

Translation

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FY2022, the year ending March 31, 2023

Flash Report on the Consolidated Results for the First Quarter Ended June 30, 2022 [JGAAP]

August 8, 2022

Company Name: **DAIICHIKOSHO CO., LTD.**
 Stock Exchange Listing: Tokyo Stock Exchange
 Code Number: 7458
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 Date to Submit the Quarterly Securities Report: August 12, 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 Three Months Ended June 30, 2022 (From April 1, 2022, to June 30, 2022)

(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, 2022	30,276	48.4	3,021	—	3,237	—
Three months ended June 30, 2021	20,397	22.5	(1,149)	—	(602)	—

	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, 2022	3,390	—	62.11	62.02
Three months ended June 30, 2021	(324)	—	(5.95)	—

(Note) Comprehensive income:

Three months ended June 30, 2022: 3,458 million yen — %

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

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2022	181,175	105,518	57.3
As of March 31, 2022	180,389	105,160	57.4

(Reference) Shareholders' equity:

As of June 30, 2022: 103,880 million yen

As of March 31, 2022: 103,543 million yen

2. Dividend

	Annual dividend				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2022	—	56.00	—	57.00	113.00
Year ending March 31, 2023	—				
Year ending March 31, 2023 (forecast)		56.00	—	57.00	113.00

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

3. Forecast of Consolidated Performance for FY2022, the Year Ending March 31, 2023 (From April 1, 2022, to March 31, 2023)

(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, 2022	59,000	49.3	4,400	—	4,800	—
Year ending March 31, 2023 (full year)	126,500	33.5	12,000	—	12,800	—

	Net income attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
Six months ending September 30, 2022	5,200	—	95.25
Year ending March 31, 2023 (full year)	10,000	92.4	183.17

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

For the revision of the forecast of consolidated performance, please refer to “Notice on the Revision of Performance Forecast,” which was announced today (August 8, 2022).

***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 treasury shares
- 3) Average number of shares during the period

As of June 30, 2022	54,734,200 shares	As of March 31, 2022	54,734,200 shares
As of June 30, 2022	141,260 shares	As of March 31, 2022	141,260 Shares
Three months ended June 30, 2022	54,592,940 shares	Three months ended June 30, 2021	54,523,771 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. For the conditions underlying the assumptions made for financial results forecasts and their use, please see “Explanation of Forecast of Consolidated Performance and Other Forward-looking Information” on page 7 of the Attachments.

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1. Qualitative Information on Quarterly Performance

(1) Explanation of Operating Results

In the three months ended June 30, 2022 (the “three months under review”), due to the gradual mitigation of impact of the COVID-19 pandemic on economic activities, Japan’s economy saw signs of consumer spending and other matters back to normal. The economic outlook, however, remains unclear as it is still not certain when the pandemic will end and due to the rapid depreciation of the yen and surging prices of energy resources and raw materials.

In the karaoke industry, where DAIICHIKOSHO CO., LTD. (the “Company,” together with its subsidiaries, the “Group”) operates, amid the lifting of quasi-emergency measures and related requests, many karaoke cabins and restaurants both in the night business and the karaoke cabin markets resumed normal operation, and the markets were in a recovery trend as a whole, although there were still impacts of the pandemic on business locations, attracting customers late at night and some other affairs.

As a result of taking a series of measures in our businesses amid such a situation, in the three months under review, net sales amounted to 30,276 million yen (up 48.4% year on year), operating income was recorded of 3,021 million yen (a loss of 1,149 million yen in the previous corresponding period), ordinary income was 3,237 million yen (a loss of 602 million yen in the previous corresponding period), and net income attributable to owners of parent amounted to 3,390 million yen (a loss of 324 million yen in the previous corresponding period).

The Group posted 1,675 million yen of subsidies income covering the previous fiscal year (2,913 million yen in the previous corresponding period) in extraordinary income from various subsidies, such as employment adjustment subsidies and subsidies for shorter business hours.

The Group also plans to record approximately 1.2 billion yen from subsidies on the financial statements for the second quarter and beyond of the fiscal year ending March 31, 2023.

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022	Year-on-year change	% change
Net sales	20,397	30,276	9,878	48.4%
Operating income	(1,149)	3,021	4,170	—
Ordinary income	(602)	3,237	3,840	—
Net income attributable to owners of parent	(324)	3,390	3,715	—

Operating results by segment are as follows.

(Commercial karaoke business)

In the commercial karaoke business, due to the lifting of various requests followed by the resumption of operation of our customers’ facilities and an increase in new store openings, the business environment was in the recovery trend primarily in stores operating at night, such as snack bars, which are our main market.

In such an environment, in order to recover the number of DAM units in operation, which is the key challenge in the three months under review, we opened a website to help owners of stores operating at night introduce karaoke equipment “Karaoke no Madoguchi (Consultation desk for karaoke)” in the previous fiscal year and a website providing property information “Yorumise Navi (Search navigation for properties for night entertainment)” in April. In addition to face-to-face sales that is our strength, we also strived to build a sales system online by holding online events at nursing facilities in the seniors’ market and taking other steps.

