



Non-consolidated Financial Results for the Fiscal Year Ended September 30, 2019 [Japanese GAAP]

November 1, 2019

Company name: STEP CO.,LTD.

Stock exchange listing: Tokyo

Stock code: 9795

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Scheduled date of Ordinary General Meeting of Shareholders: December 14, 2019

Scheduled date of commencing dividend payments: December 17, 2019

Scheduled date of filing securities report: December 16, 2019

Availability of supplementary briefing material on annual financial results: Yes

Schedule of annual financial results briefing session: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down)

1. Non-consolidated Financial Results for the Fiscal Year Ended September 30, 2019 (October 1, 2018 to September 30, 2019)

(1) Non-consolidated Operating Results

(% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended September 30, 2019	11,592	5.1	2,689	0.3	2,738	(0.8)	1,943	4.3
September 30, 2018	11,033	4.4	2,680	3.7	2,760	4.8	1,862	1.6

	Profit per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets ratio	Operating profit to net sales ratio
Fiscal year ended	Yen	Yen	%	%	%
September 30, 2019	117.92	—	9.8	12.3	23.2
September 30, 2018	112.40	—	10.1	13.1	24.3

(Reference) Equity in earnings of affiliated companies: Fiscal year ended September 30, 2019: ¥ - million

Fiscal year ended September 30, 2018: ¥ - million

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	yen
September 30, 2019	22,919	20,362	88.8	1,233.57
September 30, 2018	21,474	19,118	89.0	1,153.90

(Reference) Equity: As of September 30, 2019: ¥ 20,362 million

: As of September 30, 2018: ¥ 19,118 million

(3) Non-consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
September 30, 2019	2,158	(1,072)	(444)	4,577
September 30, 2018	2,405	(631)	(1,246)	3,936

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
September 30, 2018	—	17.00	—	17.00	34.00	563	30.3	2.9
September 30, 2019	—	19.00	—	19.00	38.00	626	32.2	3.1
Fiscal year ending September 30, 2020 (Forecast)	—	20.00	—	20.00	40.00		33.4	

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending September 30, 2020
(October 1, 2019 to September 30, 2020)

(% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	5,927	4.1	1,413	18.1	1,431	16.6	980	16.3	59.37
Full year	12,063	4.1	2,866	6.6	2,900	5.9	1,976	1.7	119.71

* Notes:

(1) Changes in accounting policies, changes in accounting estimates and retrospective restatement

- 1) Changes in accounting policies due to the revision of accounting standards: None
- 2) Changes in accounting policies other than 1)above: None
- 3) Changes in accounting estimates: None
- 4) Retrospective restatement: None

(2) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

As of September 30, 2019: 16,670,000 shares

As of September 30, 2018: 16,670,000 shares

2) Total number of treasury shares at the end of the period:

As of September 30, 2019: 163,235 shares

As of September 30, 2018: 101,633 shares

3) Average number of shares during the period:

Fiscal Year ended September 30, 2019: 16,479,812 shares

Fiscal Year ended September 30, 2018: 16,568,367 shares

* These financial results are unaudited by certificated public accountants or audit firms.

* Explanation on the proper use of financial results forecast and other notes.

The statements regarding forecast of financial results in this report are based on the information that is available to the Company, as well as certain assumptions that are deemed to be reasonable by management, and they are not meant to be a commitment by the Company. Therefore, there might be cases in which actual results differ materially from forecast values due to various factors. For the suppositions that from the assumptions for earnings forecasts and cautions concerning the use thereof, please refer to "1. Summary of Operating Results (4) Future outlook" on page 5 of this report.

Annual financial results briefing sessions for institutional investors and analysts is planned to be held on November 15, 2019.

