

Translation

This report is a translation of excerpts from original Japanese Flash Report and for reference purpose only. In case of discrepancy between this report and original Japanese Flash Report, the latter shall prevail.

FY2020, the year ending March 31, 2021

Flash Report on the Consolidated Results for the Second Quarter Ended September 30, 2020 [JGAAP]

November 19, 2020

Company Name: **DAIICHIKOSHO CO., LTD.**
 Stock Exchange Listing: Tokyo Stock Exchange
 Code Number: 7458
 URL: <https://www.dkkaraoke.co.jp/>
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 Date to Submit the Quarterly Securities Report: November 13, 2020
 Start Date for Dividend Payment: December 4, 2020
 Availability of Supplementary Briefing Material on Quarterly Financial Results: Available
 Schedule of Quarterly Financial Results Briefing Session: None

(Amounts below one million yen are truncated.)

1. Consolidated Performance for the Six Months Ended September 30, 2020 (From April 1, 2020, to September 30, 2020)

(1) Consolidated operating results (Percentage figures indicate increase/decrease from a year earlier.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2020	42,778	(39.8)	(1,642)	—	(746)	—
Six months ended September 30, 2019	71,018	1.7	9,993	(4.6)	10,697	(4.7)

	Net income attributable to owners of parent		Basic earnings per share	Fully diluted net income per share
	Millions of yen	%	Yen	Yen
Six months ended September 30, 2020	(3,881)	—	(69.38)	—
Six months ended September 30, 2019	6,655	(8.2)	117.45	117.30

(Note) Comprehensive income:

Six months ended September 30, 2020: (3,327) million yen — %

Six months ended September 30, 2019: 6,702 million yen (8.1) %

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2020	207,328	127,384	60.6
As of March 31, 2020	181,567	136,205	74.0

(Reference) Shareholders' equity:

As of September 30, 2020: 125,666 million yen

As of March 31, 2020: 134,419 million yen

2. Dividend

	Annual dividend				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2020	—	56.00	—	57.00	113.00
Year ending March 31, 2021	—	56.00			
Year ending March 31, 2021 (forecast)			—	57.00	113.00

(Note) Changes in dividends forecast from most recently announced figures: None

3. Forecast Consolidated Performance for FY2020, the Year Ending March 31, 2021 (From April 1, 2020, to March 31, 2021)

(Percentage figures indicate increase/decrease from a year earlier.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ending March 31, 2021 (full year)	96,500	(34.0)	(4,000)	—	(2,600)-2,800	—
	-103,600	-(29.2)	-1,400	-(92.7)		-(86.1)

	Net income attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
Year ending March 31, 2021 (full year)	undecided	—	undecided

(Note) Changes in forecast of consolidated performance from most recently announced figures: Changed

*Notes

- (1) Significant changes in subsidiaries during the period under review (changes to specific subsidiaries resulting in changes in scope of consolidation): None
- (2) Adoption of special accounting policies for quarterly financial statements: None
- (3) Changes in accounting standard, accounting estimation change and error correction
 - 1) Changes due to changes in accounting standard: None
 - 2) Changes due to changes in accounting standard except (3) 1): None
 - 3) Changes due to accounting estimation change: None
 - 4) Error correction: None

(4) Number of common shares issued

- 1) Number of shares issued (including treasury shares)
- 2) Number of shares of treasury shares
- 3) Average number of shares during the period

As of September 30, 2020	57,234,200 shares	As of March 31, 2020	57,234,200 shares
As of September 30, 2020	1,609,212 shares	As of March 31, 2020	904,712 shares
Six months ended September 30, 2020	55,954,420 shares	Six months ended September 30, 2019	56,665,846 shares

* These consolidated financial results are outside the scope of quarterly review by Certified Public Accountants or auditing corporations.

* Explanation for the appropriate use of performance forecasts and other special notes:

The statements regarding forecast of financial results in this report are based on the information that is available, as well as estimates, assumptions and projections that are believed to be reasonable at the time of publication. Therefore, there might be cases in which actual results greatly differ from forecast values.

Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

	FY2019 (As of March 31, 2020)	(Millions of yen) Current Second quarter (As of September 30, 2020)
Assets		
Current assets		
Cash and deposits	47,992	72,362
Notes and accounts receivable - trade	4,758	4,086
Inventories	7,777	9,401
Other	5,331	6,524
Allowance for doubtful accounts	(122)	(802)
Total current assets	65,737	91,571
Non-current assets		
Property, plant and equipment		
Karaoke equipment for rental, net	9,813	8,177
Karaoke cabin and restaurant facilities, net	20,118	19,628
Land	40,600	41,095
Other, net	7,402	7,908
Total property, plant and equipment	77,935	76,810
Intangible assets		
Goodwill	2,900	2,800
Other	7,299	6,685
Total intangible assets	10,199	9,485
Investments and other assets		
Investment securities	3,157	3,696
Leasehold and guarantee deposits	15,249	15,424
Other	9,358	10,482
Allowance for doubtful accounts	(71)	(143)
Total investments and other assets	27,693	29,460
Total non-current assets	115,829	115,757
Total assets	181,567	207,328

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2019 (As of March 31, 2020)	Current Second quarter (As of September 30, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,929	2,359
Short-term borrowings	2,786	19,338
Income taxes payable	2,117	1,448
Provision for bonuses	1,184	1,655
Other	11,415	10,542
Total current liabilities	22,433	35,344
Non-current liabilities		
Long-term borrowings	11,045	32,613
Provision for retirement benefits for directors (and other officers)	943	815
Retirement benefit liability	7,270	7,435
Other	3,668	3,735
Total non-current liabilities	22,927	44,599
Total liabilities	45,361	79,944
Net assets		
Shareholders' equity		
Share capital	12,350	12,350
Capital surplus	4,003	4,114
Retained earnings	123,891	116,798
Treasury shares	(4,589)	(6,870)
Total shareholders' equity	135,656	126,393
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(221)	250
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	(26)	(26)
Remeasurements of defined benefit plans	(254)	(216)
Total accumulated other comprehensive income	(1,236)	(726)
Share acquisition rights	310	352
Non-controlling interests	1,475	1,365
Total net assets	136,205	127,384
Total liabilities and net assets	181,567	207,328

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)**

	(Millions of yen)	
	Six months ended September 30, 2019 (From April 1, 2019, to September 30, 2019)	Six months ended September 30, 2020 (From April 1, 2020, to September 30, 2020)
Net sales	71,018	42,778
Cost of sales	43,859	30,277
Gross profit	27,159	12,500
Selling, general and administrative expenses	17,165	14,142
Operating income (loss)	9,993	(1,642)
Non-operating income		
Interest income	13	19
Cooperative monetary aid received	192	142
Compensation income	20	420
Other	605	600
Total non-operating income	831	1,181
Non-operating expenses		
Interest expenses	66	95
Foreign exchange losses	2	5
Provision of allowance for doubtful accounts	—	70
Other	57	114
Total non-operating expenses	127	285
Ordinary income (loss)	10,697	(746)
Extraordinary income		
Gain on sales of non-current assets	0	—
Gain on sales of investment securities	39	0
Subsidies income	—	2,360
Total extraordinary income	40	2,361
Extraordinary losses		
Loss on disposal of non-current assets	95	114
Impairment loss	67	192
Loss on sales of investment securities	96	—
Loss on valuation of investment securities	130	1
Loss on COVID-19	—	6,258
Total extraordinary losses	391	6,567
Income (loss) before income taxes	10,346	(4,952)
Income taxes - current	3,570	325
Income taxes - deferred	68	(1,440)
Total income taxes	3,638	(1,114)
Net income (loss)	6,708	(3,837)
Net income attributable to non-controlling interests	52	44
Net income (loss) attributable to owners of parent	6,655	(3,881)

(Quarterly Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Six months ended September 30, 2019 (From April 1, 2019, to September 30, 2019)	Six months ended September 30, 2020 (From April 1, 2020, to September 30, 2020)
Net income (loss)	6,708	(3,837)
Other comprehensive income		
Valuation difference on available-for-sale securities	9	471
Foreign currency translation adjustment	(66)	0
Remeasurements of defined benefit plans, net of tax	51	37
Total other comprehensive income	(5)	509
Comprehensive income	6,702	(3,327)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,650	(3,371)
Comprehensive income attributable to non-controlling interests	52	44

