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

July 27, 2023

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 Stock exchange listing: Tokyo Stock Exchange
 Stock code: 9795
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 Scheduled date of filing quarterly securities report: August 1, 2023
 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 Third Quarter of the Fiscal Year Ending September 30, 2023

(October 1, 2022 to June 30, 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 third quarter ended June 30, 2023	10,706	7.0	2,321	(9.4)	2,333	(10.8)	1,627	(9.6)
June 30, 2022	10,001	6.7	2,563	13.4	2,616	12.3	1,801	12.3

	Profit per share	Diluted earnings per share
For the third quarter ended June 30, 2023	Yen 98.21	Yen —
June 30, 2022	109.15	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2023	27,712	25,155	90.8	1,542.05
As of September 30, 2022	27,573	24,798	89.9	1,494.56

(Reference) Equity: As of June 30, 2023: ¥ 25,155million
 : 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)	—	—	—	46.00	70.00

(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	14,534	6.5	3,127	(14.5)	3,164	(15.1)	2,326	(9.2)	140.06

(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 June 30, 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 June 30, 2023: 356,722 shares

As of September 30, 2022: 77,422 shares

3) Average number of shares during the period:

As of June 30, 2023: 16,573,163 shares

As of June 30, 2022: 16,504,865 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

Our company's third quarter (April to June) begins with the new school year enrollment period in April after receiving the results of the entrance examination in March. Recruitment for the new school year is healthy, and the number of students is growing. As of the end of June 2023, the total number of students increased 2.6% year on year. In addition, the average number of students during the third quarter was 32,157 (up 3.3% year on year).

In particular, the recruitment of 6th grade elementary school students progressed smoothly. One of the reasons behind this is that the number of classes and courses with full capacity is increasing for junior high and high school students, so parents thinking it may be too late to apply after their children enter junior high school are applying to attend in those areas while their children are still elementary school students.

The results of entrance exams this spring were favorable, which helped to increase student recruitment.

In the high school entrance examination, 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. 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, 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.

In the after-school care course, we opened the STEP Kids Hakuraku School (Kanagawa Ward, Yokohama City) in late March 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 is the first one in the STEP kids course, quickly reached its capacity for applications from first grade elementary school students. Thus, the branch school is now accepting these students.

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. In March, we relocated STEP high school entrance examination course of Hakuraku School next to STEP Kids Hakuraku School (mentioned above) and enlarged it. In April, we increased floor space of the STEP university entrance examination course of Yokohama School, which is constantly at full capacity, for the second consecutive year. Also in July, we added classrooms in the STEP university entrance examination course of Totsuka School.

In addition, we are continuously working to make the learning environment more comfortable to students. When Hi-STEP Shonan School (Fujisawa City) doubled in size in March, we not only added more classrooms, but also significantly expanded study rooms and student rest areas. Also, we expanded facilities at Hi-STEP Futamatagawa School in May.

On May 17, 2023, we announced the “Notice of Future Management Policy.” The framework of this new management policy consists of the following three pillars.

1. Based on the concept that “Tutoring schools belong to a human resources industry, and the driving force for progress is to have competent teachers and staff to support them,” we have aggressively raised wages and improved the treatment of personnel amid the inflationary trend of the Japanese economy. Specifically, we are actively promoting salary increases. In this period, starting from salaries paid in April 2023, we raised 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 increased to 275,000 yen. This increase in salary levels continues from the previous year, and the increase was done in the second year of the three-year plan that runs until 2024.

In addition, we provided special bonuses amounting to 300 million yen in July (this was posted in the third quarter) in order to show gratitude to our instructors and administrative staff members who have supported classes and administration during the COVID-19 pandemic for over 3 years.

2. In order to continue to be an appealing tutoring school for students, we will actively invest in improving the learning environment. This fiscal year, we plan to invest over 200 million yen in updating classroom projectors to the latest equipment, improving the PC and IT environments, expanding study rooms, and increasing school fixtures and books provided for students. We are moving toward sequentially executing this plan.

3. Kanagawa Prefecture is likely to experience a large-scale earthquake within the next 30 years (according to the 2020 National Seismic Hazard Maps for Japan issued by the Headquarters for Earthquake Research Promotion, the probability of an earthquake with a seismic intensity of 6 lower or higher occurring within 30 years from 2020 is classified as the highest, at 26% or higher. The probability of an earthquake with a magnitude of about 7 occurring in the surrounding area is about 70%). Based on these data, we have set a goal of internally accumulating approximately 10 billion yen as crisis management funds. We expect to achieve this goal in the current fiscal year, so we will take this opportunity to strengthen shareholder returns and raise the dividend payout ratio from the previous target of 30% to 50%. As a result, the full-year dividend per share is expected to be 70 yen (year-end dividend forecast is 46 yen). We plan to continue this dividend payout ratio for the foreseeable future.

The above three points are the pillars of the above new management policy.

As a result of these measures, the operating profit margin for the current fiscal year is expected to be around 21%, and this trend is expected to continue for the foreseeable future.

