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Non-consolidated Financial Results for the Second Quarter of the Fiscal Year Ending September 30, 2023 [Japanese GAAP]

April 27, 2023

Company name: STEP CO.,LTD.
 Stock exchange listing: Tokyo Stock Exchange
 Stock code: 9795
 URL: <https://www.stepnet.co.jp/>
 Representative: Yousuke Endou, Representative Director and President
 Contact: Noriaki Arai, Director and Managing Executive Officer
 Phone: +81-466-20-8000
 Scheduled date of filing quarterly securities report: May 9, 2023
 Scheduled date of commencing dividend payments: May 15, 2023
 Availability of supplementary briefing material on quarterly financial results : Yes
 Schedule of quarterly financial results briefing session : Yes (for institutional investors)

(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, 2023

(October 1, 2022 to March 31, 2023)

(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, 2023	7,520	10.0	2,285	13.2	2,311	11.9	1,592	11.8
March 31, 2022	6,838	8.4	2,018	18.2	2,065	18.1	1,423	18.2

	Profit per share	Diluted earnings per share
For the second quarter ended March 31, 2023	Yen 95.92	Yen —
March 31, 2022	86.27	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of March 31, 2023	Million yen 28,740	Million yen 26,050	90.6%	Yen 1,567.84
As of September 30, 2022	27,573	24,798	89.9	1,494.56

(Reference) Equity: As of March 31, 2023: ¥ 26,050million
 : As of September 30, 2022: ¥ 24,798million

2. Dividends

	Dividend per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended September 30, 2022	Yen —	Yen 23.00	Yen —	Yen 23.00	Yen 46.00
Fiscal year ending September 30, 2023	—	24.00	—	—	—
Fiscal year ending September 30, 2023 (Forecast)	—	—	—	24.00	48.00

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

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending September 30, 2023 (October 1, 2022 to September 30, 2023)

(% 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
Full year	14,456	5.9	3,862	5.6	3,900	4.6	2,668	4.1	160.79

(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, 2023: 16,670,000 shares

As of September 30, 2022: 16,670,000 shares

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

As of March 31, 2023: 54,522 shares

As of September 30, 2022: 77,422 shares

3) Average number of shares during the period:

As of March 31, 2023: 16,602,400 shares

As of March 31, 2022: 16,505,359 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 5 of this report.

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1. Qualitative Information on the Quarterly Financial Results

(1) Explanation of Operating Results

In the second quarter (January-March) of the current fiscal year, the 3rd grade junior high school and high school students took entrance exams. As for the student recruitment, this quarter is the time when new students tend to consider attending the tutoring schools for the new school year.

The results of entrance examinations in the high school entrance examination course (for elementary and junior high school students) this spring were excellent. A total of 2,499 students (up 104 students from the previous fiscal year) passed the exam at the top public high schools in Kanagawa Prefecture, and we remained at the top among all the tutoring schools in the prefecture. As a result, 42.8% of our students (the same percentage as the previous fiscal year) passed the top schools, among those 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 17 of the 19 top public high schools in Kanagawa including Yokohama Suiran Senior High School and Shonan Senior High School, which are the most difficult public high schools to enter in Kanagawa, and 17 of the 19 schools that underwent the special “tokushoku kensa test” (writing test) that characterizes the current exam system. Accordingly, we continued to outperform other tutoring schools also this spring.

STEP ranked highest among all the tutoring schools for all five of the preparatory schools in Kanagawa that are particularly focused on improving academic performance (Yokohama Suiran, Shonan, Hakuyo, Kawawa, and Atsugi high schools), and a total of 949 STEP students have passed the exam (up 49 students from the previous fiscal year; 54% of 1,756 total passing examinees), which is more than three times that of other tutoring schools. Furthermore, in terms of our pass rate, 82.9% of STEP students who took the examinations at all five schools passed, which significantly exceeded the pass rate of 60.4% for Non-STEP students (calculated from the materials released by the Kanagawa Board of Education).

In addition, the number of students who have passed the exam at Tokyo Gakugei University Senior High School, which is co-ed and has the most difficult entrance exam among the schools within the school commuting area for our students, has reached 192 in the end (excluding returnees and internal admissions; the number of our students who have passed the exam at the first selection was 132, 49.6% of 266 in all at that time). We have the largest number of students who passed the school among all tutoring schools for 15 consecutive years.

