

Consolidated Financial Results for the Six Months Ended February 29, 2020

Name of Company	Demae-can Co., Ltd
Stock exchange	JASDAQ Standard of Tokyo Stock Exchange (Code 2484)
URL	https://corporate.demae-can.com/en/
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- Notes:
1. The accompanying financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan.
 2. Amounts are rounded down to the nearest million yen.

1. Consolidated financial highlights for the Six Months Ended February 29, 2020

(1) Operating results

Note: Percentages indicate changes from the same period of the previous fiscal year.

	Six months ended			
	February 28, 2019		February 29, 2020	
		%		%
Net sales (Millions of yen)	3,119	21.4	3,828	22.7
Operating profit (Millions of yen)	(40)	-	(989)	-
Ordinary profit (Millions of yen)	(19)	-	(966)	-
Profit attributable to owners of parent (Millions of yen)	(33)	-	(904)	-
Profit per share (Yen):				
Basic	(0.82)		(22.04)	
Diluted	-		-	
Comprehensive income:	Year ended February 29, 2020: (1,029) million yen, -			
	Year ended February 28, 2019: 7 million yen, (97.5%)			

(2) Financial position

	As of	
	August 31, 2019	February 29, 2020
Total assets (Millions of yen)	7,084	6,836
Total net assets (Millions of yen)	2,839	1,690
Equity ratio (%)	39.8	24.4
Equity:	1,669 million yen (as of February 29, 2020)	
	2,819 million yen (as of August 31, 2019)	

2. Dividends

	Year ended August 31, 2019	Year ending August 31, 2020
1Q-end dividends per share (Yen)	-	-
2Q-end dividends per share (Yen)	0.00	-
3Q-end dividends per share (Yen)	-	
Year-end dividends per share (Yen)	3.60	
Annual dividends per share (Yen)	3.60	

- Note: Revision to the dividends forecasts most recently announced: None
 The forecast dividends for the fiscal year ending August 31, 2020 are yet to be determined.
 The Company will announce the specific dividend amounts as soon as the determination.

3. Financial forecasts for the fiscal year ending August 31, 2020

Consolidated business forecasts have not been determined and are not stated because it is difficult to calculate reasonable business forecasts at this stage.

We will announce it as soon as reasonable forecasts become available. Please refer to “(4) Explanation on future forecast information such as consolidated business forecast” on page 5 of the attached materials for the reason.

4. Notes

- (1) Important changes in subsidiaries (Changes on specific subsidiaries associated with changes in scope of consolidation): None
- (2) Adoption of special accounting methods for preparation of quarterly financial statements: Yes
Note: Please refer to "2. Consolidated Financial Statements and Notes to Consolidated Financial Statement, (4) Notes to Consolidated Financial Statements" on page 8 for further information.
- (3) Changes in accounting policies, changes in accounting estimates and restatements
 1. Changes in accounting policies along with changes in accounting standards: None
 2. Other changes of accounting policies besides the number 1 above: None
 3. Changes in accounting estimates: None
 4. Restatements: None
- (4) Number of shares issued and outstanding (common share)
 1. Number of shares issued and outstanding (including treasury shares)

As of February 29, 2020:	44,390,500 shares
As of August 31, 2019:	44,390,500 shares
 2. Number of shares of treasury shares

As of February 29, 2020:	3,279,074 shares
As of August 31, 2019:	3,455,074 shares
 3. Average number of shares outstanding

As of February 29, 2020:	41,050,250 shares
As of February 28, 2019:	40,703,702 shares

* Status of implementation of quarterly review procedures

This Consolidated Financial Results is outside the scope of the audit procedures under the Financial Instruments and Exchange Act.

* Explanation of the appropriate use of financial forecast:

The financial forecasts and estimates provided in this Consolidated Financial Results are based on certain assumptions judged to be reasonable by the Company and available information at the time of report issuance, and therefore are not guarantees of future performance. Consequently, actual results may differ substantially from those described in this Consolidated Financial Results. Please refer to “1. Qualitative Information Regarding Financial Statements, (4) Future Forecast” on page 5 for further details.

The Company plans to hold an earnings release conference for analysts and investors on March 27, 2020. Supplementary presentation materials to be handed out at the conference will be posted simultaneously on the Company's website.

1. Qualitative Information Regarding Financial Statements

(1) Explanation of Operating Results

During the first half of the fiscal year under review (from September 1, 2019, to February 29, 2020), the Group continued to pursue initiatives for the expansion of the *Demae-can* business, its main business. The Company has been taking a number of steps to transform from a simple food delivery service provider into a supplier of life infrastructure essential for the future of Japan through the expansion of the Sharing Delivery business.

In order to expand the *Sharing Delivery* business, the Group has been working to increase the service area with a focus on directly managed stores, acquiring regional stores in genres which the Group lacks, reducing the minimum amount of orders required of customers, cutting waiting time, and making other improvements.

