

Translation

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FY2022, the year ending March 31, 2023

Flash Report on the Consolidated Results for the Third Quarter Ended December 31, 2022 [JGAAP]

February 8, 2023

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: February 13, 2023
 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 Nine Months Ended December 31, 2022 (From April 1, 2022, to December 31, 2022)

(1) Consolidated operating results (Percentage figures indicate increase/decrease from a year earlier.)

	Net sales		Operating profit		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2022	94,507	35.2	9,690	614.3	10,238	330.6
Nine months ended December 31, 2021	69,927	(1.8)	1,356	—	2,377	—

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Yen	Yen
Nine months ended December 31, 2022	9,001	74.5	164.88	164.62
Nine months ended December 31, 2021	5,157	—	94.51	94.37

(Note) Comprehensive income:

Nine months ended December 31, 2022: 9,375 million yen 85.9%

Nine months ended December 31, 2021: 5,042 million yen — %

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2022	186,458	108,255	57.3
As of March 31, 2022	180,389	105,160	57.4

(Reference) Shareholders' equity:

As of December 31, 2022: 106,822 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	—	56.00	—		
Year ending March 31, 2023 (forecast)				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 profit		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ending March 31, 2023 (full year)	126,500	33.5	12,000	—	12,800	—

	Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
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: 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 treasury shares
- 3) Average number of shares during the period

As of December 31, 2022	54,734,200 shares	As of March 31, 2022	54,734,200 shares
As of December 31, 2022	141,302 shares	As of March 31, 2022	141,260 shares
Nine months ended December 31, 2022	54,592,920 shares	Nine months ended December 31, 2021	54,570,086 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 nine months ended December 31, 2022 (the “nine 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 due to sharp fluctuations in exchange rates and price hikes of commodities.

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 in the previous fiscal year, many karaoke cabins and restaurants both in the night business and the karaoke cabin markets resumed normal operation. Although there were still impacts of the pandemic on business locations, attracting customers late at night and some other affairs, the markets were in a recovery trend as a whole, partly due to the fact that no administrative restrictions were imposed on operation, despite the resurgence of infections, such as the seventh and eighth waves.

As a result of taking a series of measures in our businesses amid such a situation, in the nine months under review, net sales amounted to 94,507 million yen (up 35.2% year on year), operating profit recorded of 9,690 million yen (up 614.3% year on year), ordinary profit was 10,238 million yen (up 330.6% year on year), and profit attributable to owners of parent amounted to 9,001 million yen (up 74.5% year on year).

The Group posted 2,920 million yen of subsidies income covering the previous fiscal year (11,554 million yen in the previous corresponding period) in extraordinary income from various subsidies, such as employment adjustment subsidies and subsidies for shorter business hours.

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022	Year-on-year change	% change
Net sales	69,927	94,507	24,580	35.2%
Operating profit	1,356	9,690	8,333	614.3%
Ordinary profit	2,377	10,238	7,861	330.6%
Profit attributable to owners of parent	5,157	9,001	3,843	74.5%

Operating results by segment are as follows.

(Commercial karaoke business)

In the commercial karaoke business, due to the continued absence of various operating restrictions 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 current fiscal year, we opened a website to help with the introduction of 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 the previous fiscal year and with which users can enjoy the atmosphere of live performances in karaoke cabins.

Moreover, we launched “FREE DAM LIFE” in October, the latest model exclusively for the DK elder system, featuring new functions to reduce the workload of staff working at nursing facilities, such as “Omakase Rec,” which automatically creates and plays back progress programs for recreational activities, and “Remote Session,” allowing simultaneous pairing of progress programs with multiple facilities for sharing and remote operation, and we aimed to replace the old models and acquire new customers in the seniors’ market.

As a result, net sales and operating profit increased by 10.2% and 18.7%, respectively, year on year.

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022	Year-on-year change	% change
Net sales	39,383	43,414	4,030	10.2%
Operating profit	9,182	10,898	1,715	18.7%

(Karaoke cabin and restaurant business)

In the karaoke cabin and restaurant business, we opened 13 karaoke cabins and nine restaurants, including those in new business types (Amatsu and Ginten), and closed three karaoke cabins and ten restaurants, and we operate 513 karaoke cabins and 174 restaurants as of the end of the nine months under review.

Thanks to the lifting in the previous fiscal year of various requests made due to the pandemic, we have seen the return of customer flow since the beginning of the nine months under review.

Normal operations throughout the nine months ended under review contributed to existing store sales in the nine months under review to recover to a level of approximately 25% lower than those before the COVID-19 pandemic (100% higher in the previous corresponding period) for karaoke cabins and approximately 20% lower (130% higher in the previous corresponding period) for restaurants, even though there were still impacts of the pandemic on business locations and attracting customers late at night, among other impacts, and there was a temporary slowdown in the recovery trend during the seventh and eighth waves of COVID-19.

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 and worked to improve customer satisfaction. We also started to promote the joy of karaoke by using social media (Twitter and TikTok) and 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 108.8% year on year, and operating loss was recorded at 709 million yen.

