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Non-consolidated Financial Results for the Fiscal Year Ended September 30, 2020 [Japanese GAAP]

October 30, 2020

Company name: STEP CO.,LTD.

Stock exchange listing: Tokyo Stock Exchange

Stock code: 9795

URL: <http://www.stepnet.co.jp/>

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Scheduled date of Ordinary General Meeting of Shareholders: December 12, 2020

Scheduled date of commencing dividend payments: December 15, 2020

Scheduled date of filing securities report: December 14, 2020

Preparation of supplementary briefing material on annual financial results: Yes

Holding of financial results presentation meeting: Yes (for institutional investors and analysts)

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

1. Non-consolidated Financial Results for the Fiscal Year Ended September 30, 2020 (October 1, 2019 to September 30, 2020)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2020	10,927	(5.7)	1,929	(28.2)	1,968	(28.1)	1,343	(30.9)
September 30, 2019	11,592	5.1	2,689	0.3	2,738	(0.8)	1,943	4.3

	Profit per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets ratio	Operating profit to net sales ratio
Fiscal year ended	Yen	—	Yen	%	%
September 30, 2020	81.38	—	—	6.5	8.0
September 30, 2019	117.92	—	—	9.8	12.3

(Reference) Equity in earnings of affiliated companies: Fiscal year ended September 30, 2020: ¥ - million

Fiscal year ended September 30, 2019: ¥ - million

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	yen
September 30, 2020	26,036	21,060	80.9	1,275.93
September 30, 2019	22,919	20,362	88.8	1,233.57

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

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

(3) Non-consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
September 30, 2020	1,868	(560)	1,730	7,616
September 30, 2019	2,158	(1,072)	(444)	4,577

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
September 30, 2019	—	19.00	—	19.00	38.00	626	32.2	3.1
September 30, 2020	—	20.00	—	20.00	40.00	660	49.2	3.1
Fiscal year ending September 30, 2021 (Forecast)	—	20.00	—	20.00	40.00		35.7	

3. Non-consolidated 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

* Notes:

(1) 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

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

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

As of September 30, 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 September 30, 2020: 163,983 shares

As of September 30, 2019: 163,235 shares

3) Average number of shares during the period:

Fiscal Year ended September 30, 2020: 16,506,385 shares

Fiscal Year ended September 30, 2019: 16,479,812 shares

* These financial results are unaudited by certificated 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 "1. Summary of Operating Results (4) Future outlook" on page 5 of this report.

Annual financial results briefing sessions for institutional investors and analysts is planned to be held on November 13, 2020.

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1. Summary of Operating Results

(1) Summary of operating results for the current fiscal year

During the fiscal year under review, as reported in the summary of financial results for the second quarter (disclosed on April 28, 2020), the Company's business had been performing well until the end of February, but the period from March to May was significantly impacted by the new coronavirus (COVID-19) infections.

In the first half of March, both the high school entrance examination course (for elementary and junior high school students) and the university entrance examination course (for high school students) were closed for two weeks to coincide with the nationwide closure of elementary, junior high and senior high schools. During this period, we made all videos available to students through the Tutoring Video Distribution Service (e-STEP) as well as instructing students by email and phone. However, since face-to-face live instruction had stopped completely, we refunded 90% of the tuition fees (280 million yen) to each family during this period. After that, we were able to conduct the spring course as planned, but due to the declaration of the state of emergency on April 7, we suspended the face-to-face live classes for two months until the end of May and fully shifted to online classes. As a result of our concerted efforts, the teachers who are in charge of classes filmed the lessons at each school on the day of the class and distribute these videos, and the number of videos streamed in the two months exceeded 40,000. We also conducted home rooms, interactive lessons, and mock tests at home using the Internet conferencing system (Zoom), making every effort to ensure that student learning was not interrupted. However, since the face-to-face classes that had been promised at the time of enrollment were forced to be interrupted, we decided that regular tuition was not appropriate, so we significantly reduced tuition fees to special rates (approximately 60-80% less, depending on the grade level) for the duration of the online period. As a result, sales in April and May were down by 840 million from the previous year.

