

Translation

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FY2018, the year ending March 31, 2019

Flash Report on the Consolidated Results for the Second Quarter Ended September 30, 2018 [JGAAP]

November 16, 2018

Company Name: **DAIICHIKOSHO CO., LTD.**
 Stock Exchange Listing: Tokyo Stock Exchange
 Code Number: 7458
 URL: <https://www.dkkaraoke.co.jp>
 Representative: Tadahiro Hoshi, President
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 Scheduled Date to Submit the Quarterly Securities Report: November 9, 2018
 Start Date for Dividend Payment: December 5, 2018
 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, 2018 (From April 1, 2018, to September 30, 2018)

(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, 2018	69,823	1.2	10,474	(2.8)	11,225	(2.2)
Six months ended September 30, 2017	69,022	0.3	10,776	10.7	11,474	14.6

	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, 2018	7,253	(1.6)	127.33	127.19
Six months ended September 30, 2017	7,373	75.4	129.16	129.04

(Note) Comprehensive income:

Six months ended September 30, 2018: 7,291 million yen (3.7) %

Six months ended September 30, 2017: 7,568 million yen 12.0 %

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2018	182,759	129,491	70.0
As of March 31, 2018	180,190	125,356	68.7

(Reference) Shareholders' equity:

As of September 30, 2018: 127,861 million yen

As of March 31, 2018: 123,792 million yen

2. Dividend

	Annual dividend				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
Year ended March 31, 2018	Yen —	Yen 55.00	Yen —	Yen 56.00	Yen 111.00
Year ending March 31, 2019	—	56.00			
Year ending March 31, 2019 (forecast)			—	56.00	112.00

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

3. Forecast Consolidated Performance for FY2018, the Year Ending March 31, 2019 (From April 1, 2018, to March 31, 2019)

(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, 2019 (full year)	142,500	0.8	21,200	0.5	22,000	0.7

	Net income attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
Year ending March 31, 2019 (full year)	13,500	2.9	236.98

(Note) Changes in forecast of consolidated performance from most recently announced figures: None

*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, 2018	57,234,200 shares	As of March 31, 2018	57,234,200 shares
As of September 30, 2018	266,262 shares	As of March 31, 2018	266,228 shares
Six months ended September 30, 2018	56,967,945 shares	Six months ended September 30, 2017	57,093,654 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

	FY2017 (As of March 31, 2018)	(Millions of yen) Current Second quarter (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	45,538	51,323
Notes and accounts receivable - trade	5,132	5,091
Securities	4,969	—
Inventories	6,252	6,305
Other	5,660	6,876
Allowance for doubtful accounts	(175)	(177)
Total current assets	67,378	69,419
Non-current assets		
Property, plant and equipment		
Karaoke equipment for rental, net	9,794	9,520
Karaoke cabin and restaurant facilities, net	19,299	19,303
Land	38,053	38,053
Other, net	8,258	8,177
Total property, plant and equipment	75,405	75,054
Intangible assets		
Goodwill	4,065	3,733
Other	6,198	6,579
Total intangible assets	10,263	10,313
Investments and other assets		
Investment securities	5,288	5,404
Lease and guarantee deposits	14,263	14,954
Other	7,656	7,678
Allowance for doubtful accounts	(65)	(64)
Total investments and other assets	27,142	27,972
Total non-current assets	112,812	113,340
Total assets	180,190	182,759

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2017 (As of March 31, 2018)	Current Second quarter (As of September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,421	3,550
Short-term loans payable	4,015	3,998
Current portion of bonds	—	6,500
Income taxes payable	4,652	4,068
Provision for bonuses	1,128	1,596
Other	12,146	10,547
Total current liabilities	25,365	30,261
Non-current liabilities		
Bonds payable	6,500	—
Long-term loans payable	12,587	12,256
Provision for directors' retirement benefits	1,047	822
Net defined benefit liability	6,176	6,429
Other	3,157	3,497
Total non-current liabilities	29,469	23,006
Total liabilities	54,834	53,268
Net assets		
Shareholders' equity		
Capital stock	12,350	12,350
Capital surplus	4,003	4,003
Retained earnings	108,489	112,552
Treasury shares	(1,309)	(1,309)
Total shareholders' equity	123,534	127,597
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,261	1,218
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	87	89
Remeasurements of defined benefit plans	(356)	(309)
Total accumulated other comprehensive income	258	264
Share acquisition rights	203	250
Non-controlling interests	1,359	1,379
Total net assets	125,356	129,491
Total liabilities and net assets	180,190	182,759

