

Translation

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FY2021, the year ending March 31, 2022

Flash Report on the Consolidated Results for the Second Quarter Ended September 30, 2021 [JGAAP]

November 15, 2021

Company Name: **DAIICHIKOSHO CO., LTD.**
 Stock Exchange Listing: Tokyo Stock Exchange
 Code Number: 7458
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 Date to Submit the Quarterly Securities Report: November 12, 2021
 Start Date for Dividend Payment: December 3, 2021
 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, 2021 (From April 1, 2021, to September 30, 2021)

(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, 2021	39,529	(7.6)	(1,945)	—	(1,176)	—
Six months ended September 30, 2020	42,778	(39.8)	(1,642)	—	(746)	—

	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, 2021	(1,429)	—	(26.20)	—
Six months ended September 30, 2020	(3,881)	—	(69.38)	—

(Note) Comprehensive income:

Six months ended September 30, 2021: (1,277) million yen — %

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

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2021	176,804	101,733	56.7
As of March 31, 2021	186,795	106,030	55.8

(Reference) Shareholders' equity:

As of September 30, 2021: 100,164 million yen

As of March 31, 2021: 104,258 million yen

2. Dividend

	Annual dividend				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2021	—	56.00	—	57.00	113.00
Year ending March 31, 2022	—	56.00			
Year ending March 31, 2022 (forecast)			—	57.00	113.00

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

3. Forecast Consolidated Performance for FY2021, the Year Ending March 31, 2022 (From April 1, 2021, to March 31, 2022)

As for our performance for the year ending March 31, 2022, it is difficult to reasonably calculate the future development of the COVID-19 pandemic and its impact on the Group's business activities at this moment. The Company therefore continues to leave the forecast undecided.

Performance forecast will be announced as soon as it becomes available in the future.

*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: Yes
 - 2) Changes due to changes in accounting standard except (3) 1): None
 - 3) Changes due to accounting estimation change: None
 - 4) Error correction: None
- (Note) For details, please refer to "Changes in Accounting Policies" on page 9.

(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, 2021	54,734,200 shares	As of March 31, 2021	57,234,200 shares
As of September 30, 2021	141,206 Shares	As of March 31, 2021	2,711,167 shares
Six months ended September 30, 2021	54,558,572 shares	Six months ended September 30, 2020	55,954,420 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:

It is difficult to reasonably calculate the future development of the COVID-19 pandemic and its impact on the Group's business activities. The Company therefore continues to leave the forecast undecided. Performance forecast will be announced as soon as it becomes available in the future.

Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

	FY2020 (As of March 31, 2021)	Current Second quarter (As of September 30, 2021)
(Millions of yen)		
Assets		
Current assets		
Cash and deposits	68,508	58,801
Notes and accounts receivable - trade	3,546	2,476
Inventories	8,946	9,040
Other	6,722	6,987
Allowance for doubtful accounts	(944)	(986)
Total current assets	86,780	76,320
Non-current assets		
Property, plant and equipment		
Karaoke equipment for rental, net	6,705	6,151
Karaoke cabin and restaurant facilities, net	11,685	11,772
Land	40,681	40,615
Other, net	6,611	6,570
Total property, plant and equipment	65,683	65,111
Intangible assets		
Goodwill	92	875
Other	6,140	5,684
Total intangible assets	6,232	6,559
Investments and other assets		
Investment securities	4,811	4,921
Leasehold and guarantee deposits	14,224	13,829
Other	9,194	10,142
Allowance for doubtful accounts	(131)	(81)
Total investments and other assets	28,098	28,812
Total non-current assets	100,014	100,483
Total assets	186,795	176,804

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2020 (As of March 31, 2021)	Current Second quarter (As of September 30, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,591	2,166
Short-term borrowings	17,996	7,721
Income taxes payable	1,736	793
Provision for bonuses	1,168	1,649
Other	13,219	8,708
Total current liabilities	36,712	21,039
Non-current liabilities		
Long-term borrowings	32,085	42,164
Provision for retirement benefits for directors (and other officers)	899	905
Retirement benefit liability	7,556	7,729
Other	3,511	3,230
Total non-current liabilities	44,052	54,030
Total liabilities	80,765	75,070
Net assets		
Shareholders' equity		
Share capital	12,350	12,350
Capital surplus	4,114	4,114
Retained earnings	98,783	84,165
Treasury shares	(10,958)	(570)
Total shareholders' equity	104,289	100,059
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	810	916
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	32	41
Remeasurements of defined benefit plans	(140)	(119)
Total accumulated other comprehensive income	(31)	104
Share acquisition rights	388	182
Non-controlling interests	1,383	1,386
Total net assets	106,030	101,733
Total liabilities and net assets	186,795	176,804

