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

February 10, 2016

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: February 12, 2016
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 three quarters ended December 31, 2015 (April 1, 2015 – December 31, 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	%
Nine months ended December 31, 2015	205,290	0.5	(112)	—	(1,960)	—	(2,844)	—
Nine months ended December 31, 2014	204,307	(0.0)	4,795	(5.3)	3,376	(14.5)	1,336	(41.9)

(Note) Comprehensive income: Nine months ended December 31, 2015: -2,714 million yen (-%);
Nine months ended December 31, 2014: 1,431 million yen (-34.7%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Nine months ended December 31, 2015	(44.22)	—
Nine months ended December 31, 2014	19.18	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
As of December 31, 2015	191,640	51,931	26.5
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 6, (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 5 of the quarterly consolidated financial results (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

(1) Details of business results

In the first nine months of the fiscal year ending March 31, 2016, the Japanese economy remained on a modest recovery path amidst continued improvement in corporate performance and the employment situation. With low birth rates and an aging population leading to decline in the working-age population, a government-appointed panel to promote “a society where all 100 million people are active” met in November 2015 to draw up measures designed to encourage women, the elderly and foreigners to join the work force and to discuss enhancing social security, including support for childrearing and healthcare and nursing care services, with the aim of realizing further economic growth and a sustainable society.

In this business environment, the Nichii Gakkan Group promoted its medium-term management strategy that focuses on the expansion of four business areas and globalization, with a view to breaking away from institutional risks and achieving stable long-term growth. Alongside promotion of this strategy, the Group has also increased its capability to execute strategies by restructuring organizations, the business operating structure, etc. and innovating its corporate structure.

In the Medical Support and Long-term Care Segments, its two mainstay businesses, the Group worked to strengthen human resource capabilities, with a view to achieving the expansion in service supply capacity required to get back on a growth path. As a result of transformation of the “from education to job placement” business model, adopted since the Group’s foundation, into a more efficient human resources development scheme, numbers of students attending courses exceeded year-ago levels in both the Medical Support and Long-term Care Segments. At the same time, the Group worked to acquire new staff, prevent existing staff from leaving and improve the retention rate by enhancing its career path program and welfare program.

In the Education and Childcare Segments, its strategic businesses, the Group promoted enhancement of services to meet demand for practical English and expansion of child care facilities in response to the Support System for Children and Child Rearing, aiming to turn these two businesses into new engines of earnings growth comparable to its two mainstay businesses in Japan. Alongside business expansion, the Group also promoted the establishment of a sound business operating structure under which management and supervisory functions pervade the organization at every level, to strengthen compliance and management functions.

In the China business, which is central to its globalization strategy, the Group worked to construct the Nichii Group’s unique business model, focusing on developing the home-care services market and producing human resources, in response to the rapid aging of the population amid extremely low birth rates. The Group teamed up with local community service providers to promote the training of managerial-level human resources, IT systems, the governance structure, etc.in preparation for the rollout of services in mainland China. In China, customs and culture are different from those in Japan and it, therefore, takes time to construct unified operating systems linking service providers. However, the Group plans to create social value in China by training human resources and rolling out services promptly and will then translate this into expansion of earnings in China.

Looking at the operating results, overall sales increased, driven by the Medical Support Segment and the Education and Childcare Segments. Income declined, reflecting the impact of a reduction in long-term care basic rates in the revised compensation for long-term care workers in the Long-term Care Segment, and a decline in the number of users of home-care services due to time taken to hire staff.

In the first three quarters under review, the Group posted net sales of 205,290 million yen (compared with 204,307 million yen in the first three quarters of the previous fiscal year), an operating loss of 112 million yen (compared with operating income of 4,795 million yen in the first three quarters of the previous fiscal year), and an ordinary loss of 1,960 million yen (compared with ordinary income of 3,376 million yen in the first three quarters of the previous fiscal year). The Group recorded a loss attributable to owners of parent of 2,844 million yen (compared with profit attributable to owners of parent of 1,336 million yen in the first three quarters 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 three quarters of the fiscal year under review and the results in the first three quarters 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 enhance services, such as seminars for managers of medical institutions ahead of the revision of medical fees in April and home rehabilitation support for discharged patients through collaboration with the Long-term Care Segment, and also focused on sales activities. As a result, the Group 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 upfront expenses related to the start of operations at hospitals with which new contracts were concluded and higher personnel expenses associated with turning contracted staff into regular employees to create a stable human resources base.

Net sales for the segment came to 81,581 million yen for the first three quarters of the fiscal year under review (compared with 81,035 million yen posted in the same period of the previous fiscal year). Operating income for the segment was 5,743 million yen (compared with 5,988 million yen posted in the same period of the previous fiscal year).

