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

February 8, 2017

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
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Scheduled date for filing the quarterly financial report: February 8, 2017
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.)

Consolidated financial results for the first three quarters ended December 31, 2016 (April 1, 2016 – December 31, 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	%
Nine months ended December 31, 2016	207,294	1.0	2,097	—	108	—	(122)	—
Nine months ended December 31, 2015	205,290	0.5	(112)	—	(1,960)	—	(2,844)	—

(Note) Comprehensive income: Nine months ended December 31, 2016: -1,240 million yen
Nine months ended December 31, 2015: -2,714 million yen

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Nine months ended December 31, 2016	(1.92)	—
Nine months ended December 31, 2015	(44.22)	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
As of December 31, 2016	186,702	35,954	18.6
As of March 31, 2016	184,170	38,101	20.0

Reference: Shareholders' equity As of December 31, 2016: 34,722 million yen; As of March 31, 2016: 36,868 million 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	—	11.00			
Year ending March 31, 2017 (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, 2017 (April 1, 2016 – March 31, 2017)

(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	282,000	3.1	4,800	—	1,300	—	500	—	7.79

(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.: 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 December 31, 2016:	73,017,952	As of March 31, 2016:	73,017,952

2) Number of treasury stock

As of December 31, 2016:	8,825,594	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 December 31, 2016:	64,192,428	As of September 30, 2015:	64,314,777

* 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)
(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.

Table of Contents for the Attached Document

1. Qualitative information on quarterly financial results

(1) Details of business results

During the first nine months of the fiscal year ending March 31, 2017, NICHIIGAKKAN CO., LTD. and its consolidated subsidiaries (the "Nichii Gakkan Group") advanced structural reforms for improving earning power and income Group-wide, with the achievement of the targets set in the medium-term business plan for the period through 2020 as the goal. In executing strategies prioritizing income across the board, the Group worked hard to establish organizational foundations to enable its members to improve their social and economic value through investments for growth and the display of their core competence, and to achieve stable income expansion over the long term, bearing in mind the future of and realizability for all stakeholders comprising its organization.

Looking at business results, consolidated sales increased, driven by the Long-term Care Segment, where users of residential care services centered on fee-charging old people's homes grew steadily, and the Child Care Segment, where sales rose sharply year on year, reflecting an increase in the number of newly-opened facilities. Looking at income, operating and ordinary figures moved back into the black, supported by the Long-term Care Segment where the efficiency of business base management improved through service-to-service cooperation.

In the first three quarters under review, the Group posted net sales of 207,294 million yen (compared with net sales of 205,290 million yen in the first three quarters of the previous fiscal year), operating income of 2,097 million yen (compared with an operating loss of 112 million yen in the first three quarters of the previous fiscal year), an ordinary income of 108 million yen (compared with an ordinary loss of 1,960 million yen in the first three quarters of the previous fiscal year) and a net loss attributable to owners of parent of 122 million yen (compared with a net loss attributable to owners of parent of 2,844 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, 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 three quarters 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>

As a partner that solves management issues with medical institutions, such as management efficiency enhancement and improvement in the level of patient satisfaction, the Group promoted total support based on distinguished personnel, management knowhow and an extensive lineup of services, and focused on producing appropriate income that could be a fund source for improving treatment for staff members through the acquisition of appropriate evaluations from the institutions. In addition, the Group worked to expand sales by strengthening the comprehensive proposal-based sales of management support services, such as data analysis and medical personnel exchanges, and by stepping up the sales of supplementary materials for students in courses for medical office work.

The Group focused on approaches to medical institutions aimed at bringing income to appropriate levels in the situation of rising personnel expenses caused by factors including treatment improvement. However, both sales and income fell because these approaches are still in progress.

Net sales for the segment came to 81,128 million yen for the first three quarters under review (compared with 81,578 million yen posted in the same period of the previous fiscal year). Operating income for the segment was 5,579 million yen (5,804 million yen in the same period of the previous fiscal year).