Following the lifting of the state of emergency in the metropolitan area, face-to-face live classes resumed in June and are now back to near normal operations, albeit with infection control measures in place. The summer course held from late July to August was in an irregular situation in which the period of public school summer vacation varied greatly among municipalities. However, as a result of repeated efforts such as changing the time schedule of the course to night times, we were able to secure the number of lesson hours comparable to the usual one. Especially during the Japanese Obon holidays, when all junior high schools were closed, we held an intensive course for third-year junior high school students, starting in the morning and lasting for a long time, in order to alleviate learning delays and anxiety caused by COVID-19. We were able to keep the number of classes at about the same level as in previous years for the other grades, and able to set the total course fees at the same level as the previous year, so the effect of the irregular summer holidays was rather positive in terms of sales.

Student recruitment progressed more smoothly than usual until the end of February. However, with the nationwide closure of schools in March, the flow of students enrolling came to a complete halt. Afterwards, when classes resumed for the spring course, the number of students enrolled resumed, but after the declaration of the state of emergency, the flow of students enrolling stopped again, and the trend continued until the end of May. With the resumption of face-to-face live classes in June, the number of enrollment of students has gradually recovered, but it has not yet reached the point of full recovery. In addition, the recruitment of outside students for summer courses decreased compared to normal years, but unlike in normal years, the flow of enrollment has continued without interruption from September after the summer classes to the present.

The following table summarizes the above flow in terms of sales.

YoY Comparison of Net Sales

(Million yen)

	41st period	42nd period	Increase/decrease	Change ratio
1Q (Oct.-Dec.)	2,938	3,149	210	7.2%
2Q (Jan.-Mar.)	2,755	2,573	△182	△6.6%
3Q (Apr.-Jun.)	2,633	1,751	△882	△33.5%
4Q (Jul.-Sep.)	3,264	3,453	189	5.8%

As shown in the table above, the situation is recovering from the fourth quarter, although it was significantly affected by COVID-19 in the late of the second half to the third quarter.

The average number of students during the fiscal year under review was 27,647, an increase of 2.1% year on year.

As soon as STEP schools like public schools were closed due to COVID-19 and we had no choice but to stop face-to-face live classes, we made every effort to ensure that students' education was not interrupted by switching to online lessons. In addition, we also introduced interactive lessons using Zoom, an Internet conference system, and interaction through the home room system. Although they were held online, they provided an opportunity to keep contact, foster human relationships, and communication, leading to a lot of words of thanks and gratitude for preventing interruption of education, fostering a balanced lifestyle and sustaining positive motivation not only from the students but also from the parents.

Many parents have unprecedently welcomed these initiatives, in addition to expressing appreciation for early refunds and reduction of tuition fees. We feel that showing our willingness to be close to our students and parents has resulted in greater trust from students' families.

Establishment of trust and credibility in the community is an invaluable asset for a tutoring school like STEP. Although sales suffered a temporary setback, these initiatives will ensure the company's long-term growth. Enrollment is currently recovering. From now on, we will continue work to return to the pre-pandemic growth track.

In terms of the results of high school entrance exams this spring, we once again achieved success in the "Yokohama Project" (the project to achieve the highest number of students that pass the top public schools in Yokohama City) announced in the "Summary of Financial Statements for the Fiscal Year Ended September 30, 2018" dated October 31, 2018 as planned and also achieved success in the "Suiran Project" (the project to significantly increase the track record of passing exams at prestigious school Yokohama Suiran High School, which has a strong influence on the Yokohama and Kawasaki areas), 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. 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 schools that underwent the special "Tokushoku Kensa test" (descriptive test) that characterize the current exam system. In addition, the number of students who have passed the exam at Tokyo Gakugei University High School, which is a co-ed school with the greatest difficulty in exam within the school commuting area for our students, has reached 110 (students from outside schools), we have the largest number of students who passed the school among the all tutoring schools for 12 consecutive years.

This spring, a total of 196 students passed the entrance exams at national and public universities (168 in the previous spring). 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. 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).