<Long-term Care Segment>

The Group focused on strengthening its personnel supply system to achieve recovery in the number of service users. Largely due to changes in the human resources development scheme, numbers of students attending qualification courses were above year-ago levels. However, the process from course attendance to work placement takes time. While these changes will lead to the acquisition of workers in the future, in the first nine months under review the Group was unable to secure sufficient human resources and the number of users of home-care services declined, resulting in decreased sales and profits. The Group will continue working to prevent care workers from leaving through improvements to internal programs, and will also keep up efforts to acquire users with moderate to severe conditions through collaboration with the Medical Support Segment, acquire premiums related to specialist care, including dementia care, and expand short stays at specific facilities.

Net sales for the segment came to 107,692 million yen for the first three quarters of the fiscal year under review (compared with 109,441 million yen posted in the same period of the previous fiscal year). Operating income for the segment was 4,820 million yen (compared with 9,389 million yen posted in the same period of the previous fiscal year).

<Health Care Segment>

In Nichii Life housekeeping services, which are in growing demand due to greater participation of women in society and an increase in elderly households, the Group worked to acquire new customers by strengthening collaboration with the Long-term Care Segment and conducting strategic campaigns. In private brand product sales, the Group conducted aggressive sales activities targeting long-term care institutions and medical institutions and sought to expand sales channels. As a result, both Nichii Life services and private brand product sales showed double-digit sales growth. However, segment sales were down due to the downscaling of helper dispatch services. Meanwhile, profits increased due to lower SG&A expenses associated with the downscaling of helper dispatch services.

Net sales for the segment came to 2,914 million yen for the first three quarters of the fiscal year under review (compared with 3,026 million yen posted in the same period of the previous fiscal year). Operating income for the segment was 446 million yen (compared with 198 million yen posted in the same period of the previous fiscal year).

<Education Segment>

Amidst the promotion of English education reform which emphasizes conversations skills with an eye on 2020, the Group harnessed its management resources to provide services such as support services for overseas students and practical language learning opportunities and also endeavored to improve lesson quality and increase customer satisfaction by improving the skills of teachers. As a result, the number of students increased, largely thanks to COCO Juku Junior, and sales rose. On the profit front, the operating loss narrowed as a result of lower advertising expenses and lower SG&A expenses as a result of organizational changes.

Net sales for the Education Business segment totaled 9,559 million yen (compared with 9,078 million yen posted in the first three quarters of the previous fiscal year). Operating loss for the segment was 3,791 million yen (compared with a loss of 4,349 million yen posted in the first three quarters of the previous fiscal year).

<Childcare Segment>

The Group focused on sales activities for newly opened facilities, especially registered child care centers, to help increase the availability of child care in the community. The Group also promoted the development of a healthy living environment and reinforcement of the management and operating structure to reassure parents leaving their children at its child care centers. As a result, the number of children attending childcare centers increased, driven up by new centers that opened during the first quarter, and sales increased. Profits declined due to upfront costs associated the establishment of new centers.

Net sales for the Childcare Segment totaled 2,290 million yen (compared with 1,475 million yen posted in the first three quarters of the previous fiscal year). Operating loss for the segment was 687 million yen (compared with a loss of 521 million yen posted in the first three quarters of the previous fiscal year).

<Other Businesses>

The results in the Other Businesses include the operating results of pre-existing services at Chinese local community service providers. The number of consolidated service providers increased from the six companies that were consolidated by the end of the second quarter of the fiscal year under review to eight companies and one school, an increase of two schools and one school corporation (hereinafter “school”), on the statements of income, and nine companies and one school, an increase of three companies and one school, on the balance sheets.

Net sales for the Other Businesses segment amounted to 1,251 million yen (compared with 250 million yen posted in the first three quarters of the previous fiscal year). Operating loss for the segment was 41 million yen (compared with an operating income of 379 million yen posted in the first three quarters of the previous fiscal year).

(2) Details of financial position

Total assets at the end of the first three quarters under review increased 7,085 million yen from the end of the previous fiscal year, to 191,640 million yen. The main reasons for the increase were a 4,092 million yen rise in current assets, mainly reflecting an increase in cash and deposits, and a 2,993 million yen increase in fixed assets, primarily due to an increase in lease assets. Liabilities increased 11,839 million yen from the end of the previous fiscal year, to 139,709 million yen. The key factors contributing to this increase were a 9,340 million yen rise in current liabilities, mainly reflecting an increase in short-term loans payable, and a 2,499 million yen increase in non-current liabilities, primarily attributable to an increase in lease obligations.Net assets decreased 4,753 million yen from the end of the previous fiscal year, to 51,931 million yen.

