

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.

FY2019, the year ending March 31, 2020

Flash Report on the Consolidated Results for the Second Quarter Ended September 30, 2019 [JGAAP]

November 21, 2019

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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 Date to Submit the Quarterly Securities Report: November 13, 2019
 Start Date for Dividend Payment: December 5, 2019
 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, 2019 (From April 1, 2019, to September 30, 2019)

(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, 2019	71,018	1.7	9,993	(4.6)	10,697	(4.7)
Six months ended September 30, 2018	69,823	1.2	10,474	(2.8)	11,225	(2.2)

	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, 2019	6,655	(8.2)	117.45	117.30
Six months ended September 30, 2018	7,253	(1.6)	127.33	127.19

(Note) Comprehensive income:

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

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

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2019	182,975	136,200	73.5
As of March 31, 2019	188,814	132,636	69.3

(Reference) Shareholders' equity:

As of September 30, 2019: 134,481 million yen

As of March 31, 2019: 130,915 million yen

2. Dividend

	Annual dividend				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	—	56.00	—	56.00	112.00
Year ending March 31, 2020	—	56.00			
Year ending March 31, 2020 (forecast)			—	57.00	113.00

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

3. Forecast Consolidated Performance for FY2019, the Year Ending March 31, 2020 (From April 1, 2019, to March 31, 2020)

(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, 2020 (full year)	145,900	1.4	20,200	2.7	21,200	1.5

	Net income attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
Year ending March 31, 2020 (full year)	13,100	(16.0)	231.14

(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, 2019	57,234,200 shares	As of March 31, 2019	57,234,200 shares
As of September 30, 2019	557,762 shares	As of March 31, 2019	580,290 shares
Six months ended September 30, 2019	56,665,846 shares	Six months ended September 30, 2018	56,967,945 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

	FY2018 (As of March 31, 2019)	Current Second quarter (As of September 30, 2019)
(Millions of yen)		
Assets		
Current assets		
Cash and deposits	57,182	50,230
Notes and accounts receivable - trade	5,205	4,698
Inventories	5,464	8,119
Other	6,762	5,596
Allowance for doubtful accounts	(133)	(127)
Total current assets	74,482	68,517
Non-current assets		
Property, plant and equipment		
Karaoke equipment for rental, net	9,108	8,704
Karaoke cabin and restaurant facilities, net	19,462	19,264
Land	39,794	39,794
Other, net	7,249	7,627
Total property, plant and equipment	75,614	75,390
Intangible assets		
Goodwill	3,407	3,105
Other	6,944	7,380
Total intangible assets	10,351	10,486
Investments and other assets		
Investment securities	4,849	4,426
Leasehold and guarantee deposits	14,976	15,471
Other	8,612	8,753
Allowance for doubtful accounts	(71)	(69)
Total investments and other assets	28,366	28,581
Total non-current assets	114,332	114,458
Total assets	188,814	182,975

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2018 (As of March 31, 2019)	Current Second quarter (As of September 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,469	4,694
Short-term borrowings	3,264	3,119
Current portion of bonds	6,500	—
Income taxes payable	6,030	3,643
Provision for bonuses	1,156	1,636
Other	12,689	10,876
Total current liabilities	33,111	23,970
Non-current liabilities		
Long-term borrowings	11,890	11,415
Provision for retirement benefits for directors (and other officers)	909	858
Retirement benefit liability	6,670	6,899
Other	3,595	3,631
Total non-current liabilities	23,066	22,804
Total liabilities	56,178	46,774
Net assets		
Shareholders' equity		
Share capital	12,350	12,350
Capital surplus	4,003	4,003
Retained earnings	117,709	121,164
Treasury shares	(2,986)	(2,870)
Total shareholders' equity	131,077	134,648
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	814	824
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	47	(19)
Remeasurements of defined benefit plans	(289)	(237)
Total accumulated other comprehensive income	(161)	(167)
Share acquisition rights	302	263
Non-controlling interests	1,417	1,455
Total net assets	132,636	136,200
Total liabilities and net assets	188,814	182,975

