Financial Results for the First Half of the Year Ending March 31, 2016 (J-GAAP)

November 10, 2015

Name of listed company: Nichii Gakkan Company   Listed on: Tokyo Stock Exchange 1st Section
Securities code: 9792   URL: http://www.nichiigakkan.co.jp
Representative: Akihiko Terada, Chairman, President and CEO
Contact: Koichi Terada, Director   TEL: 03-3291-2121
Scheduled date for filing the quarterly financial report: November 13, 2015
Scheduled date to start dividends distribution: December 7, 2015
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 ended September 30, 2015 (April 1, 2015 – September 30, 2015)

(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, 2015	136,575	0.4	(473)	—	(1,701)	—	(2,296)	—
Six months ended September 30, 2014	136,015	(0.0)	2,719	(15.8)	1,776	(29.0)	593	(64.3)

(Note) Comprehensive income: Six months ended September 30, 2015: -1,981 million yen (-%);
Six months ended September 30, 2014: 648 million yen (-57.8%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Six months ended September 30, 2015	(35.68)	—
Six months ended September 30, 2014	8.49	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
As of September 30, 2015	188,740	53,232	27.6
As of March 31, 2015	184,554	56,685	30.5

Reference: Shareholders' equity: As of September 30, 2015: 52,077 million yen; As of March 31, 2015: 56,333 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2015	—	10.00	—	10.00	20.00
Year ending March 31, 2016	—	11.00			
Year ending March 31, 2016 (forecast)			—	11.00	22.00

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

3. Forecast of consolidated financial results for the year ending March 31, 2016 (April 1, 2015 – March 31, 2016)

(Percentage figures represent changes from same period of 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	275,500	1.3	200	(96.1)	(2,400)	—	(3,500)	—	(54.45)

(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.: Yes
2) Changes in accounting policies due to reasons other than those stated in 1): None
3) Changes in accounting estimates: None
4) Restatement: None

(Note) For details, please refer to page 7, (3) Changes in accounting policies, accounting estimates, and restatement of 2. Summary information (notes) of Attached Document.

(4) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury stock)

As of September 30, 2015:	73,017,952	As of March 31, 2015:	73,017,952

2) Number of treasury stock

As of September 30, 2015:	8,825,324	As of March 31, 2015:	7,521,206

3) Average number of shares issued and outstanding in each period (quarterly consolidated cumulative period)

As of September 30, 2015:	64,376,251	As of September 30, 2014:	69,883,839

* Implementation status of quarterly review procedures

The quarterly review procedure based on the Financial Instruments and Exchange Act does not apply to these quarterly financial statements, and the procedure based on the Financial Instruments and Exchange Act is in operation as of the release of these quarterly financial statements.

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

(Forward looking statements)

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 quarterly consolidated financial results (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

(1) Details of business results

The Japanese economy continued to recover at a gradual pace during the interim period of the fiscal year under review, showing signs of improvement in corporate performance on the back of the government's economic policy. Amidst the sustained recovery in the employment situation that accompanied the economic upturn, progress was made in reviewing measures to promote the participation of more women and elderly citizens in the labor market, with an eye on securing sufficient levels in the workforce over the medium- to long-term and thereby ensure that the recovery of the Japanese economy gains firm ground. In the long-term care field that faces a growing shortage of human resources, the government launched measures to reinforce compensation for long-term care workers in the 2015 revisions to the long-term care rate.

In this business environment, the Nichii Gakkan Group promoted its medium-term management strategy that focuses mainly on establishing the four-pillar business structure in Japan, comprised of the Medical Support, Long-term Care, Education (language), and Childcare Segments. It also promoted its globalization strategy, based on its management philosophy of "contributing to the enhancement of human life through the development of our business." Working through these two strategies, the Group aims to achieve stable growth of long-term profits by breaking away from institutional risks.

In its domestic operations, the Group established branch offices in four blocks across the nation in April to ensure carefully-crafted management in line with the condition of each region as part of its efforts to improve the system for reinforcing the management of branch offices and on-site operations.

In the Medical Support and Long-term Care Segments, its two mainstay businesses in Japan, the Group carried out an organization reform of the education division responsible for staff training in order to optimize the "from education to job placement" business model and realize the smooth acquisition of talent. In addition, it has endeavored to improve its service supply capacity, mainly in terms of the number of students in qualification-type courses, the employment rate, and the retention rate through the restructuring of the human resources development scheme, aggressive promotion initiatives, and measures to improve compensation for staff.