In the university entrance examination course (for high school students), we were able to pass 8 students for the University of Tokyo, 4 students for Kyoto University, 11 students for Hitotsubashi University, and 22 students for Tokyo Institute of Technology (42 out of 45 are public high school students in Kanagawa Prefecture). In addition, 5 high school students also passed the Medical Faculty/Department of national and public universities, and the number of students passing the entrance exams for all national and public universities has increased to 324 (up 17 from the previous fiscal year); this number renewed the record high (307) which was marked in the previous fiscal year. As for the private universities, a total of 459 students passed the entrance exams at Waseda, Keio, and Sophia Universities (down 9 from 468 in the previous fiscal year), and a total of 1,992 students passed the entrance exams at the so-called Ridai MARCH Schools (Tokyo University of Science, Meiji, Aoyama Gakuin, Rikkyo, Chuo, and Hosei) (up 34 from 1,958 in the previous fiscal year), resulting in renewed record high consecutively.

Most of these pass results are achieved by public high school students in Kanagawa, which is one of our characteristic aspects of successful university entrance exams. It is generally considered that public high schools tend to be inferior to private high schools in their pass results in the Tokyo metropolitan area. However, because we built a certain study system and structure for entrance exams, the number of public high school students who passed the first-choice universities was able to be increased. The successful results achieved also in this spring can be proved to be very meaningful for us.

We continue to strive to strengthen our system to meet the needs of high school students who want to enrich their multifaceted high school life, including club activities and school events, and pass the entrance examination for the university of their choice. In Kanagawa Prefecture, there has been a notable number of closures of major prep schools, but we will continue to further enhance our teaching content. In addition, we will further strengthen our position as one of the leading live cram schools in the prefecture, focusing on public high school students.

In the after-school care course, we opened the STEP Kids Hakuraku School (Kanagawa Ward, Yokohama City) on March 20 as the first STEP Kids school in Yokohama City. While refining this rich and diverse content, each school will accumulate and share their operational know-how to build a foundation for future expansion throughout the prefecture. Also, at the end of March, we opened a branch classroom (STEP Kids Shonan North Exit School) of the STEP Kids Shonan School (Fujisawa City). The Shonan School, which was the first school that we opened in the after-school care course, quickly reached its capacity for new 1st grade elementary school students. In response, we will use a part of the nearby STEP Junior Labo as a branch classroom.

Four new schools were opened in the high school entrance examination course and one new school was opened in the after-school care course in March during the current fiscal year. In the high school entrance examination course, we opened Mizonokuchi School (Mizonokuchi Station on the Tokyu Denentoshi Line and Musashi-Mizonokuchi Station on the JR Nambu Line) and Hi-STEP Musashi-Kosugi School (Musashi-Kosugi Station on the Tokyu Toyoko Line and the JR Line) in Kawasaki City. Coupled with Musashi-Shinjo School and Musashi-Nakahara School opened in the last term, the school network along the JR Nambu Line in Takatsu Ward and Nakahara Ward is expanding. In Yokohama City, we opened Tsurumi School (Tsurumi Station on the JR Keihin-Tohoku Line), which is the first school to be opened in Tsurumi Ward of Yokohama City, and Idogaya School (Idogaya Station on the Keikyu Line), which is the second school to be opened in Minami Ward of Yokohama City (first if Hi-STEP is excluded). The above four schools are all in the area where we will concentrate our business from now on. We will strive to convey the stance of STEP tutoring schools to the region and to be recognized as a topnotch tutoring school that offers best teaching.

We expect the number of schools in Kawasaki City to increase. By giving our best effort to improve the academic abilities of students attending our schools, we expect the number of passing examinees to grow in accordance with the increase in schools. In particular, we will continue to strive toward realizing the goal of STEP becoming the top tutoring school in several years in terms of students who pass examinations for Tama Senior High School, which is the most popular school in the Kawasaki area.

In the after-school care course, we opened the STEP Kids Hakuraku School (Hakuraku Station on the Tokyu Toyoko Line) as mentioned above, which is the fourth school of the STEP Kids school. We are recruiting four grades from the first to fourth grades of elementary school from the first fiscal year by taking advantage of the expertise of our existing three schools at Hakuraku School.

At our existing schools, we plan to continue to consider adding classes, increasing floor space and relocating school buildings where we have not been able to accept enrollment requests due to full capacity. We relocated STEP high school entrance examination course of Hakuraku School next to STEP Kids Hakuraku School (mentioned above) and enlarged it, while doubling the size of Hi-STEP Shonan School (Fujisawa City) in March. Also, following the previous term, we decided to increase floor space of the STEP university entrance examination course of Yokohama School, which is constantly at full capacity.

The situation of student recruitment continues to be strong in each department. As of the end of the second quarter of the current fiscal year, the average number of students during the period increased by 3.6% year-on-year.

In the university entrance examination course, 13 out of 15 schools are full for 1st grade high school student as of mid-April. The majority were students advancing from the high school entrance examination course. This period is also off to an favorable start.

