number of users of the housekeeping services increased, net sales hit a record high again and increased.

Income decreased, mainly due to an increase in personnel expenses that was caused by improving the treatment of staff in the core business and the recruitment of regular workers, among other causes, and the expenses for prior investments in the health care business.

Net sales for the first three months of the first quarter under review were 70,835 million yen (compared with 70,313 million yen in the same period of the previous fiscal year). Operating income was 1,263 million yen (compared with 1,519 million yen in the same period of the previous fiscal year). Ordinary income was 139 million yen (compared with 560 million yen in the same period of the previous fiscal year). Net loss attributable to owners of parent was 158 million yen (compared with net income attributable to owners of parent of 510 million yen in the same period of the previous fiscal year).

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 26,791 million yen (compared with 26,885 million yen in the same period of the previous fiscal year). Operating income was 2,119 million yen (compared with 2,201 million yen in the same period of the previous fiscal year).

Focus was placed on contract optimization at medical institutions, as in the previous fiscal year, and the expansion of operations at medical institutions such as support operations for medical administration work and various systems and services was advanced in anticipation of the workstyle reforms of doctors and other health care providers. In addition, from April, support to make medical administration staff regular workers and the promotion of indefinite-term hiring, among other initiatives, were implemented. Focus was placed on improving treatment and the working environment.

In this quarter under review, given the sluggish growth in the number of contracts of the clinic department and the number of persons who took medical administration courses, both net sales and income of the entire medical support business decreased.

<Long-Term Care Segment>

Net sales were 37,439 million yen (compared with 37,446 million yen in the same period of the previous fiscal year). Operating income was 3,649 million yen (compared with 3,659 million yen in the same period of the previous fiscal year).

Initiatives were taken for securing and retaining human resources for long-term care, including improving the treatment of staff and appointment as regular workers. At the same time, productivity was improved and the efficient placement of personnel was implemented, among other actions, for continued cost improvements. In addition, steps were taken by the overall Group in accordance with the revision to the nursing care compensation in April of this year, including strengthening the acquisition of users in a moderate or severe condition. In residential care services, the number of users at fee-charging elderly care facilities was steady, and high occupancy rates were maintained. In at-home care services, sales per customer improved due to an increase in users in a moderate or severe condition, among other causes. However, both net sales and income decreased, mainly due to a decrease in the number of users caused by changing preventive care services to the comprehensive business and the impact of reduced compensation for extended day care services in the revision to nursing care compensation.

<Childcare Segment>

Net sales were 2,568 million yen (compared with 1,815 million yen in the same period of the previous fiscal year). Operating loss was 404 million yen (compared with operating loss of 571 million yen in the same period of the previous fiscal year).

Beginning with corporate-run childcare centers, which were institutionalized based on the government's plan for accelerating the reduction in the number of children on waiting lists, the establishment of nursery schools was actively promoted in this period under review as well. In this quarter under review, 42 new childcare facilities were established or opened. As a result, together with licensed nursery schools, among other similar facilities, the childcare facilities of the Company were established in 242 locations nationwide.

Net sales increased 753 million yen due to the establishment of new bases. Income increased (reduction of the degree of loss) despite prior costs due to active establishment as a result of efforts to acquire contracts for the use of the corporate-run child care centers with companies and improve the recognition of nursery schools in each area.

<Health Care Segment>

Net sales were 381 million yen (compared with 332 million yen in the same period of the previous fiscal year). Operating loss was 115 million yen (compared with operating income of 74 million yen in the same period of the previous fiscal year).

With an increase in single-person households and aged households and an increase in double-income households due to the promotion of women's participation and advancement in the workplace, recognition of housekeeping services increased, and demand continues to rise. In response to these growing needs, the Company actively promoted the Nichii Life housekeeping service and the Sunny Maid Service housekeeping support business provided by foreign staff in the National Strategic Special Zone. As a result, net sales grew significantly, rising 14.7% year on year. With respect to income, an operating loss was recorded due to prior costs in relation to the acceptance of foreign staff and preparations for the establishment of the Sunny Maid Service in the Kansai region.

<Education Segment>

Net sales were 2,891 million yen (compared with 2,936 million yen in the same period of the previous fiscal year). Operating loss was 1,210 million yen (compared with operating loss of 1,030 million yen in the same period of the previous fiscal year).

Through structural reforms of the Education Business (integration and parallel operation of Gaba and COCO Juku), the transition from COCO Juku to Gaba one-to-one English conversation lessons as services for adults and the transition to COCO Juku Junior as services for children were completed.

In COCO Juku Junior, community-based satellite classrooms were established in 101 facilities nationwide. With respect to services for adults, learning studios for GABA one-to-one English lessons were set up in 116 facilities nationwide. In regional areas, event-type promotions and other efforts were made to coincide with the establishment of the studios to bolster recognition. Through active promotional campaigns and advertising, among other initiatives, emphasis was placed on improving recognition in the area where the classrooms were established and planting seeds that will lead to people taking lessons. Despite these efforts, both net sales and income decreased year on year.