In its strategic businesses (Education and Childcare Segments), the Group promoted aggressive business deployment in order to turn them into sources of revenue alongside the two mainstay businesses. It also worked to gain longer-term growth potential by means such as the enhanced development of registered child care centers and small-scale child care centers in response to the introduction of the Support System for Children and Child Rearing and the provision of continual language training service in response to young adults' need for learning practical English.

In the China business, the driver of its globalization initiatives, the Group constructed a unique business model for entering home-care services and developing new markets in China whose customs and culture are different from those in Japan. Although it was time-consuming following the administrative procedures of each location and constructing and developing management and service structures, the Group succeeded in opening its first location, which became ready to provide services in July. It plans to set up a series of other locations in the near future.

The Group plans to proceed with preparations for launching the human resource development business and long-term care services by the end of the year. It will also further expand its services both in volume and geographical area coverage through the continuous development of its business structures in China by means of human resource cultivation and management enhancement.

Looking at the operating results, overall sales increased, thanks to the contribution from the Medical Support Segment and strategic businesses. Income declined, reflecting a decline in the number of users of long-term care services due to the shortage of staff, which was further exacerbated by a substantial reduction in long-term care basic rates in the revised compensation for long-term care workers in the Long-term Care Segment.

In the interim period of the fiscal year under review, the Group posted net sales of 136,575 million yen (compared with 136,015 million yen in the first half of the previous fiscal year), an operating loss of 473 million yen (compared with operating income of 2,719 million yen in the first half of the previous fiscal year), and an ordinary loss of 1,701 million yen (compared with ordinary income of 1,776 million yen in the first half of the previous fiscal year). The Group recorded a net loss attributable to owners of parent of 2,296 million yen (compared with net income attributable to owners of parent of 593 million yen in the first half of the previous fiscal year).

Results by business segment are as follows:

From the first quarter of this fiscal year, courses for medical office work and training for new care workers, qualification-type courses which were in the Education Segment, are incorporated into the Medical Support Segment and the Long-Term Care Segment, respectively. The childcare business is reported as a separate segment called the Childcare Segment. The results of the newly consolidated Chinese businesses' services that existed before those companies began to collaborate with the Company are included in the Other Businesses.

To compare the results in the first half of the fiscal year under review and the results in the first half of the previous fiscal year in the following results by business segment, the business segments for the previous fiscal year have been reclassified, as described above.

<Medical Support Segment>

The Group strove to expand sales and secure an appropriate level of profits by strengthening sales activities toward medical institutions with the aim to further improve its medical management support services, including home rehabilitation support through collaboration with the Long-Term Care Segment. It also worked to develop foundations for human resources, improve the quality of services, and strengthen on-site management systems. The Group consequently won new contracts and expanded operations related to medical institutions that were already under contract, and sales in this segment rose. However, profits declined due to a temporary increase in personnel expenses associated with the start of operations at hospitals with which new contracts were concluded.

In medical affairs education, a growth driver, the number of students saw growth resume, posting year-on-year increases for the second consecutive quarter. This was primarily attributable to the restructuring of the human resources development scheme and aggressive promotion activities.

Net sales for the segment came to 54,397 million yen for the first half of the fiscal year under review (compared with 53,890 million yen posted in the same period of the previous fiscal year). Operating income for the segment was 3,794 million yen (compared with 3,890 million yen posted in the same period of the previous fiscal year).

<Long-term Care Segment>

While there has been a gradual recovery in the employment environment, there has been a delay in the Group's plan for recruiting human resources, particularly in urban areas. The Group has been unable to improve and expand the personnel supply system to meet the needs for home-care services, and fell short of the target number for new service users acquired. In the revised compensation for long-term care, basic rates for individual services were substantially lowered, and it took time for the Group to develop a system for gaining long-term care premiums. Consequently, both sales and profits declined. In its initiatives to secure human resources, the Group implemented a reform of the administration system for human resources development. It expanded and enhanced measures to improve the treatment of human resources, including the reinforcement of skills training and wage increases, and conducted aggressive activities to promote training for new care workers. As a result, the number of students of the courses, the leading indicator of human resources acquired, increased for two consecutive quarters.