In an effort to increase customers, the Group invited Masatoshi Hamada to assume the position of Chief Demae Officer (CDO) on December 14, 2019, in combination with a new TV advertisement, to help increase recognition of *Demae-can* and promote the daily use of the delivery service. In addition, the Group renewed its membership loyalty program, *Demae-Nyan Club*, on January 31, 2020, to increase convenience and money-saving benefits.

Consequently, net sales for the first half of the fiscal year under review increased 22.7% year on year to 3,828,559 thousand yen as a result of continuing business growth. Meanwhile, aggressive business development and investment resulted in an operating loss of 989,318 thousand yen (operating loss of 40,161 thousand yen in the same period of the previous fiscal year), an ordinary loss of 966,090 thousand yen (ordinary loss of 19,264 thousand yen in the same period of the previous fiscal year), and a loss attributable to owners of parent of 904,554 thousand yen (a loss attributable to owners of parent of 33,266 thousand yen in the same period of the previous fiscal year).

(Thousands of yen)

Category	Three months ended November 30, 2018		Three months ended November 30, 2019		YoY	
	Amount	Sales ratio (%)	Amount	Sales ratio (%)	Amount	Change (%)
<i>Demae-can</i> business						
Basic operation fee	231,873	7.4	269,378	7.0	37,505	16.2
Order commissions	1,557,801	49.9	1,765,853	46.1	208,502	13.4
Delivery commissions	53,330	1.7	540,708	14.1	487,377	913.9
Other transactions	619,346	19.9	639,732	16.7	20,296	3.3
Sub-total	2,462,440	78.9	3,215,674	84.0	753,233	30.6
Mail order business	657,140	21.1	612,885	16.0	(44,254)	(6.7)
Total	3,119,580	100.0	3,828,559	100.0	708,978	22.7

Note: The category has been changed from the first quarter of the current fiscal year due to the increment of the ratio of *Sharing Delivery* (directly managed offices) to *Demae-can* business.

The business results for each segment are described below:

(Demae-can Business)

In the *Demae-can* business segment, the number of active users was approximately 3.20 million (up 13.4% year on year), the number of affiliated stores was 21,450 (up 15.5% year on year), the number of orders placed was approximately 15.36 million (up 11.6% year on year), and the number of *Sharing Delivery* offices was 275 locations (up 164.4% year on year) at the end of the first half of the fiscal year under review.

Demae-can Half Price Festival, held from February 14 to 16, 2020, gathered a large number of users, and the number of orders on the last day, February 16, significantly surpassed the record high.

As a result, net sales in the *Demae-can* business segment came to 3,215,674 thousand yen (up 30.6% year on year) for the first half of the fiscal year under review, including 269,378 thousand yen as basic operation fees, 1,765,853 thousand yen as order commissions, 540,708 thousand yen as delivery commissions, and 639,732 thousand yen from other transactions.

(Mail Order Business)

In the Mail Order business segment, net sales came to 612,885 thousand yen (down 6.7% year on year) from mail order sales of shochu and other products to restaurants.

(2) Qualitative Information on Consolidated Financial Conditions

Current assets at the end of the first half under review amounted to 5,391,982 thousand yen, a decrease of 163,637 thousand yen from the end of the previous fiscal year. Key factors contributing to this decrease included a decrease of 888,208 thousand yen in cash and deposits and 35,563 thousand yen in notes and accounts receivable-trade, which offset a increase of 35,563 thousand yen in accounts receivable-other.

Non-current assets at the end of the first half under review amounted to 1,444,664 thousand yen, a decrease of 83,937 thousand yen from the end of the previous fiscal year. Key factors contributing to this decrease included a decrease of 135,966 thousand yen in software, which offset an increase of 198,303 thousand yen in investment securities and 53,146 thousand yen in software in progress.

As a result, total assets at the end of the first half under review amounted to 6,836,647 thousand yen, a decrease of 247,574 thousand yen from the end of the previous fiscal year.

Current liabilities at the end of the first half under review amounted to 5,125,174 thousand yen, an increase of 921,676 thousand yen from the end of the previous fiscal year. Key factors contributing to this increase included an increase of 1,158,271 thousand yen in accounts payable-other and 7,064 thousand yen in provision for bonuses, which offset a decrease of 1,747 thousand yen in notes and accounts payable - trade.

Non-current liabilities at the end of the first half under review amounted to 21,251 thousand yen, a decrease of 19,599 thousand yen from the end of the previous fiscal year. Key factors contributing to this decrease included a decrease of 19,599 thousand yen in other non-current liabilities.

As a result, total liabilities at the end of the first half under review amounted to 5,146,425 thousand yen, an increase of 921,677 thousand yen from the end of the previous fiscal year.

Net assets at the end of the first half under review amounted to 1,690,221 thousand yen, a decrease of 1,149,651 thousand yen from the end of the previous fiscal year. Key factors contributing to this decrease included a decrease of 904,454 thousand yen in loss attributable to owners of parent, 6,793 thousand yen in capital surplus and 147,367 thousand yen in cash dividend paid, which offset an increase of 34,117 thousand yen in disposal of treasury shares.