<Therapy Segment>

Net sales were 88 million yen (compared with 49 million yen in the same period of the previous fiscal year). Operating loss was 152 million yen (compared with operating loss of 68 million yen in the same period of the previous fiscal year).

The nationwide establishment of the A-LOVE dog grooming salons, which are built on the concept of pet health, continued. One new salon was opened in this quarter under review. Twenty-one salons have now been established in total, including 20 salons in Japan and one in Australia. The emphasis was placed on promotional campaign activities using social media, posting by taking advantage of the characteristics of areas, holding of and participation in various events and other initiatives to acquire new customers and retain repeat customers by improving services. As a result, net sales increased 38 million yen. Due to prior investments including opening costs, however, the operating loss increased 83 million yen year on year.

<Global Segment>

Net sales were 484 million yen (compared with 783 million yen in the same period of the previous fiscal year). Operating loss was 326 million yen (compared with operating loss of 480 million yen in the same period of the previous fiscal year).

In this quarter under review, the strengthening of sales of sanitary products in China, sales activities for contracts for the management of nursing homes, the promotion of sales of long-term care training and seminars and other activities were emphasized. Efforts to spread Japanese-style

long-term care locally continued to be made.
Local needs and management situations were reviewed, unprofitable joint ventures were wound up, and rents and other fixed costs were reduced. As a result of these efforts, although net sales decreased, the degree of the deficits was reduced with respect to income.

<Other Segments>

Net sales were 190 million yen (compared with 63 million yen in the same period of the previous fiscal year). Operating income was 76 million yen (compared with 47 million yen in the same period of the previous fiscal year).
The link between the business and services of the Group was strengthened and the further enhancement of the value of the core business was pursued. As a result of the efforts to improve revenues, in the three months of the first quarter under review, net sales increased 126 million yen and operating income increased 28 million yen.

(2) Details of financial position

At the end of the first quarter of the consolidated fiscal year under review, total assets decreased 1,598 million yen as compared to the end of the previous consolidated fiscal year, to 188,641 million yen. The major causes were an increase of 47 million yen in current assets, mainly due to an increase in notes and accounts receivable – trade, and a decrease of 1,645 million yen in fixed assets, mainly due to a decrease in goodwill.
Liabilities decreased 745 million yen as compared to the end of the previous consolidated fiscal year, to 151,838 million yen. The major causes were a decrease of 1,993 million yen in current liabilities, mainly due to a decrease in provision for directors' bonuses, and an increase of 1,248 million yen in non-current liabilities, mainly due to an increase in lease obligations.
Net assets decreased 852 million yen from the end of the previous fiscal year, to 36,803 million yen.

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

The forecast of consolidated financial results for the year ending March 31, 2019 that was announced on May 11, 2018 remains unchanged.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheets

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Q1 of Fiscal 2019 (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	18,447,925	17,822,687
Notes and accounts receivable—trade	33,072,792	33,405,416
Short-term investment securities	-	208,880
Merchandise and finished goods	890,572	869,656
Work in progress	6,859	19,299
Raw materials and supplies	222,620	230,140
Other	12,639,841	12,766,496
Less: allowance for doubtful accounts	(31,360)	(26,191)
Total current assets	65,249,251	65,296,384
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	22,260,337	22,114,619
Lease assets—net	47,283,743	47,806,381
Other—net	10,230,927	9,384,516
Total property, plant and equipment	79,775,008	79,305,517
Intangible assets		
Goodwill	11,424,497	10,954,510
Other	5,592,039	5,317,333
Total intangible assets	17,016,537	16,271,844
Investment and other asset		
Other	28,464,166	28,027,137
Less: allowance for doubtful accounts	(265,077)	(259,562)
Total investments and other assets	28,199,088	27,767,574
Total fixed assets	124,990,634	123,344,936
Total assets	190,239,886	188,641,320
Liabilities		
Current liabilities		
Notes and accounts payable—trade	1,170,987	859,580
Short-term loans payable	5,336,220	5,721,993
Income taxes payable	2,563,388	576,084
Accrued expenses	17,836,819	18,729,357
Provision for bonuses	5,611,659	3,094,699
Provision for directors' bonuses	38,000	22,550
Other	27,902,439	29,461,430
Total current liabilities	60,459,515	58,465,695
Non-current liabilities		
Long-term loans payable	22,007,024	22,188,234
Lease obligations	53,596,996	54,373,878
Net defined benefit liability	7,524,273	7,598,438
Asset retirement obligations	2,446,418	2,457,168
Other	6,549,487	6,754,688
Total non-current liabilities	92,124,200	93,372,408
Total liabilities	152,583,715	151,838,103

