Financial Results for the First Quarter of the Year Ending March 31, 2017 (J-GAAP)

August 10, 2016

Name of listed company: NICHIIGAKKAN CO., LTD. Listed on: Tokyo Stock Exchange 1st Section
Securities code: 9792 URL: http://www.nichiigakkan.co.jp
Representative: Akihiko Terada, Chairman, President and CEO
Contact: Tsuyoshi Terada, Managing Director and Executive Division Director Corporate Governance Headquarters

TEL: 03-3291-2121

Scheduled date for filing the quarterly financial report: August 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 quarter ended June 30, 2016 (April 1, 2016– June 30, 2016)

(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, 2016	68,414	0.8	(215)	—	(1,250)	—	(1,313)	—
Three months ended June 30, 2015	67,878	0.2	(614)	—	(1,028)	—	(1,165)	—

(Note) Comprehensive income: Three months ended June 30, 2016: minus 1,232 million yen (-%);
Three months ended June 30, 2015: minus 976 million yen (-%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Three months ended June 30, 2016	(20.46)	—
Three months ended June 30, 2015	(18.05)	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
As of June 30, 2016	186,315	36,606	18.9
As of March 31, 2016	184,170	38,101	20.0

Reference: Shareholders' equity: As of June 30, 2016: 35,282 million yen; As of March 31, 2016: 36,868million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	—	11.00	—	11.00	22.00
Year ending March 31, 2017	—				
Year ending March 31, 2017 (forecast)		11.00	—	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, 2017(April 1, 2016– March 31, 2017)

(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	144,000	5.4	600	—	(1,100)	—	(1,500)	—	(23.37)
Full year	294,700	7.7	4,800	—	1,300	—	500	—	7.79

(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.: 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

(4) Number of shares outstanding (common stock)

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

As of June 30, 2016:	73,017,952	As of March 31, 2016:	73,017,952

2) Number of treasury stock

As of June 30, 2016:	8,825,706	As of March 31, 2016:	8,825,918

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

As of June 30, 2016:	64,192,077	As of June 30, 2015:	64,561,809

*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 4 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

During the first three months ended June 30, 2016, the Japanese economy remained on a moderate recovery track, with the employment environment improving as a result of the policies adopted by the government and the Bank of Japan. Nonetheless, the outlook for the economy remained uncertain, chiefly reflecting unstable exchange rates and stock prices and the decision to postpone the consumption tax hike again due to weak consumer spending. In the field of social security, there was concern over the effect of postponing the consumption tax hike on finances. Meanwhile, the National Council for Promoting the Dynamic Engagement of All Citizens discussed improving the working conditions of long-term care workers and childcare support measures.

In this environment, the Nichii Gakkan Group promoted its medium-term management strategy to pursue its Triangle Vision—which consists of sociability, economic performance, and growth—through development in the core businesses, strategic businesses, and globalization businesses so that the Group can build a stable business base that is not affected by institutional trends. Meanwhile, the Group changed its management execution structure. The Group has expanded its executive officer system and has assigned executive officers to each business and each region to build a strong management system that will expedite management decision making and strengthen the Group's business execution function.

Under the new management execution structure, the Group gained new students who attended the qualification courses in the Medical Support, Long-Term Care, and Child Care Segments, which are the core businesses, by promoting cooperation among different businesses and by focusing on securing employees, the source of services, and promoting initiatives using the Group's employee enhancement scheme. To retain staff members, the Group strengthened its employee base by enhancing its carrier-building system and improving working conditions.

In the Education and Health Care Segments, strategic businesses, the Group enhanced its services and products to increase the number of customers, while working to add to its customer base.

In the China business, the core globalization business, the Group worked together with local community service providers to continue developing the Nichii Operation System in China, which integrates the entire process from the cultivation of employees to the provision of services. To strengthen its operation management structure and ability to promote business in China, the Group cultivated local staff members who have a good command of Japanese as senior staff members and assigned them to operating companies. The Group will work to launch the Nichii Operation System early on to create a long-term care market across China.