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2019 (From April 1, 2019, to September 30, 2019)	Six months ended September 30, 2020 (From April 1, 2020, to September 30, 2020)
Cash flows from operating activities		
Income (loss) before income taxes	10,346	(4,952)
Depreciation	6,991	7,434
Amortization of goodwill	301	318
Impairment loss	67	192
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(50)	(128)
Interest and dividend income	(96)	(78)
Interest expenses	66	95
Foreign exchange losses (gains)	55	(0)
Loss (gain) on sales of investment securities	56	(0)
Loss (gain) on valuation of investment securities	130	1
Loss (gain) on disposal of non-current assets	95	114
Subsidy income	—	(2,360)
Decrease (increase) in trade receivables	495	946
Decrease (increase) in inventories	(2,660)	(1,526)
Transfer of cost of sales on karaoke equipment for rental	33	48
Decrease (increase) in advance payments - trade	1,150	(47)
Increase (decrease) in trade payables	1,231	(2,738)
Increase (decrease) in accounts payable - other	(796)	(87)
Other, net	(57)	115
Subtotal	17,361	(2,654)
Interest and dividends received	96	79
Interest paid	(67)	(95)
Proceeds from subsidy income	—	2,360
Income taxes paid	(5,901)	(1,285)
Net cash provided by (used in) operating activities	11,489	(1,595)
Cash flows from investing activities		
Payments into time deposits	(13)	(32)
Proceeds from withdrawal of time deposits	—	24
Purchase of property, plant and equipment	(4,325)	(2,883)
Proceeds from sales of property, plant and equipment	1	3
Purchase of intangible assets	(2,652)	(1,615)
Payments for acquisition of video licenses	(953)	(522)
Proceeds from sales of investment securities	189	1
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	28
Loan advances	(76)	(306)
Collection of loans receivable	194	118
Payments of leasehold and guarantee deposits	(720)	(451)
Proceeds from refund of leasehold and guarantee deposits	91	174
Other, net	163	(92)
Net cash provided by (used in) investing activities	(8,100)	(5,555)

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(Millions of yen)

	Six months ended September 30, 2019 (From April 1, 2019, to September 30, 2019)	Six months ended September 30, 2020 (From April 1, 2020, to September 30, 2020)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	115	6,203
Proceeds from long-term borrowings	70	31,610
Repayments of long-term borrowings	(814)	(740)
Redemption of bonds	(6,500)	(10)
Dividends paid	(3,152)	(3,249)
Purchase of treasury shares	(0)	(2,280)
Other, net	(16)	(21)
Net cash provided by (used in) financing activities	(10,299)	31,511
Effect of exchange rate change on cash and cash equivalents	(55)	0
Net increase (decrease) in cash and cash equivalents	(6,966)	24,361
Cash and cash equivalents at beginning of period	56,439	47,232
Cash and cash equivalents at end of period	49,473	71,593

Notes to the Quarterly Consolidated Financial Statements

(Segment Information)

Six months ended September 30, 2019 (From April 1, 2019, to September 30, 2019)

(Millions of yen)

	Reportable segments				Other	Total	Adjusted amount (Note)	Posted amount to the consolidated quarterly statements of income
	Commercial karaoke	Karaoke cabin and restaurant	Music software	Subtotal				
Sales	31,043	31,441	3,867	66,351	4,666	71,018	—	71,018
Segment income (Operating income)	7,298	3,185	47	10,531	819	11,351	(1,357)	9,993

Note: The (1,357) million yen adjustment posted to segment income is primarily composed of general and administrative expenses incurred by the administrative department at the head office that are not attributable to any particular reportable segment.

Six months ended September 30, 2020 (From April 1, 2020, to September 30, 2020)

(Millions of yen)

	Reportable segments				Other	Total	Adjusted amount (Note)	Posted amount to the consolidated quarterly statements of income
	Commercial karaoke	Karaoke cabin and restaurant	Music software	Subtotal				
Sales	24,178	11,184	2,970	38,333	4,444	42,778	—	42,778
Segment income or Segment loss (Operating income or Operating loss)	5,069	(5,843)	120	(653)	231	(421)	(1,220)	(1,642)

Note: The (1,220) million yen adjustment posted to segment income or segment loss is primarily composed of general and administrative expenses incurred by the administrative department at the head office that are not attributable to any particular reportable segment.

(Additional Information)

As for the impairment of non-current assets and tax-effect accounting, etc., we estimate future cash flows, recoverability of deferred tax assets and other matters assuming that the negative impact due to the spread of COVID-19 on our business results will continue until the end of the current consolidated fiscal year, even though the impact will gradually diminish going forward.

(Notes to the Quarterly Consolidated Statements of Income)

Subsidies income

Employment adjustment subsidies, which are subsidies provided to cover salaries, etc. for the period during which employees were furloughed, as well as subsidies, etc. received from the national government, local municipalities, etc. following the spread of COVID-19, have been posted to “subsidies income.”

Loss on COVID-19

Following the issuance of the declaration of state of emergency due to the spread of COVID-19, we implemented a measure to furlough (special leave of absence) all employees in principle. In addition, karaoke cabins and restaurants operated by the Company as well as those operated by our clients were required to close temporarily, following the requests from the national government and local municipalities.

In light of these events, fixed costs of karaoke cabins and restaurants operated by the Company during the period of closure and fixed costs in relation to leasing of commercial karaoke equipment, including salaries for the period during which employees were furloughed, have been posted to “loss on COVID-19.”