

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 First Quarter Ended June 30, 2020 [JGAAP]

August 24, 2020

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: August 12, 2020
 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 Three Months Ended June 30, 2020 (From April 1, 2020, to June 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 | % |
| Three months ended June 30, 2020 | 16,645 | (53.1) | (1,189) | — | (719) | — |
| Three months ended June 30, 2019 | 35,492 | 1.9 | 5,270 | (1.5) | 5,593 | (3.9) |

| | Net income attributable to owners of parent | | Basic earnings per share | Fully diluted net income per share |
|----------------------------------|---|-------|--------------------------|------------------------------------|
| | Millions of yen | % | Yen | Yen |
| Three months ended June 30, 2020 | (5,113) | — | (91.17) | — |
| Three months ended June 30, 2019 | 3,568 | (6.3) | 62.99 | 62.90 |

(Note) Comprehensive income:

Three months ended June 30, 2020: (4,815) million yen — %

Three months ended June 30, 2019: 3,510 million yen (9.7) %

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|----------------------|-----------------|-----------------|--------------|
| | Millions of yen | Millions of yen | % |
| As of June 30, 2020 | 206,771 | 126,817 | 60.5 |
| As of March 31, 2020 | 181,567 | 136,205 | 74.0 |

(Reference) Shareholders' equity:

As of June 30, 2020: 125,002 million yen

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

2. Dividend

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

(Note) Changes in dividends forecast from most recently announced figures: Changed

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 | % |
| Six months ending September 30, 2020 | 44,200 | (37.8) | (1,300) | — | (700) | — |
| Year ending March 31, 2021 (full year) | 114,700 | (21.6) | 7,300 | (61.7) | 8,200 | (59.3) |

| | Net income attributable to owners of parent | | Basic earnings per share |
|---|--|--------|--------------------------|
| | Millions of yen | % | Yen |
| Six months ending September 30, 2020 | (4,000) | — | (71.55) |
| Year ending March 31, 2021 (full year) | 600 | (95.2) | 10.73 |

(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 June 30, 2020 | 57,234,200 shares | As of March 31, 2020 | 57,234,200 shares |
| As of June 30, 2020 | 1,331,212 shares | As of March 31, 2020 | 904,712 shares |
| Three months ended June 30, 2020 | 56,093,869 shares | Three months ended June 30, 2019 | 56,655,138 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

| | (Millions of yen) | |
|--|----------------------------------|--|
| | FY2019 (As of March 31, 2020) | Current First quarter (As of June 30, 2020) |
| Assets | | |
| Current assets | | |
| Cash and deposits | 47,992 | 69,976 |
| Notes and accounts receivable - trade | 4,758 | 2,981 |
| Inventories | 7,777 | 9,515 |
| Other | 5,331 | 7,632 |
| Allowance for doubtful accounts | (122) | (659) |
| Total current assets | 65,737 | 89,447 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Karaoke equipment for rental, net | 9,813 | 8,973 |
| Karaoke cabin and restaurant facilities, net | 20,118 | 19,528 |
| Land | 40,600 | 41,099 |
| Other, net | 7,402 | 8,088 |
| Total property, plant and equipment | 77,935 | 77,689 |
| Intangible assets | | |
| Goodwill | 2,900 | 2,950 |
| Other | 7,299 | 6,852 |
| Total intangible assets | 10,199 | 9,802 |
| Investments and other assets | | |
| Investment securities | 3,157 | 3,474 |
| Leasehold and guarantee deposits | 15,249 | 15,153 |
| Other | 9,358 | 11,407 |
| Allowance for doubtful accounts | (71) | (203) |
| Total investments and other assets | 27,693 | 29,831 |
| Total non-current assets | 115,829 | 117,323 |
| Total assets | 181,567 | 206,771 |

DAIICHIKOSHO CO., LTD.

(Millions of yen)

| | FY2019 (As of March 31, 2020) | Current First quarter (As of June 30, 2020) |
|--|----------------------------------|--|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 4,929 | 3,176 |
| Short-term borrowings | 2,786 | 8,992 |
| Income taxes payable | 2,117 | 1,151 |
| Provision for bonuses | 1,184 | 613 |
| Other | 11,415 | 11,382 |
| Total current liabilities | 22,433 | 25,317 |
| Non-current liabilities | | |
| Long-term borrowings | 11,045 | 42,762 |
| Provision for retirement benefits for directors (and other officers) | 943 | 779 |
| Retirement benefit liability | 7,270 | 7,340 |
| Other | 3,668 | 3,753 |
| Total non-current liabilities | 22,927 | 54,636 |
| Total liabilities | 45,361 | 79,953 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 12,350 | 12,350 |
| Capital surplus | 4,003 | 4,003 |
| Retained earnings | 123,891 | 115,566 |
| Treasury shares | (4,589) | (5,958) |
| Total shareholders' equity | 135,656 | 125,962 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (221) | 30 |
| Revaluation reserve for land | (733) | (733) |
| Foreign currency translation adjustment | (26) | (29) |
| Remeasurements of defined benefit plans | (254) | (227) |
| Total accumulated other comprehensive income | (1,236) | (960) |
| Share acquisition rights | 310 | 334 |
| Non-controlling interests | 1,475 | 1,481 |
| Total net assets | 136,205 | 126,817 |
| Total liabilities and net assets | 181,567 | 206,771 |

