Translation

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Flash Report on the Consolidated Results for the Second Quarter Ended September 30, 2024 [JGAAP]

November 11, 2024

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 Semi-annual Securities Report: November 13, 2024
Scheduled date of commencing dividend payments: December 5, 2024
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: None

(Amounts below one million yen are truncated.)

1. Consolidated Performance for the Six Months Ended September 30, 2024 (From April 1, 2024, to September 30, 2024)

(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	%
Six Months Ended September 30, 2024	74,321	4.3	8,996	(4.1)	8,991	(7.9)
Six Months Ended September 30, 2023	71,256	17.4	9,377	71.5	9,758	69.0

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Yen	Yen
Six Months Ended September 30, 2024	9,598	46.0	90.43	90.21
Six Months Ended September 30, 2023	6,576	9.8	60.91	60.79

(Note) Comprehensive income:
Six Months Ended September 30, 2024: 9,810 million yen [39.6%]
Six Months Ended September 30, 2023: 7,029 million yen [13.2%]

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2024	202,631	112,635	54.9
As of March 31, 2024	211,386	108,991	50.9

(Reference) Shareholders' equity:
As of September 30, 2024: 111,169 million yen
As of March 31, 2024: 107,581 million yen

2. Dividend

	Annual dividend				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2024	—	28.00	—	29.00	57.00
Year ending March 31, 2025	—	28.00			
Year ending March 31, 2025 (forecast)			—	29.00	57.00

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

3. Forecast of Consolidated Performance for FY2024, the Year Ending March 31, 2025 (From April 1, 2024, to March 31, 2025)

(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, 2025 (full year)	152,700	4.1	18,800	1.1	18,900	(3.4)

	Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
Year ending March 31, 2025 (full year)	16,200	28.9	154.32

(Note) Changes in forecast of consolidated performance from most recently announced figures: None

*Notes

(1) Significant changes in scope of consolidation during the period: None

(2) Adoption of special accounting policies for semi-annual financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Number of common shares issued

1) Number of shares issued (including treasury shares)	As of September 30, 2024	109,468,400 shares	As of March 31, 2024	109,468,400 shares
2) Number of treasury shares	As of September 30, 2024	4,493,007 shares	As of March 31, 2024	2,613,807 shares
3) Average number of shares during the period	Six months ended September 30, 2024	106,149,857 shares	Six months ended September 30, 2023	107,970,535 shares

* These semi-annual consolidated financial results are outside the scope of 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. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Period under Review

In the six months ended September 30, 2024 (the "six months under review"), Japan's economy trended toward a moderate recovery, with signs of improvement in the employment and wages environment and a pickup of consumer spending, boosted by an increase in inbound demand and other factors. The economic outlook, however, remains unclear, mainly due to concerns about political instability overseas, fluctuations of exchange rates, and continued price hikes of commodities.

In the karaoke industry, where DAIICHIKOSHO CO., LTD. (the "Company," together with its subsidiaries, the "Group") operates, amid a moderate improvement in demand as a whole, mainly in the night business and the karaoke cabin markets, the Company's mainstay markets, the trend toward a concentration of demand in central areas became even more conspicuous in all trading areas.

As a result of taking a series of measures in our businesses amid such a situation, in the six months under review, net sales amounted to 74,321 million yen (up 4.3% year on year). In terms of profits, due to an increase in selling, general and administrative expenses and other factors, operating profit was 8,996 million yen (down 4.1% year on year) and ordinary profit was 8,991 million yen (down 7.9% year on year). Profit attributable to owners of parent amounted to 9,598 million yen (up 46.0% year on year) mainly due to recording gain on sale of non-current assets of 4,414 million yen as extraordinary income. Net sales and Profit attributable to owners of parent represent a record high semi-annual result.

(Millions of yen)

	Six Months Ended September 30, 2023	Six Months Ended September 30, 2024	Year-on-year change	% change
Net sales	71,256	74,321	3,065	4.3%
Operating profit	9,377	8,996	(381)	(4.1)%
Ordinary profit	9,758	8,991	(767)	(7.9)%
Profit attributable to owners of parent	6,576	9,598	3,022	46.0%

Operating results by segment are as follows.

