



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

April 28, 2020

Company name: STEP CO.,LTD.

Stock exchange listing: Tokyo Stock Exchange

Stock code: 9795

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Availability of supplementary briefing material on quarterly financial results : Yes

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 Second Quarter of the Fiscal Year Ending September 30, 2020

(October 1, 2019 to March 31, 2020)

(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 second quarter ended March 31, 2020	5,722	0.5	1,258	5.2	1,290	5.2	883	4.9
March 31, 2019	5,694	3.9	1,196	(15.3)	1,227	(15.9)	842	(13.6)

	Profit per share	Diluted earnings per share
For the second quarter ended March 31, 2020	Yen 53.53	Yen —
March 31, 2019	51.11	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of March 31, 2020	Million yen 23,757	Million yen 20,929	% 88.1	Yen 1,268.00
As of September 30, 2019	22,919	20,362	88.8	1,233.57

(Reference) Equity: As of March 31, 2020: ¥ 20,929million

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

2. Dividends

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

Financial results forecast for the fiscal year ending September 30, 2020 has not been determined because of the uncertain outlook for the business environment due to the impact of the COVID-19, and the difficulty to make a proper and reasonable estimate of the impact at this time. The information will be disclosed once it is possible to make rational calculations in future.

(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 March 31, 2020: 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 March 31, 2020: 163,835 shares

As of September 30, 2019: 163,235 shares

3) Average number of shares during the period:

As of March 31, 2020: 16,506,745 shares

As of March 31, 2019: 16,480,949 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) Explanation of forward-looking statements including business forecasts" on page 4 of this report.

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1. Qualitative Information on the Quarterly Financial Results

(1) Explanation of Operating Results

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 March 2020, the total number of teachers in the high school entrance examination course (for elementary and junior high school students) and the university entrance examination course (for high school students) was 682, of which 657 were teachers (full-time regular employees), 18 were instructors (full-time employees on annual contracts), and 7 were part-time instructors (4 were English native instructors): 96.3% of teachers and instructors were full-time regular employees and 99.0% were full-time employees.

Our high school entrance examination course (for elementary and junior high school students) has been well received since we introduced original classes 3 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 once again achieved success in the "Yokohama Project" announced in the "Summary of Financial Statements for the Fiscal Year Ended September 30, 2018" dated October 31, 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 137 students (123 in the last spring), continuing to making us the top tutoring school among all the tutoring schools in Yokohama city. We were able to achieve two major goals for the second year in a row. 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 2,183 students 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, 41.7% 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 15 of the 19 top high schools in Kanagawa and 15 of the 19 of the 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 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 80 this spring (40% of the total number of students who have passed this school of 200, compared to 41.3% last spring), we have the largest number of students who passed the school among the all tutoring schools for 12 consecutive years.

Our university entrance examination course (for high school students), which we are focusing on along with the high school entrance examination course, will actively and realistically prepare for the new university entrance exam system, the details of which are as yet uncertain, flexibly reviewing the curriculum and the content of teacher training and improving the content of teaching duties. We will also continuously focus on the development of human resources, as the number of teachers in each specialized subject has increased along with the quality of their classes.

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. 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, a total of 196 students passed the exams at national and public universities. Of these, 31 students passed the exams at Tokyo University, Kyoto University, Hitotsubashi University, and Tokyo Institute

of Technology, which are said to be the toughest challenge, and 4 students passed the exams at national medical schools. At Shonan High School, one of the top-ranked high schools in Kanagawa Prefecture, 38 students passed the above mentioned Tokyo Ichiko Universities and the national medical schools, and 19 of these are the students in our university entrance examination course. Among private universities, 256 students passed the exams at Waseda, Keio, or Sophia University, and 1,148 students passed the exams at the so-called Ridai MARCH Schools (Tokyo University of Science, Meiji, Aoyama Gakuin, Rikkyo, Chuo, and Hosei). With the start of the new entrance exam system in the new academic year, there was a nationwide tendency for students to move down their level of first-choice schools and avoid becoming a so-called Ronin (students who don't succeed in passing the entrance exams first time round and defer applying university for one year). However, by steadily accumulating a track record of success, such as increasing the number of students who passed the exam at national public universities from 168 in the previous spring to 196 in this spring, we are solidifying our foundation as a leading live teaching school for Kanagawa Prefecture's high school students.

In the fourth year of operation of the kids' course, STEP Kids Shonan School grew steadily and moved into 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 opened two schools, Tsujido School (JR Tokaido Line Tsujido Station) and Chigasaki School (JR Tokaido Line Chigasaki Station), and began networking STEP Kids.

During the fiscal year under review, we opened a total of 4 new schools: 2 in the high school entrance examination course and 2 in the above mentioned kids' course. The 2 schools in the high school entrance examination course are Ikuta School (Odakyu Odawara Line Ikuta Station, Tama Ward, Kawasaki City) in the Kawasaki area, where we are currently focusing our efforts, and Ebina Ogicho School (Odakyu Odawara Line Ebina Station) in our dominant area. Both of these began officially at the spring seminar in March.