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

There is no change in the consolidated financial results forecast for the year ending March 31, 2016, which was released on November 10, 2015.

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)	Q3 of Fiscal 2016 (As of December 31, 2015)
Assets		
Current assets		
Cash and deposits	9,676,856	13,971,855
Notes and accounts receivable—trade	32,967,460	32,587,713
Short-term investment securities	2,699,192	2,499,256
Merchandise and finished goods	536,475	786,080
Work in progress	36,544	57,164
Raw materials and supplies	219,948	208,165
Deferred tax assets	2,427,270	2,704,177
Other	11,157,583	10,998,581
Less: allowance for doubtful accounts	(27,572)	(27,058)
Total current assets	59,693,759	63,785,936
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	28,393,717	27,466,413
Lease assets—net	34,633,198	39,126,852
Other—net	9,955,257	9,570,847
Total property, plant and equipment	72,982,173	76,164,113
Intangible assets		
Goodwill	16,584,638	16,621,686
Other	4,182,685	4,421,225
Total intangible assets	20,767,324	21,042,911
Investment and other asset		
Other	31,507,625	31,029,784
Less: allowance for doubtful accounts	(396,100)	(382,278)
Total investments and other assets	31,111,525	30,647,505
Total fixed assets	124,861,023	127,854,531
Total assets	184,554,782	191,640,467
Liabilities		
Current liabilities		
Notes and accounts payable—trade	899,695	854,121
Short-term loans payable	1,943,712	12,615,842
Income taxes payable	1,024,196	630,231
Accrued expenses	15,858,530	19,337,535
Provision for bonuses	5,058,440	2,403,839
Provision for directors' bonuses	39,700	6,450
Other	29,670,350	27,987,059
Total current liabilities	54,494,625	63,835,078
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)	Q3 of Fiscal 2016 (As of December 31, 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	33,007,824
Treasury stock, at cost	(9,921,957)	(11,377,465)
Total shareholders' equity	56,765,561	50,918,363
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,479	23,867
Foreign currency translation adjustments	69,069	173,129
Remeasurements of defined benefit plans	(522,886)	(413,290)
Total accumulated other comprehensive income	(432,337)	(216,293)
Subscription rights to shares	—	502,221
Non-controlling interests	352,000	727,073
Total net assets	56,685,224	51,931,365
Total liabilities and net assets	184,554,782	191,640,467

(2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statements of income)

(Nine months ended December 31)

(Thousand yen)

	Fiscal 2015 (from April 1, 2014 to December 31, 2014)	Fiscal 2016 (from April 1, 2015 to December 31, 2015)
Net sales	204,307,538	205,290,504
Cost of sales	163,157,149	168,182,281
Gross profit	41,150,389	37,108,223
Selling, general and administrative expenses	36,355,014	37,221,215
Operating income (loss)	4,795,374	(112,992)
Non-operating income		
Interest income	118,425	125,932
Rent income	166,121	173,601
Subsidy income	71,272	273,059
Share of profit of entities accounted for using equity method	9,431	38,443
Other	317,727	281,649
Total non-operating income	682,979	892,686
Non-operating expenses		
Interest expenses	2,019,133	2,544,189
Rent expenses	47,595	44,299
Other	35,117	151,769
Total non-operating expenses	2,101,846	2,740,259
Ordinary income (loss)	3,376,508	(1,960,565)
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	16,432	19,502
Loss on sales of property, plant and equipment, net	2,134	558
Share-based compensation expenses	—	360,903
Impairment loss	33,740	33,171
Other	5,522	9,724
Total extraordinary losses	57,828	423,860
Income (loss) before income taxes and minority interests	3,318,679	(2,384,426)
Income taxes—current	1,108,440	959,040
Income taxes—deferred	847,901	(419,247)
Total income taxes	1,956,341	539,793
Net income (loss)	1,362,338	(2,924,219)
Profit (loss) attributable to non-controlling interests	25,419	(80,206)
Profit (loss) attributable to owners of parent	1,336,918	(2,844,012)

(Quarterly consolidated statements of comprehensive income)
(Nine months ended December 31)

(Thousand yen)

	Fiscal 2015 (from April 1, 2014 to December 31, 2014)	Fiscal 2016 (from April 1, 2015 to December 31, 2015)
Net income (loss)	1,362,338	(2,924,219)
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,553)	2,388
Foreign currency translation adjustments	11,152	97,639
Remeasurements of defined benefit plans, net of tax	62,104	109,596
Total other comprehensive income	68,703	209,624
Comprehensive income	1,431,041	(2,714,595)
Comprehensive income attributable to:		
Owners of the parent	1,405,622	(2,627,968)
Non-controlling interests	25,419	(86,626)

(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.