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022	Year-on-year change	% change
Net sales	17,834	37,240	19,406	108.8%
Operating profit	(6,914)	(709)	6,205	—

(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. In addition, the TV program production business also made steady progress.

As a result, net sales and operating profit increased by 7.3% and 163.1%, respectively, year on year.

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022	Year-on-year change	% change
Net sales	4,359	4,680	320	7.3%
Operating profit	47	124	77	163.1%

(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 approximately 2,000 parking facilities and 24,500 parking spots as of the end of the nine months under review.

As a result, net sales increased by 9.9% year on year thanks to the increase in revenue from the parking business, and operating profit increased by 57.4% year on year.

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022	Year-on-year change	% change
Net sales	8,350	9,173	822	9.9%
Operating profit	769	1,211	442	57.4%

(2) Explanation of Financial Position

Total assets at the end of the nine months under review increased by 6,068 million yen from the end of the previous fiscal year to 186,458 million yen.

Major changes from the previous fiscal year were increases in cash and deposits, notes and accounts receivable – trade, inventories, and advance payments to suppliers included in “other” by 2,087 million yen, 1,582 million yen, 1,273 million yen and 924 million yen, respectively, in current assets.

Liabilities increased by 2,973 million yen from the end of the previous fiscal year to 78,203 million yen.

Major changes from the previous fiscal year were increases in notes and accounts payable – trade and accounts payable – other included in “other” by 1,313 million yen and 1,356 million yen, respectively, in current liabilities.

Net assets increased by 3,094 million yen from the end of the previous fiscal year to 108,255 million yen.

The increase is primarily attributable to an increase in retained earnings of 9,001 million yen due to profit attributable to owners of parent and a decrease in retained earnings of 6,168 million yen due to the dividends of surplus.

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

There is no change to the full-year performance forecast announced on 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 Third quarter (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	68,214	70,301
Notes and accounts receivable – trade	4,127	5,710
Inventories	7,596	8,869
Other	4,796	5,983
Allowance for doubtful accounts	(457)	(392)
Total current assets	84,277	90,472
Non-current assets		
Property, plant and equipment		
Karaoke equipment for rental, net	6,294	6,608
Karaoke cabin and restaurant facilities, net	10,380	10,810
Land	40,341	40,107
Other, net	5,970	6,352
Total property, plant and equipment	62,987	63,878
Intangible assets		
Goodwill	996	893
Other	5,861	5,987
Total intangible assets	6,858	6,881
Investments and other assets		
Investment securities	4,507	4,892
Leasehold and guarantee deposits	13,449	13,574
Other	8,375	6,900
Allowance for doubtful accounts	(64)	(141)
Total investments and other assets	26,267	25,225
Total non-current assets	96,112	95,985
Total assets	180,389	186,458

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2021 (As of March 31, 2022)	Current Third quarter (As of December 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	2,614	3,928
Short-term borrowings	6,098	16,011
Income taxes payable	1,985	1,988
Provision for bonuses	1,141	1,137
Other	9,817	11,508
Total current liabilities	21,658	34,575
Non-current liabilities		
Long-term borrowings	41,705	31,274
Provision for retirement benefits for directors (and other officers)	993	1,070
Retirement benefit liability	7,846	8,183
Other	3,024	3,099
Total non-current liabilities	53,570	43,628
Total liabilities	75,229	78,203
Net assets		
Shareholders' equity		
Share capital	12,350	12,350
Capital surplus	4,114	4,211
Retained earnings	87,733	90,566
Treasury shares	(570)	(571)
Total shareholders' equity	103,628	106,556
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	606	856
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	69	143
Remeasurements of defined benefit plans	(26)	(0)
Total accumulated other comprehensive income	(84)	265
Share acquisition rights	219	273
Non-controlling interests	1,397	1,158
Total net assets	105,160	108,255
Total liabilities and net assets	180,389	186,458

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

	(Millions of yen)	
	Nine months ended December 31, 2021 (From April 1, 2021, to December 31, 2021)	Nine months ended December 31, 2022 (From April 1, 2022, to December 31, 2022)
Net sales	69,927	94,507
Cost of sales	47,013	61,425
Gross profit	22,913	33,082
Selling, general and administrative expenses	21,557	23,391
Operating profit	1,356	9,690
Non-operating income		
Interest income	17	17
Insurance claim income	339	206
Cooperative monetary aid received	201	142
Other	789	530
Total non-operating income	1,347	897
Non-operating expenses		
Interest expenses	154	130
Foreign exchange losses	33	53
Cancellation penalty	57	37
Other	80	128
Total non-operating expenses	326	349
Ordinary profit	2,377	10,238
Extraordinary income		
Gain on sale of non-current assets	22	78
Gain on bargain purchase	—	112
Subsidies income	11,554	2,920
Total extraordinary income	11,577	3,110
Extraordinary losses		
Loss on disposal of non-current assets	40	56
Impairment losses	131	117
Loss on sale of investment securities	0	—
Loss on valuation of investment securities	108	—
Loss on COVID-19	6,452	—
Total extraordinary losses	6,733	173
Profit before income taxes	7,221	13,175
Income taxes – current	1,640	2,799
Income taxes – deferred	403	1,350
Total income taxes	2,044	4,150
Profit	5,176	9,025
Profit attributable to non-controlling interests	19	24
Profit attributable to owners of parent	5,157	9,001