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1. Summary of Operating Results

(1) Summary of operating results for the current fiscal year

Based on our basic philosophy of "contributing to society through improving the academic ability of students to support their healthy development," we have consistently placed emphasis on high-quality classes since our founding. The industry as a whole is shifting toward replacing face-to-face classes with video classes and providing individualized instruction. However, we place importance on 2-way live classes in which teachers and students share the same space, and on the quality of classes in which students can grow through friendly competition. To achieve this, it is essential to have appealing and competent teachers, and we are continually focusing our efforts on recruiting and developing human resources. As of the end of September 2019, the total number of teachers in the junior high school course and high school course was 664, of which 635 were teachers (full-time regular employees), 20 were instructors (full-time employees on annual contracts), and 9 were part-time instructors (4 were English native instructors): 98.6% of teachers and instructors were full-time employees.

Our elementary and junior high school course has been well received since we introduced original classes 2 years ago with the aim of "Acquiring a broad range of perspectives and educational skills", in addition to conventional instruction. We continue to focus on enhancing our curriculums and educational materials. In addition, for the 2nd and 3rd junior high school students, based on the content and analysis of entrance exams to public high schools, we place emphasis on preparing for the "Tokushoku Kensa test" as a "6th subject". This test is a unique feature of the exam for prestigious high schools in Kanagawa Prefecture, which requires a wide range of academic abilities from a broad perspective and the ability to have creative thinking.

In terms of the results of high school entrance exams this spring, we achieved success in the "Yokohama Project" announced in the "Summary of Financial Statements for the Fiscal Year Ended September 30, 2018" as planned (the project to achieve the highest number of students that pass the top public schools in Yokohama city) and also achieved success in the "Suiran Project" (the project to significantly increase the track record of passing exams at prestigious school Yokohama Suiran High School, which has a strong influence on the Yokohama and Kawasaki areas), with 123 students (77 in the last spring), making us the top tutoring school among all the tutoring schools in Yokohama city, and we made the remarkable results of achieving the targets, scheduled for 2 years, in 1 year. As a result, we are dramatically strengthening our business base as the top brand in the tutoring schools in Yokohama city.

In addition, a total of 2,266 students (an increase of 137 students from the previous year) passed the exam at the top public high schools in Kanagawa Prefecture, and we remained the top among all the tutoring schools in Kanagawa. As a result, 42.7% of our students passed the top schools, among who passed the prefectural public high schools. Looking in detail, we became the top tutoring school in terms of the number of students that passed the exam at 14 of the 19 top high schools in Kanagawa and 7 of the 9 of the top high schools that underwent the special "Tokushoku Kensa test" (descriptive test) that characterize the current exam system. Moreover, we were able to beat other tutoring schools. In addition, the number of students who have passed the exam at the Tokyo Gakugei University High School, which is a co-school with the greatest difficulty in exam within the school commuting area for our students, has reached 66 this spring (41% of the total number of students who have passed this school of 160, compared to 37% last spring), we have the largest number of students who passed the school among the all tutoring schools for 11 consecutive years.

Along with the elementary and junior high school course, we are focusing on the high school course. In particular, we are preparing for the FY2020 university entrance exam reform and are focusing on the development of human resources. As a result, the number of teachers in each specialized subject has increased along with the quality of their classes. Outside the classes, tutors serve as good advisors to students. They are increasing their presence as supporters close to the students by offering advice on their careers, learning methods, and lifestyles. We will continue to strive to create a system that can respond to the needs of high school students who wish to "pass the university exams while enjoying high school activities including club activities and school events."

In terms of the results of the university entrance exams this spring, 168 students passed the exams at national and public universities. Among private universities, 267 students passed the exams at Waseda, Keio, or Sophia University, and 1,123 students passed the exams at the so-called Ridai MARCH Schools (Tokyo University of Science, Meiji, Aoyama Gakuin, Rikyo, Chuo, and Hosei). Amid the so-called tightening of capacity at large-scale private universities in the Tokyo metropolitan area, we have steadily accumulated a track

record of passing exams and are solidifying our base as one of the leading tutoring schools in Kanagawa Prefecture.

In addition, STEP Kids' School (Children courses), which we have been focusing on as a future pillar, has been in its 4th year since the start of Shonan School in March 2016. In the meantime, we have focused on refining and sharing our original skills in the children courses. Building on this experience and know-how, we plan to open the Chigasaki and Tsujido Schools at the same time in the next spring to start building a network of children's courses. The Shonan School, which was the first school, was relocated to a new building in front of Fujisawa Station this spring. In addition, we are currently building a new school building for the Chigasaki School.