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

	(Millions of yen)	
	Six months ended September 30, 2020 (From April 1, 2020, to September 30, 2020)	Six months ended September 30, 2021 (From April 1, 2021, to September 30, 2021)
Net sales	42,778	39,529
Cost of sales	30,277	27,488
Gross profit	12,500	12,041
Selling, general and administrative expenses	14,142	13,987
Operating loss	(1,642)	(1,945)
Non-operating income		
Interest income	19	10
Insurance claim income	121	319
Cooperative monetary aid received	142	144
Compensation income	420	—
Other	478	533
Total non-operating income	1,181	1,007
Non-operating expenses		
Interest expenses	95	109
Foreign exchange losses	5	23
Provision of allowance for doubtful accounts	70	—
Cancellation penalty	7	49
Other	106	55
Total non-operating expenses	285	238
Ordinary loss	(746)	(1,176)
Extraordinary income		
Gain on sale of non-current assets	—	11
Gain on sale of investment securities	0	—
Subsidies income	2,360	5,660
Total extraordinary income	2,361	5,672
Extraordinary losses		
Loss on disposal of non-current assets	114	30
Impairment losses	192	60
Loss on sale of investment securities	—	0
Loss on valuation of investment securities	1	108
Loss on COVID-19	6,258	6,299
Total extraordinary losses	6,567	6,499
Loss before income taxes	(4,952)	(2,004)
Income taxes - current	325	684
Income taxes - deferred	(1,440)	(1,275)
Total income taxes	(1,114)	(590)
Net loss	(3,837)	(1,413)
Net income attributable to non-controlling interests	44	15
Net loss attributable to owners of parent	(3,881)	(1,429)

(Quarterly Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Six months ended September 30, 2020 (From April 1, 2020, to September 30, 2020)	Six months ended September 30, 2021 (From April 1, 2021, to September 30, 2021)
Net loss	(3,837)	(1,413)
Other comprehensive income		
Valuation difference on available-for-sale securities	471	106
Foreign currency translation adjustment	0	8
Remeasurements of defined benefit plans, net of tax	37	21
Total other comprehensive income	509	136
Comprehensive income	(3,327)	(1,277)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(3,371)	(1,292)
Comprehensive income attributable to non-controlling interests	44	15

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2020 (From April 1, 2020, to September 30, 2020)	Six months ended September 30, 2021 (From April 1, 2021, to September 30, 2021)
Cash flows from operating activities		
Loss before income taxes	(4,952)	(2,004)
Depreciation	7,434	6,002
Amortization of goodwill	318	53
Impairment losses	192	60
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(128)	6
Interest and dividend income	(78)	(147)
Interest expenses	95	109
Foreign exchange losses (gains)	(0)	(6)
Loss (gain) on sale of investment securities	(0)	0
Loss (gain) on valuation of investment securities	1	108
Loss (gain) on disposal of non-current assets	114	19
Subsidy income	(2,360)	(5,660)
Decrease (increase) in trade receivables	946	1,083
Decrease (increase) in inventories	(1,526)	(94)
Transfer of cost of sales on karaoke equipment for rental	48	80
Decrease (increase) in advance payments to suppliers	(47)	(42)
Increase (decrease) in trade payables	(2,738)	(455)
Increase (decrease) in accounts payable - other	(87)	(3,958)
Other, net	115	(1,537)
Subtotal	(2,654)	(6,384)
Interest and dividends received	79	147
Interest paid	(95)	(110)
Subsidies received	2,360	5,501
Income taxes paid	(1,285)	(761)
Net cash provided by (used in) operating activities	(1,595)	(1,606)
Cash flows from investing activities		
Payments into time deposits	(32)	(363)
Proceeds from withdrawal of time deposits	24	107
Purchase of property, plant and equipment	(2,883)	(2,824)
Proceeds from sale of property, plant and equipment	3	76
Purchase of intangible assets	(1,615)	(1,428)
Payments for acquisition of video licenses	(522)	(557)
Proceeds from sale of investment securities	1	0
Purchase of investment securities	—	(50)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	28	—
Payments for acquisition of businesses	—	(1,014)
Loan advances	(306)	(32)
Proceeds from collection of loans receivable	118	207
Payments of leasehold and guarantee deposits	(451)	(68)
Proceeds from refund of leasehold and guarantee deposits	174	445
Other, net	(92)	453
Net cash provided by (used in) investing activities	(5,555)	(5,049)

(Millions of yen)