The Group will continue with its efforts to acquire human resources and provide comprehensive services. At the same time, it will focus on attracting users with moderate to severe conditions by strengthening the level of collaboration with the Medical Support Segment, promoting short stays at specific facilities, and acquiring long-term care premiums related to specialist care, including dementia care.

Net sales for the segment came to 71,671 million yen for the first half of the fiscal year under review (compared with 72,999 million yen posted in the same period of the previous fiscal year). Operating income for the segment was 3,333 million yen (compared with 6,674 million yen posted in the same period of the previous fiscal year).

<Health Care Segment>

In Nichii Life housekeeping services, the Group focused on attracting new customers by strengthening the level of collaboration with the Long-term Care Segment and promoting transfer from contracts on a spot basis to those for long-term use of services. In private brand product sales, the Group worked to strengthen sales to retail customers through marketing initiatives, etc. and conducted aggressive sales activities to expand sales channels for corporate sales. As a result, although revenues in this segment declined, profits increased due to relatively high profit levels. This was attributable to the increases in the number of users of Nichii Life services and the sales volume of the private brand products.

Net sales for the segment stood at 1,890 million yen (compared with 1,902 million yen posted in the first half of the previous fiscal year). Operating income for the segment was 128 million yen (compared with an operating loss of 62 million yen posted in the first half of the previous fiscal year).

<Education Segment>

The Group focused on energizing the business in this segment by further integrating the language service network of the Nichii Group to enhance the added value of COCO Juku and COCO Juku Junior. Targeting potential students of COCO Juku Junior, short courses were offered during summer vacation, and aggressive promotion activities were conducted by means such as experience programs as well as mass advertisement to attract new students. Sales increased thanks to a solid rise in the total number of students as a result of these initiatives. Operating loss decreased, attributable to a decline in selling, general and administrative expenses largely as a result of efficient classroom management and promotion activities.

Net sales for the Education Business segment totaled 6,373 million yen (compared with 6,067 million yen posted in the first half of the previous fiscal year). Operating loss for the segment was 2,856 million yen (compared with a loss of 3,264 million yen posted in the first half of the previous fiscal year).

<Childcare Segment>

In response to the introduction of the Support System for Children and Child Rearing, the Group conducted business activities that focused on opening registered child care centers in various regions, centering on small-scale child care centers. The Group sought to rapidly improve the operating ratio of the child care centers opened in April by providing childcare services that utilize group synergies in collaboration with other segments. Sales rose 52.7% compared with the first half of the previous fiscal year, reflecting an increase in the number of children at child care centers, but income declined due to prior expenses associated with the opening of new child care centers.

Net sales for the Childcare Segment totaled 1,460 million yen (compared with 955 million yen posted in the first half of the previous fiscal year). Operating loss for the segment was 492 million yen (compared with a loss of 312 million yen posted in the first half of the previous fiscal year).

<Other Businesses>

The results in the Other Businesses include the operating results of pre-existing services (care for new mothers, housekeeping service, etc.) at the 6 companies in China that were consolidated from the second quarter of the fiscal year under review, among the 15 local businesses determined to be made into group companies in the China business of the Group.

Net sales for the Other Businesses segment amounted to 781 million yen (compared with 199 million yen posted in the first half of the previous fiscal year). Operating income for the segment was 45 million yen (compared with 297 million yen posted in the first half of the previous fiscal year).

(2) Details of financial position

Total assets at the end of the interim period of the fiscal year under review increased 4,185 million yen from the end of the previous fiscal year, to 188,740 million yen. The main reasons for the increase were a 2,213 million yen rise in current assets, mainly reflecting an increase in cash and deposits, and a 1,972 million yen increase in fixed assets, primarily due to an increase in lease assets. Liabilities increased 7,638 million yen from the end of the previous fiscal year, to 135,508 million yen. The key factors contributing to this increase were a 5,563 million yen rise in current liabilities, mainly reflecting an increase in short-term loans payable, and a 2,075 million yen increase in non-current liabilities, primarily attributable to an increase in lease obligations. Net assets decreased 3,453 million yen from the end of the previous fiscal year, to 53,232 million yen.