Since the lifting of the state of emergency, there have been two major trends in the industry as a whole: the continuation of online video classes, and the return to face-to-face live classes. Since the entire company worked on online classes in April and May, we were able to accumulate the know-how and dramatically improve our online capabilities. On the other hand, this response has given us an opportunity for our staff as well as our students and parents to rediscover the benefits of face-to-face live classes. This was an opportunity for all the teachers to reaffirm the merits of live teaching, which allows students to learn energetically, to retain what they have learned, to resolve questions and concerns without feeling the distance of time and space, and to encourage each other. Therefore, we will use the know-how accumulated with the online classes and will continue to promote hybrid tutoring that focuses on face-to-face live classes but also utilizes online teaching. While paying close attention to the future situation of COVID-19, we will hold guidance for students and parents' associations as well as classes through the selective use of online and live services depending on the situation.

We believe that the trust and credibility we have gained in the community mainly from students and parents, as a result of the overall online response under the COVID-19 disaster will be great assets to us. As a result, the number of enrollees who actually hear about our reputation for online responses has increased since the summer holidays.

We will continue to thoroughly implement measures to prevent the spread of the infection, and will work to manage risks and respond flexibly to future changes.

In the children's course (STEP Kids), we opened two schools in March, 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 plan to open a total of 4 new schools: 2 in the above mentioned children's course and 2 in the high school entrance examination course (for elementary and junior high school students). The 2 schools in the high school entrance examination course are Ikuta School (Odakyu Odawara Line Ikuta Station, Tama Ward, Kawasaki City) in Kawasaki area, where we are currently focusing our efforts, and Ebina Ogicho School (Odakyu Odawara Line Ebina Station) in our dominant area. All of these began officially at the spring seminar in March, and their launches have been steady.

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's course.

As a result, we recorded net sales of 10,927 million yen (down 5.7% year on year), operating income of 1,929 million yen (down 28.2% year on year), ordinary income of 1,968 million yen (down 28.1% year on year), and net income of 1,343 million yen (down 30.9% year on year).

The number of students and net sales by business segment are as follows.

High school entrance examination course (for elementary and junior high school students)

The average number of students during the period was 22,676 (up 1.9% year on year) and net sales were 8,795 million yen (down 6.4% year on year).

University entrance examination course (for high school students)

The average number of students during the period was 4,971 (up 3.3% year on year) and net sales were 2,131 million yen (down 2.9% year on year).

(2) Summary of financial condition in the current fiscal year

Assets, liabilities and net assets

(Assets)

Total assets at the end of the fiscal year under review stood at 26,036 million yen, an increase of 3,117 million yen from the end of the previous fiscal year.

This was primarily due to an increase in cash and deposits and an increase in buildings.

Current assets increased by 3,084 million yen from the end of the previous fiscal year to 8,215 million yen, mainly due to an increase in cash and deposits.

Noncurrent assets increased by 33 million yen from the end of the previous fiscal year to 17,821 million yen, mainly due to a decrease in depreciation, despite an increase in buildings and other assets with the completion of the new school building.

(Liabilities)

Liabilities at the end of the fiscal year under review amounted to 4,976 million yen, an increase of 2,419 million yen from the end of the previous fiscal year.

Current liabilities increased by 1,445 million yen to 3,057 million yen, mainly due to an increase in current portion of long-term loans payable, despite a decrease in income taxes payable and other factors.

Non-current liabilities increased by 973 million yen from the end of the previous fiscal year, to 1,918 million yen, mainly due to an increase in long-term loans payable.

(Net assets)

Net assets at the end of the fiscal year under review increased by 698 million yen from the end of the previous fiscal year to 21,060 million yen due to the recording of net income despite the payment of dividends.

The equity ratio was 80.9%, down 7.9 percentage points from the end of the previous fiscal year.

(3) Summary of cash flow in the current fiscal year

The status of cash flows and their factors for the current fiscal year are as follows.

Cash and cash equivalents increased by 3,039 million yen, or 66.4%, to 7,616 million yen in the fiscal year under review from the previous fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities was 1,868 million yen, down 290 million yen or 13.5% from the same period of the previous year, mainly due to income before income taxes of 1,968 million yen, depreciation and amortization of 455 million yen and income taxes paid of 734 million yen.

(Cash flows from investing activities)

Net cash used in investing activities decreased by 512 million yen (47.8%) from the same period of the previous year to 560 million yen, mainly due to the construction of new school buildings.

(Cash flows from financing activities)

Net cash provided by financing activities was 1,730 million yen (compared to a net cash outflow of 444 million yen in the same period of the previous fiscal year), mainly due to repayment of long-term debt and dividend payments, despite proceeds from long-term debt.

