



Non-consolidated Financial Results for the First Quarter of the Fiscal Year Ending September 30, 2021 [Japanese GAAP]

January 28, 2021

Company name: STEP CO.,LTD.
 Stock exchange listing: Tokyo Stock Exchange
 Stock code: 9795
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 Scheduled date of filing quarterly securities report: February 2, 2021
 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, 2021

(October 1, 2020 to December 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 first quarter ended December 31, 2020	3,197	1.5	956	(0.8)	979	0.0	674	0.0
December 31, 2019	3,149	7.2	964	19.5	979	19.5	674	19.5

	Profit per share	Diluted earnings per share
For the first quarter ended December 31, 2020	Yen 40.86	Yen —
December 31, 2019	40.85	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2020	26,746	21,404	80.0	1,296.79
As of September 30, 2020	26,036	21,060	80.9	1,275.93

(Reference) Equity: As of December 31, 2020: ¥ 21,404million
 : As of September 30, 2020: ¥ 21,060million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended September 30, 2020	Yen —	Yen 20.00	Yen —	Yen 20.00	Yen 40.00
Fiscal year ending September 30, 2021	—	—	—	—	—
Fiscal year ending September 30, 2021 (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, 2021 (October 1, 2020 to September 30, 2021)

(% 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	6,027	5.3	1,340	6.5	1,364	5.7	931	5.4	56.40
Full year	12,211	11.7	2,706	40.2	2,741	39.2	1,848	37.6	111.96

(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, 2020: 16,670,000 shares

As of September 30, 2020: 16,670,000 shares

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

As of December 31, 2020: 163,983 shares

As of September 30, 2020: 163,983 shares

3) Average number of shares during the period:

As of December 31, 2020: 16,506,017 shares

As of December 31, 2019: 16,506,765 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 2021" on page 4 of this report.

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1. Qualitative Information on the Quarterly Financial Results

(1) Explanation of Operating Results

In the first quarter of the current fiscal year (October 2020 - September 2021), the Company has just entered the second half of the school year starting in April 2020, and in terms of the number of students, the first quarter is a period of relatively little fluctuation at a level that follows the trend from the previous fiscal year (October 2019 - September 2020). We were greatly affected by the new coronavirus (COVID-19) infections in the recruitment at the beginning of the new school year (April 2020 - March 2021) in the previous fiscal year. Although the situation of the recruitment is currently getting better moderately, it has not yet fully recovered. In the first quarter of the current fiscal year, the number of students enrolled increased slightly and continuously, unlike previous years, perhaps as a reaction to the fact that enrollment in the spring was postponed due to COVID-19. However, the total number of our students, including both high school entrance examination course (for elementary and junior high school students) and university entrance examination course (for high school students), increased only slightly during the period, up 1.1% on average compared to the same quarter last year. The growth in student numbers is expected to continue to be limited in the second quarter (January to March). However, we expect sales growth owing to a reaction to the refund of tuition fees in the previous fiscal year. From the third quarter onward, we anticipated that student numbers would recover as the impact of COVID-19 disappeared. However, we are facing uncertainty as the second declaration of State of Emergency was issued on January 7, immediately before the start of recruitment for new students. In the previous fiscal year, the impact of COVID-19 on recruitment for the new fiscal year was also significant. If the current State of Emergency continues until March, recruitment for the new fiscal year may be affected. Therefore, we will continue to keep a close watch on the situation.

As described above, our business may be affected by the timing of the lifting of State of Emergency, etc. in the short term. However, even under the COVID-19 crisis, which has lasted for about a year since last year, there is firm demand for learning from students and their families, and we realize that there is a strong need for high-quality study guidance that can be close to the students. Therefore, in the long term, we assume that our business performance will improve once the COVID-19 situation is contained. Following the declaration of the state of emergency, we offer mainly face-to-face live classes, while also offering online classes in parallel, taking advantage of last year's experience.