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

With respect to the consolidated and nonconsolidated results forecast for the fiscal year ending March 31, 2016, the Group has revised the financial results forecast for the year ending March 31, 2016, which was released on May 14, 2015. For more details, please see the “Notice concerning Revision of Financial Results Forecast” announced on November 10, 2015.

The differences between the consolidated financial results forecast for the year ending March 31, 2016, which was announced in the financial results released on May 14, 2015, and the forecast after the revision are as follows.

(Forecast of consolidated financial results)

Fiscal year ending March 31, 2016 (April 1, 2015 – March 31, 2016)

	Net Sales	Operating Income	Ordinary Income	Profit attributable to owners of parent	Net Income per Share
Previously announced forecast (A)	Million yen 294,300	Million yen 8,900	Million yen 6,100	Million yen 2,600	Yen 40.41
Revised forecast (B)	275,500	200	(2,400)	(3,500)	(54.45)
Change (B – A)	(18,800)	(8,700)	(8,500)	(6,100)	—
Change (%)	(6.4)	(97.8)	—	—	—
(Reference) Actual results (fiscal year ended March 31, 2015)	271,868	5,173	3,144	416	6.03

(Forecast of nonconsolidated financial results)

Fiscal year ending March 31, 2016 (April 1, 2015 – March 31, 2016)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share
Previously announced forecast (A)	Million yen 243,700	Million yen 3,500	Million yen 2,300	Million yen 1,100	Yen 17.10
Revised forecast (B)	240,900	(800)	(1,500)	(1,800)	(28.00)
Change (B – A)	(2,800)	(4,300)	(3,800)	(2,900)	—
Change (%)	(1.1)	—	—	—	—
(Reference) Actual results (fiscal year ended March 31, 2015)	238,835	2,705	1,699	272	3.94

2. Summary information (notes)

(1) Significant changes to subsidiaries during the term

There are no applicable matters.

(2) Application of specific accounting for preparing the quarterly consolidated financial statements

There are no applicable matters.

(3) Changes in accounting policies, accounting estimates and restatement

Changes in accounting policies

(Application of Accounting Standard for Business Combinations)

From the first quarter of this fiscal year, the Company is applying the Accounting Standard for Business Combinations (ASBJ Statement No. 21; September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement 22; September 13, 2013), and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7; September 13, 2013). Under the newly applied accounting standards, the Company shall post a gain or loss on change in the Company’s equity in subsidiaries that the Company continues to control in capital surplus and shall post expenses related to acquisitions as expenses in the consolidated fiscal year in which they are incurred. Any review of the allocation of the acquisition cost in provisional accounting of a business combination from the beginning of the first quarter of this fiscal year shall be reflected in quarterly consolidated financial statements for the quarter in which the date of the business combination belongs. The Company also changed the presentation of the net income as well as the presentation from the minority interests to the non-controlling interests. To reflect these changes in presentation, the quarterly consolidated financial statements for the first half of the previous fiscal year and the consolidated financial statements for the previous fiscal year have been reorganized.

The application of the Accounting Standard for Business Combinations, etc. follows the transitional treatment set forth in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures, and the accounting standards are applied from the beginning of the first quarter of this fiscal year.

The application of the accounting standards has no impact on the Group’s earnings.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Thousand yen)