In addition, we strived to improve our Karaoke DAM products by further expanding our visual contents such as live videos, animated videos and music videos including “Liview!,” which was released in October last year and with which users can enjoy the atmosphere of live performances in karaoke cabins.

As a result, net sales and operating income increased by 10.8% and 19.9%, respectively, year on year.

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022	Year-on-year change	% change
Net sales	12,944	14,336	1,392	10.8%
Operating income	3,147	3,773	625	19.9%

(Karaoke cabin and restaurant business)

In the karaoke cabin and restaurant business, we opened two restaurants and closed four restaurants in addition to changing the business types of existing facilities, and we operate 503 karaoke cabins and 173 restaurants as of the end of the three months under review.

Thanks to the lifting of various requests made due to the pandemic, we have seen the gradual return of customer flow since the beginning of the three months under review, and the sales of existing karaoke cabins and restaurants in the three months under review recovered to the level of 30% lower than those before the COVID-19 pandemic (80% lower in the previous corresponding period), although there were still impacts of the pandemic on business locations and attracting customers late at night, among other impacts.

Under such circumstances, in BIG ECHO karaoke cabins, we strengthened our equipment by establishing 44 karaoke cabins, of which “LIVE DAM Ai,” our most premium karaoke model, is installed in all rooms in order to improve customer satisfaction by enhancing the appeal of karaoke. We also focused on attracting more young customers by advertising “Saikyo Gakuwari (Best student discount),” launched in all karaoke cabins in June.

As a result, net sales increased by 223.0% year on year, and operating loss was recorded at 530 million yen.

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022	Year-on-year change	% change
Net sales	3,519	11,365	7,846	223.0%
Operating income	(3,880)	(530)	3,349	—

(Music software business)

In the music software business, the product sales of CDs and DVDs saw a recovery trend while the music industry has been booming again as events and concerts have gradually started to resume.

As a result, net sales and operating income increased by 15.2% and 25.2%, respectively, year on year.

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022	Year-on-year change	% change
Net sales	1,374	1,582	208	15.2%
Operating income	46	58	11	25.2%

(Other businesses)

In the other businesses, the parking business operating “The Park” brand as its new pillar of revenue made steady progress, and the business scale expanded to 1,800 parking facilities and 22,000 parking spots as of the end of the three months under review

As a result, net sales increased by 16.9% year on year thanks to the increase in income from the parking business, and operating income increased by 108.3% year on year.

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022	Year-on-year change	% change
Net sales	2,559	2,990	431	16.9%
Operating income	195	407	211	108.3%

(2) Explanation of Financial Position

Total assets at the end of the three months under review increased by 785 million yen from the end of the previous fiscal year to 181,175 million yen.

Major changes from the previous fiscal year were increases in notes and accounts receivable – trade and prepaid expenses included in “other” by 394 million yen and 1,571 million yen, respectively, and decreases in cash and deposits and inventories by 344 million yen and 220 million yen, respectively, in current assets.

Liabilities increased by 426 million yen from the end of the previous fiscal year to 75,656 million yen.

The primary increases and decreases are increases in notes and accounts payable- trade and accrued expenses included in “other” by 298 million yen and 1,579 million yen, respectively, and decreases in income taxes payable and provision for bonuses by 760 million yen and 539 million yen, respectively, in current liabilities.

Net assets increased by 358 million yen from the end of the previous fiscal year to 105,518 million yen.

The increase is primarily attributable to an increase in retained earnings due to net income attributable to owners of parent of 3,390 million yen and a decrease in retained earnings of 3,111 million yen due to the dividends of surplus.

(3) Explanation of Forecast of Consolidated Performance and Other Forward-looking Information

For the forecast of consolidated performance for the six months ending September 30, 2022, and the year ending March 31, 2023, please refer to “Notice on the Revision of Performance Forecast,” which was announced today (August 8, 2022)

The forecast was prepared based on information available on the date this report was released, and actual results may vary from forecast values due to various factors in the future.

Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	FY2021 (As of March 31, 2022)	Current First quarter (As of June 30, 2022)
Assets		
Current assets		
Cash and deposits	68,214	67,869
Notes and accounts receivable - trade	4,127	4,521
Inventories	7,596	7,375
Other	4,796	5,850
Allowance for doubtful accounts	(457)	(379)
Total current assets	84,277	85,238
Non-current assets		
Property, plant and equipment		
Karaoke equipment for rental, net	6,294	6,561
Karaoke cabin and restaurant facilities, net	10,380	10,061
Land	40,341	40,341
Other, net	5,970	6,036
Total property, plant and equipment	62,987	63,001
Intangible assets		
Goodwill	996	979
Other	5,861	5,813
Total intangible assets	6,858	6,792
Investments and other assets		
Investment securities	4,507	4,516
Leasehold and guarantee deposits	13,449	13,697
Other	8,375	8,067
Allowance for doubtful accounts	(64)	(139)
Total investments and other assets	26,267	26,142
Total non-current assets	96,112	95,936
Total assets	180,389	181,175

