

Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2022
(Three Months Ended June 30, 2021)

[Japanese GAAP]

Company name: SEIGAKUSHA CO.,LTD.

Listing: Tokyo Stock Exchange (JASDAQ)

Stock code: 2179

URL: <https://www.kaisei-group.co.jp/>

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Scheduled date of filing of Quarterly Report:

August 6, 2021

Scheduled date of payment of dividend:

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Preparation of supplementary materials for quarterly financial results: None

Holding of quarterly financial results meeting:

None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended June 30, 2021 (April 1, 2021 – June 30, 2021)**(1) Consolidated operating results**

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Jun. 30, 2021	2,296	13.2	(445)	-	(424)	-	(291)	-
Three months ended Jun. 30, 2020	2,029	(8.5)	(613)	-	(612)	-	(448)	-

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2021: (299) (-%)

Three months ended Jun. 30, 2020: (453) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Jun. 30, 2021	(52.45)	-
Three months ended Jun. 30, 2020	(80.82)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2021	7,913	2,210	27.9
As of Mar. 31, 2021	8,689	2,519	29.0

Reference: Shareholders' equity (million yen) As of Jun. 30, 2021: 2,210 As of Mar. 31, 2021: 2,519

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2021	-	3.00	-	3.00	6.00
Fiscal year ending Mar. 31, 2022	-	-	-	-	-
Fiscal year ending Mar. 31, 2022 (forecast)	-	3.30	-	3.30	6.60

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2022**(April 1, 2021 – March 31, 2022)**

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	5,723	10.0	(113)	-	(119)	-	(123)	-	(22.33)
Full year	12,403	6.5	360	-	345	613.9	157	-	28.36

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

Newly added: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

Note: Please refer to page 8 “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies” for details.

(4) Number of issued shares (common stock)

1) Number of shares issued at the end of period (including treasury shares)

As of Jun. 30, 2021:	5,876,000 shares	As of Mar. 31, 2021:	5,876,000 shares
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2) Number of treasury shares at the end of period

As of Jun. 30, 2021:	324,760 shares	As of Mar. 31, 2021:	324,760 shares
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3) Average number of shares during the period

Three months ended Jun. 30, 2021:	5,551,240 shares	Three months ended Jun. 30, 2020:	5,553,365 shares
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* The current quarterly summary report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in this report are based on assumptions judged to be valid and information available to the SEIGAKUSHA's management at the time the materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecast and Other Forward-looking Statements” on page 3 for forecast assumptions and notes of caution for usage.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecast and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheet	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
Going Concern Assumption	8
Significant Changes in Shareholders' Equity	8
Changes in Accounting Policies	8
Segment and Other Information	9
Additional Information	10

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

The SEIGAKUSHA Group meets a broad array of education and childcare needs as an education organization centered on education and childcare services extending from pre-school children to adults. The group operates the FreeStep Individual Tutoring Institute and Kaisei Education Seminar entrance exam preparation schools, Kaisei Nursery School certified nursery schools, and Kaisei Academy Japanese Language School for foreign students in Japan.

The effect of the difficult start of the previous fiscal year that ended on March 31 continued throughout the fiscal year mainly due to the effect of the declaration of a state of emergency during the period for adding new students. But the number of students recovered steadily from the summer classes. The group was able to start the current fiscal year at the levels achieved in the period before the spread of the COVID-19 pandemic.

Consolidated net sales in the first quarter were 2,296 million yen, 13.2% higher than in the same period of the previous fiscal year. The operating loss decreased from 613 million yen to 445 million yen and the ordinary loss decreased from 612 million yen to 424 million yen. Loss attributable to owners of parent decreased from 448 million yen to 291 million yen due to gains on the sale of investment securities held for policy purposes, gains on the sale of business from the conversion of directly managed schools into franchises, and other extraordinary income, as well as income taxes deferred, and other factors.

There is usually an operating loss in the first quarter of each fiscal year. The main reasons are that the first quarter has a small number of entrance exam preparation students, which are a key source of earnings, and no seminars and special classes, which have a high profit margin.

Beginning with the first quarter of the current fiscal year, the group has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021). Please refer to “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies” for details.

Business segment performance was as follows.

1) Education Services

In the entrance exam preparation school category (individual tutoring and class teaching) business, we continued to implement rigorous measures to counter the spread of the COVID-19 pandemic and conducted both face-to-face classes and interactive online classes to meet the needs of students and their parents. The number of students enrolled in the individual tutoring category, which mainly consists of the FreeStep Individual Tutoring Institute, recovered substantially, and the unit price per student also rose, thanks to the operation of My Step Log app, which is SEIGAKUSHA’s proprietary Learning Management System (LMS), and the enhancement of the members website. In the class teaching category, which mainly consists of the Kaisei Education Seminar, sales increased from the same period of the previous fiscal year due to a recovery in the number of students and a strong performance in examination tests because of an increase in the number of examinees.