The Group positions the fiscal year ending March 31, 2017 as a transition period towards long-term stable growth, and for this reason it has made future-oriented investments. Meanwhile, the Company worked to recoup investments that had been made. Net sales and operating income rose (the operating loss was reduced), reflecting the strong performance of the Education Segment, Child Care Segment, and China Business Segment, in which the Group made strategic investments. Ordinary income and profit attributable to owners of parent declined, primarily because of interest paid for real estate leases of long-term care facilities and child care facilities and exchange rates. The Group will work to accelerate the recovery in earnings by continuing to recruit employees for the core businesses, while at the same time strive to promote the strategic and globalization businesses and cut costs, in particular selling, general and administrative expenses.

In the first quarter under review, the Group posted net sales of 68,414 million yen (67,878 million yen in the first quarter of the previous fiscal year), an operating loss of 215 million yen (an operating loss of 614 million yen), an ordinary loss of 1,250 million yen (an ordinary loss of 1,028 million yen), and a loss attributable to owners of parent of 1,313 million yen (a loss attributable to owners of parent of 1,165 million yen).

Results by business segment are as follows:

From the first quarter under review, the China business—the results of which were originally recorded in the Medical Support Segment, Long-term Care Segment, Healthcare Segment, Child Care Segment, and Other—is presented separately as the China Business Segment. Child care courses (babysitting courses, etc.), which previously were included in the Education System, are now included in the Child Care Segment.

To compare the results in the first quarter under review and the results in the first quarter 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>

To provide diverse management support services to medical institutions as well as commissioned medical services, the Group developed medical interaction services, data analysis services, and consulting services, making the most of the Group's organizational capabilities. To acquire and retain staff members, the Group promoted attendance in qualification courses by group participants and reinforced training. Net sales in this segment fell as a result of the decline in sales from medical education due to the half-price discount for course fees, but the number of attending students and the number of students that completed courses continued to rise. Profits declined due to upfront expenses related to the start of operations at hospitals with which new contracts were concluded and the effect of the improvements in staff member treatment.

Net sales for the segment came to 27,008 million yen for the first quarter under review (compared with 27,106 million yen posted in the same period of the previous fiscal year). Operating income for the segment was 1,672 million yen (1,900 million yen in the same period of the previous fiscal year).

<Long-term Care Segment>

To recover the number of users of home care services, the Group strengthened its human resources base. The Group took steps to acquire attending students by reforming the scheme for expanding employees that was implemented in the previous fiscal year, and took steps to promote applications. While the Group worked to acquire attending students, it sought to help students who completed courses start working. Meanwhile, the Group strengthened marketing activities targeting medical institutions to acquire users with moderate to severe conditions. In the facility care services, the Group conducted aggressive marketing activities to promote residence in and the short-term use of facilities and to increase occupancy rates. The number of users of home care services declined from a year ago, and revenue decreased. However, there were some positive signs, such as the increase in the number of users related to long-term care benefits that continued for four consecutive months. Profits rose, reflecting an increase in the number of residents at care facilities.

Net sales for the segment came to 35,668 million yen for the first quarter under review (compared with 35,673 million yen in the same period of the previous fiscal year). Operating income for the segment was 2,037 million yen (1,608 million yen in the same period of the previous fiscal year).

<Health Care Segment>

In Nichii Life housekeeping services and private brand product sales, the Group enhanced its system for providing services and product line-up to gain new customers and expand the customer base in response to growing demand due to greater participation of women in society and the increase in the elderly population. Segment sales were down due to the discontinuation of the food service business and the downscaling of helper dispatch services. Profits rose, reflecting strong performance in terms of the number of users of Nichii Life and sales quantities of private brand products.

Sales in this segment came to 850 million yen in the first quarter under review (compared with 913 million yen in the first quarter of the previous fiscal year), and operating income was 97 million yen (compared with 33 million yen in the first quarter of the previous fiscal year).

<Education Segment>

The Group expanded channels to gain students. In April, the Group started online lessons using its network to provide new language learning opportunities for cultivating employees who are able to work outside Japan. COCO Juku strove to improve the contract renewal rate by enhancing the capabilities of its instructors and counselors, and introduced a COCO Juku customer satisfaction assurance system to gain new students by guaranteeing the quality of services. As a result, sales increased, reflecting an increase in the number of students with the contract renewal rate and the number of new students being at high levels primarily in COCO Juku courses for adults. Profits rose (the operating loss fell) due to the increase in sales and a reduction in advertising expenses.