In the third quarter, we recorded net sales of 10,706 million yen (up 7.0% year on year), operating profit of 2,321 million yen (down 9.4% year on year), ordinary profit of 2,333 million yen (down 10.8% year on year), and profit of 1,627 million yen (down 9.6% 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 third quarter increased by 312 million yen, and operating profit, ordinary profit, and profit before income taxes each increased by the same amount of 312 million yen.

(2) Explanation of Financial Condition

(Assets)

Total assets at the end of the third quarter stood at 27,712 million yen, an increase of 139 million yen from the end of the previous fiscal year.

Current assets increased 11 million yen from the end of the previous fiscal year to 9,736 million yen, mainly due to an increase in accounts receivable-trade.

Non-current assets increased 128 million yen from the end of the previous fiscal year to 17,976 million yen because of an increase in investment securities, despite a decrease in land.

(Liabilities)

Liabilities at the end of the third quarter decreased 217 million yen from the end of the previous fiscal year to 2,557 million yen.

Current liabilities decreased 168 million yen from the end of the previous fiscal year to 1,873 million yen because of a decrease in income taxes payable and other, despite an increase in accounts payable-other.

Non-current liabilities decreased 49 million yen from the end of the previous fiscal year to 683 million yen, mainly due to a decrease in long-term loans payable.

(Net assets)

Net assets at the end of the third quarter increased 357 million yen from the end of the previous fiscal year to 25,155 million yen, mainly due to the recording of quarterly profit, despite the payment of dividends.

As a result, the equity ratio was 90.8%, up 0.9 percentage points from the end of the previous fiscal year.

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

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, and 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 June 30, 2023
Assets		
Current assets		
Cash and deposits	9,354,061	9,270,739
Accounts receivable-trade	69,055	160,640
Inventories	35,298	48,700
Other	266,831	256,610
Allowance for doubtful accounts	(434)	(568)
Total current assets	9,724,811	9,736,122
Non-current assets		
Property, plant and equipment		
Buildings, net	7,550,582	7,528,060
Land	9,083,408	8,616,896
Other, net	214,170	181,381
Total property, plant and equipment	16,848,161	16,326,339
Intangible assets	33,123	56,249
Investments and other assets		
Leasehold and guarantee deposits	613,259	639,157
Other	353,791	955,073
Total investments and other assets	967,050	1,594,230
Total non-current assets	17,848,336	17,976,819
Total assets	27,573,147	27,712,942
Liabilities		
Current liabilities		
Current portion of long-term borrowings	116,550	104,700
Lease obligations	17,722	14,156
Accounts payable-other	119,176	534,802
Income taxes payable	624,710	290,137
Provision for bonuses	95,120	324,268
Other	1,068,227	604,959
Total current liabilities	2,041,507	1,873,024
Non-current liabilities		
Long-term borrowings	245,300	166,775
Lease obligations	29,453	27,140
Provision for retirement benefits for directors	129,800	129,800
Asset retirement obligation	314,456	345,743
Other	14,059	14,524
Total non-current liabilities	733,069	683,983
Total liabilities	2,774,576	2,557,007

(Thousand yen)

	As of September 30, 2022	As of June 30, 2023
Net assets		
Shareholders' equity		
Capital stock	1,778,330	1,778,330
Capital surplus	2,120,864	2,131,859
Retained earnings	20,999,308	21,846,583
Treasury shares	(101,037)	(603,391)
Total shareholders' equity	24,797,465	25,153,381
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,105	2,553
Total valuation and translation adjustments	1,105	2,553
Total net assets	24,798,570	25,155,934
Total liabilities and net assets	27,573,147	27,712,942

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

(Thousand yen)

	For the nine months ended June. 30, 2022	For the nine months ended June. 30, 2023
Net sales	10,001,595	10,706,164
Cost of sales	6,832,505	7,763,771
Gross profit	3,169,090	2,942,393
Selling, general and administrative expenses	606,066	620,920
Operating profit	2,563,023	2,321,472
Non-operating income		
Interest income	13	19
Subsidy income	20,006	19,293
Rental income from buildings	79,282	81,752
Other	21,169	10,019
Total non-operating income	120,471	111,084
Non-operating expenses		
Interest expenses	882	431
Rental expenses	65,413	75,411
Other	732	23,034
Total non-operating expenses	67,029	98,876
Ordinary profit	2,616,466	2,333,680
Extraordinary income		
Gain on sale of non-current assets	—	56,909
Total extraordinary income	—	56,909
Extraordinary losses		
Loss on sale of non-current assets	—	20,486
Other	—	160
Total extraordinary losses	—	20,647
Profit before income taxes	2,616,466	2,369,942
Income taxes-current	866,219	825,917
Income taxes-deferred	(51,253)	(83,651)
Total income taxes	814,966	742,266
Profit	1,801,500	1,627,675

(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 nine months of the fiscal year under review are shown below by business segment.

Segment	Nine months ended June 30,2023 (Thousand yen)	Year-on-year changes (%)
High school entrance examination course	8,539,087	106.9
University entrance examination course	2,167,077	107.6
Total	10,706,164	107.0