

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending March 31, 2019
(Nine Months Ended December 31, 2018)

[Japanese GAAP]

Company name: SEIGAKUSHA CO.,LTD.

Listing: Tokyo Stock Exchange (JASDAQ)

Stock code: 2179

URL: <https://www.kaisei-group.co.jp/>

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Scheduled date of filing of Quarterly Report:

February 14, 2019

Scheduled date of payment of dividend:

-

Preparation of supplementary materials for quarterly financial results:

None

Holding of quarterly financial results meeting:

None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2018

(April 1, 2018 – December 31, 2018)

(1) Consolidated operating results

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Dec. 31, 2018	9,083	6.0	608	82.1	907	41.7	566	48.9
Nine months ended Dec. 31, 2017	8,565	3.0	334	(32.5)	640	21.3	380	6.3

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2018: 563 (up 46.3%)

Nine months ended Dec. 31, 2017: 385 (up 6.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2018	102.59	-
Nine months ended Dec. 31, 2017	68.88	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2018	9,452	2,839	30.0
As of Mar. 31, 2018	7,988	2,334	29.2

Reference: Shareholders' equity (million yen) As of Dec. 31, 2018: 2,839 As of Mar. 31, 2018: 2,334

Note: Starting with the beginning of the first quarter of the current fiscal year, SEIGAKUSHA is applying "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018). Prior-year figures have been adjusted retroactively to conform with this accounting standard.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY3/18	-	5.20	-	5.20	10.40
FY3/19	-	5.35	-	-	-
FY3/19 (forecasts)	-	-	-	5.35	10.70

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	11,959	6.4	282	-	577	82.1	311	205.3	56.46

Note: Revisions to the most recently announced consolidated forecast: Yes

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

Newly added: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of issued shares (common stock)

1) Number of shares issued at the end of period (including treasury shares)

As of Dec. 31, 2018:	5,876,000 shares	As of Mar. 31, 2018:	5,876,000 shares
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2) Number of treasury shares at the end of period

As of Dec. 31, 2018:	350,260 shares	As of Mar. 31, 2018:	350,260 shares
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3) Average number of shares during the period

Nine months ended Dec. 31, 2018:	5,525,740 shares	Nine months ended Dec. 31, 2017:	5,525,740 shares
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* The current quarterly summary report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in this report are based on assumptions judged to be valid and information available to the SEIGAKUSHA's management at the time the materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 3 for forecast assumptions and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

The SEIGAKUSHA Group meets a broad array of education and child care needs as an education organization centered on education and child care services extending from pre-school children to adults. The Group operates the FreeStep Individual Tutoring Institute and Kaisei Education Seminar entrance exam preparation schools, Kaisei Nursery School certified nursery schools, and Kaisei Academy Japanese Language School for foreign students in Japan.

Consolidated net sales in the first nine months were 9,083 million yen, 6.0% higher than in the same period of the previous fiscal year, operating profit increased 82.1% to 608 million yen, ordinary profit increased 41.7% to 907 million yen and profit attributable to owners of parent increased 48.9% to 566 million yen.

Business segment performance was as follows.

1) Education Services

In November, which is normally when the number of students is the highest, there were 26,191 students at facilities operated directly by the SEIGAKUSHA Group. This was 1.8% higher than in November 2017. Individual tutoring students increased 3.4% to 17,530, classroom tutoring students decreased 2.9% to 8,042, nursery school students increased 61.9% to 489, and students in other education services increased 68.8% to 130 (this comparison excludes a brand that was terminated at the end of the previous fiscal year). In the individual tutoring category, we continued to use marketing activities for FreeStep to emphasize its skill in the university entrance examination sector and to raise students' examination scores. This is the primary strength of the FreeStep brand. Furthermore, almost all FreeStep schools now have satellite links to the classes of the Yozemi Sateline Exam Preparation School. Due to these activities, the number of students in this category increased. In the classroom tutoring category, a new program has been started that specializes in classes for students at Osaka municipal combined junior and senior high schools, a sector where demand for supplementary classes is expected to be strong. This program allows this category to serve a new segment of students. In the nursery school category, the number of children increased because of the larger number of schools. In the other education services category, the number of students increased because Kaisei Academy Japanese Language School, now in its second year of operations, has both first and second-year students for the first time.

Segment sales increased 6.2% from one year earlier to 8,975 million yen because of the larger number of students at SEIGAKUSHA Group schools and the increase in the number of franchised schools.

Segment earnings benefited from a decline in the personnel expense ratio and a reduction in expenses associated with capital expenditures and other up-front investments because of the smaller number of new nursery schools. As a result, operating profit increased 79.7% to 645 million yen.