<Long-term Care Segment>

In the Long-term Care Segment, the number of home care service users continued to decrease against the background of a shift in preventive care services for the elderly to comprehensive businesses. However, the Group attempted to improve the efficiency of business administration through steps including productivity enhancement by bolstering service responses to moderately and seriously handicapped users, stepping up service-to-service cooperation and making shifts reasonable. In residential care services, the Group maintained a high operating ratio at facilities, including newly established ones. The growth potential and earning power of residential care service facilities centered on fee-charging old people's homes continued to improve.

The Group worked to bring residential care services back on track for growth and strengthen the foundations for home care services. As a result, both sales and income for the segment increased compared with the same period of the previous fiscal year.

In addition, the Group stepped up promotional activities through a special campaign for training programs aimed at new care workers (for acquiring participants and promoting employment), and expanded systems for improving skills and measures for enhancing treatment.

Net sales for the segment came to 108,337 million yen for the first three quarters of the fiscal year under review (compared with 107,692 million yen posted in the same period of the previous fiscal year). Operating income for the segment was 7,763 million yen (compared with 4,902 million yen posted in the same period of the previous fiscal year).

<Health Care Segment>

In Nichii Life housekeeping services, the Group worked to expand the lineup, aggressively implement campaigns and promote a conversion from spot contracts to contracts for long-term use in response to growth in demand caused by factors including the greater participation of women in society and an increase in elderly households. With these actions, the Group sought to improve the level of customer satisfaction and acquire service users. The Group also focused on expanding the lineup of private brand products, such as disposable diapers for adults and water-absorbing care items, to give customers choices based on their lifestyle changes, and focused on bolstering the types of sales that make the most of its nationwide network of branches and operating bases.

Sales for the segment fell with the discontinuation of food services and the downsizing of helper dispatch services. However, income for the segment rose, reflecting steady growth in the numbers of Nichii Life housekeeping service users and private brand products sold.

In an additional step, the Group proceeded with a range of application procedures for operations for accepting foreign housework supporters, on whom a ban was lifted in national strategy special zones. The Group received permission for the operations in Kanagawa Prefecture and Osaka City. (An application made by the Group is currently being processed by the Tokyo Metropolitan Government). The Group will advance preparations for accepting foreigners to launch the operations at an early stage with the aim of promoting the dynamic engagement of women and meeting the expanding demand for housework support.

Sales in this segment came to 2,824 million yen for the first three quarters under review (compared with 2,912 million yen in the same period of the previous fiscal year). Operating income was 523 million yen (compared with 457 million yen in the same period of the previous fiscal year).

<Education Segment>

In the administration of COCO Juku language schools (for adults) and COCO Juku Junior language schools (for children) whose strength lies in the acquisition of conversation skills, the Group sought to provide effective courses and classrooms, encourage lesson attendance, and raise the working ratio of lecturers by integrating online and school lessons, offering accessible lessons that emphasize conversation and appointing Filipino instructors to give lectures on English and cultures of the world through events.

The ratio of growth for schools for children remained low on a full-year basis under the effects of low growth in active months. However, the number of students at schools for adults grew steadily on a full-year basis, supported by the effects of various campaigns.

The number of students decreased at one-on-one English conversation schools operated by GABA Corporation under the impact of lower business confidence, resulting in a sales decline for those schools. However, income rose (operating loss shrank) due to advertisements for COCO Juku and COCO Juku Junior language schools that emphasized cost-effectiveness and aggressive promotional events that took advantage of having schools throughout Japan.

Net sales for the Education Segment totaled 9,415 million yen (compared with 9,519 million yen posted in the same period of the previous fiscal year). Operating loss for the segment was 3,571 million yen (compared with an operating loss of 3,803 million yen posted in the same period of the previous fiscal year).

<Child Care Segment>

In the Child Care Segment, the Group aggressively expanded its business bases centered on registered child care centers in a bid to reduce the number of children on the waiting lists for admission to kindergartens in communities. The number of child care facilities in operation reached 120 as of December 31, 2016. The Group concentrated on sales and public relations activities, including initiatives for hosting exchange events for community members, with the aim of making those facilities community-based.