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

	(Millions of yen)	
	Six months ended September 30, 2018 (From April 1, 2018, to September 30, 2018)	Six months ended September 30, 2019 (From April 1, 2019, to September 30, 2019)
Net sales	69,823	71,018
Cost of sales	42,448	43,859
Gross profit	27,374	27,159
Selling, general and administrative expenses	16,900	17,165
Operating income	10,474	9,993
Non-operating income		
Interest income	35	13
Cooperative monetary aid received	169	192
Foreign exchange gains	219	—
Other	568	625
Total non-operating income	993	831
Non-operating expenses		
Interest expenses	81	66
Foreign exchange losses	—	2
Cancellation penalty	76	1
Other	84	55
Total non-operating expenses	242	127
Ordinary income	11,225	10,697
Extraordinary income		
Gain on sales of non-current assets	7	0
Gain on sales of investment securities	61	39
Total extraordinary income	68	40
Extraordinary losses		
Loss on disposal of non-current assets	41	95
Impairment loss	9	67
Loss on sales of investment securities	—	96
Loss on valuation of investment securities	—	130
Total extraordinary losses	50	391
Income before income taxes	11,243	10,346
Income taxes - current	3,928	3,570
Income taxes - deferred	29	68
Total income taxes	3,957	3,638
Net income	7,285	6,708
Net income attributable to non-controlling interests	32	52
Net income attributable to owners of parent	7,253	6,655

(Quarterly Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Six months ended September 30, 2018 (From April 1, 2018, to September 30, 2018)	Six months ended September 30, 2019 (From April 1, 2019, to September 30, 2019)
Net income	7,285	6,708
Other comprehensive income		
Valuation difference on available-for-sale securities	(43)	9
Foreign currency translation adjustment	1	(66)
Remeasurements of defined benefit plans, net of tax	46	51
Total other comprehensive income	5	(5)
Comprehensive income	7,291	6,702
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,258	6,650
Comprehensive income attributable to non-controlling interests	32	52

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2018 (From April 1, 2018, to September 30, 2018)	Six months ended September 30, 2019 (From April 1, 2019, to September 30, 2019)
Cash flows from operating activities		
Income before income taxes	11,243	10,346
Depreciation	7,237	6,991
Amortization of goodwill	331	301
Impairment loss	9	67
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(224)	(50)
Interest and dividend income	(124)	(96)
Interest expenses	81	66
Foreign exchange losses (gains)	(252)	55
Loss (gain) on sales of investment securities	(61)	56
Loss (gain) on disposal of non-current assets	34	95
Loss (gain) on valuation of investment securities	—	130
Decrease (increase) in trade receivables	41	495
Decrease (increase) in inventories	(48)	(2,660)
Transfer of cost of sales on karaoke equipment for rental	37	33
Decrease (increase) in advance payments - trade	(231)	1,150
Increase (decrease) in trade payables	126	1,231
Increase (decrease) in accounts payable – other	(908)	(796)
Other, net	374	(57)
Subtotal	17,665	17,361
Interest and dividends received	125	96
Interest paid	(81)	(67)
Income taxes paid	(4,470)	(5,901)
Net cash provided by (used in) operating activities	13,239	11,489
Cash flows from investing activities		
Payments into time deposits	(37)	(13)
Proceeds from withdrawal of time deposits	48	—
Purchase of property, plant and equipment	(5,032)	(4,325)
Proceeds from sales of property, plant and equipment	11	1
Purchase of intangible assets	(2,247)	(2,652)
Payments for acquisition of video licenses	(1,009)	(953)
Proceeds from sales of investment securities	61	189
Purchase of investment securities	(181)	—
Loan advances	(58)	(76)
Collection of loans receivable	233	194
Payments of leasehold and guarantee deposits	(1,111)	(720)
Proceeds from refund of leasehold and guarantee deposits	141	91
Other, net	82	163
Net cash provided by (used in) investing activities	(9,101)	(8,100)

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(Millions of yen)

	Six months ended September 30, 2018 (From April 1, 2018, to September 30, 2018)	Six months ended September 30, 2019 (From April 1, 2019, to September 30, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	186	115
Proceeds from long-term borrowings	520	70
Repayments of long-term borrowings	(1,063)	(814)
Redemption of bonds	—	(6,500)
Dividends paid	(3,190)	(3,152)
Other, net	(15)	(16)
Net cash provided by (used in) financing activities	(3,563)	(10,299)
Effect of exchange rate change on cash and cash equivalents	252	(55)
Net increase (decrease) in cash and cash equivalents	826	(6,966)
Cash and cash equivalents at beginning of period	49,736	56,439
Cash and cash equivalents at end of period	50,563	49,473

Notes to the Quarterly Consolidated Financial Statements

(Segment Information)

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.

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.