We are actively investing in human resources. In this period, starting from salaries paid in April 2023, we will raise the salary level (including increases to base salary; instructors: 20,000 yen per month; administrative staff: 10,000 to 15,000 yen per month) in addition to periodic salary increase. As a result, the starting salary for instructors will increase to 275,000 yen. This increase in salary levels continues from the previous year, and we are currently implementing a three-year plan that runs until 2024. We also provided a special inflation allowance (total of 48 million yen) in December 2022 (January 2023 for part-time employees).

As a major pillar of our future management policy, we are currently planning to actively invest in human resources and develop an educational environment. We will release further details once the outline of the plan has been formulated.

As a result, net sales in the second quarter of the current fiscal year were 7,520 million yen (up 10.0% year-on-year), operating profit was 2,285 million yen (up 13.2% year-on-year), ordinary profit was 2,311 million yen (up 11.9% year-on-year), and profit was 1,592 million yen (up 11.8% year-on-year).

Due to the effect of the application of “Accounting Standard for Revenue Recognition, etc.” from the previous fiscal year, net sales in the second quarter increased by 312 million yen, and operating income, ordinary income, and net income before income taxes each increased by the same amount of 312 million yen.

(2) Explanation of Financial Condition

1) Assets, liabilities and net assets at the end of the second quarter of the fiscal year under review

(Assets)

Total assets at the end of the second quarter stood at 28,740 million yen, an increase of 1,167 million yen from the end of the previous fiscal year.

Current assets increased 555 million yen from the end of the previous fiscal year to 10,279 million yen, mainly due to an increase in cash and deposits.

Non-current assets increased 612 million yen from the end of the previous fiscal year, to 18,460 million yen, mainly due to an increase in investment securities.

(Liabilities)

Liabilities at the end of the second quarter decreased 84 million yen from the end of the previous fiscal year, to 2,689 million yen.

Current liabilities decreased 61 million yen from the end of the previous fiscal year to 1,979 million yen because of a decrease in advances received, despite an increase in income taxes payable.

Non-current liabilities decreased 22 million yen from the end of the previous fiscal year to 710 million yen, mainly from the repayment of long-term borrowings.

(Net assets)

Net assets at the end of the second quarter increased 1,251 million yen from the end of the previous fiscal year to 26,050 million yen, mainly due to the recording of quarterly net income, despite the payment of dividends.

As a result, the equity ratio was 90.6%, up by 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 711 million yen (up by 8.1% year on year) to 9,439 million yen.

(Cash flows from operating activities)

Net cash provided by operating activities was 1,582 million yen (up by 21.1% year on year).

This was mainly attributable to profit before income taxes of 2,311 million yen, depreciation and amortization of 259 million yen, which were offset by income taxes paid of 555 million yen and a decrease in advances received of 185 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 779 million yen (up by 325.3% year on year).

This was mainly due to the purchase of investment securities of 546 million yen.

(Cash flows from financing activities)

Net cash used in investing activities was 454 million yen (down by 41.7% year on year).

This was mainly attributable to repayments of long-term loans payable of 64 million yen and cash dividends paid of 381 million yen.

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

The forecasts for the fiscal year ending September 30, 2023 remains unchanged from that stated in the “Summary of Financial Results for the Fiscal Year Ended September 30, 2022 [Japan GAAP] (Non-consolidated)” dated October 31, 2022. However, if it becomes necessary to revise the business forecasts, we will promptly disclose relevant items at an appropriate timing.

From now on, our challenge is to form a network in Kawasaki City, which has the most student-age population next to Yokohama City in Kanagawa Prefecture and where we have just initiated a full-scale foray, and also a school network in the eastern, coastal, and southern areas in Yokohama City such as Tsurumi Ward, Naka Ward, Minami Ward, Kanazawa Ward.

To strategically focus on Yokohama City and Kawasaki City, where there is still much room for opening schools, and form a strong school network in a mid-term period, we need to further increase the number of students who pass Yokohama Suiran Senior High School and Tama Senior High School, which are rated as top public schools in the Yokohama/Kawasaki area, and also need to be even more strongly recognized as a topnotch tutoring school that offers best teaching.