(Reference) Trends in cash flow indicators

	Fiscal year ended September 30, 2016	Fiscal year ended September 30, 2017	Fiscal year ended September 30, 2018	Fiscal year ended September 30, 2019	Fiscal year ended September 30, 2020
Equity ratio (%)	84.7	86.1	89.0	88.8	80.9
Market value equity ratio (%)	97.1	117.5	118.0	102.1	101.1
Cash flow to interest-bearing liabilities ratio (years)	0.8	0.5	0.3	0.5	1.8
Interest coverage ratio (times)	510.7	927.4	1,440.1	1,386.8	826.6

Equity ratio: equity / total assets

Market value equity ratio: market capitalization / total assets

Cash flow to interest-bearing liabilities ratio: interest expenses paid

Interest coverage ratio: cash flow / interest expenses paid

(Notes 1) Market capitalization is calculated based on the number of shares issued excluding treasury stock.

(Notes 2) Cash flow from operating activities is used for cash flow.

(Notes 3) Interest-bearing debt includes all debt reported on the Non-consolidated balance sheets on which interest is paid.

(4) Future outlook

Since going public in 1995, we have posted 25 consecutive years of higher sales and 19 consecutive years of higher operating income. However, in the fiscal year under review, in response to COVID-19, we refunded a tuition fee of 280 million yen in March, and we made a special tuition fee in April and May, net sales decreased by 840 million yen compared with the previous year, resulting in a decrease in both sales and profits. However, from June onward, we resumed normal classes, and we expect the performance to gradually recover to the level before COVID-19 in the future.

We may temporarily switch to online classes if the second wave of COVID-19 comes. However, we were able to accumulate sufficient know-how on online responses in April and May, and it became possible to conduct online live classes immediately at all schools. In the future, we plan to improve the quality of our classes more when we switch to online classes.

In the long term, there are important issues that must be overcome in Kanagawa Prefecture, where we operate tutoring schools, for continuous growth. 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.

As in the past, we will strengthen our dominance in new school openings, mainly in the Yokohama and Kawasaki areas. In the next fiscal year, we plan to open Kaminagaya School (Konan Ward, Yokohama City) and Motosumiyoshi School (Nakahara Ward, Kawasaki City) in March 2021, and Hi-STEP Kawasaki School (Saiwai Ward, Kawasaki City) in April 2021. All of these schools are for elementary and junior high school students. Hi-STEP opens for the first time in three years, and is the second school in Kawasaki City. Motosumiyoshi School and Hi-STEP Kawasaki School are the schools opened for the first time in the southern region of Kawasaki City (formerly the southern Kawasaki School District), and all of the former school districts will have our schools .

For the second year in a row, we were ranked number one for the fiscal 2019 and 2020 in terms of the number of students who were admitted to Yokohama Suiran High School, a highly influential school in the Yokohama and Kawasaki areas, and the total number of students who were admitted to top schools in Yokohama City. In fiscal 2021, we will continue to focus on the quality of our classes and focus on enhancing the academic skills of our students so that similar passing results can be achieved. We will continue to strengthen our brand power in the Yokohama and Kawasaki regions.

2. Basic Policies regarding the Selection of Accounting Standards

We prepare our financial statements in accordance with Japanese GAAP because we do not engage in overseas business development or procurement of funds.

3. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of September 30, 2019	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	4,838,810	7,877,599
Accounts receivable-trade	66,705	67,811
Inventories	35,068	26,497
Prepaid expenses	157,576	163,349
Other	34,159	81,086
Allowance for doubtful accounts	(1,307)	(1,111)
Total current assets	5,131,012	8,215,233
Non-current assets		
Property, plant and equipment		
Buildings	12,892,469	13,524,267
Accumulated depreciation and impairment loss	(5,440,064)	(5,812,800)
Buildings, net	7,452,405	7,711,467
Structures	319,581	331,318
Accumulated depreciation and impairment loss	(213,717)	(223,884)
Structures, net	105,864	107,433
Machinery and equipment	120,889	121,253
Accumulated depreciation and impairment loss	(85,092)	(94,010)
Machinery and equipment, net	35,797	27,242
Vehicles	19,625	20,414
Accumulated depreciation and impairment loss	(18,160)	(19,413)
Vehicles, net	1,465	1,000
Tools, furniture and fixtures	232,214	247,478
Accumulated depreciation and impairment loss	(161,184)	(188,702)
Tools, furniture and fixtures, net	71,029	58,775
Land	9,083,408	9,083,408
Construction in progress	187,674	—
Total property, plant and equipment	16,937,645	16,989,329
Intangible assets		
Telephone subscription right	233	233
Other	31,210	39,749
Total intangible assets	31,443	39,983
Investments and other assets		
Investment securities	14,969	13,223
Long-term loans receivable	4,385	3,245
Long-term prepaid expenses	64,562	36,558
Deferred tax assets	227,529	222,686
Guarantee deposits	505,796	514,650
Other	2,033	1,883
Total investments and other assets	819,276	792,248
Total non-current assets	17,788,365	17,821,561
Total assets	22,919,378	26,036,794

(Thousand yen)

	As of September 30, 2019	As of September 30, 2020
Liabilities		
Current liabilities		
Current portion of long-term loans payable	455,756	1,871,868
Lease obligations	16,998	16,217
Accounts payable-other	107,088	124,762
Accrued expenses	208,305	244,306
Income taxes payable	425,607	302,751
Accrued consumption taxes	130,282	231,764
Advances received	15,069	22,460
Deposits received	134,131	150,375
Unearned revenue	3,192	3,321
Provision for bonuses	83,668	88,306
Asset retirement obligations	1,447	—
Other	31,032	1,819
Total current liabilities	1,612,579	3,057,953
Non-current liabilities		
Long-term loans payable	542,872	1,518,839
Lease obligations	32,489	18,140
Provision for directors retirement benefits	129,800	129,800
Asset retirement obligations	224,726	237,228
Other	14,626	14,293
Total non-current liabilities	944,514	1,918,301
Total liabilities	2,557,094	4,976,255
Net assets		
Shareholders' equity		
Capital stock	1,778,330	1,778,330
Capital surplus		
Legal capital surplus	1,851,330	1,851,330
Other capital surplus	231,396	231,396
Total capital surpluses	2,082,726	2,082,726
Retained earnings		
Legal retained earnings	137,027	137,027
Other retained earnings		
General reserve	97,800	97,800
Retained earnings brought forward	16,483,383	17,182,849
Total retained earnings	16,718,210	17,417,676
Treasury stock	(216,718)	(216,718)
Total shareholders' equity	20,362,547	21,062,013
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(262)	(1,474)
Total valuation and translation adjustments	(262)	(1,474)
Total net assets	20,362,284	21,060,538
Total liabilities and net assets	22,919,378	26,036,794

(2) Non-consolidated Statements of Income

(Thousand yen)

	Fiscal year ended September 30, 2019	Fiscal year ended September 30, 2020
Net sales	11,592,745	10,927,597
Cost of sales	8,162,003	8,247,689
Gross profit	3,430,742	2,679,907
Selling, general and administrative expenses		
Advertising expenses	174,456	160,425
Provision of allowance for doubtful accounts	1,101	455
Directors compensations	98,967	105,032
Salaries and allowances	141,036	140,805
Bonuses	26,494	24,776
Provision for bonuses	2,121	2,060
Retirement benefit expenses	1,425	1,698
Welfare expenses	32,097	31,892
Depreciation	17,859	18,391
Commission fee	44,680	68,169
Taxes and dues	122,214	118,574
Other	79,021	77,983
Total selling, general and administrative expenses	741,475	750,265
Operating income	2,689,266	1,929,641
Non-operating income		
Interest income	45	35
House rent income	101,678	104,213
Subsidy income	30,892	18,406
Other	10,827	15,992
Total non-operating income	143,444	138,648
Non-operating expenses		
Interest expenses	1,560	2,048
Rent expenses	89,331	97,203
Other	3,019	443
Total non-operating expenses	93,911	99,696
Ordinary income	2,738,799	1,968,593
Extraordinary loss		
Loss on sales of non-current assets	241	—
Impairment loss	3,404	—
Total extraordinary loss	3,646	—
Income before income taxes	2,735,153	1,968,593
Income taxes-current	799,144	619,999
Income taxes-deferred	(7,209)	5,376
Total income taxes	791,935	625,375
Profit	1,943,218	1,343,218