Net sales for the Education Segment totaled 3,213 million yen (compared with 3,116 million yen in the first quarter of the previous fiscal year). Operating loss for the segment was 1,110 million yen (compared with an operating loss of 1,606 million yen in the first quarter of the previous fiscal year).

<Childcare Segment>

Responding to demand for child care facilities in communities, the Group pushed ahead with the opening of new child care centers, in particular registered child care centers. In April 2016, the Group established 35 registered child care centers, and the number of child care facilities operated by the Nichii Gakkan Group as of the end of June came to 114. In addition to the opening of new facilities, the Group strove to start operation early on and strengthen its service management systems. As a result, the number of children attending child care centers increased, and overall the new facilities made a good start.

Net sales for the Child Care Segment totaled 1,153 million yen (compared with 712 million yen in the first quarter of the previous fiscal year). The operating loss for the segment was 262 million yen (compared with a loss of 261 million yen in the first quarter of the previous fiscal year).

<China Business Segment>

The Group developed bases for services in cooperation with local community service providers. Specifically, it developed a business model, established bases of business, and enhanced its ability to cultivate employees. In certain areas, long-term care services started in April in the second quarter of the current consolidated fiscal year. Sales in this segment increased, chiefly reflecting an increase in the number of consolidated subsidiaries. Profits declined largely because of upfront investment associated with system development and the start of operation, as well as an increase in personnel costs associated with the enhancement of management systems.

Net sales for this segment amounted to 482 million yen (compared with 318 million yen in the first quarter of the previous fiscal year). Operating loss for the segment was 365 million yen (compared with a loss of 116 million yen in the first quarter of the previous fiscal year).

<Other Businesses>

In Other Businesses, the Group worked to increase earnings at subsidiaries to strengthen its capabilities.

Net sales for this segment stood at 38 million yen (compared with 37 million yen in the first quarter of the previous fiscal year). Operating income was 96 million yen (compared with 74 million yen in the first quarter of the previous fiscal year).

(2) Details of financial position

Total assets at the end of the first quarter under review increased 2,144 million yen from the end of the previous fiscal year, rising to 186,315 million yen. The main reasons for the increase were a 3,142 million yen rise in fixed assets, mainly reflecting an increase in lease assets, and a 998 million yen decrease in current assets primarily due to the decline in short-term investment securities.

Liabilities increased 3,640 million yen from the end of the previous fiscal year, rising to 149,708 million yen. The key factors contributing to this increase were a 1,221 million yen rise in current liabilities, mainly reflecting an increase in short-term loans payable, and a 2,418 million yen increase in non-current liabilities, primarily attributable to an increase in lease obligations.

Net assets decreased 1,495 million yen from the end of the previous fiscal year, to 36,606 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, 2017 that was announced on May 13, 2016 remains unchanged.

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, changes of accounting estimates and restatement

There are no applicable matters.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Thousand yen)

	Fiscal 2016 (As of March 31, 2016)	Q1 of Fiscal 2017 (As of June 30, 2016)
Assets		
Current assets		
Cash and deposits	13,530,688	14,161,115
Notes and accounts receivable—trade	32,803,595	32,448,245
Short-term investment securities	3,020,964	999,411
Merchandise and finished goods	1,037,203	1,139,974
Work in progress	13,335	30,493
Raw materials and supplies	205,143	274,753
Deferred tax assets	1,477,876	1,287,907
Other	11,178,378	11,870,371
Less: allowance for doubtful accounts	(85,387)	(28,499)
Total current assets	63,181,798	62,183,773
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	24,000,568	23,975,369
Lease assets—net	39,307,921	42,482,159
Other—net	9,949,984	9,417,687
Total property, plant and equipment	73,258,475	75,875,216
Intangible assets		
Goodwill	15,776,886	15,602,617
Other	5,246,065	5,344,452
Total intangible assets	21,022,951	20,947,069
Investment and other asset		
Other	27,582,499	27,679,013
Allowance for investment loss	(140,000)	−
Less: allowance for doubtful accounts	(735,588)	(369,964)
Total investments and other assets	26,706,911	27,309,049
Total fixed assets	120,988,337	124,131,335
Total assets	184,170,136	186,315,108
Liabilities		
Current liabilities		
Notes and accounts payable—trade	884,520	752,188
Short-term loans payable	20,307,461	23,180,413
Income taxes payable	1,199,674	676,170
Accrued expenses	16,300,768	17,088,722
Provision for bonuses	4,892,578	2,642,709
Provision for directors' bonuses	38,000	23,450
Other	24,548,610	25,029,622
Total current liabilities	68,171,614	69,393,276
Non-current liabilities		
Long-term loans payable	19,548,389	18,450,725
Lease obligations	43,399,237	46,947,032
Net defined benefit liability	7,015,433	7,113,052
Asset retirement obligations	2,308,169	2,318,704
Other	5,625,412	5,485,683
Total non-current liabilities	77,896,643	80,315,198
Total liabilities	146,068,258	149,708,474