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

	(Millions of yen)	
	Six months ended September 30, 2017 (From April 1, 2017, to September 30, 2017)	Six months ended September 30, 2018 (From April 1, 2018, to September 30, 2018)
Net sales	69,022	69,823
Cost of sales	41,544	42,448
Gross profit	27,478	27,374
Selling, general and administrative expenses	16,701	16,900
Operating income	10,776	10,474
Non-operating income		
Interest income	25	35
Cooperative monetary aid received	173	169
Foreign exchange gains	235	219
Other	540	568
Total non-operating income	975	993
Non-operating expenses		
Interest expenses	161	81
Cancellation penalty	18	76
Other	97	84
Total non-operating expenses	278	242
Ordinary income	11,474	11,225
Extraordinary income		
Gain on sales of non-current assets	97	7
Gain on acquisition of non-current assets	24	—
Gain on sales of investment securities	0	61
Total extraordinary income	121	68
Extraordinary losses		
Loss on disposal of non-current assets	71	41
Impairment loss	122	9
Total extraordinary losses	193	50
Income before income taxes	11,401	11,243
Income taxes - current	3,997	3,928
Income taxes - deferred	(1)	29
Total income taxes	3,995	3,957
Net income	7,405	7,285
Net income attributable to non-controlling interests	31	32
Net income attributable to owners of parent	7,373	7,253

(Quarterly Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Six months ended September 30, 2017 (From April 1, 2017, to September 30, 2017)	Six months ended September 30, 2018 (From April 1, 2018, to September 30, 2018)
Net income	7,405	7,285
Other comprehensive income		
Valuation difference on available-for-sale securities	126	(43)
Foreign currency translation adjustment	(15)	1
Remeasurements of defined benefit plans, net of tax	51	46
Total other comprehensive income	162	5
Comprehensive income	7,568	7,291
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,536	7,258
Comprehensive income attributable to non-controlling interests	31	32

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2017 (From April 1, 2017, to September 30, 2017)	Six months ended September 30, 2018 (From April 1, 2018, to September 30, 2018)
Cash flows from operating activities		
Income before income taxes	11,401	11,243
Depreciation	7,328	7,237
Amortization of goodwill	299	331
Impairment loss	122	9
Increase (decrease) in provision for directors' retirement benefits	(89)	(224)
Interest and dividend income	(78)	(124)
Interest expenses	161	81
Foreign exchange losses (gains)	(254)	(252)
Gain on acquisition of non-current assets	(24)	—
Loss (gain) on sales of investment securities	(0)	(61)
Loss (gain) on disposal of non-current assets	(25)	34
Decrease (increase) in notes and accounts receivable - trade	1,677	41
Decrease (increase) in inventories	(1,044)	(48)
Transfer of cost of sales on karaoke equipment for rental	11	37
Increase (decrease) in notes and accounts payable - trade	472	126
Increase (decrease) in accounts payable - other	(1,431)	(908)
Other, net	(1,220)	142
Subtotal	17,308	17,665
Interest and dividend income received	107	125
Interest expenses paid	(218)	(81)
Income taxes paid	(2,939)	(4,470)
Other, net	38	—
Net cash provided by (used in) operating activities	14,296	13,239
Cash flows from investing activities		
Payments into time deposits	(567)	(37)
Proceeds from withdrawal of time deposits	573	48
Purchase of property, plant and equipment	(6,638)	(5,032)
Proceeds from sales of property, plant and equipment	144	11
Purchase of intangible assets	(1,875)	(2,247)
Payments for acquisition of video licenses	(714)	(1,009)
Proceeds from sales of investment securities	5	61
Purchase of investment securities	—	(181)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(5,142)	—
Payments of loans receivable	(285)	(58)
Collection of loans receivable	246	233
Payments for lease and guarantee deposits	(154)	(1,111)
Proceeds from collection of lease and guarantee deposits	367	141
Other, net	90	82
Net cash provided by (used in) investing activities	(13,951)	(9,101)

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	(Millions of yen)	
	Six months ended September 30, 2017 (From April 1, 2017, to September 30, 2017)	Six months ended September 30, 2018 (From April 1, 2018, to September 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	72	186
Proceeds from long-term loans payable	900	520
Repayments of long-term loans payable	(1,218)	(1,063)
Redemption of bonds	(3,500)	—
Cash dividends paid	(3,141)	(3,190)
Purchase of treasury shares	(1,001)	(0)
Other, net	(22)	(15)
Net cash provided by (used in) financing activities	(7,911)	(3,563)
Effect of exchange rate change on cash and cash equivalents	254	252
Net increase (decrease) in cash and cash equivalents	(7,313)	826
Cash and cash equivalents at beginning of period	61,254	49,736
Cash and cash equivalents at end of period	53,941	50,563

Notes to the Quarterly Consolidated Financial Statements**(Segment Information)****Six months ended September 30, 2017 (From April 1, 2017, to September 30, 2017)**

(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	32,107	28,907	4,022	65,038	3,984	69,022	—	69,022
Segment income or Segment loss (Operating income or Operating loss)	7,888	3,566	(3)	11,451	784	12,236	(1,459)	10,776

Note: The (1,459) 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, 2018 (From April 1, 2018, to September 30, 2018)

(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	31,941	30,031	3,606	65,578	4,244	69,823	—	69,823
Segment income or Segment loss (Operating income or Operating loss)	8,082	3,054	(99)	11,036	830	11,867	(1,393)	10,474

Note: The (1,393) 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.