Schedule of cost of sales

		Fiscal year ended September 30, 2019 (from October1, 2018 to September30, 2019)		Fiscal year ended September 30, 2020 (from October1, 2019 to September30, 2020)	
Class	Note no.	Amount (Thousand yen)	Composition (%)	Amount (Thousand yen)	Composition (%)
I .Labor cost					
1. Salaries and allowances		3,687,051		3,806,159	
2. Bonuses		1,019,840		935,643	
3. Provision for bonuses		79,680		84,158	
4. Retirement benefit expenses		94,519		98,527	
5. Other		862,773	5,743,864	884,791	5,809,280
II .Cost of teaching materials			434,798		423,712
III .Expenses					
1. Supplies expenses		188,523		118,481	
2. Depreciation		351,442		376,498	
3. Rental expenses		902,639		920,163	
4. Other		540,733	1,983,339	599,553	2,014,696
Cost of sales			8,162,003		8,247,689

Notes

Cost of sales are expenses for operating schools.

(3) Non-consolidated Statements of Changes in Equity

Previous fiscal year (from October 1, 2018 to September 30, 2019)

(Thousand yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings	General reserve	Retained earnings brought forward
Balance at beginning of current period	1,778,330	1,851,330	220,921	2,072,251	137,027	97,800	15,134,346	15,369,173
Changes of items during period								
Dividends of surplus							(594,181)	(594,181)
Profit							1,943,218	1,943,218
Purchase of treasury shares								
Disposal of treasury shares			10,474	10,474				
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	10,474	10,474	—	—	1,349,036	1,349,036
Balance at end of current period	1,778,330	1,851,330	231,396	2,082,726	137,027	97,800	16,483,383	16,718,210

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(105,031)	19,114,723	3,486	3,486	19,118,209
Changes of items during period					
Dividends of surplus		(594,181)			(594,181)
Profit		1,943,218			1,943,218
Purchase of treasury shares	(189,221)	(189,221)			(189,221)
Disposal of treasury shares	77,534	88,008			88,008
Net changes of items other than shareholders' equity			(3,749)	(3,749)	(3,749)
Total changes of items during period	(111,687)	1,247,823	(3,749)	(3,749)	1,244,074
Balance at end of current period	(216,718)	20,362,547	(262)	(262)	20,362,284

Current fiscal year (from October 1, 2019 to September 30, 2020)

(Thousand yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
Balance at beginning of current period	1,778,330	1,851,330	231,396	2,082,726	137,027	97,800	16,483,383	16,718,210
Changes of items during period								
Dividends of surplus							(643,751)	(643,751)
Profit							1,343,218	1,343,218
Purchase of treasury shares								
Disposal of treasury shares								
Net changes of items other than shareholders' equity								
Total changes of items during period	—	—	—	—	—	—	699,466	699,466
Balance at end of current period	1,778,330	1,851,330	231,396	2,082,726	137,027	97,800	17,182,849	17,417,676

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(216,718)	20,362,547	(262)	(262)	20,362,284
Changes of items during period					
Dividends of surplus		(643,751)			(643,751)
Profit		1,343,218			1,343,218
Purchase of treasury shares					
Disposal of treasury shares					
Net changes of items other than shareholders' equity			(1,212)	(1,212)	(1,212)
Total changes of items during period	—	699,466	(1,212)	(1,212)	698,254
Balance at end of current period	(216,718)	21,062,013	(1,474)	(1,474)	21,060,538

(4)Non-consolidated Statements of Cash Flows

(Thousand yen)