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2021 (As of March 31, 2022)	Current First quarter (As of June 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,614	2,913
Short-term borrowings	6,098	16,207
Income taxes payable	1,985	1,225
Provision for bonuses	1,141	601
Other	9,817	11,249
Total current liabilities	21,658	32,197
Non-current liabilities		
Long-term borrowings	41,705	31,481
Provision for retirement benefits for directors (and other officers)	993	984
Retirement benefit liability	7,846	7,932
Other	3,024	3,060
Total non-current liabilities	53,570	43,458
Total liabilities	75,229	75,656
Net assets		
Shareholders' equity		
Share capital	12,350	12,350
Capital surplus	4,114	4,114
Retained earnings	87,733	88,012
Treasury shares	(570)	(570)
Total shareholders' equity	103,628	103,907
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	606	605
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	69	118
Remeasurements of defined benefit plans	(26)	(17)
Total accumulated other comprehensive income	(84)	(26)
Share acquisition rights	219	237
Non-controlling interests	1,397	1,400
Total net assets	105,160	105,518
Total liabilities and net assets	180,389	181,175

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

	(Millions of yen)	
	Three months ended June 30, 2021 (From April 1, 2021, to June 30, 2021)	Three months ended June 30, 2022 (From April 1, 2022, to June 30, 2022)
Net sales	20,397	30,276
Cost of sales	14,440	19,417
Gross profit	5,956	10,858
Selling, general and administrative expenses	7,106	7,837
Operating profit (loss)	(1,149)	3,021
Non-operating income		
Interest income	4	3
Insurance claim income	294	67
Cooperative monetary aid received	76	50
Other	291	211
Total non-operating income	667	332
Non-operating expenses		
Interest expenses	54	43
Foreign exchange losses	19	18
Cancellation penalty	17	1
Other	29	51
Total non-operating expenses	120	115
Ordinary profit (loss)	(602)	3,237
Extraordinary income		
Gain on sale of non-current assets	9	0
Subsidies income	2,913	1,675
Total extraordinary income	2,922	1,675
Extraordinary losses		
Loss on disposal of non-current assets	13	6
Impairment losses	28	4
Loss on COVID-19	2,652	—
Total extraordinary losses	2,695	10
Profit (loss) before income taxes	(375)	4,902
Income taxes – current	433	1,135
Income taxes – deferred	(496)	366
Total income taxes	(62)	1,501
Profit (loss)	(312)	3,401
Profit attributable to non-controlling interests	11	10
Profit (loss) attributable to owners of parent	(324)	3,390

(Quarterly Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Three months ended June 30, 2021 (From April 1, 2021, to June 30, 2021)	Three months ended June 30, 2022 (From April 1, 2022, to June 30, 2022)
Profit (loss)	(312)	3,401
Other comprehensive income		
Valuation difference on available-for-sale securities	196	(0)
Foreign currency translation adjustment	22	49
Remeasurements of defined benefit plans, net of tax	10	8
Total other comprehensive income	229	57
Comprehensive income	(82)	3,458
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(94)	3,448
Comprehensive income attributable to non-controlling interests	11	10

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes in Case of Significant Changes in Shareholders' Equity)

Not applicable.

(Segment Information)

[Segment information]

Three months ended June 30, 2021 (From April 1, 2021, to June 30, 2021)

1. Information on the amounts of sales and income or loss by reportable segment

(Millions of yen)

	Reportable segments				Other (Note 1)	Total	Adjusted amount (Note 2)	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)

- Notes:
1. The category "Other" comprises a business segment not attributable to reportable segments, including parking, real estate leasing and BGM broadcasting businesses.
 2. 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.

2. Information on impairment loss of non-current assets or goodwill, etc. by reportable segment

The statements are omitted due to little significance.

Three months ended June 30, 2022 (From April 1, 2022, to June 30, 2022)

1. Information on the amounts of sales and income or loss by reportable segment

(Millions of yen)

	Reportable segments				Other (Note 1)	Total	Adjusted amount (Note 2)	Posted amount to the consolidated quarterly statements of income
	Commercial karaoke	Karaoke cabin and restaurant	Music software	Subtotal				
Sales	14,336	11,365	1,582	27,285	2,990	30,276	—	30,276
Segment income or Segment loss (Operating income or Operating loss)	3,773	(530)	58	3,300	407	3,708	(687)	3,021

- Notes:
1. The category "Other" comprises a business segment not attributable to reportable segments, including parking, real estate leasing and BGM broadcasting businesses.
 2. The (687) 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.

2. Information on impairment loss of non-current assets or goodwill, etc. by reportable segment

The statements are omitted due to little significance.

(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 impact of COVID-19 will gradually improve throughout the fiscal year ending March 31, 2023, and that the performance of the Company will recover to the level before the COVID-19 pandemic in the medium term.

No significant changes have been made to the assumptions made at the end of the previous fiscal year.

(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 in 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 in loss on COVID-19.