

Translation

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FY2021, the year ending March 31, 2022

Flash Report on the Consolidated Results for the First Quarter Ended June 30, 2021 [JGAAP]

August 16, 2021

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: August 12, 2021
 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, 2021 (From April 1, 2021, to June 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	%
Three months ended June 30, 2021	20,397	22.5	(1,149)	—	(602)	—
Three months ended June 30, 2020	16,645	(53.1)	(1,189)	—	(719)	—

	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, 2021	(324)	—	(5.95)	—
Three months ended June 30, 2020	(5,113)	—	(91.17)	—

(Note) Comprehensive income:

Three months ended June 30, 2021: (82) million yen — %

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

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2021	180,961	102,909	56.0
As of March 31, 2021	186,795	106,030	55.8

(Reference) Shareholders' equity:

As of June 30, 2021: 101,363 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	—				
Year ending March 31, 2022 (forecast)		56.00	—	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	%
Six months ending September 30, 2021	—	—	—	—	—	—
Year ending March 31, 2022 (full year)	—	—	—	—	—	—

	Net income attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
Six months ending September 30, 2021	—	—	—
Year ending March 31, 2022 (full year)	—	—	—

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

As for our performance for the six months ending September 30, 2021 and 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 has therefore withdrawn the previous forecast announced on May 13, 2021 and left 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 June 30, 2021	54,734,200 shares	As of March 31, 2021	57,234,200 shares
As of June 30, 2021	141,206 shares	As of March 31, 2021	2,711,167 Shares
Three months ended June 30, 2021	54,523,771 shares	Three months ended June 30, 2020	56,093,869 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 has therefore withdrawn the previous forecast announced on May 13, 2021 and left 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

	(Millions of yen)	
	FY2020 (As of March 31, 2021)	Current First quarter (As of June 30, 2021)
Assets		
Current assets		
Cash and deposits	68,508	61,636
Notes and accounts receivable - trade	3,546	2,949
Inventories	8,946	8,879
Other	6,722	7,529
Allowance for doubtful accounts	(944)	(972)
Total current assets	86,780	80,023
Non-current assets		
Property, plant and equipment		
Karaoke equipment for rental, net	6,705	6,535
Karaoke cabin and restaurant facilities, net	11,685	11,946
Land	40,681	40,615
Other	6,611	6,508
Total property, plant and equipment	65,683	65,607
Intangible assets		
Goodwill	92	848
Other	6,140	5,825
Total intangible assets	6,232	6,673
Investments and other assets		
Investment securities	4,811	5,157
Leasehold and guarantee deposits	14,224	13,969
Other	9,194	9,637
Allowance for doubtful accounts	(131)	(106)
Total investments and other assets	28,098	28,658
Total non-current assets	100,014	100,938
Total assets	186,795	180,961

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2020 (As of March 31, 2021)	Current First quarter (As of June 30, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,591	2,228
Short-term borrowings	17,996	18,442
Income taxes payable	1,736	568
Provision for bonuses	1,168	605
Other	13,219	12,653
Total current liabilities	36,712	34,497
Non-current liabilities		
Long-term borrowings	32,085	31,870
Provision for retirement benefits for directors (and other officers)	899	861
Retirement benefit liability	7,556	7,626
Other	3,511	3,196
Total non-current liabilities	44,052	43,554
Total liabilities	80,765	78,052
Net assets		
Shareholders' equity		
Share capital	12,350	12,350
Capital surplus	4,114	4,114
Retained earnings	98,783	85,270
Treasury shares	(10,958)	(570)
Total shareholders' equity	104,289	101,164
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	810	1,007
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	32	55
Remeasurements of defined benefit plans	(140)	(130)
Total accumulated other comprehensive income	(31)	198
Share acquisition rights	388	164
Non-controlling interests	1,383	1,382
Total net assets	106,030	102,909
Total liabilities and net assets	186,795	180,961

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

	(Millions of yen)	
	Three months ended June 30, 2020 (From April 1, 2020, to June 30, 2020)	Three months ended June 30, 2021 (From April 1, 2021, to June 30, 2021)
Net sales	16,645	20,397
Cost of sales	11,128	14,440
Gross profit	5,516	5,956
Selling, general and administrative expenses	6,706	7,106
Operating loss	(1,189)	(1,149)
Non-operating income		
Interest income	4	4
Insurance claim income	17	294
Cooperative monetary aid received	70	76
Compensation income	420	—
Other	195	291
Total non-operating income	708	667
Non-operating expenses		
Interest expenses	37	54
Foreign exchange losses	8	19
Provision of allowance for doubtful accounts	132	—
Cancellation penalty	0	17
Other	60	29
Total non-operating expenses	239	120
Ordinary loss	(719)	(602)
Extraordinary income		
Gain on sale of non-current assets	—	9
Gain on sale of investment securities	0	—
Subsidies income	57	2,913
Total extraordinary income	58	2,922
Extraordinary losses		
Loss on disposal of non-current assets	85	13
Impairment losses	71	28
Loss on valuation of investment securities	1	—
Loss on COVID-19	6,258	2,652
Total extraordinary losses	6,417	2,695
Loss before income taxes	(7,078)	(375)
Income taxes – current	111	433
Income taxes – deferred	(2,098)	(496)
Total income taxes	(1,986)	(62)
Net loss	(5,091)	(312)
Net income attributable to non-controlling interests	22	11
Net loss attributable to owners of parent	(5,113)	(324)

(Quarterly Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Three months ended June 30, 2020 (From April 1, 2020, to June 30, 2020)	Three months ended June 30, 2021 (From April 1, 2021, to June 30, 2021)
Net loss	(5,091)	(312)
Other comprehensive income		
Valuation difference on available-for-sale securities	252	196
Foreign currency translation adjustment	(2)	22
Remeasurements of defined benefit plans, net of tax	27	10
Total other comprehensive income	276	229
Comprehensive income	(4,815)	(82)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(4,837)	(94)
Comprehensive income attributable to non-controlling interests	22	11

Notes to the Quarterly Consolidated Financial Statements

(Segment Information)

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.

Three months ended June 30, 2021 (From April 1, 2021, to June 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	12,944	3,519	1,374	17,838	2,559	20,397	—	20,397
Segment income or Segment loss (Operating income or Operating loss)	3,147	(3,880)	46	(686)	195	(490)	(658)	(1,149)

Note: The (658) 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 is 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.”

(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 three months ended June 30, 2021 decreased 70 million yen, cost of sales decreased 68 million yen, selling, general and administrative expenses decreased 12 million yen, and operating loss, ordinary loss, and loss before income taxes decreased 10 million yen, respectively. In addition, the balance of retained earnings as of the beginning of the three months ended June 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.