(Thousand yen)

	Fiscal 2016 (As of March 31, 2016)	Q1 of Fiscal 2017 (As of June 30, 2016)
Net assets		
Shareholders’ equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,354,214	17,354,214
Retained earnings	19,635,508	17,924,089
Treasury stock, at cost	(11,377,668)	(11,377,345)
Total shareholders’ equity	37,545,845	35,834,749
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,815	9,789
Foreign currency translation adjustments	333,133	407,601
Remeasurements of defined benefit plans	(1,022,986)	(969,158)
Total accumulated other comprehensive income	(677,038)	(551,767)
Subscription rights to shares	511,733	512,810
Non-controlling interests	721,337	810,841
Total net assets	38,101,877	36,606,634
Total liabilities and net assets	184,170,136	186,315,108

2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statements of income)

(Three months ended June 30)

(Thousand yen)

	Q1 of Fiscal 2016 (from April 1, 2015 to June 30, 2015)	Q1 of Fiscal 2017 (from April 1, 2016 to June 30, 2016)
Net sales	67,878,088	68,414,741
Cost of sales	55,634,208	56,036,130
Gross profit	12,243,879	12,378,611
Selling, general and administrative expenses	12,858,014	12,593,834
Operating income (loss)	(614,134)	(215,223)
Non-operating income		
Interest income	39,526	33,582
Rent income	55,811	48,195
Subsidy income	259,952	124,327
Other	117,605	153,011
Total non-operating income	472,895	359,118
Non-operating expenses		
Interest expenses	799,790	973,192
Rent expenses	14,834	9,186
Foreign exchange losses	–	349,498
Share of loss of entities accounted for using equity method	7,457	2,989
Other	65,272	59,843
Total non-operating expenses	887,355	1,394,710
Ordinary income (loss)	(1,028,594)	(1,250,815)
Extraordinary income		
Gain on reversal of subscription rights to shares	–	8,158
Total extraordinary income	–	8,158
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	7,234	1,089
Loss on sales of property, plant and equipment, net	568	–
Loss on cancellation of leases	8,390	206
Total extraordinary losses	16,194	1,295
Income (loss) before income taxes	(1,044,788)	(1,243,951)
Income taxes—current	269,819	251,769
Income taxes—deferred	(154,515)	(158,404)
Total income taxes	115,303	93,364
Net income (loss)	(1,160,091)	(1,337,316)
Profit (loss) attributable to non-controlling interests	5,438	(23,975)
Profit (loss) attributable to owners of parent	(1,165,529)	(1,313,341)

(Quarterly consolidated statements of comprehensive income)
(Three months ended June 30)

(Thousand yen)

	Q1 of Fiscal 2016 (from April 1, 2015 to June 30, 2015)	Q1 of Fiscal 2017 (from April 1, 2016 to June 30, 2016)
Net income (loss)	(1,160,091)	(1,337,316)
Other comprehensive income		
Valuation difference on available-for-sale securities	7,015	(3,025)
Foreign currency translation adjustments	140,668	54,152
Remeasurements of defined benefit plans, net of tax	36,182	53,828
Total other comprehensive income	183,866	104,955
Comprehensive income	(976,225)	(1,232,361)
Comprehensive income attributable to:		
Owners of parent	(981,629)	(1,188,070)
Non-controlling interests	5,404	(44,290)

(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.