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

| | (Millions of yen) | |
|--|--|--|
| | Three months ended June 30, 2019 (From April 1, 2019, to June 30, 2019) | Three months ended June 30, 2020 (From April 1, 2020, to June 30, 2020) |
| Net sales | 35,492 | 16,645 |
| Cost of sales | 21,672 | 11,128 |
| Gross profit | 13,820 | 5,516 |
| Selling, general and administrative expenses | 8,550 | 6,706 |
| Operating income (loss) | 5,270 | (1,189) |
| Non-operating income | | |
| Interest income | 5 | 4 |
| Cooperative monetary aid received | 82 | 70 |
| Compensation income | 20 | 420 |
| Other | 284 | 213 |
| Total non-operating income | 393 | 708 |
| Non-operating expenses | | |
| Interest expenses | 37 | 37 |
| Foreign exchange losses | 5 | 8 |
| Provision of allowance for doubtful accounts | — | 132 |
| Other | 26 | 60 |
| Total non-operating expenses | 70 | 239 |
| Ordinary income (loss) | 5,593 | (719) |
| Extraordinary income | | |
| Gain on sales of non-current assets | 0 | — |
| Gain on sales of investment securities | — | 0 |
| Subsidies income | — | *1 57 |
| Total extraordinary income | 0 | 58 |
| Extraordinary losses | | |
| Loss on disposal of non-current assets | 29 | 85 |
| Impairment loss | 9 | 71 |
| Loss on sales of investment securities | 62 | — |
| Loss on valuation of investment securities | — | 1 |
| Loss on COVID-19 | — | *2 6,258 |
| Total extraordinary losses | 101 | 6,417 |
| Income (loss) before income taxes | 5,491 | (7,078) |
| Income taxes - current | 1,957 | 111 |
| Income taxes - deferred | (68) | (2,098) |
| Total income taxes | 1,888 | (1,986) |
| Net income (loss) | 3,602 | (5,091) |
| Net income attributable to non-controlling interests | 33 | 22 |
| Net income (loss) attributable to owners of parent | 3,568 | (5,113) |

(Quarterly Consolidated Statements of Comprehensive Income)

| | (Millions of yen) | |
|--|--|--|
| | Three months ended June 30, 2019 (From April 1, 2019, to June 30, 2019) | Three months ended June 30, 2020 (From April 1, 2020, to June 30, 2020) |
| Net income (loss) | 3,602 | (5,091) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (89) | 252 |
| Foreign currency translation adjustment | (28) | (2) |
| Remeasurements of defined benefit plans, net of tax | 25 | 27 |
| Total other comprehensive income | (91) | 276 |
| Comprehensive income | 3,510 | (4,815) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 3,477 | (4,837) |
| Comprehensive income attributable to non-controlling interests | 33 | 22 |

Notes to the Quarterly Consolidated Financial Statements

(Segment Information)

Three months ended June 30, 2019 (From April 1, 2019, to June 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 | 15,598 | 15,549 | 2,068 | 33,217 | 2,275 | 35,492 | — | 35,492 |
| Segment income (Operating income) | 3,893 | 1,659 | 46 | 5,599 | 415 | 6,014 | (744) | 5,270 |

Note: The (744) 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.

Three months ended June 30, 2020 (From April 1, 2020, to June 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 | 10,138 | 2,932 | 1,523 | 14,595 | 2,050 | 16,645 | — | 16,645 |
| Segment income or Segment loss (Operating income or Operating loss) | 1,748 | (2,354) | 63 | (542) | 18 | (524) | (665) | (1,189) |

Note: The (665) 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, albeit slightly, 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)

*1 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.”

*2 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.”

(Significant Subsequent Events)

(Repurchase of treasury shares)

At the meeting of the Board of Directors held on August 7, 2020, the Company has resolved on matters in relation to the repurchase of treasury shares, based on the provisions of Article 156 of the Companies Act as applied in replacement of the provisions of Article 165, Paragraph 3 of the Companies Act.

- (1) Reason for repurchase
For the purpose of improvement of capital efficiency and shareholder returns
- (2) Class of shares to be repurchased
Common shares of the Company
- (3) Total number of shares to be repurchased
(Up to) 1,600,000 shares
- (4) Total amount of repurchase cost
(Up to) 5,000 million yen
- (5) Repurchase period
From August 11, 2020 through March 31, 2021
- (6) Repurchase method
Purchase from the market on the Tokyo Stock Exchange