2. Quarterly Financial Statements and Principal Notes

(1) Quarterly Balance Sheets

(Thousand yen)

	As of September 30, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	9,354,061	9,701,996
Accounts receivable-trade	69,055	56,139
Inventories	35,298	112,744
Other	266,831	409,401
Allowance for doubtful accounts	(434)	(353)
Total current assets	9,724,811	10,279,928
Non-current assets		
Property, plant and equipment		
Buildings, net	7,550,582	7,645,699
Land	9,083,408	9,083,408
Other, net	214,170	190,901
Total property, plant and equipment	16,848,161	16,920,009
Intangible assets	33,123	26,515
Investments and other assets		
Leasehold and guarantee deposits	613,259	631,407
Other	353,791	882,461
Total investments and other assets	967,050	1,513,868
Total non-current assets	17,848,336	18,460,394
Total assets	27,573,147	28,740,323
Liabilities		
Current liabilities		
Current portion of long-term borrowings	116,550	104,700
Lease obligations	17,722	15,759
Accounts payable-other	119,176	173,055
Income taxes payable	624,710	786,714
Provision for bonuses	95,120	22,025
Other	1,068,227	877,522
Total current liabilities	2,041,507	1,979,776
Non-current liabilities		
Long-term borrowings	245,300	192,950
Lease obligations	29,453	30,258
Provision for retirement benefits for directors	129,800	129,800
Asset retirement obligation	314,456	343,417
Other	14,059	13,668
Total non-current liabilities	733,069	710,095
Total liabilities	2,774,576	2,689,872

(Thousand yen)

	As of September 30, 2022	As of March 31, 2023
Net assets		
Shareholders' equity		
Share capital	1,778,330	1,778,330
Capital surplus	2,120,864	2,131,859
Retained earnings	20,999,308	22,210,153
Treasury shares	(101,037)	(70,891)
Total shareholders' equity	24,797,465	26,049,451
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,105	999
Total valuation and translation adjustments	1,105	999
Total net assets	24,798,570	26,050,450
Total liabilities and net assets	27,573,147	28,740,323

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

(Thousand yen)

	For the six months ended March. 31, 2022	For the six months ended March. 31, 2023
Net sales	6,838,112	7,520,772
Cost of sales	4,399,057	4,807,206
Gross profit	2,439,055	2,713,565
Selling, general and administrative expenses	420,640	428,180
Operating profit	2,018,414	2,285,384
Non-operating income		
Interest income	12	16
Subsidy income	14,049	12,495
Rental income from buildings	52,717	54,186
Other	18,524	6,593
Total non-operating income	85,302	73,291
Non-operating expenses		
Interest expenses	690	298
Rental expenses	37,004	37,877
Other	649	9,421
Total non-operating expenses	38,344	47,598
Ordinary profit	2,065,373	2,311,078
Profit before income taxes	2,065,373	2,311,078
Income taxes-current	611,355	712,088
Income taxes-deferred	30,177	6,516
Total income taxes	641,533	718,604
Profit	1,423,840	1,592,474

(3) Quarterly Statements of Cash Flows

(Thousand yen)

	For the six months ended March. 31, 2022	For the six months ended March. 31, 2023
Cash flows from operating activities		
Profit before income taxes	2,065,373	2,311,078
Depreciation	241,543	259,086
Increase(decrease) in allowance for doubtful accounts	(150)	(81)
Increase(decrease) in provision for bonuses	(71,316)	(73,095)
Interest and dividends income	(252)	(422)
Interest expenses	690	298
Subsidy income	(14,049)	(12,495)
Loss (gain) on sale of investment securities	—	(2,616)
Decrease (increase) in trade receivables	(90,127)	(108,115)
Decrease(increase) in inventories	(34,621)	(77,446)
Increase(decrease) in accounts payable- other	(125,927)	(21,577)
Increase(decrease) in advances received	164,193	(185,348)
Other, net	(1,310)	31,615
Subtotal	2,134,046	2,120,879
Interest and dividends received	249	321
Interest paid	(657)	(286)
Subsidies received	18,598	16,780
Income taxes paid	(845,992)	(555,383)
Net cash provided by (used in) operating activities	1,306,244	1,582,312
Cash flows from investing activities		
Purchase of property, plant and equipment	(162,739)	(219,208)
Purchase of investment securities	—	(546,253)
Proceeds from sale of investment securities	—	4,764
Proceeds from collection of loans receivable	590	1,590
Payments of leasehold and guarantee deposits	(23,641)	(21,549)
Proceeds from refund of leasehold and guarantee deposits	6,886	3,401
Other, net	(4,419)	(2,503)
Net cash provided by(used in) investment activities	(183,324)	(779,758)
Cash flows from financing activities		
Repayments of long-term borrowings	(359,498)	(64,200)
Repayments of finance lease liabilities	(9,046)	(9,268)
Purchase of treasury shares	(75)	—
Dividends paid	(411,506)	(381,390)
Net cash provided by(used in) financing activities	(780,125)	(454,858)
Net increase(decrease) in cash and cash equivalents	342,793	347,696
Cash and cash equivalents at beginning of period	8,386,058	9,092,197
Cash and cash equivalents at end of period	8,728,852	9,439,893

(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 31,2023 (Thousand yen)	Year-on-year changes (%)
High school entrance examination course	6,047,577	110.2
University entrance examination course	1,473,195	109.0
Total	7,520,772	110.0