	Fiscal year ended September 30, 2019	Fiscal year ended September 30, 2020
Cash flows from operating activities		
Profit before income taxes	2,735,153	1,968,593
Depreciation	431,123	455,221
Impairment loss	3,404	—
Increase(decrease) in allowance for doubtful accounts	(280)	(195)
Increase(decrease) in provision for bonuses	525	4,637
Share-based compensation expenses	6,769	28,018
Interest and dividends income	(612)	(608)
Interest expenses	1,560	2,048
Loss(gain) on sales of property, plant and equipment	241	—
Subsidy income	(30,892)	(18,406)
Decrease(increase) in notes and accounts receivable-trade	(2,659)	(73,916)
Decrease(increase) in inventories	(8,513)	8,571
Decrease(increase) in prepaid expenses	(6,545)	(32,223)
Increase(decrease) in accounts payable- other	(4,108)	138,164
Increase(decrease) in advances received	10,015	7,391
Increase(decrease) in accrued expenses	(42,681)	36,001
Other, net	(59,118)	61,343
Subtotal	3,033,381	2,584,640
Interest and dividends income received	612	613
Interest expenses paid	(1,556)	(2,260)
Proceeds from subsidy income	33,347	19,491
Income taxes paid	(906,860)	(734,086)
Net cash provided by (used in) operating activities	2,158,923	1,868,399
Cash flows from investing activities		
Payments into time deposits	(257,162)	(257,184)
Proceeds from withdrawal of time deposits	257,140	257,162
Purchase of property, plant and equipment	(1,063,769)	(532,333)
Proceeds from sales of property ,plant and equipment	28,458	—
Collection of loans receivable	2,052	1,260
Payments for lease and guarantee deposits	(32,760)	(23,632)
Proceeds from collection of lease and guarantee deposits	6,920	14,368
Purchase of insurance funds	(0)	(0)
Other, net	(13,313)	(19,748)
Net cash provided by(used in) investment activities	(1,072,434)	(560,108)
Cash flows from financing activities		
Proceeds from long-term loans payable	1,050,000	3,050,000
Repayment of long-term loans payable	(694,816)	(657,921)
Repayments of finance lease obligations	(16,642)	(17,369)
Purchase of treasury shares	(189,221)	—
Cash dividends paid	(594,083)	(643,992)
Net cash provided by(used in) financing activities	(444,763)	1,730,716
Net increase(decrease) in cash and cash equivalents	641,725	3,039,008
Cash and cash equivalents at beginning of period	3,936,143	4,577,868
Cash and cash equivalents at end of period	4,577,868	7,616,877

(5) Notes to Non-consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Segment information, etc.)

[Segment information]

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

(Equity in earnings of affiliated companies, etc.)

There is no relevant information.

(Per share information)

(Yen)

	Fiscal year ended September 30, 2019 (from October1, 2018 to September30, 2019)	Fiscal year ended September 30, 2020 (from October1, 2019 to September30, 2020)
Net assets per share	1,233.57	1,275.93
Basic earnings per share	117.92	81.38

Notes:1. Fully diluted profit per share is not stated since the Company does not have residual securities.

2. The basis for calculation

1. The basis for calculation of net assets per share is as follows:

Item	As of September 30, 2019	As of September 30, 2020
Net assets per share		
Total net assets (Thousand yen)	20,362,284	21,060,538
Amount deducted from the total net assets (Thousand yen)	—	—
Amount of net assets related to common stock as of the end of the fiscal year (Thousand yen)	20,362,284	21,060,538
Number of shares of common stock as of the end of the fiscal year (Shares)	16,506,765	16,506,017

2. The basis for calculation of profit per share is as follows:

Item	Fiscal year ended September 30, 2019 (from October1, 2018 to September30, 2019)	Fiscal year ended September 30, 2020 (from October1, 2019 to September30, 2020)
Basic earnings per share		
Profit (Thousand yen)	1,943,218	1,343,218
Amount not attributable to common shareholders (Thousand yen)	—	—
Profit available to common shares (Thousand yen)	1,943,218	1,343,218
Average number of shares of common shares during the period (Shares)	16,479,812	16,506,385

(Significant subsequent events)

There is no relevant information.

4. Segment sales

Segment	Fiscal year ended September 30, 2019 (from October1, 2018 to September30, 2019)			Fiscal year ended September 30, 2020 (from October1, 2019 to September30, 2020)		
	Number of students	Net sales (Thousand yen)	Composition (%)	Number of students	Net sales (Thousand yen)	Composition (%)
Elementary and junior high school section	22,258	9,396,490	81.1	22,676	8,795,767	80.5
High school section	4,810	2,196,254	18.9	4,971	2,131,830	19.5
Total	27,068	11,592,745	100.0	27,647	10,927,597	100.0