



Non-consolidated Financial Results for the First Quarter of the Fiscal Year Ending September 30, 2020 [Japanese GAAP]

January 30, 2020

Company name: STEP CO.,LTD.
Stock exchange listing: Tokyo Stock Exchange
Stock code: 9795
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Scheduled date of commencing dividend payments: —
Availability of supplementary briefing material on quarterly financial results : None
Schedule of quarterly financial results briefing session : None

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

1. Non-consolidated Financial Results for the First Quarter of the Fiscal Year Ending September 30, 2020

(October 1, 2019 to December 31, 2019)

(1) Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
For the first quarter ended December 31, 2019	3,149	7.2	964	19.5	979	19.5	674	19.5
December 31, 2018	2,938	5.6	807	0.3	819	(1.6)	564	(1.3)

	Profit per share	Diluted earnings per share
	Yen	Yen
For the first quarter ended December 31, 2019	40.85	—
December 31, 2018	34.17	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2019	23,601	20,723	87.8	1,255.48
As of September 30, 2019	22,919	20,362	88.8	1,233.57

(Reference) Equity: As of December 31, 2019: ¥ 20,723million

: As of September 30, 2019: ¥ 20,362million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2019	—	19.00	—	19.00	38.00
Fiscal year ending September 30, 2020	—				
Fiscal year ending September 30, 2020 (Forecast)		20.00	—	20.00	40.00

(Note) Revision to dividend forecast announced most recently: None

3. 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

(Note) Revisions from financial results forecasts announced most recently: None

*Note

(1) Application of special accounting treatment for the preparation of the quarterly financial statements: None

(2) 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

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

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

As of December 31, 2019: 16,670,000 shares

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

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

As of December 31, 2019: 163,235 shares

As of September 30, 2019: 163,235 shares

3) Average number of shares during the period:

As of December 31, 2019: 16,506,765 shares

As of December 31, 2018: 16,512,827 shares

*These quarterly financial results are not subject to auditing by certified 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 “Qualitative Information on the Quarterly Financial Results (3) Financial Forecast for 2020 ” on page 3 of this report.

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1. Qualitative Information on the Quarterly Financial Results

(1) Explanation of Operating Results

In the first quarter (October-December) of the fiscal year under review, the total number of our students in the high school entrance examination course (for elementary and junior high school students), and the university entrance examination course (for high school students) increased by 4.5% compared to the previous year.

The current public high school entrance exams in Kanagawa Prefecture, which were significantly revised 7 years ago, were initially affected by changes in the system, such as the increasing complexity of the selection system and the introduction of a unique selection test mainly for top schools : the so-called Tokushoku Kensa (or "special examination"). Since then, the difficulty of academic tests has continuously increased, and the results depend on the score of academic tests instead of students' school grades. All the popular schools have high competitive ratios, and the exam system is highly intensive and very challenging academically and psychologically for students. For this reason, in the high school entrance examination course, there is a growing need for not only high levels of teaching but also student support and counseling to help them succeed. There is a tendency for the proportion of students attending the tutoring school to increase as the year of education rises, and there are schools whose classes are full of the 2nd and the 3rd junior high school students preparing for the exam.

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. As a result, we are solidifying our base as one of the leading tutoring schools in Kanagawa Prefecture, and the number of students is growing steadily.

In February of the second quarter, entrance exams and announcement of application results for public high schools in Kanagawa Prefecture, and private high schools and national high schools in the Tokyo metropolitan area will be held. The results of STEP students passing these entrance exams will have a major impact on student recruitment over the next year. Last spring, we achieved success in the "Yokohama Project" (the project to achieve the highest number of students that pass the top public schools in Yokohama city) as planned 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) a year ahead of the plan. We are currently making every effort to further increase this result and make it stronger. In this year's public high school entrance exams, the number of schools that conduct the so-called Tokushoku Kensa will increase from 10 last spring to 19. In addition to the 2 projects mentioned above, in the high school course as a whole, we aim to achieve even greater results than other tutoring schools by providing highly accurate guidance utilizing detailed data analyzed on the success or failure in the last entrance exams, in addition to enhancing learning guidance.

The university entrance examination course, which we are focusing on alongside the high school entrance examination course, continues 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 the industry as a whole, which targets high school students, there is a trend to replace face-to-face classes with video classes and to provide individualized guidance. 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 and interaction. Outside the classes, student counsellors 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. Continuing from last spring, we are devoting all our efforts to demonstrating the results of this spring's academic achievements to prospective students and their parents. Although the university entrance exam system has been made more complex, we will continue to actively and realistically address this issue, flexibly reviewing the curriculum and the content of teacher training, and continuously improving the content of teaching duties.

In the fourth year of operation of the kids' course, the STEP Kids Shonan School grew steadily and moved into the STEP Fujisawa Station South Exit School for high school entrance exam. In the previous fiscal year, the school returned to profitability for the full year, including expenses for the relocation of the school. In March, we will open two schools, the Tsujido School (JR Tokaido Line Tsujido Station) and the Chigasaki School (JR Tokaido Line Chigasaki Station), and begin networking STEP Kids.

During the fiscal year under review, we plan to open a total of 4 new schools: 2 in the high school entrance examination course and 2 in the kids' course. The 2 schools in the high school entrance examination course are the Ikuta School (Odakyu Odawara Line Ikuta Station, Tama Ward, Kawasaki City) in the Kawasaki area, where we are currently focusing our efforts, and the Ebina Ogicho School (Odakyu Odawara Line Ebina Station) in the west exit of Ebina Station, where large-scale developments are continuing around stations. Both schools officially begin this March.