As a result of the opening of these new schools, there are currently 151 schools, including 132 schools in the high school entrance examination course, 15 schools in the university entrance examination course, 1 school in the individualized instruction course, and 3 schools in the children course.

In the second quarter of the fiscal year under review, the number of students in both the high school entrance examination course and the university entrance examination course remained firm, and the total average number of students increased 4.1% year on year.

As described above, our business in the first half of the fiscal year progressed smoothly until the end of February, but as we entered March, we were greatly affected by the new coronavirus (COVID-19) infection. As announced on February 28, we suspended operations at all our tutoring schools for the high school entrance examination course and the university entrance examination course from March 2 to 14, and refunded 90% of tuition fees during the period, a total of 280 million yen. The subsequent spring seminar was conducted almost as planned, but immediately after the announcement of the state of emergency on April 7, both the high school entrance examination course and the university entrance examination course were completely shifted from interactive live classes to online classes, and have continued to this day. We will respond flexibly to future changes while striving for risk management.

As a result of the above, we recorded a net sales of 5,722 million yen (up 0.5% year on year), with an operating income of 1,258 million yen (up 5.2% year on year), an ordinary income of 1,290 million yen (up 5.2% year on year), and a net income of 883 million yen (up 4.9% year on year).

(2) Explanation of Financial Condition

1) Assets, liabilities and net assets at the end of the second quarter

(Assets)

Total assets at the end of the second quarter of the fiscal year under review stood at 23,757 million yen, an increase of 838 million yen from the end of the previous fiscal year.

Current assets increased 658 million yen from the end of the previous fiscal year to 5,789 million yen, mainly due to an increase in cash and deposits.

Non-current assets increased 180 million yen from the end of the previous fiscal year to 17,968 million yen, mainly due to an increase in buildings associated with the completion of new schools, despite a decrease due to the implementation of depreciation.

(Liabilities)

Liabilities at the end of the second quarter of the fiscal year under review increased 270 million yen from the end of the previous fiscal year to 2,827 million yen.

Current liabilities increased 446 million from the end of the previous fiscal year to 2,058 million yen, due to an increase in other liabilities, including an increase in advances received, despite a decrease in current portion of long-term loans payable.

Non-current liabilities decreased 175 million yen from the end of the previous fiscal year to 768 million yen, mainly due to an decrease in long-term loans payable.

(Net assets)

Net assets at the end of the second quarter of the fiscal year under review increased 567 million yen from the end of the previous fiscal year to 20,929 million yen, mainly due to the recording of quarterly net income, despite the payment of dividends.

As a result, the equity ratio was 88.1%, down 0.7 percentage points from the end of the previous fiscal year.

2) Summary of cash flows

The status of cash flows and their factors for the second quarter of the fiscal year under review are as follows.

Cash and cash equivalents (hereinafter referred to as "cash") at the end of the second quarter increased 467 million yen (up by 9.8% year on year) to 5,255 million yen.

(Cash flows from operating activities)

Net cash provided by operating activities was 1,699 million yen (up by 52.6% year on year).

This was mainly attributable to income before income taxes of 1,290 million yen, depreciation and amortization of 221 million yen, and advances received of 440 million yen, which were offset by income taxes paid of 369 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 457 million yen (down by 7.7% year on year).

This was mainly due to purchase of property, plant and equipment of 452 million yen.

(Cash flows from financing activities)

Net cash used in financing activities was 564 million yen (233 million yen was provided in the same period of the previous fiscal year).

This was mainly attributable to repayments of long-term loans payable of 242 million yen and cash dividends paid of 313 million yen.

(3) Explanation of forward-looking statements including business forecasts

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 in 2018 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 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 the previous year and once again in this spring too. Going forward, we will continue our efforts to further strengthen the performance.

3) In spring 2016, we opened 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 STEP Kids Chigasaki School near JR Chigasaki Station in spring 2020. To this end, we will start construction of a new school building for STEP Kids Chigasaki School during the fiscal period ending September 2019.

→As described, in this spring, we opened 2 STEP Kids Schools in Chigasaki and Tsujido, bringing the total number of schools to 3 and started creating networks for children's schools.

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 project 2), the core of measures (1) through (7) above, aiming to achieve the top record of the number of students passing exams at Yokohama Suiran High School and top-ranked high schools in Yokohama City, was achieved as mentioned above. Therefore, despite the statement in the Financial Results dated October 31, 2018, "For the next two fiscal years (from the fiscal year ending September 2019 to the fiscal year ending September 2020), we will set sales targets in a restrained manner and will not set profit targets," we have already returned to a stance of announcing both sales and profit targets from the fiscal year ending September 2020.

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

As announced in October 2018, we plan to pay a dividend of 40 yen per share for the fiscal year ending September 2020.