(Commercial karaoke business)

In the commercial karaoke business, with the ongoing moderate recovery, mainly in the Company's mainstay night market and in the seniors' market, which is a growth market for the Company, the number of DAM units in operation increased by 2% year on year.

In such an environment, the Company sought to strengthen its stable profit base by taking measures in each market to increase the number of DAM units in operation, as well as by expediting the replacement of previous models with newer ones in equipment rentals continuously from the previous fiscal year. At the same time, we strived to improve our Karaoke DAM products by further expanding our visual content, including live videos, animated videos, and music videos.

In the seniors' market, due to broader awareness that "Singing is good for one's health," we expanded sales of FREE DAM LIFE, a model developed exclusively for the senior's market, through door-to-door sales activities targeting nursing facilities, holding online concerts, and others. We also promoted the new features that lessen the burden on nursing facility staff.

As a result, although the new-product effect of LIVE DAM AiR, which was launched in April 2023, dropped off and revenue from product sales, mainly in wholesale, failed to reach the level of the corresponding period of the previous fiscal year, stock income increased due to increases in the number of equipment rentals and the number of DAM units in operation, resulting in a 1.0% increase year on year in net sales. In terms of profit, operating profit decreased by 6.7% year on year, mainly due to a fall in gross profit from product sales and an increase in selling, general and administrative expenses.

(Millions of yen)

	Six Months Ended September 30, 2023	Six Months Ended September 30, 2024	Year-on-year change	% change
Net sales	30,483	30,790	307	1.0%
Operating profit	6,947	6,480	(466)	(6.7)%

(Karaoke cabin and restaurant business)

In the karaoke cabin and restaurant business, we opened five karaoke cabins and six restaurants and closed four karaoke cabins and 10 restaurants, and we operated 507 karaoke cabins and 155 restaurants as of the end of the six months under review. The open and close of restaurants include the change of the brand and integration of food and beverage complex type restaurants.

The flow of customers continued its moderate upward trend since the beginning of the fiscal year, and sales at both existing karaoke cabins and restaurants increased 4% year on year during the six months under review, despite having been impacted by Typhoon Shanshan in August.

Under such circumstances, for BIG ECHO karaoke cabins, as a directly managed store, under the slogan "BIG SMILE, BIG ECHO. Let's sing, laugh, and do more with everyone," in addition to improving the quality of karaoke equipment and acoustic facilities as a chain directly operated by a karaoke system manufacture, we sought to build cleaner and more comfortable cabin environments by expediting the refurbishment of cabins. We also increased convenience with the introduction of automated reception and payment equipment, and by actively pursuing collaborations with diverse artists and animation works, strived to create a variety of joy and fun through karaoke.

For restaurants, reservations and orders were strong, we pursued the visualization of customer satisfaction by employing a system that is capable of collecting and quantifying customer feedback easily, and we worked to improve the quality of the restaurants' environment, customer service, and food. We also strived to attract a wide range of customers, including by opening two DARTS ONE premises in the darts business.

As a result, net sales increased by 3.7% year on year. In terms of profit, operating profit decreased by 4.5% year on year mainly due to investment in upgrading karaoke cabin and restaurant facilities and increased personnel expenses.

(Millions of yen)

	Six Months Ended September 30, 2023	Six Months Ended September 30, 2024	Year-on-year change	% change
Net sales	30,685	31,820	1,135	3.7%
Operating profit	2,680	2,560	(119)	(4.5)%

(Music software business)

In the music software business, in addition to our efforts to discover new artists and create hit songs, we strived to build a steady earnings model by concentrating our efforts on the music publishing business. In addition, the sales of "PROLOGUE" and "GIFT" which visualized the performance by pro figure skater Yuzuru Hanyu were strong.

As a result, with the absence of the TV program production business due to the transfer of shares in the previous fiscal year, net sales decreased by 12.5% year on year. However, product sales such as CDs and DVDs and the music publishing business performed strongly, resulting in a 21.1% increase year on year in operating profit.