In the nursery school category, which mainly consists of Kaisei Nursery School and Kaisei Puchi Nursery School, sales increased from the same period of the previous fiscal year due to an increase in the number of infants (aged three to five), although the number of babies below one year of age decreased as many families delayed returning to work due to the impact of the COVID-19 pandemic.

In the other education services category, sales increased from the same period of the previous fiscal year, mainly due to orders for web advertising and an increase in demand for the dispatch of instructors to schools.

As a result of the above factors, sales in the education services segment also exceeded the level achieved in the same period the year before last, before the impact of the COVID-19 pandemic.

Expenses increased from the same period of the previous fiscal year. The main reasons are a higher level of purchases of textbooks and other items for classes because of an increase in the number of students at the schools,

rising salary allowances because of the growth in the number of classes offered, and higher advertising expenses due to stepped-up advertising to recruit students for new schools and summer courses.

Segment sales increased 13.2% from one year earlier to 2,276 million yen and the operating loss decreased from 597 million yen to 432 million yen.

2) Real Estate Leasing

The ending of the rent reduction measures implemented in the same period of the previous fiscal year for some tenants in response to the impact of the COVID-19 pandemic increased net sales by 13.5% from one year earlier to 10 million yen, and operating profit by 6.8% to 7 million yen due to a decrease in one-off expenses for repairs incurred in the previous year.

3) Restaurant Operations

Amid the spread of the COVID-19 pandemic, demand for weekday lunches gradually recovered despite the challenging business environment that continued to prevail due to the implementation of restrictions on various activities to prevent the spread of COVID-19 and the declaration of a state of emergency. As a result, segment sales increased 10.6% to 9 million yen and the operating loss decreased from 9 million yen one year earlier to 7 million yen.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the current fiscal year decreased by 775 million yen, or 8.9%, from the end of the previous fiscal year to 7,913 million yen. Current assets decreased by 841 million yen, or 25.4%, from the end of the previous fiscal year to 2,469 million yen. This was attributable mainly to decreases of 412 million yen in trade accounts receivable and contract assets, 385 million yen in cash and deposits, 32 million yen in accounts receivable-other included in other current assets and 21 million yen in merchandise. Non-current assets increased by 65 million yen, or 1.2%, from the end of the previous fiscal year to 5,443 million yen. This was mainly attributable to an increase of 119 million yen in deferred tax assets included in other of the investments and other assets, and decreases of 32 million yen in guarantee deposits and 22 million yen in investment securities included in other of the investments and other assets.

Total liabilities decreased by 467 million yen, or 7.6%, from the end of the previous fiscal year to 5,703 million yen. Current liabilities decreased by 307 million yen, or 8.3%, from the end of the previous fiscal year to 3,380 million yen. This was attributable mainly to increases of 148 million yen in accounts payable-personnel expenses included in other current liabilities and 75 million yen in short-term borrowings, and decreases of 122 million yen in income taxes payable, 117 million yen in accounts payable-other included in other current liabilities, 104 million yen in accounts payable-trade, 85 million yen in provision for bonuses, 49 million yen in accrued consumption taxes included in other current liabilities, 21 million yen in advances received and 13 million yen in deposits received included in other current liabilities. Non-current liabilities decreased by 159 million yen, or 6.4%, from the end of the previous fiscal year to 2,322 million yen. This was attributable mainly to a decrease of 156 million yen in long-term borrowings.

Net assets decreased by 308 million yen, or 12.3%, from the end of the previous fiscal year to 2,210 million yen. This was attributable mainly to a decrease of 300 million yen in retained earnings.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

At this point, we maintain the full-year consolidated forecasts for the fiscal year ending March 31, 2022 that we announced on May 14, 2021.

Forecasts are based on all the information currently available, and the actual results may differ due to various factors.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY3/21 (As of Mar. 31, 2021)	First quarter of FY3/22 (As of Jun. 30, 2021)
Assets		
Current assets		
Cash and deposits	1,754,567	1,369,386
Trade accounts receivable	1,123,207	-
Accounts receivable and contract assets	-	710,969
Merchandise	63,949	42,401
Work in process	1,664	73
Supplies	12,216	20,325
Other	365,148	336,199
Allowance for doubtful accounts	(9,142)	(9,371)
Total current assets	3,311,611	2,469,984
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,213,114	4,261,855
Accumulated depreciation	(1,625,608)	(1,665,213)
Buildings and structures, net	2,587,506	2,596,642
Land	1,107,259	1,107,259
Other	1,052,036	1,058,621
Accumulated depreciation	(822,656)	(838,569)
Other, net	229,379	220,051
Total property, plant and equipment	3,924,144	3,923,952
Intangible assets		
Goodwill	22,681	24,070
Other	160,892	167,725
Total intangible assets	183,573	191,796
Investments and other assets		
Guarantee deposits	931,322	898,435
Other	339,079	429,623
Total investments and other assets	1,270,401	1,328,059
Total non-current assets	5,378,119	5,443,808
Total assets	8,689,731	7,913,793