As a result of the above, we recorded a net sales of 3,149 million yen (up 7.2% year on year), with an operating income of 964 million yen (up 19.5% year on year), an ordinary income of 979 million yen (up 19.5% year on year), and a net income of 674 million yen (up 19.5% year on year).

(2) Explanation of Financial Condition

Assets

Total assets at the end of the first quarter of the fiscal year under review stood at 23,601 million yen, an increase of 682 million yen from the end of the previous fiscal year.

Current assets increased 583 million yen from the end of the previous fiscal year to 5,714 million yen, mainly due to an increase in cash and deposits.

Non-current assets increased 98 million yen from the end of the previous fiscal year to 17,887 million yen, mainly due to an increase in buildings associated with the completion of the renovation of a new school building.

Liabilities

Liabilities at the end of the first quarter of the fiscal year under review amounted to 2,877 million yen, an increase of 320 million yen from the end of the previous fiscal year.

Current liabilities increased 408 million yen from the end of the previous fiscal year to 2,020 million yen, mainly due to an increase in provision for bonuses, despite a decrease in the current portion of long-term borrowings.

Non-current liabilities decreased 87 million yen from the end of the previous fiscal year to 857 million yen, mainly due to a repayment of long-term borrowings.

Net assets

Net assets at the end of the first quarter of the fiscal year under review increased 361 million yen from the end of the previous fiscal year to 20,723 million yen due to the recording of net income despite the payment of dividends.

As a result, the equity ratio was 87.8%, down 1.0 percentage points from the end of the previous fiscal year.

(3) Financial Forecast for 2020

There are no changes to the forecasts for the fiscal year ending September 2020, which are announced in the "Non-consolidated Financial Results for the Fiscal Year Ended September 30, 2019 [Japanese GAAP] " dated November 1, 2019.

2. Quarterly Financial Statements and Principal Notes

(1) Quarterly Balance Sheets

(Thousand yen)

	As of September 30, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	4,838,810	5,387,647
Accounts receivable-trade	66,705	112,864
Inventories	35,068	29,033
Other	191,735	187,370
Allowance for doubtful accounts	(1,307)	(2,211)
Total current assets	5,131,012	5,714,703
Non-current assets		
Property, plant and equipment		
Buildings, net	7,452,405	7,487,101
Land	9,083,408	9,083,408
Other, net	401,831	412,478
Total property, plant and equipment	16,937,645	16,982,989
Intangible assets	31,443	29,585
Investments and other assets		
Leasehold and guarantee deposits	505,796	503,867
Other	313,479	370,628
Total investments and other assets	819,276	874,495
Total non-current assets	17,788,365	17,887,070
Total assets	22,919,378	23,601,774
Liabilities		
Current liabilities		
Current portion of long-term borrowings	455,756	421,151
Lease obligations	16,998	17,135
Accounts payable-other	107,088	108,979
Income taxes payable	425,607	402,663
Provision for bonuses	83,668	296,321
Other	523,459	774,474
Total current liabilities	1,612,579	2,020,725
Non-current liabilities		
Long-term borrowings	542,872	456,208
Lease obligations	32,489	29,893
Provision for retirement benefits for directors	129,800	129,800
Asset retirement obligation	224,726	227,170
Other	14,626	14,035
Total non-current liabilities	944,514	857,108
Total liabilities	2,557,094	2,877,833

(Thousand yen)

	As of September 30, 2019	As of December 31, 2019
Net assets		
Shareholders' equity		
Share capital	1,778,330	1,778,330
Capital surplus	2,082,726	2,082,726
Retained earnings	16,718,210	17,078,888
Treasury shares	(216,718)	(216,718)
Total shareholders' equity	20,362,547	20,723,225
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(262)	715
Total valuation and translation adjustments	(262)	715
Total net assets	20,362,284	20,723,941
Total liabilities and net assets	22,919,378	23,601,774

(2) Quarterly Statements of income
(For the Three-month Period)

(Thousand yen)

	For the three months ended December. 31, 2018	For the three months ended December. 31, 2019
Net sales	2,938,947	3,149,336
Cost of sales	1,964,601	1,998,862
Gross profit	974,346	1,150,474
Selling, general and administrative expenses	167,210	186,204
Operating profit	807,136	964,269
Non-operating income		
Interest income	8	6
Subsidy income	7,231	5,674
Rental income from buildings	25,420	24,981
Other	2,429	2,725
Total non-operating income	35,090	33,388
Non-operating expenses		
Interest expenses	454	249
Rental expenses	19,822	17,774
Other	2,283	2
Total non-operating expenses	22,561	18,026
Ordinary profit	819,665	979,631
Profit before income taxes	819,665	979,631
Income taxes-current	320,109	369,690
Income taxes-deferred	(64,687)	(64,366)
Total income taxes	255,422	305,324
Profit	564,242	674,306

(3) Notes to Quarterly Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes on significant changes in the amount of shareholders' equity)

There is no relevant information.

(Segment information, etc.)

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

3. Supplementary Information

Status of production, orders and sales

(1) Results of production and orders received

Our business is conducting classes to students, so there are no relevant items regarding results of production and orders received.

(2) Sales results

As we have a single segment of the tutoring school business, we have no other segments subject to disclose. Sales results for the three months of the fiscal year under review are shown below by business segment.

Segment	Three month ended December 31,2019 (Thousand yen)	Year-on-year changes (%)
High school entrance examination course	2,513,984	106.5
University entrance examination course	635,351	109.8
Total	3,149,336	107.2