During the fiscal year under review, we opened 2 new schools in the elementary and junior high school course. The first is the Fujisawa Station Minamiguchi School (Fujisawa Station, JR Tokaido Line), and the second is the Inukura School (Miyamae-ku, Kawasaki-shi, Tokyu Den-en-toshi Line) in Kawasaki city, which is the area we are focusing on. In addition, we opened the Yokosuka School (Kitakurihama Station, Keikyu Kurihama Line) in the high school course. New schools in the high school course will open for the first time in 4 years. All of these began officially at the spring seminar in March, and their launches have been steady.

As a result of the opening of these new schools, there are currently 147 schools, including 130 schools in the elementary and junior high school course, 15 schools in the high school course, 1 school in the individualized instruction course, and 1 school in the children course.

In the fiscal year under review, the number of students in both the elementary and junior high school course and the high school course remained firm, and the total average number of students increased 3.4% year on year.

In the Kanagawa Prefectural Public High School entrance exam this spring, as mentioned above, we greatly increased our track record of passing exams, and we were able to significantly strengthen our brand power in the Yokohama and Kawasaki regions. In response, a special bonus of 184 million yen was paid to 818 employees, including teachers and teaching materials production staff, who were the driving force behind the successful progress.

On June 28, the Company disposed of treasury stock as restricted stock for 196 employees who met certain conditions. As announced on April 8, this initiative aims to provide incentives for the sustained improvement of our corporate value from a medium-to long-term perspective and to further promote the sharing of value with shareholders.

On the other hand, equipment and repair expenses increased 101 million yen year on year as a result of continued efforts to create an environment that makes it more conducive for students to study in, such as the renovation of school facilities and the introduction of the latest-model projector for classrooms in all schools.

As a result of the above, we recorded net sales of 11,592 million yen (up 5.1% year on year), operating income of 2,689 million yen (up 0.3% year on year), ordinary income of 2,738 million yen (down 0.8% year on year), and net income of 1,943 million yen (up 4.3% year on year).

The number of students and net sales by business segment are as follows.

(Elementary and junior high school course)

The average number of students during the period was 22,258 (up 2.7% year on year) and net sales were 9,396 million yen (up 4.6% year on year).

(High school student division)

The average number of students during the period was 4,810 (up 6.4% year on year) and net sales were 2,196 million yen (up 6.9% year on year).

(2) Summary of financial condition in the current fiscal year

Financial position

(Assets)

Total assets at the end of the fiscal year under review stood at 22,919 million yen, an increase of 1,445 million yen from the end of the previous fiscal year.

This was mainly due to an increase in cash and deposits and an increase in fixed assets.

Current assets increased 697 million yen from the end of the previous fiscal year to 5,131 million yen, mainly due to an increase in cash and deposits resulting from strong cash flows from operating activities.

Non-current assets increased 747 million yen from the end of the previous fiscal year, to 17,788 million yen, mainly due to an increase in buildings associated with the completion of new schools and the acquisition of land, despite a decrease due to the implementation of depreciation.

(Liabilities)

Liabilities at the end of the fiscal year under review amounted to 2,557 million yen, an increase of 201 million yen from the end of the previous fiscal year.

Current liabilities decreased 130 million yen from the end of the previous fiscal year to 1,612 million yen, mainly due to a decrease in income taxes payable.

Non-current liabilities increased 331 million yen from the end of the previous fiscal year, to 944 million yen, mainly due to an increase in long-term loans payable.

(Net assets)

Net assets at the end of the fiscal year under review increased 1,244 million yen from the end of the previous fiscal year to 20,362 million yen due to the recording of net income despite the payment of dividends.

As a result, the equity ratio was 88.8%, down 0.2 percentage points from the end of the previous fiscal year.

(3) Summary of cash flow in the current fiscal year

The status of cash flows and their factors for the current fiscal year are as follows.