(Millions of yen)

	Six Months Ended September 30, 2023	Six Months Ended September 30, 2024	Year-on-year change	% change
Net sales	3,169	2,772	(397)	(12.5)%
Operating profit	156	189	32	21.1%

(Other businesses)

In the other businesses, progress was made in the expansion of the parking business operating "The Park" brand as its new pillar of revenue, and the business scale expanded to approximately 3,600 parking facilities and 40,000 parking spots as of the end of the six months under review. This included Crest Co., Ltd., which became a subsidiary in the previous fiscal year. The BGM business, which operates "Stardigio Air," and the home-use karaoke service, "Karaoke@DAM," also performed strongly.

As a result, net sales increased by 29.2% year on year owing to factors such as an increase in revenue from the parking business, and operating profit increased by 44.3% year on year.

(Millions of yen)

	Six Months Ended September 30, 2023	Six Months Ended September 30, 2024	Year-on-year change	% change
Net sales	6,917	8,937	2,020	29.2%
Operating profit	795	1,148	352	44.3%

(2) Overview of Financial Position for the Period under Review

Total assets at the end of the six months under review decreased by 8,755 million yen from the end of the previous fiscal year to 202,631 million yen.

Major changes from the previous fiscal year were, in current assets, a decrease in cash and deposits by 7,799 million yen.

In non-current assets, land decreased by 4,295 million yen, and karaoke equipment for rental, karaoke cabin and restaurant facilities, and investment securities increased by 834 million yen, 1,173 million yen, and 825 million yen, respectively.

Liabilities decreased by 12,399 million yen from the end of the previous fiscal year to 89,995 million yen.

This was mainly due to a decrease of 1,592 million yen in accounts payable - other included in other under current liabilities.

In non-current liabilities, long-term borrowings decreased by 10,370 million yen.

Net assets increased by 3,644 million yen from the end of the previous fiscal year to 112,635 million yen.

This is primarily attributable to an increase in retained earnings of 9,598 million yen due to profit attributable to owners of parent, a decrease in retained earnings of 3,098 million yen due to the dividends of surplus, and a decrease of 3,104 million yen due to purchase of treasury shares.

(3) Overview of Cash Flows for the Period under Review

Cash and cash equivalents (hereinafter referred to as “funds”) at the end of the six months under review decreased by 7,775 million yen from the end of the previous fiscal year to 41,530 million yen.

The following is the explanation of cash flows in the six months under review and their contributing factors.

(Cash Flows from Operating Activities)

Funds provided by operating activities increased by 559 million yen year on year to 10,006 million yen, mainly due to profit before income taxes of 14,197 million yen, depreciation of 6,841 million yen, gain on sale of investment securities of 1,118 million yen, gain on disposal of non-current assets of 4,336 million yen, and income taxes paid of 4,304 million yen.

(Cash Flows from Investing Activities)

Funds used in investing activities decreased by 8,453 million yen year on year to 1,222 million yen, mainly due to purchase of property, plant and equipment of 7,261 million yen, proceeds from sale of property, plant and equipment of 8,608 million yen, purchase of intangible assets of 1,861 million yen, and payments for acquisition of video licenses of 1,088 million yen.

(Cash Flows from Financing Activities)

Funds used in financing activities decreased by 2,875 million yen year on year to 16,575 million yen, mainly due to repayments of long-term borrowings of 10,808 million yen, dividends paid of 3,099 million yen, and purchase of treasury shares of 3,104 million yen.

(4) 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, 2024.

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.

