

Translation

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FY2021, the year ending March 31, 2022

Flash Report on the Consolidated Results for the Third Quarter Ended December 31, 2021 [JGAAP]

February 14, 2022

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: February 10, 2022
 Start Date for Dividend Payment: —
 Availability of Supplementary Briefing Material on Quarterly Financial Results: None
 Schedule of Quarterly Financial Results Briefing Session: None

(Amounts below one million yen are truncated.)

1. Consolidated Performance for the Nine Months Ended December 31, 2021 (From April 1, 2021, to December 31, 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	%
Nine months ended December 31, 2021	69,927	(1.8)	1,356	—	2,377	—
Nine months ended December 31, 2020	71,232	(36.3)	(1,171)	—	93	(99.5)

	Net income attributable to owners of parent		Basic earnings per share	Fully diluted net income per share
	Millions of yen	%	Yen	Yen
Nine months ended December 31, 2021	5,157	—	94.51	94.37
Nine months ended December 31, 2020	(3,305)	—	(59.32)	—

(Note) Comprehensive income:

Nine months ended December 31, 2021: 5,042 million yen — %

Nine months ended December 31, 2020: (2,493) million yen — %

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2021	182,414	105,014	56.7
As of March 31, 2021	186,795	106,030	55.8

(Reference) Shareholders' equity:

As of December 31, 2021: 103,423 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 of Consolidated Performance for FY2021, the Year Ending March 31, 2022 (From April 1, 2021, to March 31, 2022)

(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, 2022 (full year)	94,300	1.1	(1,000)	—	100	—

	Net income attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
Year ending March 31, 2022 (full year)	4,300	—	78.76

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

*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 December 31, 2021	54,734,200 shares	As of March 31, 2021	57,234,200 shares
As of December 31, 2021	141,239 Shares	As of March 31, 2021	2,711,167 shares
Nine months ended December 31, 2021	54,570,086 shares	Nine months ended December 31, 2020	55,731,042 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 earnings forecast and other forward-looking statements herein are based on the information available to the Company and certain assumptions deemed reasonable at the time of publication. The Company does not in any way guarantee the achievement of the projections. Actual results may significantly differ from the forecast values due to a wide range of factors.

Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	FY2020 (As of March 31, 2021)	Current Third quarter (As of December 31, 2021)
Assets		
Current assets		
Cash and deposits	68,508	65,966
Notes and accounts receivable - trade	3,546	5,304
Inventories	8,946	7,981
Other	6,722	6,147
Allowance for doubtful accounts	(944)	(983)
Total current assets	86,780	84,416
Non-current assets		
Property, plant and equipment		
Karaoke equipment for rental, net	6,705	6,301
Karaoke cabin and restaurant facilities, net	11,685	11,849
Land	40,681	40,356
Other, net	6,611	6,345
Total property, plant and equipment	65,683	64,852
Intangible assets		
Goodwill	92	850
Other	6,140	5,625
Total intangible assets	6,232	6,475
Investments and other assets		
Investment securities	4,811	4,567
Leasehold and guarantee deposits	14,224	13,729
Other	9,194	8,437
Allowance for doubtful accounts	(131)	(65)
Total investments and other assets	28,098	26,669
Total non-current assets	100,014	97,997
Total assets	186,795	182,414

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2020 (As of March 31, 2021)	Current Third quarter (As of December 31, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,591	2,833
Short-term borrowings	17,996	7,587
Income taxes payable	1,736	1,535
Provision for bonuses	1,168	1,146
Other	13,219	10,554
Total current liabilities	36,712	23,656
Non-current liabilities		
Long-term borrowings	32,085	41,940
Provision for retirement benefits for directors (and other officers)	899	949
Retirement benefit liability	7,556	7,868
Other	3,511	2,984
Total non-current liabilities	44,052	53,742
Total liabilities	80,765	77,399
Net assets		
Shareholders' equity		
Share capital	12,350	12,350
Capital surplus	4,114	4,114
Retained earnings	98,783	87,694
Treasury shares	(10,958)	(570)
Total shareholders' equity	104,289	103,589
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	810	651
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	32	24
Remeasurements of defined benefit plans	(140)	(108)
Total accumulated other comprehensive income	(31)	(165)
Share acquisition rights	388	200
Non-controlling interests	1,383	1,390
Total net assets	106,030	105,014
Total liabilities and net assets	186,795	182,414

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

	(Millions of yen)	
	Nine months ended December 31, 2020 (From April 1, 2020, to December 31, 2020)	Nine months ended December 31, 2021 (From April 1, 2021, to December 31, 2021)
Net sales	71,232	69,927
Cost of sales	50,760	47,013
Gross profit	20,472	22,913
Selling, general and administrative expenses	21,643	21,557
Operating income (loss)	(1,171)	1,356
Non-operating income		
Interest income	35	17
Insurance claim income	147	339
Cooperative monetary aid received	200	201
Compensation income	420	—
Other	820	789
Total non-operating income	1,624	1,347
Non-operating expenses		
Interest expenses	151	154
Foreign exchange losses	9	33
Provision of allowance for doubtful accounts	56	—
Cancellation penalty	7	57
Other	133	80
Total non-operating expenses	359	326
Ordinary income	93	2,377
Extraordinary income		
Gain on sale of non-current assets	314	22
Gain on sale of investment securities	0	—
Subsidies income	2,746	11,554
Total extraordinary income	3,061	11,577
Extraordinary losses		
Loss on disposal of non-current assets	118	40
Impairment losses	731	131
Loss on sale of investment securities	0	0
Loss on valuation of investment securities	1	108
Loss on COVID-19	6,258	6,452
Total extraordinary losses	7,110	6,733
Income (loss) before income taxes	(3,954)	7,221
Income taxes - current	637	1,640
Income taxes - deferred	(1,344)	403
Total income taxes	(707)	2,044
Net income (loss)	(3,247)	5,176
Net income attributable to non-controlling interests	58	19
Net income (loss) attributable to owners of parent	(3,305)	5,157

(Quarterly Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Nine months ended December 31, 2020 (From April 1, 2020, to December 31, 2020)	Nine months ended December 31, 2021 (From April 1, 2021, to December 31, 2021)
Net income (loss)	(3,247)	5,176
Other comprehensive income		
Valuation difference on available-for-sale securities	671	(159)
Foreign currency translation adjustment	35	(8)
Remeasurements of defined benefit plans, net of tax	47	32
Total other comprehensive income	754	(134)
Comprehensive income	(2,493)	5,042
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(2,551)	5,022
Comprehensive income attributable to non-controlling interests	58	19

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 nine months ended December 31, 2021 decreased 185 million yen, cost of sales decreased 165 million yen, selling, general and administrative expenses decreased 39 million yen, and operating income, ordinary income, and income before income taxes increased 20 million yen, respectively. In addition, the balance of retained earnings as of the beginning of the nine months ended December 31, 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)

Nine months ended December 31, 2020 (From April 1, 2020, to December 31, 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	38,582	20,882	4,748	64,213	7,018	71,232	—	71,232
Segment income or Segment loss (Operating income or Operating loss)	8,463	(8,508)	229	184	485	670	(1,841)	(1,171)

Note: The (1,841) 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.

Nine months ended December 31, 2021 (From April 1, 2021, to December 31, 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	39,383	17,834	4,359	61,577	8,350	69,927	—	69,927
Segment income or Segment loss (Operating income or Operating loss)	9,182	(6,914)	47	2,315	769	3,084	(1,728)	1,356

Note: The (1,728) 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.”