The current public high school entrance exams in Kanagawa Prefecture, which were drastically changed 8 years ago, initially attracted attention for the changes in the system, such as the complication of the selection system and the introduction of a unique test called the "Tokushoku Kensa Test" mainly for so-called top schools. Since then, however, the entrance examinations have become more difficult, and the system has been transformed into one in which the weight of scores on the day of the exam is greater. As competitive ratio for popular schools are generally high, this makes it a very tense entrance exam system for students. As a result, in the high school entrance examination course, the need for advancement guidance in addition to study guidance is increasing, and the higher the graduate level, the higher the school attendance rate is. There are some schools where the classes of the 3rd and 2nd-grade students who are preparing for exams are full.

In the university entrance examination course, 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 face-to-face tutoring schools in Kanagawa Prefecture.

In February during the second quarter, entrance exams are held at public high schools in Kanagawa Prefecture and at private and national high schools in the Tokyo metropolitan area, and the announcements of their results will be held simultaneously. The passing results of STEP students in the results of these entrance exams have a significant impact on student recruitment over the next year. 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) and 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) for two consecutive years in spring of

2019 and 2020, and we are now in the midst of making a concerted effort to achieve the goal for three years in a row. Of course, not only for these two projects, but for the high school entrance examination course, we will aim to achieve even better successes than before by enhancing our study guidance and providing highly accurate career guidance based on detailed data analyzed from past pass/fail results.

In the university entrance examination course, where we are focusing our efforts as well as the high school entrance examination course, 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." We are doing our best to show the results of our efforts in this spring's university entrance results. As the university entrance exams continue to change, we will continue to be proactive and realistic, flexibly review the curriculum and teacher training content, and work tirelessly to further improve the content of our teaching.

In March, the kids course opened two schools, the Tsujido School (JR Tokaido Line, Tsujido Station) and the Chigasaki School (JR Tokaido Line, Chigasaki Station), and began networking STEP Kids. In the first year of the two new classrooms, we will only be accepting applications for grades 1 and 2 of elementary school students, but we expect the number of students to increase with the addition of grade 3 from spring 2021 and grade 4 from spring 2022. We will continue to accumulate and share operational know-how at three schools with the aim of achieving higher-quality operations.

Three new schools are scheduled to be opened during the current fiscal year in the high school entrance examination course. We will open Motosumiyoshi School (Tokyu Toyoko Line, Motosumiyoshi Station, Nakahara-ku Kawasaki City) and Hi-STEP Kawasaki School (JR Tokaido Line, Kawasaki Station, Saiwai-ku Kawasaki City) in the Kawasaki area where we are focusing, and Kaminagaya School (Yokohama City Subway, Kaminagaya Station, Konan-ku Yokohama City) in Yokohama City. In addition to its first opening in the former Southern Kawasaki School District, Hi-STEP is the first new school in three years. Motosumiyoshi and Kaminagaya schools are scheduled to begin classes in March and Hi-STEP Kawasaki in April.

As a result of the above, in the first quarter, we recorded net sales of 3,197 million yen (up 1.5% year on year), operating income of 956 million yen (down 0.8% year on year), ordinary income of 979 million yen (up 0.0% year on year), and net income of 674 million yen (up 0.0% year on year).

(2) Explanation of Financial Condition

Assets

Total assets at the end of the first quarter stood at 26,746 million yen, an increase of 709 million yen from the end of the previous fiscal year.

Current assets increased 650 million yen from the end of the previous fiscal year to 8,865 million yen, mainly due to an increase in cash and deposits.

Non-current assets increased 58 million yen from the end of the previous fiscal year to 17,880 million yen, mainly due to an increase in deferred tax assets.

Liabilities

Liabilities at the end of the first quarter increased 365 million yen from the end of the previous fiscal year to 5,341 million yen.

Current liabilities increased 537 million from the end of the previous fiscal year to 3,595 million yen, mainly due to an increase in the provision for bonuses, despite a decrease in the current portion of long-term loans payable.