2. Semi-annual Consolidated Financial Statements and Primary Notes

(1) Semi-annual Consolidated Balance Sheets

(Millions of yen)

	FY2023 (As of March 31, 2024)	Current Second quarter (As of September 30, 2024)
Assets		
Current assets		
Cash and deposits	49,694	41,895
Notes and accounts receivable - trade	5,894	5,759
Inventories	11,216	10,556
Other	7,005	7,364
Allowance for doubtful accounts	(331)	(291)
Total current assets	73,479	65,285
Non-current assets		
Property, plant and equipment		
Karaoke equipment for rental, net	9,122	9,957
Karaoke cabin and restaurant facilities, net	10,875	12,049
Land	40,111	35,816
Construction in progress	32,120	32,445
Other, net	7,002	7,760
Total property, plant and equipment	99,233	98,029
Intangible assets		
Goodwill	5,668	5,375
Other	5,616	5,543
Total intangible assets	11,285	10,919
Investments and other assets		
Investment securities	6,060	6,885
Leasehold and guarantee deposits	14,341	14,439
Other	7,112	7,192
Allowance for doubtful accounts	(126)	(121)
Total investments and other assets	27,388	28,397
Total non-current assets	137,906	137,346
Total assets	211,386	202,631

(Millions of yen)

	FY2023 (As of March 31, 2024)	Current Second quarter (As of September 30, 2024)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,332	3,557
Short-term borrowings	12,885	12,897
Income taxes payable	4,746	5,044
Provision for bonuses	1,214	1,791
Other	13,735	11,482
Total current liabilities	36,914	34,772
Non-current liabilities		
Long-term borrowings	51,533	41,163
Provision for retirement benefits for directors (and other officers)	666	561
Retirement benefit liability	7,986	8,135
Asset retirement obligations	1,879	1,857
Other	3,414	3,505
Total non-current liabilities	65,480	55,223
Total liabilities	102,394	89,995
Net assets		
Shareholders' equity		
Share capital	12,350	12,350
Capital surplus	4,211	4,211
Retained earnings	96,350	102,850
Treasury shares	(6,571)	(9,675)
Total shareholders' equity	106,340	109,736
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,466	1,643
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	188	214
Remeasurements of defined benefit plans	320	308
Total accumulated other comprehensive income	1,240	1,432
Share acquisition rights	374	420
Non-controlling interests	1,035	1,046
Total net assets	108,991	112,635
Total liabilities and net assets	211,386	202,631

(2) Semi-annual Consolidated Statements of Income and Comprehensive Income
(Semi-annual Consolidated Statements of Income)

(Millions of yen)

	Six Months Ended September 30, 2023 (From April 1, 2023, to September 30, 2023)	Six Months Ended September 30, 2024 (From April 1, 2024, to September 30, 2024)
Net sales	71,256	74,321
Cost of sales	45,381	47,971
Gross profit	25,874	26,349
Selling, general and administrative expenses	16,497	17,353
Operating profit	9,377	8,996
Non-operating income		
Interest income	12	13
Dividend income	69	100
Insurance claim income	48	166
Cooperative monetary aid received	98	91
Foreign exchange gains	11	-
Compensation income	-	285
Other	301	358
Total non-operating income	541	1,015
Non-operating expenses		
Interest expenses	70	214
Foreign exchange losses	-	8
Cancellation penalty	4	9
Loss on refund of subsidy	-	653
Other	84	133
Total non-operating expenses	159	1,019
Ordinary profit	9,758	8,991
Extraordinary income		
Gain on sale of non-current assets	2	4,414
Gain on sale of investment securities	-	1,118
Total extraordinary income	2	5,532
Extraordinary losses		
Loss on disposal of non-current assets	93	77
Impairment losses	35	249
Total extraordinary losses	129	327
Profit before income taxes	9,631	14,197
Income taxes - current	3,179	4,666
Income taxes - deferred	(139)	(86)
Total income taxes	3,039	4,579
Profit	6,592	9,617
Profit attributable to non-controlling interests	16	18
Profit attributable to owners of parent	6,576	9,598

(Semi-annual Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Six Months Ended September 30, 2023 (From April 1, 2023, to September 30, 2023)	Six Months Ended September 30, 2024 (From April 1, 2024, to September 30, 2024)
Profit	6,592	9,617
Other comprehensive income		
Valuation difference on available-for-sale securities	361	177
Foreign currency translation adjustment	78	26
Remeasurements of defined benefit plans, net of tax	(3)	(11)
Total other comprehensive income	437	192
Comprehensive income	7,029	9,810
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,013	9,791
Comprehensive income attributable to non-controlling interests	16	18