2) Real Estate Leasing

The number of tenants increased in the first nine months, resulting in a 4.0% increase from one year earlier in segment sales to 27 million yen. However, operating profit was down 5.7% to 21 million yen due to an increase in repair expenses.

3) Restaurant Operations

The business climate for restaurants continues to be challenging because of Japan's sluggish consumer spending. Unfavorable summer weather impacted the performance of restaurant operations. As a result, sales were down 4.9% from one year earlier to 81 million yen and the operating loss increased from 9 million yen to 14 million yen.

(2) Explanation of Financial Position

Starting with the beginning of the first quarter of the current fiscal year, SEIGAKUSHA is applying “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018). Prior-year figures have been adjusted retroactively to conform with this accounting standard in order to facilitate comparisons and analysis.

Total assets at the end of the third quarter of the current fiscal year increased by 1,464 million yen, or 18.3%, from the end of the previous fiscal year to 9,452 million yen. Current assets increased by 1,260 million yen, or 46.4%, from the end of the previous fiscal year to 3,976 million yen. This was attributable mainly to increases of 1,021 million yen in operating accounts receivable and 229 million yen in cash and deposits. Non-current assets increased by 204 million yen, or 3.9%, from the end of the previous fiscal year to 5,475 million yen. This was mainly attributable to an increase of 284 million yen in property, plant and equipment and a decrease of 66 million yen in investments and other assets.

Total liabilities increased by 959 million yen, or 17.0%, from the end of the previous fiscal year to 6,612 million yen. Current liabilities increased by 346 million yen, or 9.4%, from the end of the previous fiscal year to 4,039 million yen. This was attributable mainly to increases of 291 million yen in income taxes payable, 247 million yen in advances received and a decrease of 99 million yen in accounts payable-trade. Non-current liabilities increased by 612 million yen, or 31.2%, from the end of the previous fiscal year to 2,573 million yen. This was attributable mainly to an increase of 615 million yen in long-term loans payable.

Net assets increased by 505 million yen, or 21.6%, from the end of the previous fiscal year to 2,839 million yen. This was attributable mainly to an increase of 508 million yen in retained earnings.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

We have revised the consolidated earnings forecast for the fiscal year ending March 31, 2019 which was announced on May 15, 2018. For more details, please refer to the “Notice concerning a revision of the full-year consolidated earnings forecast” (Japanese version only) released on February 13, 2019.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

	(Thousands of yen)	
	FY3/18 (As of Mar. 31, 2018)	Third quarter of FY3/19 (As of Dec. 31, 2018)
Assets		
Current assets		
Cash and deposits	1,028,544	1,258,456
Operating accounts receivable	1,021,220	2,042,382
Merchandise	66,856	47,447
Supplies	12,407	18,780
Other	608,556	630,906
Allowance for doubtful accounts	(20,763)	(21,052)
Total current assets	2,716,822	3,976,919
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,562,186	3,731,007
Accumulated depreciation	(1,204,608)	(1,350,096)
Buildings and structures, net	2,357,577	2,380,910
Land	1,107,742	1,107,772
Other	950,316	1,290,940
Accumulated depreciation	(602,384)	(681,853)
Other, net	347,932	609,086
Total property, plant and equipment	3,813,251	4,097,769
Intangible assets		
Goodwill	8,322	5,926
Other	133,096	121,195
Total intangible assets	141,419	127,122
Investments and other assets		
Guarantee deposits	915,748	918,735
Other	401,049	331,935
Total investments and other assets	1,316,798	1,250,670
Total non-current assets	5,271,469	5,475,562
Total assets	7,988,291	9,452,482

(Thousands of yen)

	FY3/18 (As of Mar. 31, 2018)	Third quarter of FY3/19 (As of Dec. 31, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	183,544	84,161
Short-term loans payable	953,668	991,667
Current portion of long-term loans payable	484,063	582,989
Income taxes payable	52,202	343,564
Advances received	683,079	930,320
Provision for bonuses	130,703	35,004
Other	1,205,837	1,072,047
Total current liabilities	3,693,099	4,039,754
Non-current liabilities		
Long-term loans payable	1,434,868	2,050,381
Provision for directors' retirement benefits	3,570	-
Net defined benefit liability	6,825	5,905
Asset retirement obligations	423,563	434,052
Other	91,873	82,845
Total non-current liabilities	1,960,700	2,573,185
Total liabilities	5,653,800	6,612,940
Net assets		
Shareholders' equity		
Capital stock	235,108	235,108
Capital surplus	175,108	175,108
Retained earnings	2,205,527	2,714,099
Treasury shares	(288,452)	(288,452)
Total shareholders' equity	2,327,291	2,835,863
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,625	3,776
Foreign currency translation adjustment	1,574	(98)
Total accumulated other comprehensive income	7,199	3,678
Total net assets	2,334,491	2,839,542
Total liabilities and net assets	7,988,291	9,452,482