In an additional step, the Group advanced facility and personnel preparations for establishing child care facilities that make the most of the company-led child care business advanced by the Cabinet Office, which represents a new initiative for Group and other employees and members of local communities.

Sales rose with a steady increase in the operating ratio of facilities, including newly established ones, and increased sales of products, including initial fixtures at newly established facilities. In the meantime, income decreased under the effects of prior investment made for establishing child care facilities aggressively. Nevertheless, income improvement advanced on a quarterly basis.

Net sales for the Child Care Segment totaled 4,064 million yen (compared with 2,330 million yen in the first three quarters of the previous fiscal year). The operating loss for the segment was 643 million yen (compared with a loss of 631 million yen in the first three quarters of the previous fiscal year).

<China Business Segment>

The Group’s organization for providing services in China expanded to 17 companies and six school corporations in 17 cities with the addition of one regional operating company and one school corporation to its scope of consolidation in the first three quarters under review. Each of these local subsidiaries focused on building schemes for personnel training and service provision cultivated in Japan in concert with the headquarters in Japan, aiming to spread and popularize Japanese-style long-term care (self-reliance support), industrialize long-term care services, and establish the social status of long-term care workers in China.

Sales rose with the increased numbers of consolidated subsidiaries and school corporations. However, income fell, reflecting increased expenses attributable to prior investment associated with system development and the strengthening of management organization.

Net sales for this segment amounted to 1,397 million yen (compared with 1,152 million yen in the first three quarters of the previous fiscal year). Operating loss for the segment was 1,089 million yen (compared with a loss of 769 million yen in the first three quarters of the previous fiscal year).

<Other Businesses>

In Other Businesses, the Nichii Gakkan Group made efforts to improve revenues by promoting autonomous management at respective Group companies in Japan and abroad to strengthen organizational and management capabilities Group-wide.

Net sales for this segment stood at 127 million yen (compared with 104 million yen in the first three quarters of the previous fiscal year). Operating income was 195 million yen (compared with 195 million yen in the first three quarters of the previous fiscal year).

(2) Details of financial position

Total assets at the end of the third quarters under review increased 2,532 million yen from the end of the previous fiscal year, rising to 186,702 million yen. The main reasons for the increase were a 4,241 million yen rise in fixed assets, mainly reflecting an increase in lease assets, and a 1,709 million yen decrease in current assets primarily due to the decline in short-term investment securities.

Liabilities increased 4,679 million yen from the end of the previous fiscal year, rising to 150,748 million yen. The key factors contributing to this increase were a 265 million yen rise in current liabilities, mainly reflecting an increase in accrued expenses, and a 4,414 million yen increase in non-current liabilities, primarily attributable to an increase in lease obligations.

Net assets decreased 2,147 million yen from the end of the previous fiscal year, to 35,954 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, 2017, which was released on November 9, 2016.

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)	Q3 of Fiscal 2017 (As of December 31, 2016)
Assets		
Current assets		
Cash and deposits	13,530,688	13,168,876
Notes and accounts receivable—trade	32,803,595	32,958,286
Short-term investment securities	3,020,964	1,001,363
Merchandise and finished goods	1,037,203	1,077,202
Work in progress	13,335	42,111
Raw materials and supplies	205,143	264,449
Deferred tax assets	1,477,876	1,560,500
Other	11,178,378	11,431,212
Less: allowance for doubtful accounts	(85,387)	(32,127)
Total current assets	63,181,798	61,471,877
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	24,000,568	23,461,230
Lease assets—net	39,307,921	45,649,248
Other—net	9,949,984	9,501,869
Total property, plant and equipment	73,258,475	78,612,348
Intangible assets		
Goodwill	15,776,886	14,631,834
Other	5,246,065	5,315,698
Total intangible assets	21,022,951	19,947,532
Investment and other asset		
Other	27,582,499	27,029,132
Allowance for investment loss	(140,000)	-
Less: allowance for doubtful accounts	(735,588)	(358,681)
Total investments and other assets	26,706,911	26,670,450
Total fixed assets	120,988,337	125,230,332
Total assets	184,170,136	186,702,209
Liabilities		
Current liabilities		
Notes and accounts payable—trade	884,520	807,427
Short-term loans payable	20,307,461	18,980,405
Income taxes payable	1,199,674	971,282
Accrued expenses	16,300,768	18,956,241
Provision for bonuses	4,892,578	2,466,192
Provision for directors’ bonuses	38,000	9,300
Other	24,548,610	26,246,077
Total current liabilities	68,171,614	68,436,927
Non-current liabilities		
Long-term loans payable	19,548,389	16,263,839
Lease obligations	43,399,237	50,564,104
Net defined benefit liability	7,015,433	7,325,933
Asset retirement obligations	2,308,169	2,378,828
Other	5,625,412	5,778,428
Total non-current liabilities	77,896,643	82,311,134
Total liabilities	146,068,258	150,748,061