Cash and cash equivalents increased 641 million yen, or 16.3%, to 4,577 million yen.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to 2,158 million yen, a decrease of 246 million yen (down 10.3%) year on year.

This was mainly due to income before income taxes of 2,735 million yen, depreciation and amortization of 431 million yen, and income taxes paid of 906 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 1,072 million yen, an increase of 440 million yen (69.7%) year on year, mainly due to the construction of new schools and the acquisition of land.

(Cash flows from financing activities)

Net cash used in financing activities was 444 million yen, a decrease of 801 million yen (down 64.3%) year on year, due to repayments of long-term loans payable and cash dividends paid.

(Reference) Trends in cash flow indicators

	Fiscal year ended September 30, 2015	Fiscal year ended September 30, 2016	Fiscal year ended September 30, 2017	Fiscal year ended September 30, 2018	Fiscal year ended September 30, 2019
Equity ratio (%)	83.2	84.7	86.1	89.0	88.8
Market value equity ratio (%)	90.4	97.1	117.5	118.0	102.1
Cash flow to interest-bearing liabilities ratio (years)	0.9	0.8	0.5	0.3	0.5
Interest coverage ratio (times)	367.5	510.7	927.4	1,440.1	1,386.8

Equity ratio: equity / total assets

Market value equity ratio: market capitalization / total assets

Cash flow to interest-bearing liabilities ratio: interest expenses paid

Interest coverage ratio: cash flow / interest expenses paid

(Notes 1) Market capitalization is calculated based on the number of shares issued excluding treasury stock.

(Notes 2) Cash flow from operating activities is used for cash flow.

(Notes 3) Interest-bearing debt includes all debt reported on the consolidated balance sheets on which interest is paid.

(4) Future outlook

Since our initial public offering in 1995, we have posted 25 consecutive years of increased sales and 19 consecutive years of increased operating income. However, in Kanagawa Prefecture, where we operate tutoring schools, there are important issues that we must overcome in order to continue to develop in the future. The Japanese society as a whole is experiencing a declining birthrate and an aging population. However, in Kanagawa Prefecture, there are regions where the declining birthrate is continuing without any end in sight, and regions where the population is still continuing to grow over the next 10 years due to population inflows and the aging of the population and the declining birthrate are both progressing more moderately. Our challenge is to strengthen our future business development in areas such as Yokohama and Kawasaki, where the population continues to grow. We have been steadily expanding our business area from the Midwest of Kanagawa Prefecture, and we need to further strengthen our brand power in the Yokohama and Kawasaki regions to achieve the target.

In order to aggressively tackle these challenges, we have positioned the 2 years from the fiscal year ending September 2019 to the fiscal year ending September 2020 as "a period of intensive efforts to build a foundation for future development."

The main policies announced last year and their progress are as follows.

1) The declining birthrate will continue in Kanagawa Prefecture as well. In addition, there are a mix of regions in the same prefecture where the declining birthrate is accelerating, and regions where the population will continue to grow for more than 10 years, such as Kawasaki city, the northern part of Yokohama city, and Fujisawa city. Therefore, we will actively shift the opening of our new schools to regions centered on Kawasaki city and the northern part of Yokohama, where the population continues to increase. In other words, we will take initiatives called "Yokohama Kawasaki Shift".

→ We will continue to take these initiatives.

2) To achieve this, we will make every effort to strengthen our brand power in the Yokohama and Kawasaki regions. Specifically, out of the 2 public high schools Shonan High School and Yokohama Suiran High School, which are currently the leaders of the public high schools in Kanagawa Prefecture, we will significantly increase the record of passing exams at the Yokohama Suiran High School, which is strongly influential in the Yokohama and Kawasaki areas. At the same time, we will work on a project to achieve the highest pass record of the top public schools in Yokohama city.

→ Both of these projects were achieved in February of this year. We will continue and strengthen this initiative also in this year and future.

3) In spring 2016, we opened the STEP Kids Shonan School in Fujisawa to enhance the children course. In spring 2019, we will relocate this school to a new building at the south exit of Fujisawa Station. We will also open the STEP Kids Chigasaki School near JR Chigasaki Station in spring 2020. To this end, we will start construction of a new school building for the STEP Kids Chigasaki School during the fiscal period ending September 2019.