(Quarterly Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Nine months ended December 31, 2021 (From April 1, 2021, to December 31, 2021)	Nine months ended December 31, 2022 (From April 1, 2022, to December 31, 2022)
Profit	5,176	9,025
Other comprehensive income		
Valuation difference on available-for-sale securities	(159)	249
Foreign currency translation adjustment	(8)	74
Remeasurements of defined benefit plans, net of tax	32	25
Total other comprehensive income	(134)	350
Comprehensive income	5,042	9,375
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,022	9,351
Comprehensive income attributable to non-controlling interests	19	24

(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]

Nine months ended December 31, 2021 (From April 1, 2021, to December 31, 2021)

1. Information on the amounts of net sales and profit 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				
Net sales	39,383	17,834	4,359	61,577	8,350	69,927	—	69,927
Segment profit or Segment loss (Operating profit or Operating loss)	9,182	(6,914)	47	(2,315)	769	3,084	(1,728)	1,356

- 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 (1,728) million yen adjustment posted to segment profit 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.

Nine months ended December 31, 2022 (From April 1, 2022, to December 31, 2022)

1. Information on the amounts of net sales and profit 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				
Net sales	43,414	37,240	4,680	85,334	9,173	94,507	—	94,507
Segment profit or Segment loss (Operating profit or Operating loss)	10,898	(709)	124	10,313	1,211	11,525	(1,834)	9,690

- 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 (1,834) million yen adjustment posted to segment profit 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.

(Significant Subsequent Events)**(Stock Split and Partial Amendments to the Articles of Incorporation in Connection with Stock Split)**

At a meeting of the Board of Directors held on February 8, 2023, the Company resolved to conduct a stock split and partially amend the Articles of Incorporation in connection with the stock split.

(1) Purpose of the stock split

The purpose of the stock split is to increase the liquidity of the Company's shares and broaden the investor base by reducing the amount per investment.

(2) Method of the stock split

With March 31, 2023, as the record date, each share of the Company's common stock held by shareholders who are recorded in the shareholders registry as of the end of March 31, 2023, will be split at a ratio of two for one.

(3) Number of shares to be increased by the stock split

Total number of shares issued before the stock split	54,734,200 shares
Number of shares to be increased by the stock split	54,734,200 shares
Total number of shares issued and outstanding after the stock split	109,468,400 shares
Total number of shares authorized after the stock split	400,000,000 shares

(4) Schedule for the stock split

Date of public notice of record date	March 1, 2023
Record date	March 31, 2023
Effective date	April 1, 2023

(5) Effect on per share information

Per share information based on the assumption that the stock split occurred at the beginning of the previous consolidated fiscal year is as follows:

	Nine month ended December 31, 2021 (From April 1, 2021, to December 31, 2021)	Nine month ended December 31, 2022 (From April 1, 2022, to December 31, 2022)
Basic earnings per share	47.25 yen	82.44 yen
Diluted earnings per share	47.18 yen	82.31 yen

(6) Partial amendment to the Articles of Incorporation in connection with the stock split**1) Reason for the amendment to the Articles of Incorporation**

Following the stock split, the total number shares authorized to be issued defined in Article 5 of the Company's Articles of Incorporation shall be changed as of April 1, 2023, according to Article 184, Paragraph 2 of the Companies Act.

2) Details of amendments to the Articles of Incorporation

Details of the changes are as follows. (Amended parts are underlined.)

Current Articles of Incorporation	After the Amendment
(Total number shares authorized to be issued) Article 5. The total number shares authorized to be issued by the Company shall be <u>200,000,000</u> shares.	(Total number shares authorized to be issued) Article 5. The total number shares authorized to be issued by the Company shall be <u>400,000,000</u> shares.

3) Schedule of amendments to the Articles of Incorporation

Effective Date April 1, 2023

(Repurchase of Treasury Shares)

At a meeting of the Board of Directors held on February 8, 2023, the Company resolved matters relating to the repurchase of treasury shares under Article 156 of the Companies Act as applied mutatis mutandis pursuant to Article 165, Paragraph 3 of the Act.

- (1) Reason for the repurchase
To improve capital efficiency and return profits to shareholders
- (2) Type of shares to be repurchased
Common shares of the Company
- (3) Total number of shares to be repurchased
Up to 4,000,000 shares
- (4) Total amount of repurchase
Up to 6,000,000,000 yen
- (5) Period of the repurchase
From April 3, 2023, to September 30, 2023
- (6) Method of the repurchase
Market purchase on the Tokyo Stock Exchange