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Nine-month Period)**

(Thousands of yen)

	First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)
Net sales	8,565,668	9,083,698
Cost of sales	6,949,169	7,159,837
Gross profit	1,616,499	1,923,860
Selling, general and administrative expenses	1,282,362	1,315,411
Operating profit	334,137	608,449
Non-operating income		
Interest income	716	1,120
Dividend income	631	700
Subsidy income	314,908	269,482
Other	9,883	47,866
Total non-operating income	326,140	319,170
Non-operating expenses		
Interest expenses	17,024	19,562
Other	3,046	672
Total non-operating expenses	20,070	20,234
Ordinary profit	640,206	907,384
Extraordinary income		
Reversal of provision for directors' retirement benefits	-	1,378
Gain on transfer of business	-	7,460
Total extraordinary income	-	8,838
Extraordinary losses		
Loss on sales of non-current assets	8,395	-
Impairment loss	5,526	-
Total extraordinary losses	13,922	-
Profit before income taxes	626,284	916,223
Income taxes-current	243,093	337,849
Income taxes-deferred	2,600	11,504
Total income taxes	245,694	349,354
Profit	380,590	566,868
Profit attributable to owners of parent	380,590	566,868

Quarterly Consolidated Statement of Comprehensive Income
(For the Nine-month Period)

	(Thousands of yen)	
	First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)
Profit	380,590	566,868
Other comprehensive income		
Valuation difference on available-for-sale securities	2,936	(1,848)
Foreign currency translation adjustment	1,581	(1,672)
Total other comprehensive income	4,517	(3,521)
Comprehensive income	385,108	563,347
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	385,108	563,347
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment information

I. First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)

1. Information related to net sales, profit or loss for each reportable segment (Thousands of yen)

	Reportable segment				Adjustment (Note 1)	Amounts recorded in quarterly consolidated statement of income (Note 2)
	Education Services	Real Estate Leasing	Restaurant Operations	Total		
Net sales						
External sales	8,454,088	26,171	85,409	8,565,668	-	8,565,668
Inter-segment sales and transfers	-	19,770	-	19,770	(19,770)	-
Total	8,454,088	45,941	85,409	8,585,439	(19,770)	8,565,668
Segment profit (loss)	359,235	23,175	(9,547)	372,864	(38,726)	334,137

Notes: 1. The minus 38 million yen adjustment to segment profit (loss) includes 38 million yen in corporate expenses that cannot be allocated to any of the reportable segments. These corporate expenses mainly include general and administration expenses that cannot be attributed to any of the reportable segments.

2. Segment profit (loss) is adjusted with operating profit on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

An impairment loss was recognized in the Education Services segment. The amount of this loss in the first nine months of FY3/18 was 5 million yen.

II. First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)

1. Information related to net sales, profit or loss for each reportable segment (Thousands of yen)

	Reportable segment				Adjustment (Note 1)	Amounts recorded in quarterly consolidated statement of income (Note 2)
	Education Services	Real Estate Leasing	Restaurant Operations	Total		
Net sales						
External sales	8,975,289	27,223	81,185	9,083,698	-	9,083,698
Inter-segment sales and transfers	-	19,775	-	19,775	(19,775)	-
Total	8,975,289	46,998	81,185	9,103,473	(19,775)	9,083,698
Segment profit (loss)	645,411	21,851	(14,501)	652,760	(44,311)	608,449

Notes: 1. The minus 44 million yen adjustment to segment profit (loss) includes 44 million yen in corporate expenses that cannot be allocated to any of the reportable segments. These corporate expenses mainly include general and administration expenses that cannot be attributed to any of the reportable segments.

2. Segment profit (loss) is adjusted with operating profit on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Not applicable.

Additional Information

First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)
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Starting with the beginning of the first quarter of the current fiscal year, SEIGAKUSHA is applying “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018). Accordingly, deferred tax assets and deferred tax liabilities have been presented in the investments and other assets section and the non-current liabilities section of the balance sheet, respectively.

This financial report is solely a translation of SEIGAKUSHA's Kessan Tanshin (including attachments) in Japanese, which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.