→ Construction of the STEP Kids Chigasaki School is proceeding as planned. Next spring, we will open 2 STEP Kids Schools in Chigasaki and Tsujido, bringing the total number of schools to 3 and start creating networks for children's schools. The transfer of Shonan School to the new building was successfully completed in March of this year.

4) We will actively invest in the enhancement of IT-related equipment by introducing large quantities of projectors, PCs, and other products that are actively used in classrooms.

→ We are making steady progress as originally planned.

5) The Diet formulated the so-called "Bills Relating to Work Style Reform," and the educational industry is required to respond to the newly enacted bills. While maintaining a high level of motivation, we are promoting a more comfortable and rational working style as a specialist/engineer.

6) We will further strengthen our human resource development system. In addition to enhancing recruitment activities, we will take a time-consuming training system to train employees after they join the company. We will also work to create a system in which employees can be assigned to schools after undergoing extensive training.

7) In response to the declining birthrate, we will not expand the scale of our schools more than necessary, and will thoroughly implement our stance of "the quality of class is our highest priority." We will gradually shift to a system centered on the Internet for student recruitment activities and create a system for student recruitment and school management from a long-term perspective. In terms of price policy, we will continue to maintain our stance of providing "high-quality classes and systems" and "no discount sales."

→ Each of 5) to 7) above will continue to be addressed in the future.

The core of these 7 measures is the measure 2) that is working to achieve the highest record of passing exams for Yokohama Suiran High School and the top-ranked high schools in Yokohama city. We were able to achieve this goal 1 year ahead of schedule, with the aim of realizing this goal over a 2-year period.

Accordingly, in the financial results announcement dated October 31, 2018, our company stated that "for the next 2 fiscal years (from the fiscal year ending September 30, 2019 to the fiscal year ending September 30, 2020), the Company has set sales targets in a restrictive manner and has not set profit targets." However, from the fiscal year ending September 30, 2020, we will return to a stance of announcing sales targets and profit plans.

Of course, the long-term stance of implementing the above-mentioned long-term plans remains largely unchanged.

As announced in October last year, we plan to pay a dividend of 40 yen per share for the fiscal year ending September 2020.

This is a forward-looking measure for our future, and we ask for the understanding and support of our shareholders.

2. Basic Policies regarding the Selection of Accounting Standards

We prepare our financial statements in accordance with Japanese GAAP because we do not engage in overseas business development or procurement of funds.

3. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of September 30, 2018	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	4,196,965	4,838,810
Accounts receivable-trade	64,046	66,705
Inventories	26,554	35,068
Prepaid expenses	123,955	157,576
Other	23,820	34,159
Allowance for doubtful accounts	(1,587)	(1,307)
Total current assets	4,433,754	5,131,012
Non-current assets		
Property, plant and equipment		
Buildings	12,277,541	12,892,469
Accumulated depreciation and impairment loss	(5,092,019)	(5,440,064)
Buildings, net	7,185,522	7,452,405
Structures	304,439	319,581
Accumulated depreciation and impairment loss	(201,944)	(213,717)
Structures, net	102,495	105,864
Machinery and equipment	105,889	120,889
Accumulated depreciation and impairment loss	(76,568)	(85,092)
Machinery and equipment, net	29,321	35,797
Vehicles	18,876	19,625
Accumulated depreciation and impairment loss	(17,485)	(18,160)
Vehicles, net	1,391	1,465
Tools, furniture and fixtures	207,002	232,214
Accumulated depreciation and impairment loss	(139,779)	(161,184)
Tools, furniture and fixtures, net	67,222	71,029
Land	8,788,240	9,083,408
Construction in progress	103,801	187,674
Total property, plant and equipment	16,277,995	16,937,645
Intangible assets		
Telephone subscription right	379	233
Other	24,959	31,210
Total intangible assets	25,338	31,443
Investments and other assets		
Investment securities	20,369	14,969
Long-term loans receivable	5,615	4,385
Long-term prepaid expenses	8,478	64,562
Deferred tax assets	218,668	227,529
Guarantee deposits	481,017	505,796
Other	2,983	2,033
Total investments and other assets	737,132	819,276
Total non-current assets	17,040,466	17,788,365
Total assets	21,474,221	22,919,378