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Q1 of Fiscal 2019 (As of June 30, 2018)
Net assets		
Shareholders' equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,026,495	17,003,306
Retained earnings	19,636,670	18,745,815
Treasury stock, at cost	(11,376,709)	(11,375,607)
Total shareholders' equity	37,220,245	36,307,305
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,091	16,960
Foreign currency exchange adjustments	(366,488)	(354,195)
Remeasurements of defined benefit plans	(509,191)	(460,903)
Total accumulated other comprehensive income	(856,588)	(798,139)
Subscription rights to shares	560,694	573,719
Non-controlling interests	731,819	720,331
Total net assets	37,656,170	36,803,216
Total liabilities and net assets	190,239,886	188,641,320

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income

Three months ended June 30

(Thousand yen)

	Q1 of Fiscal 2018 (from April 1, 2017 to June 30, 2017)	Q1 of Fiscal 2019 (from April 1, 2018 to June 30, 2018)
Net sales	70,313,364	70,835,690
Cost of sales	56,795,338	57,358,847
Gross profit	13,518,025	13,476,842
Selling, general and administrative expenses	11,998,932	12,213,155
Operating income	1,519,093	1,263,686
Non-operating income		
Interest income	41,291	34,632
Rent income	61,103	46,241
Subsidy income	37,022	16,854
Equity method investment gain	2,192	-
Other	118,629	85,290
Total non-operating income	260,239	183,019
Non-operating expenses		
Interest expenses	1,143,213	1,205,044
Rent expenses	9,059	6,945
Foreign exchange losses	-	66,243
Share of loss of entities accounted for using equity method	-	8,475
Other	66,982	20,665
Total non-operating expenses	1,219,255	1,307,374
Ordinary income	560,077	139,331
Extraordinary income		
Gain on reversal of subscription rights to shares	5,310	1,691
Total extraordinary income	5,310	1,691
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	477	357
Loss on sales of investment securities	-	149,705
Loss on cancellation of leases	531	-
Total extraordinary losses	1,008	150,062
Net income (loss) before income taxes	564,379	(9,039)
Income taxes—current	221,620	134,259
Income taxes—deferred	(103,525)	36,408
Total income taxes	118,095	170,667
Net income (loss)	446,284	(179,707)
Profit (loss) attributable to non-controlling interests	(64,626)	(21,293)
Profit (loss) attributable to owners of parent	510,910	(158,413)

Quarterly consolidated statements of comprehensive income

Three months ended June 30

(Thousand yen)

	Q1 of Fiscal 2018 (from April 1, 2017 to June 30, 2017)	Q1 of Fiscal 2019 (from April 1, 2018 to June 30, 2018)
Net income (loss)	446,284	(179,707)
Other comprehensive income		
Valuation difference on available-for-sale securities	1,521	(2,131)
Foreign currency exchange adjustments	(102,957)	9,239
Remeasurements of defined benefit plans	51,006	48,287
Total other comprehensive income	(50,428)	55,395
Comprehensive income	395,855	(124,312)
(Breakdown)		
Comprehensive income attributable to owners of parent	472,781	(96,489)
Comprehensive income attributable to non-controlling interests	(76,926)	(27,822)

(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 events)

Disposal of treasury stock as stock-based compensation with restrictions on transfer

The Company resolved at the meeting of the board of directors held on July 18, 2018 to dispose of treasury stocks as stock-based compensation with restrictions on transfer (hereinafter referred to as the "Disposal of Treasury Stocks" or the "Disposal").

1. Purposes of and reasons for the Disposal

The Company resolved at a meeting of its Board of Directors held on May 11, 2018 to introduce the stock-based compensation plan with restrictions on transfer (hereinafter referred to as the "Transfer") for the purposes of providing appropriate incentives toward the achievement of the sustainable enhancement of corporate value and the medium-term management plan of the Company to directors of the Company other than outside directors (hereinafter referred to as the "Directors"), executive officers who are not directors of the Company and the directors of the subsidiaries of the Company, and promote the further sharing of values with shareholders. In addition, the 46th annual general meeting of shareholders held on June 26, 2018 (hereinafter referred to as the "General Meeting of Shareholders"), approved, among other matters, that under the said plan, the right to claim monetary compensation would be provided to directors of the Company as monetary compensation for the property contributed to acquire shares with restrictions on transfer up to the annual amount of 1,320,000 thousand yen only for seven (7) years from the date of the general meeting of shareholders.

2. Outline of the Disposal

(1)	Date of the Disposal	August 17, 2018
(2)	Class and number of shares to be disposed of	Common stocks of the Company: 149,650 shares
(3)	Price for the Disposal	1,234 yen per share
(4)	Total amount of the Disposal	184,668,100 yen
(5)	Buyers and number of buyers and number of stocks to be disposed of	Directors (other than outside directors) of the Company: 8 persons, 127,500 shares Executive officers of the Company: 46 persons, 16,750 shares Directors of the subsidiaries of the Company: 9 persons, 5,400 shares
(6)	Others	With respect to the Disposal of Treasury Stocks, the condition that the securities report is to become effective under the Financial Instruments and Exchange Act is applied.