(Thousands of yen)

	FY3/21 (As of Mar. 31, 2021)	First quarter of FY3/22 (As of Jun. 30, 2021)
Liabilities		
Current liabilities		
Accounts payable-trade	185,129	81,018
Short-term borrowings	700,000	775,000
Current portion of long-term borrowings	887,678	878,165
Income taxes payable	139,999	17,196
Advances received	742,560	720,877
Provision for bonuses	129,923	44,794
Other	902,710	863,175
Total current liabilities	3,688,002	3,380,227
Non-current liabilities		
Long-term borrowings	1,911,739	1,754,792
Retirement benefit liability	7,945	6,296
Asset retirement obligations	462,815	463,005
Other	99,955	98,889
Total non-current liabilities	2,482,455	2,322,983
Total liabilities	6,170,458	5,703,211
Net assets		
Shareholders' equity		
Share capital	235,108	235,108
Capital surplus	178,349	178,349
Retained earnings	2,377,534	2,076,780
Treasury shares	(265,655)	(265,655)
Total shareholders' equity	2,525,337	2,224,583
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,138	-
Foreign currency translation adjustment	(11,203)	(14,001)
Total accumulated other comprehensive income	(6,064)	(14,001)
Total net assets	2,519,272	2,210,581
Total liabilities and net assets	8,689,731	7,913,793

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Three-month Period)**

(Thousands of yen)

	First three months of FY3/21 (Apr. 1, 2020 – Jun. 30, 2020)	First three months of FY3/22 (Apr. 1, 2021 – Jun. 30, 2021)
Net sales	2,029,184	2,296,925
Cost of sales	2,195,652	2,301,266
Gross loss	(166,467)	(4,341)
Selling, general and administrative expenses	446,665	441,527
Operating loss	(613,133)	(445,868)
Non-operating income		
Interest income	252	759
Dividend income	394	725
Penalty income	1,650	11,000
Subsidy income	-	5,560
Foreign exchange gains	2,468	6,041
Other	2,665	5,480
Total non-operating income	7,430	29,567
Non-operating expenses		
Interest expenses	6,612	6,892
Other	512	868
Total non-operating expenses	7,125	7,760
Ordinary loss	(612,827)	(424,061)
Extraordinary income		
Gain on sale of non-current assets	-	48
Gain on sale of investment securities	-	7,894
Gain on sale of businesses	-	8,064
Total extraordinary income	-	16,007
Extraordinary losses		
Loss on sale of investment securities	-	315
Impairment losses	288	3,418
Loss on store closings	-	1,100
Total extraordinary losses	288	4,834
Loss before income taxes	(613,115)	(412,888)
Income taxes-current	(3,032)	(1,390)
Income taxes-deferred	(161,277)	(120,359)
Total income taxes	(164,309)	(121,749)
Loss	(448,806)	(291,139)
Loss attributable to owners of parent	(448,806)	(291,139)

Quarterly Consolidated Statement of Comprehensive Income
(For the Three-month Period)

(Thousands of yen)

	First three months of FY3/21 (Apr. 1, 2020 – Jun. 30, 2020)	First three months of FY3/22 (Apr. 1, 2021 – Jun. 30, 2021)
Loss	(448,806)	(291,139)
Other comprehensive income		
Valuation difference on available-for-sale securities	1,355	(5,138)
Foreign currency translation adjustment	(6,467)	(2,798)
Total other comprehensive income	(5,111)	(7,936)
Comprehensive income	(453,918)	(299,076)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(453,918)	(299,076)
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies**Application of the Accounting Standard for Revenue Recognition**

SEIGAKUSHA started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) at the beginning of the first quarter of the current fiscal year. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers. Accordingly, SEIGAKUSHA has changed its method of recognizing revenue from some of its courses by multiplying the number of lessons taken by the customer by the unit price, whereas revenue was recognized by dividing the total course fee evenly over the course period in prior years.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures in the proviso to Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the first quarter of the current fiscal year, is added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year. The new standard is then applied beginning with this amount of retained earnings.

As a result, net sales increased 39 million yen and cost of sales increased 6 million yen. Operating profit, ordinary profit and profit before income taxes increased 33 million yen each in the first three months of the current fiscal year. In addition, the new standard increased retained earnings at the beginning of the first quarter by 7 million yen.