(Thousand yen)

	As of September 30, 2018	As of September 30, 2019
Liabilities		
Current liabilities		
Current portion of long-term loans payable	424,336	455,756
Lease obligations	16,367	16,998
Accounts payable-other	88,268	107,088
Accrued expenses	250,986	208,305
Income taxes payable	539,031	425,607
Accrued consumption taxes	146,404	130,282
Advances received	5,053	15,069
Deposits received	175,189	134,131
Unearned revenue	3,586	3,192
Provision for bonuses	83,143	83,668
Asset retirement obligations	1,355	1,447
Other	9,295	31,032
Total current liabilities	1,743,016	1,612,579
Non-current liabilities		
Long-term loans payable	219,108	542,872
Lease obligations	44,114	32,489
Provision for directors retirement benefits	129,800	129,800
Asset retirement obligations	205,745	224,726
Other	14,227	14,626
Total non-current liabilities	612,995	944,514
Total liabilities	2,356,011	2,557,094
Net assets		
Shareholders' equity		
Capital stock	1,778,330	1,778,330
Capital surplus		
Legal capital surplus	1,851,330	1,851,330
Other capital surplus	220,921	231,396
Total capital surpluses	2,072,251	2,082,726
Retained earnings		
Legal retained earnings	137,027	137,027
Other retained earnings		
General reserve	97,800	97,800
Retained earnings brought forward	15,134,346	16,483,383
Total retained earnings	15,369,173	16,718,210
Treasury stock	(105,031)	(216,718)
Total shareholders' equity	19,114,723	20,362,547
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	3,486	(262)
Total valuation and translation adjustments	3,486	(262)
Total net assets	19,118,209	20,362,284
Total liabilities and net assets	21,474,221	22,919,378

(2) Non-consolidated Statements of Income

(Thousand yen)

	Fiscal year ended September 30, 2018	Fiscal year ended September 30, 2019
Net sales	11,033,723	11,592,745
Cost of sales	7,638,547	8,162,003
Gross profit	3,395,176	3,430,742
Selling, general and administrative expenses		
Advertising expenses	194,498	174,456
Bad debts expenses	130	—
Provision of allowance for doubtful accounts	1,782	1,101
Directors compensations	96,170	98,967
Salaries and allowances	126,927	141,036
Bonuses	21,032	26,494
Provision for bonuses	2,085	2,121
Retirement benefit expenses	1,410	1,425
Welfare expenses	28,391	32,097
Depreciation	15,837	17,859
Commission fee	40,477	44,680
Taxes and dues	119,542	122,214
Other	66,314	79,021
Total selling, general and administrative expenses	714,600	741,475
Operating income	2,680,575	2,689,266
Non-operating income		
Interest income	36	45
House rent income	102,719	101,678
Subsidy income	34,213	30,892
Other	21,887	10,827
Total non-operating income	158,857	143,444
Non-operating expenses		
Interest expenses	1,785	1,560
Rent expenses	72,667	89,331
Other	4,650	3,019
Total non-operating expenses	79,103	93,911
Ordinary income	2,760,330	2,738,799
Extraordinary loss		
Loss on sales of non-current assets	35,130	241
Impairment loss	—	3,404
Total extraordinary loss	35,130	3,646
Income before income taxes	2,725,199	2,735,153
Income taxes-current	863,257	799,144
Income taxes-deferred	(275)	(7,209)
Total income taxes	862,981	791,935
Profit	1,862,217	1,943,218