	Six months ended September 30, 2020 (From April 1, 2020, to September 30, 2020)	Six months ended September 30, 2021 (From April 1, 2021, to September 30, 2021)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	6,203	(299)
Proceeds from long-term borrowings	31,610	11,250
Repayments of long-term borrowings	(740)	(11,146)
Redemption of bonds	(10)	—
Dividends paid	(3,249)	(3,105)
Purchase of treasury shares	(2,280)	(0)
Other, net	(21)	(12)
Net cash provided by (used in) financing activities	31,511	(3,314)
Effect of exchange rate change on cash and cash equivalents	0	6
Net increase (decrease) in cash and cash equivalents	24,361	(9,964)
Cash and cash equivalents at beginning of period	47,232	67,680
Cash and cash equivalents at end of period	71,593	57,715

Notes to the Quarterly Consolidated Financial Statements

(Changes in Accounting Policies)

(Adoption of the Accounting Standard for Revenue Recognition, etc.)

The Company started to adopt the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the “Revenue Recognition Accounting Standard”), etc. at the beginning of the three months ended June 30, 2021. Accordingly, the Company recognized revenue at an amount it expected to receive in exchange for a promised good or service at a time when control over such good or service was transferred to a customer. Main changes attributable to the adoption of the Revenue Recognition Accounting Standard, etc. are as follows:

(1) Revenue recognition with regard to customer loyalty programs

As for the provision of services under customer loyalty programs, which grant points at the time of sales at karaoke cabins and restaurants, etc., the Company had previously recognized revenue at the time of sales. The Company changed the method and identified granted points as performance obligations and allocated transaction prices based on standalone selling prices calculated with factors taken into consideration, such as the number of points expected to expire in the future without being redeemed.

(2) Revenue recognition with regard to installment sales

As for installment sales, the Company had previously recognized revenue on the installment method. The Company changed the method and recognized revenue at the time when goods or services were transferred to customers and performance obligations were satisfied.

(3) Revenue recognition with regard to agent transactions

As for transactions in which the Company acts as an agent in providing products to customers, the Company had previously recognized revenue at gross amounts received from customers. The Company changed the method and recognized revenue at amounts received from customers, net of amounts paid to suppliers.

In adopting the Revenue Recognition Accounting Standard, etc., the Company followed the transitional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. Accordingly, the Company adjusted retained earnings as of the beginning of the three months ended June 30, 2021 with the cumulative effect that would be obtained if the Company retrospectively adopted the new accounting policy prior to the beginning of the three months ended June 30, 2021, and adopted the new accounting policy with the adjusted balance.

As a result, net sales during the six months ended September 30, 2021 decreased 118 million yen, cost of sales decreased 112 million yen, selling, general and administrative expenses decreased 21 million yen, and operating loss, ordinary loss, and loss before income taxes decreased 15 million yen, respectively. In addition, the balance of retained earnings as of the beginning of the six months ended September 30, 2021 increased 65 million yen.

(Adoption of the Accounting Standard for Fair Value Measurement, etc.)

The Company started to adopt the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the “Fair Value Measurement Accounting Standard”), etc. at the beginning of the three months ended June 30, 2021. According to the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company will continue to adopt new accounting policies set forth by the Fair Value Measurement Accounting Standard, etc. in the future. There is no impact on the quarterly consolidated financial statements.

(Segment Information)

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.

Six months ended September 30, 2021 (From April 1, 2021, to September 30, 2021)

(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	25,183	6,331	2,717	34,231	5,297	39,529	—	39,529
Segment income or Segment loss (Operating income or Operating loss)	5,792	(6,981)	24	(1,163)	374	(789)	(1,156)	(1,945)

Note: The (1,156) 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)

Concerning the impairment of non-current assets, tax effect accounting, etc., the Company estimated future cash flows, recoverability of deferred tax assets, etc. on the assumption that the performance of the Company will recover to the level before the COVID-19 pandemic in the medium term, though the impact of COVID-19 will continue to have a negative impact on our performance throughout the fiscal year ending March 31, 2022, due to factors, such as voluntary restraints on going out to prevent the spread of the infection and various requests from the governments.

No significant changes have been made to the assumptions made at the end of the previous fiscal year.

(Notes to the Quarterly Consolidated Statements of Income)

Subsidies income

Following the issuance of the declaration of state of emergency due to the spread of COVID-19, employment adjustment subsidies, which are subsidies that are provided to cover salaries, etc. for the period during which employees are furloughed, as well as subsidies, etc. that are received from the national government, local municipalities, etc., 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) employees in predetermined areas. In addition, karaoke cabins and restaurants operated by the Company as well as those operated by our clients closed temporarily or opened for shorter hours, 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.”