Due to the application of the Accounting Standard for Revenue Recognition, "Trade accounts receivable" that was presented in the "Current assets" section of the consolidated balance sheet in the previous fiscal year is, from the first quarter of the current fiscal year, included in "Trade accounts receivable and contract assets." In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the prior year's consolidated financial statements to conform to the new presentation. Furthermore, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), SEIGAKUSHA has not presented information on revenue from contracts with customers broken down for the first quarter of the previous fiscal year.

Application of the Accounting Standards for Measurement of Fair Value

SEIGAKUSHA has applied the Accounting Standard for Measurement of Fair Value (ASBJ Statement No.30, July 4, 2019) and other standards from the beginning of the first quarter of the current fiscal year, and has applied the new accounting policies prescribed in the Accounting Standard for Measurement of Fair Value prospectively in accordance with the transitional measures in Paragraph 19 of the Accounting Standard for Measurement of Fair Value and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No.10, July 4, 2019). There is no effect of this change on the quarterly consolidated financial statements.

Segment and Other Information

Segment information

I. First three months of FY3/21 (Apr. 1, 2020 – Jun. 30, 2020)

1. Information related to net sales, profit or loss for each reportable segment (Thousands of yen)

	Reportable segment				Adjustment (Note 1)	Amounts recorded in quarterly consolidated statement of income (Note 2)
	Education Services	Real Estate Leasing	Restaurant Operations	Total		
Net sales						
External sales	2,011,098	9,441	8,645	2,029,184	-	2,029,184
Inter-segment sales and transfers	-	6,477	-	6,477	(6,477)	-
Total	2,011,098	15,918	8,645	2,035,661	(6,477)	2,029,184
Segment profit (loss)	(597,353)	7,317	(9,344)	(599,380)	(13,752)	(613,133)

Notes: 1. The minus 13 million yen adjustment to segment profit (loss) is corporate expenses that cannot be allocated to any of the reportable segments. These corporate expenses mainly include general and administration expenses that cannot be attributed to any of the reportable segments.

2. Segment profit (loss) is adjusted with operating loss on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

An impairment loss was recognized in the Education Services segment. The amount of this loss in the first three months of FY3/21 was 288 thousand yen.

II. First three months of FY3/22 (Apr. 1, 2021 – Jun. 30, 2021)

1. Information related to net sales, profit or loss for each reportable segment and breakdown of revenue (Thousands of yen)

	Reportable segment				Adjustment (Note 1)	Amounts recorded in quarterly consolidated statement of income (Note 2)
	Education Services	Real Estate Leasing	Restaurant Operations	Total		
Net sales						
Entrance exam preparation schools	1,902,466	-	-	1,902,466	-	1,902,466
Nursery schools	293,662	-	-	293,662	-	293,662
Other education services	80,517	-	-	80,517	-	80,517
Restaurant	-	-	9,558	9,558	-	9,558
Revenue from contracts with customers	2,276,645	-	9,558	2,286,204	-	2,286,204
Other revenue	-	10,720	-	10,720	-	10,720
External sales	2,276,645	10,720	9,558	2,296,925	-	2,296,925
Inter-segment sales and transfers	-	6,374	-	6,374	(6,374)	-
Total	2,276,645	17,095	9,558	2,303,300	(6,374)	2,296,925
Segment profit (loss)	(432,519)	7,815	(7,871)	(432,575)	(13,293)	(445,868)

Notes: 1. The minus 13 million yen adjustment to segment profit (loss) is corporate expenses that cannot be allocated to any of the reportable segments. These corporate expenses mainly include general and administration expenses that cannot be attributed to any of the reportable segments.

2. Segment profit (loss) is adjusted with operating loss on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

An impairment loss was recognized in the Education Services segment. The amount of this loss in the first three months of FY3/22 was 3,418 thousand yen.

3. Information related to revisions for reportable segments

As described in Changes in Accounting Policies, SEIGAKUSHA has applied the Accounting Standard for Revenue Recognition from the beginning of the first quarter of FY3/22 and changed the accounting method for revenue recognition, so the method for calculating profit or loss in the business segment has been changed as well.

As a result of this change, compared with the previous method, net sales and segment profit in the Education Services segment for the first three months of FY3/22 increased by 39,741 thousand yen and 33,369 thousand yen, respectively.

Additional Information

There are no significant revisions to assumptions, including for the effects and end of COVID-19, explained in the additional information in the Securities Report for the fiscal year that ended in March 2021.

This financial report is solely a translation of SEIGAKUSHA's Kessan Tanshin (including attachments) in Japanese, which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.