Schedule of cost of sales

Class	Note no.	Fiscal year ended September 30, 2018 (from October1, 2017 to September30, 2018)		Fiscal year ended September 30, 2019 (from October1, 2018 to September30, 2019)			
		Amount (Thousand yen)		Composition (%)	Amount (Thousand yen)		Composition (%)
I .Labor cost							
1. Salaries and allowances		3,599,868			3,687,051		
2. Bonuses		827,030			1,019,840		
3. Provision for bonuses		79,232			79,680		
4. Retirement benefit expenses		88,508			94,519		
5. Other		802,155	5,396,794	70.7	862,773	5,743,864	70.4
II .Cost of teaching materials			409,663	5.4		434,798	5.3
III. Expenses							
1. Supplies expenses		99,070			188,523		
2. Depreciation		365,619			351,442		
3. Rental expenses		875,717			902,639		
4. Other		491,681	1,832,088	24.0	540,733	1,983,339	24.3
Cost of sales			7,638,547	100.0		8,162,003	100.0

Notes

Cost of sales are expenses for operating schools.

(3) Non-consolidated Statements of Changes in Equity
 Previous fiscal year (from October 1, 2017 to September 30, 2018)

(Thousand yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at beginning of current period	1,778,330	1,851,330	220,921	2,072,251	137,027	97,800	13,852,021	14,086,848
Changes of items during period								
Dividends of surplus							(579,892)	(579,892)
Profit							1,862,217	1,862,217
Purchase of treasury shares								
Disposal of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	—	—	—	—	1,282,324	1,282,324
Balance at end of current period	1,778,330	1,851,330	220,921	2,072,251	137,027	97,800	15,134,346	15,369,173

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(105,031)	17,832,398	3,081	3,081	17,835,480
Changes of items during period					
Dividends of surplus		(579,892)			(579,892)
Profit		1,862,217			1,862,217
Purchase of treasury shares					
Disposal of treasury shares					
Net changes of items other than shareholders' equity			404	404	404
Total changes of items during period	—	1,282,324	404	404	1,282,729
Balance at end of current period	(105,031)	19,114,723	3,486	3,486	19,118,209

Current fiscal year (from October 1, 2018 to September 30, 2019)

(Thousand yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at beginning of current period	1,778,330	1,851,330	220,921	2,072,251	137,027	97,800	15,134,346	15,369,173
Changes of items during period								
Dividends of surplus							(594,181)	(594,181)
Profit							1,943,218	1,943,218
Purchase of treasury shares								
Disposal of treasury shares			10,474	10,474				
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	10,474	10,474	—	—	1,349,036	1,349,036
Balance at end of current period	1,778,330	1,851,330	231,396	2,082,726	137,027	97,800	16,483,383	16,718,210

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(105,031)	19,114,723	3,486	3,486	19,118,209
Changes of items during period					
Dividends of surplus		(594,181)			(594,181)
Profit		1,943,218			1,943,218
Purchase of treasury shares	(189,221)	(189,221)			(189,221)
Disposal of treasury shares	77,534	88,008			88,008
Net changes of items other than shareholders' equity			(3,749)	(3,749)	(3,749)
Total changes of items during period	(111,687)	1,247,823	(3,749)	(3,749)	1,244,074
Balance at end of current period	(216,718)	20,362,547	(262)	(262)	20,362,284

(4)Non-consolidated Statements of Cash Flows

(Thousand yen)