Non-current liabilities decreased 172 million yen from the end of the previous fiscal year to 1,745 million yen, mainly due to the repayment of long-term loans payable.

Net assets

Net assets at the end of the first quarter of the current fiscal year increased 344 million yen from the end of the previous fiscal year to 21,404 million yen, mainly due to the recording of quarterly net income, despite the payment of dividends.

The equity ratio was 80.0%, down 0.9 percentage points from the end of the previous fiscal year.

(3) Financial Forecast for 2021

The forecasts for the fiscal year ending September 30, 2021 remains unchanged from that stated in the "Summary of Financial Results for the Fiscal Year Ended September 30, 2020 [Japan GAAP] (Non-consolidated)" dated October 30, 2020.

2. Quarterly Financial Statements and Principal Notes

(1) Quarterly Balance Sheets

(Thousand yen)

	As of September 30, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	7,877,599	8,401,571
Accounts receivable-trade	67,811	110,785
Inventories	26,497	30,077
Other	244,436	325,339
Allowance for doubtful accounts	(1,111)	(1,816)
Total current assets	8,215,233	8,865,957
Non-current assets		
Property, plant and equipment		
Buildings, net	7,711,467	7,683,647
Land	9,083,408	9,083,408
Other, net	194,452	195,333
Total property, plant and equipment	16,989,329	16,962,389
Intangible assets	39,983	37,368
Investments and other assets		
Leasehold and guarantee deposits	514,650	531,304
Other	277,597	349,468
Total investments and other assets	792,248	880,773
Total non-current assets	17,821,561	17,880,531
Total assets	26,036,794	26,746,488
Liabilities		
Current liabilities		
Current portion of long-term borrowings	1,871,868	1,838,379
Lease obligations	16,217	15,218
Accounts payable-other	124,762	124,165
Income taxes payable	302,751	416,509
Provision for bonuses	88,306	310,635
Other	654,048	890,925
Total current liabilities	3,057,953	3,595,832
Non-current liabilities		
Long-term borrowings	1,518,839	1,338,532
Lease obligations	18,140	20,756
Provision for retirement benefits for directors	129,800	129,800
Asset retirement obligation	237,228	242,432
Other	14,293	14,283
Total non-current liabilities	1,918,301	1,745,804
Total liabilities	4,976,255	5,341,637

(Thousand yen)

	As of September 30, 2020	As of December 31, 2020
Net assets		
Shareholders' equity		
Capital stock	1,778,330	1,778,330
Capital surplus	2,082,726	2,082,726
Retained earnings brought forward	17,417,676	17,761,954
Treasury stock	(216,718)	(216,718)
Total shareholders' equity	21,062,013	21,406,292
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(1,474)	(1,440)
Total valuation and translation adjustments	(1,474)	(1,440)
Total net assets	21,060,538	21,404,851
Total liabilities and net assets	26,036,794	26,746,488

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

(Thousand yen)

	For the three months ended December. 31, 2019	For the three months ended December. 31, 2020
Net sales	3,149,336	3,197,324
Cost of sales	1,998,862	2,063,833
Gross profit	1,150,474	1,133,491
Selling, general and administrative expenses	186,204	177,150
Operating profit	964,269	956,341
Non-operating income		
Interest income	6	3
Subsidy income	5,674	6,432
Rental income from buildings	24,981	26,399
Other	2,725	7,157
Total non-operating income	33,388	39,992
Non-operating expenses		
Interest expenses	249	919
Rental expenses	17,774	15,641
Other	2	15
Total non-operating expenses	18,026	16,576
Ordinary profit	979,631	979,757
Profit before income taxes	979,631	979,757
Income taxes-current	369,690	383,323
Income taxes-deferred	(64,366)	(77,964)
Total income taxes	305,324	305,359
Profit	674,306	674,398

(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 months ended December 31,2020 (Thousand yen)	Year-on-year changes (%)
High school entrance examination course	2,523,464	100.4
University entrance examination course	673,860	106.1
Total	3,197,324	101.5