	Fiscal 2015 (As of March 31, 2015)	H1 of Fiscal 2016 (As of September 30, 2015)
Assets		
Current assets		
Cash and deposits	9,676,856	11,957,372
Notes and accounts receivable—trade	32,967,460	32,683,189
Short-term investment securities	2,699,192	2,998,737
Merchandise and finished goods	536,475	561,477
Work in progress	36,544	36,994
Raw materials and supplies	219,948	247,677
Deferred tax assets	2,427,270	2,887,667
Other	11,157,583	10,561,848
Less: allowance for doubtful accounts	(27,572)	(28,184)
Total current assets	59,693,759	61,906,779
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	28,393,717	27,896,511
Lease assets—net	34,633,198	38,017,672
Other—net	9,955,257	9,489,220
Total property, plant and equipment	72,982,173	75,403,405
Intangible assets		
Goodwill	16,584,638	16,880,882
Other	4,182,685	4,213,016
Total intangible assets	20,767,324	21,093,898
Investment and other asset		
Other	31,507,625	30,725,283
Less: allowance for doubtful accounts	(396,100)	(388,939)
Total investments and other assets	31,111,525	30,336,343
Total fixed assets	124,861,023	126,833,647
Total assets	184,554,782	188,740,426
Liabilities		
Current liabilities		
Notes and accounts payable—trade	899,695	716,487
Short-term loans payable	1,943,712	9,630,761
Income taxes payable	1,024,196	1,251,633
Accrued expenses	15,858,530	16,845,184
Provision for bonuses	5,058,440	5,366,976
Provision for directors’ bonuses	39,700	25,850
Other	29,670,350	26,221,088
Total current liabilities	54,494,625	60,057,981
Non-current liabilities		
Long-term loans payable	23,987,773	21,765,162
Lease obligations	36,165,228	39,979,288
Provision for directors’ retirement benefits	166,513	—
Net defined benefit liability	6,209,067	6,397,848
Asset retirement obligations	2,242,411	2,286,287
Other	4,603,937	5,021,699
Total non-current liabilities	73,374,932	75,450,285
Total liabilities	127,869,558	135,508,267

(Thousand yen)

	Fiscal 2015 (As of March 31, 2015)	H1 of Fiscal 2016 (As of September 30, 2015)
Net assets		
Shareholders' equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,354,214	17,354,214
Retained earnings	37,399,513	34,261,168
Treasury stock, at cost	(9,921,957)	(11,377,182)
Total shareholders' equity	56,765,561	52,171,992
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,479	21,579
Foreign currency translation adjustments	69,069	334,288
Remeasurements of defined benefit plans	(522,886)	(449,997)
Total accumulated other comprehensive income	(432,337)	(94,128)
Subscription rights to shares	—	492,710
Non-controlling interests	352,000	661,586
Total net assets	56,685,224	53,232,159
Total liabilities and net assets	184,554,782	188,740,426

(2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statements of income)

(Six months ended September 30)

(Thousand yen)

	H1 of Fiscal 2015 (from April 1, 2014 to September 30, 2014)	H1 of Fiscal 2016 (from April 1, 2015 to September 30, 2015)
Net sales	136,015,397	136,575,297
Cost of sales	108,476,723	111,774,164
Gross profit	27,538,674	24,801,132
Selling, general and administrative expenses	24,818,901	25,275,045
Operating income (loss)	2,719,773	(473,913)
Non-operating income		
Interest income	79,563	82,576
Rent income	107,868	117,264
Subsidy income	64,589	270,424
Share of profit of entities accounted for using equity method	1,594	21,063
Other	175,288	198,120
Total non-operating income	428,904	689,449
Non-operating expenses		
Interest expenses	1,322,463	1,661,370
Rent expenses	31,730	29,566
Other	17,530	225,816
Total non-operating expenses	1,371,725	1,916,754
Ordinary income (loss)	1,776,952	(1,701,217)
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	11,986	9,711
Loss on sales of property, plant and equipment, net	1,437	566
Share-based compensation expenses	—	360,903
Impairment loss	33,740	—
Other	3,537	9,391
Total extraordinary losses	50,701	380,574
Income (loss) before income taxes and minority interests	1,726,250	(2,081,792)
Income taxes—current	1,544,506	769,649
Income taxes—deferred	(431,758)	(525,811)
Total income taxes	1,112,747	243,837
Net income (loss)	613,503	(2,325,630)
Profit (loss) attributable to non-controlling interests	20,067	(28,843)
Profit (loss) attributable to owners of parent	593,435	(2,296,787)

(Quarterly consolidated statements of comprehensive income)
(Six months ended September 30)

(Thousand yen)

	H1 of Fiscal 2015 (from April 1, 2014 to September 30, 2014)	H1 of Fiscal 2016 (from April 1, 2015 to September 30, 2015)
Net income (loss)	613,503	(2,325,630)
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,100)	100
Foreign currency translation adjustments	(817)	271,105
Remeasurements of defined benefit plans, net of tax	41,403	72,889
Total other comprehensive income	35,484	344,095
Comprehensive income	648,987	(1,981,534)
Comprehensive income attributable to:		
Owners of the parent	628,920	(1,958,578)
Non-controlling interests	20,067	(22,956)

(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)

There are no applicable matters.