2. Quarterly Financial Statements and Principal Notes

(1) Quarterly Balance Sheets

(Thousand yen)

	As of September 30, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	4,838,810	5,516,654
Accounts receivable-trade	66,705	27,648
Inventories	35,068	53,056
Other	191,735	192,259
Allowance for doubtful accounts	(1,307)	(541)
Total current assets	5,131,012	5,789,078
Non-current assets		
Property, plant and equipment		
Buildings, net	7,452,405	7,855,269
Land	9,083,408	9,083,408
Other, net	401,831	218,973
Total property, plant and equipment	16,937,645	17,157,652
Intangible assets	31,443	38,647
Investments and other assets		
Leasehold and guarantee deposits	505,796	502,243
Other	313,479	270,165
Total investments and other assets	819,276	772,409
Total non-current assets	17,788,365	17,968,708
Total assets	22,919,378	23,757,786
Liabilities		
Current liabilities		
Current portion of long-term borrowings	455,756	386,546
Lease obligations	16,998	17,267
Accounts payable-other	107,088	169,849
Income taxes payable	425,607	439,750
Provision for bonuses	83,668	20,603
Other	523,459	1,024,969
Total current liabilities	1,612,579	2,058,986
Non-current liabilities		
Long-term borrowings	542,872	369,544
Lease obligations	32,489	25,843
Provision for retirement benefits for directors	129,800	129,800
Asset retirement obligation	224,726	229,452
Other	14,626	14,315
Total non-current liabilities	944,514	768,955
Total liabilities	2,557,094	2,827,942

(Thousand yen)

	As of September 30, 2019	As of March 31, 2020
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	17,288,200
Treasury shares	(216,718)	(216,718)
Total shareholders' equity	20,362,547	20,932,537
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(262)	(2,693)
Total valuation and translation adjustments	(262)	(2,693)
Total net assets	20,362,284	20,929,844
Total liabilities and net assets	22,919,378	23,757,786

(2) Quarterly Statements of income

(For the Six-month Period)

(Thousand yen)

	For the six months ended March. 31, 2019	For the six months ended March. 31, 2020
Net sales	5,694,943	5,722,445
Cost of sales	4,081,427	4,028,152
Gross profit	1,613,515	1,694,292
Selling, general and administrative expenses	417,323	435,492
Operating profit	1,196,192	1,258,799
Non-operating income		
Interest income	25	20
Subsidy income	49,618	10,102
Rental income from buildings	20,460	50,911
Other	5,322	4,775
Total non-operating income	75,426	65,809
Non-operating expenses		
Interest expenses	886	462
Rental expenses	41,428	33,240
Other	2,291	161
Total non-operating expenses	44,607	33,864
Ordinary profit	1,227,011	1,290,744
Profit before income taxes	1,227,011	1,290,744
Income taxes-current	368,390	383,090
Income taxes-deferred	16,293	24,035
Total income taxes	384,683	407,126
Profit	842,327	883,618

(3) Quarterly Statements of Cash Flows

(Thousand yen)

	For the six months ended March. 31, 2019	For the six months ended March. 31, 2020
Cash flows from operating activities		
Profit before income taxes	1,227,011	1,290,744
Depreciation	205,066	221,207
Increase(decrease) in allowance for doubtful accounts	(420)	(765)
Increase(decrease) in provision for bonuses	(63,057)	(63,065)
Interest and dividends income	(220)	(260)
Interest expenses	886	462
Subsidy income	(20,460)	(10,102)
Decrease(increase) in notes and accounts receivable-trade	19,798	11,188
Decrease(increase) in inventories	(34,540)	(17,987)
Increase(decrease) in accounts payable- other	45,360	118,247
Increase(decrease) in advances received	160,770	440,105
Other, net	29,720	65,626
Subtotal	1,569,915	2,055,401
Interest and dividends income received	207	247
Interest expenses paid	(906)	(436)
Proceeds from subsidy income	21,681	13,814
Income taxes paid	(477,025)	(369,302)
Net cash provided by (used in) operating activities	1,113,872	1,699,724
Cash flows from investing activities		
Purchase of property, plant and equipment	(479,907)	(452,685)
Collection of loans receivable	1,482	570
Payments for lease and guarantee deposits	(22,080)	(2,600)
Proceeds from collection of lease and guarantee deposits	5,997	6,152
Other, net	(712)	(8,771)
Net cash provided by(used in) investment activities	(495,220)	(457,334)
Cash flows from financing activities		
Proceeds from long-term loans payable	1,050,000	—
Repayment of long-term loans payable	(337,872)	(242,538)
Repayments of finance lease obligations	(8,228)	(8,616)
Purchase of treasury shares	(189,221)	—
Cash dividends paid	(281,465)	(313,509)
Net cash provided by(used in) financing activities	233,212	(564,664)
Net increase(decrease) in cash and cash equivalents	851,864	677,725
Cash and cash equivalents at beginning of period	3,936,143	4,577,868
Cash and cash equivalents at end of period	4,788,007	5,255,594

(4) 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 six months of the fiscal year under review are shown below by business segment.

Segment	Six month ended March 31,2020 (Thousand yen)	Year-on-year changes (%)
High school entrance examination course	4,607,257	99.7
University entrance examination course	1,115,187	103.7
Total	5,722,445	100.5