	Fiscal year ended September 30, 2018	Fiscal year ended September 30, 2019
Cash flows from operating activities		
Profit before income taxes	2,725,199	2,735,153
Depreciation	444,350	431,123
Impairment loss	—	3,404
Increase(decrease) in allowance for doubtful accounts	638	(280)
Increase(decrease) in provision for bonuses	3,712	525
Share-based compensation expenses	—	6,769
Interest and dividends income	(576)	(612)
Interest expenses	1,785	1,560
Loss(gain) on sales of property, plant and equipment	35,130	241
Subsidy income	(34,213)	(30,892)
Decrease(increase) in notes and accounts receivable-trade	(16,534)	(2,659)
Decrease(increase) in inventories	(3,020)	(8,513)
Decrease(increase) in prepaid expenses	(17)	(6,545)
Increase(decrease) in accounts payable- other	(5,503)	(4,108)
Increase(decrease) in advances received	(15,947)	10,015
Increase(decrease) in accrued expenses	14,479	(42,681)
Other, net	(14,987)	(59,118)
Subtotal	3,134,494	3,033,381
Interest and dividends income received	576	612
Interest expenses paid	(1,670)	(1,556)
Proceeds from subsidy income	28,047	33,347
Income taxes paid	(755,802)	(906,860)
Net cash provided by (used in) operating activities	2,405,645	2,158,923
Cash flows from investing activities		
Payments into time deposits	(257,140)	(257,162)
Proceeds from withdrawal of time deposits	257,118	257,140
Purchase of property, plant and equipment	(642,590)	(1,063,769)
Proceeds from sales of property, plant and equipment	27,425	28,458
Collection of loans receivable	4,136	2,052
Payments for lease and guarantee deposits	(16,504)	(32,760)
Proceeds from collection of lease and guarantee deposits	14,653	6,920
Purchase of insurance funds	(0)	(0)
Other, net	(18,955)	(13,313)
Net cash provided by(used in) investment activities	(631,857)	(1,072,434)
Cash flows from financing activities		
Proceeds from long-term loans payable	—	1,050,000
Repayment of long-term loans payable	(651,294)	(694,816)
Repayments of finance lease obligations	(16,129)	(16,642)
Purchase of treasury shares	—	(189,221)
Cash dividends paid	(579,033)	(594,083)
Net cash provided by(used in) financing activities	(1,246,457)	(444,763)
Net increase(decrease) in cash and cash equivalents	527,331	641,725
Cash and cash equivalents at beginning of period	3,408,812	3,936,143
Cash and cash equivalents at end of period	3,936,143	4,577,868

(5) Notes to Non-consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Segment information, etc.)

[Segment information]

Description is omitted because the Company operates in a single segment of cram schools.

(Additional information)

(Application of Partial Revision of "Accounting Standard for Tax Effect Accounting")

Effective from the beginning of the 1Q of the current fiscal year, the Company has applied the partial amendment of the "Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and other accounting standards. Accordingly, deferred tax assets are presented as a separate component of investments and other assets.

(Equity in earnings of affiliated companies, etc.)

There is no relevant information.

(Per share information)

(Yen)

	Fiscal year ended September 30, 2018 (from October1, 2017 to September30, 2018)	Fiscal year ended September 30, 2019 (from October1, 2018 to September30, 2019)
Net assets per share	1,153.90	1,233.57
Basic earnings per share	112.40	117.92

Notes:1. Fully diluted profit per share is not stated since the Company does not have residual securities.

2. The basis for calculation

1. The basis for calculation of net assets per share is as follows:

Item	As of September 30, 2018	As of September 30, 2019
Net assets per share		
Total net assets (Thousand yen)	19,118,209	20,362,284
Amount deducted from the total net assets (Thousand yen)	-	-
Amount of net assets related to common stock as of the end of the fiscal year (Thousand yen)	19,118,209	20,362,284
Number of shares of common stock as of the end of the fiscal year (Shares)	16,568,367	16,506,765

2. The basis for calculation of profit per share is as follows:

Item	Fiscal year ended September 30, 2018 (from October1, 2017 to September30, 2018)	Fiscal year ended September 30, 2019 (from October1, 2018 to September30, 2019)
Basic earnings per share		
Profit (Thousand yen)	1,862,217	1,943,218
Amount not attributable to common shareholders (Thousand yen)	-	-
Profit available to common shares (Thousand yen)	1,862,217	1,943,218
Average number of shares of common shares during the period (Shares)	16,568,367	16,479,812

(Significant subsequent events)

There is no relevant information.

4. Segment sales

Segment	Fiscal year ended September 30, 2018 (from October1, 2017 to September30, 2018)			Fiscal year ended September 30, 2019 (from October1, 2018 to September30, 2019)		
	Number of students	Net sales (Thousand yen)	Composition (%)	Number of students	Net sales (Thousand yen)	Composition (%)
Elementary and junior high school section	21,666	8,979,908	81.4	22,258	9,396,490	81.1
High school section	4,520	2,053,814	18.6	4,810	2,196,254	18.9
Total	26,186	11,033,723	100.0	27,068	11,592,745	100.0