(3) Semi-annual Consolidated Statements of Cash Flows

(Millions of yen)

	Six Months Ended September 30, 2023 (From April 1, 2023, to September 30, 2023)	Six Months Ended September 30, 2024 (From April 1, 2024, to September 30, 2024)
Cash flows from operating activities		
Profit before income taxes	9,631	14,197
Depreciation	5,830	6,841
Amortization of goodwill	37	268
Impairment losses	35	249
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(466)	(104)
Interest and dividend income	(82)	(114)
Interest expenses	70	214
Foreign exchange losses (gains)	(66)	(15)
Loss (gain) on sale of investment securities	-	(1,118)
Loss (gain) on disposal of non-current assets	91	(4,336)
Loss on refund of subsidy	-	653
Decrease (increase) in trade receivables	(77)	128
Decrease (increase) in inventories	823	664
Transfer of cost of sales on karaoke equipment for rental	38	40
Decrease (increase) in advance payments to suppliers	(251)	(274)
Increase (decrease) in trade payables	(1,386)	(766)
Increase (decrease) in accounts payable - other	(644)	(1,634)
Other, net	(1,248)	175
Subtotal	12,335	15,068
Interest and dividends received	81	113
Interest paid	(72)	(218)
Refund amount of subsidy	-	(653)
Income taxes paid	(2,897)	(4,304)
Net cash provided by (used in) operating activities	9,446	10,006
Cash flows from investing activities		
Payments into time deposits	(10)	(10)
Proceeds from withdrawal of time deposits	10	33
Purchase of property, plant and equipment	(7,075)	(7,261)
Proceeds from sale of property, plant and equipment	3	8,608
Purchase of intangible assets	(1,560)	(1,861)
Payments for acquisition of video licenses	(1,003)	(1,088)
Proceeds from sale of investment securities	-	1,389
Purchase of investment securities	(73)	(802)
Loan advances	(30)	(39)
Proceeds from collection of loans receivable	117	106
Payments of leasehold and guarantee deposits	(131)	(317)
Proceeds from refund of leasehold and guarantee deposits	101	186
Other, net	(23)	(164)
Net cash provided by (used in) investing activities	(9,676)	(1,222)

(Millions of yen)

	Six Months Ended September 30, 2023 (From April 1, 2023, to September 30, 2023)	Six Months Ended September 30, 2024 (From April 1, 2024, to September 30, 2024)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(309)	90
Proceeds from long-term borrowings	400	360
Repayments of long-term borrowings	(10,421)	(10,808)
Dividends paid	(3,112)	(3,099)
Purchase of treasury shares	(6,000)	(3,104)
Other, net	(7)	(12)
Net cash provided by (used in) financing activities	(19,450)	(16,575)
Effect of exchange rate change on cash and cash equivalents	66	15
Net increase (decrease) in cash and cash equivalents	(19,613)	(7,775)
Cash and cash equivalents at beginning of period	71,423	49,306
Cash and cash equivalents at end of period	51,810	41,530

(4) Notes to Semi-annual 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]

Six Months Ended September 30, 2023 (From April 1, 2023, to September 30, 2023)

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 semi-annual statements of income
	Commercial karaoke	Karaoke cabin and restaurant	Music software	Subtotal				
Net sales	30,483	30,685	3,169	64,338	6,917	71,256	—	71,256
Segment profit (Operating profit)	6,947	2,680	156	9,784	795	10,580	(1,202)	9,377

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 (1,202) million yen adjustment posted to segment profit 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.

Six Months Ended September 30, 2024 (From April 1, 2024, to September 30, 2024)

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 semi-annual statements of income
	Commercial karaoke	Karaoke cabin and restaurant	Music software	Subtotal				
Net sales	30,790	31,820	2,772	65,383	8,937	74,321	—	74,321
Segment profit (Operating profit)	6,480	2,560	189	9,230	1,148	10,378	(1,382)	8,996

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 (1,382) million yen adjustment posted to segment profit 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.