(Thousand yen)

	Fiscal 2016 (As of March 31, 2016)	Q3 of Fiscal 2017 (As of December 31, 2016)
Net assets		
Shareholders' equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,354,214	17,312,190
Retained earnings	19,635,508	18,455,588
Treasury stock, at cost	(11,377,668)	(11,376,876)
Total shareholders' equity	37,545,845	36,324,693
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,815	22,214
Foreign currency translation adjustments	333,133	(762,578)
Remeasurements of defined benefit plans	(1,022,986)	(861,502)
Total accumulated other comprehensive income	(677,038)	(1,601,866)
Subscription rights to shares	511,733	525,251
Non-controlling interests	721,337	706,069
Total net assets	38,101,877	35,954,147
Total liabilities and net assets	184,170,136	186,702,209

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income

Nine months ended December 31

(Thousand yen)

	Fiscal 2016 (from April 1, 2015 to December 31, 2015)	Fiscal 2017 (from April 1, 2016 to December 31, 2016)
Net sales	205,290,504	207,294,225
Cost of sales	168,182,281	168,755,393
Gross profit	37,108,223	38,538,832
Selling, general and administrative expenses	37,221,215	36,441,499
Operating income (loss)	(112,992)	2,097,332
Non-operating income		
Interest income	125,932	109,818
Rent income	173,601	142,901
Subsidy income	273,059	156,345
Foreign exchange gains	-	348,784
Share of profit of entities accounted for using equity method	38,443	41,676
Other	281,649	381,032
Total non-operating income	892,686	1,180,559
Non-operating expenses		
Interest expenses	2,544,189	3,021,545
Rent expenses	44,299	27,559
Other	151,769	120,473
Total non-operating expenses	2,740,259	3,169,578
Ordinary income (loss)	(1,960,565)	108,313
Extraordinary income		
Gain on reversal of subscription rights to shares	-	8,158
Other	-	783
Total extraordinary income	-	8,942
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	19,502	2,661
Loss on sales of property, plant and equipment, net	558	-
Share-based compensation expenses	360,903	-
Impairment loss	33,171	24,464
Other	9,724	2,082
Total extraordinary losses	423,860	29,208
Income (loss) before income taxes	(2,384,426)	88,046
Income taxes—current	959,040	756,885
Income taxes—deferred	(419,247)	(426,329)
Total income taxes	539,793	330,555
Net income (loss)	(2,924,219)	(242,508)
Profit (loss) attributable to non-controlling interests	(80,206)	(119,510)
Profit (loss) attributable to owners of parent	(2,844,012)	(122,998)

Quarterly consolidated statements of comprehensive income

Nine months ended December 31

(Thousand yen)

	Fiscal 2016 (from April 1, 2015 to December 31, 2015)	Fiscal 2017 (from April 1, 2016 to December 31, 2016)
Net income (loss)	(2,924,219)	(242,508)
Other comprehensive income		
Valuation difference on available-for-sale securities	2,388	9,398
Foreign currency translation adjustments	97,639	(1,168,871)
Remeasurements of defined benefit plans, net of tax	109,596	161,484
Total other comprehensive income	209,624	(997,988)
Comprehensive income	(2,714,595)	(1,240,496)
Comprehensive income attributable to:		
Owners of parent	(2,627,968)	(1,047,826)
Non-controlling interests	(86,626)	(192,670)

(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.