(3) Qualitative Information on Consolidated Cash Flows

The balance of cash and cash equivalents (“cash”) decreased 888,208 thousand yen from the previous fiscal year, which was 1,297,520 thousand yen of the first half of the fiscal year under review.

The status of each of the cash flow segments in the first half under review is as follows:

(Cash flows from operating activities)

Net cash used by operating activities during the first half of the fiscal year under review was 425,362 thousand yen (an increase of 62,153 thousand yen in the previous fiscal year). Key factors contributing to a decrease included loss before income taxes of 866,051 thousand yen and in accounts receivable - other of 770,853 thousand yen and income tax paid of 44,640 thousand yen, which offset an increase of depreciation of 151,382 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities during the first half of the fiscal year under review was 139,347

thousand yen (202,272 thousand yen used in the previous fiscal year). Key factors contributing to a decrease included purchase of intangible assets of 257,566 thousand yen.

(Cash flows from financing activities)

Net cash used in financing activities during the first half of the fiscal year under review was 324,495 thousand yen (558,590 thousand yen used in the previous fiscal year). Key factors contributing to an decrease included repayment of short-term loans payable of 2,000,000 thousand yen and cash dividends paid of 147,365 thousand yen.

(4) Future Forecast

In connection with consolidated financial forecasts, the Group is currently examining the impact of the changes described in the announcement, “Notice of the Execution of the Capital and Business Alliance Agreement with LINE Corporation and Share Subscription Agreement with LINE Corporation and Mirai Fund LLP, Issuance of New Shares by way of the Third-Party Allotment and Changes in Major Shareholder and Parent Company” dated March 26, 2020, on the Group’s financial performance. Therefore, the Group will withdraw and annul the financial forecasts announced on October 10, 2019 and plans to release updates when they become available. For details, refer to the separate announcement, “Notice Regarding Revision of Consolidated Financial Forecast” dated March 26, 2020.

2. Consolidated Financial Statements and Notes to Consolidated Financial Statement

(1) Consolidated Balance Sheets

	(Thousands of yen)	
	As of August 31, 2019	As of February 29, 2020
Assets		
Current assets		
Cash and deposits	2,185,728	1,297,520
Notes and accounts receivable—trade	221,296	256,859
Merchandise and finished goods	61,687	66,240
Accounts receivable-other	2,994,747	3,765,600
Other	149,826	70,742
Allowance for doubtful accounts	(57,665)	(64,981)
Total current assets	5,555,619	5,391,982
Non-current assets		
Property, plant, and equipment	162,039	142,749
Intangible assets		
Software	741,617	877,583
Software in progress	80,227	27,080
Other	138	138
Total intangible assets	821,983	904,802
Investments and other assets		
Investment securities	374,070	175,766
Guarantee deposits	119,942	127,316
Deferred tax assets	16,311	54,576
Other	35,898	40,573
Allowance for doubtful accounts	(1,643)	(1,300)
Total investments and other assets	544,579	397,112
Total non-current assets	1,528,601	1,444,664
Total assets	7,084,221	6,836,647

(Thousands of yen)

	As of August 31, 2019	As of February 29, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	87,931	89,678
Short-term loans payable	800,000	600,000
Current portion of long-term loans payable	3,634	1,630
Accounts payable - other	3,069,776	4,228,047
Income taxes payable	49,332	40,103
Provision for bonuses	50,032	57,097
Other	142,791	108,617
Total current liabilities	4,203,497	5,125,174
Non-current liabilities		
Other	40,850	21,251
Total non-current liabilities	40,850	21,251
Total liabilities	4,244,348	5,146,425
Net assets		
Shareholders' equity		
Capital stock	1,113,382	1,113,382
Capital surplus	651,365	644,572
Retained earnings	1,562,423	510,500
Treasury shares	(669,763)	(635,646)
Total shareholders' equity	2,657,407	1,632,809
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	161,725	36,715
Total valuation and translation adjustments	161,725	36,715
Subscription rights to shares	20,740	20,696
Total net assets	2,839,873	1,690,221
Total liabilities and net assets	7,084,221	6,836,647

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

	(Thousands of yen)	
	Six months ended February 28, 2019	Six months ended February 29, 2020
Net sales	3,119,580	3,828,559
Cost of sales	1,193,770	1,290,459
Gross profit	1,925,810	2,538,099
Selling, general and administrative expenses	1,965,972	3,527,418
Operating profit/loss	(40,161)	(989,318)
Non-operating income		
Interest income	53	11
Reversal of allowance for doubtful accounts	1,709	1,953
Reversal of allowance for doubtful accounts	5,005	-
Share of profit of entities accounted for using equity method	14,029	24,030
Other	1,685	1,749
Total non-operating income	22,482	27,745
Non-operating expenses		
Interest expenses	1,011	1,297
Taxes and dues	-	2,709
Foreign exchange losses	455	2
Other	118	508
Total non-operating expenses	1,585	4,517
Ordinary profit/loss	(19,264)	(966,090)
Extraordinary income		
Gain on sales of investment securities	-	100,039
Total extraordinary income	-	100,039
Extraordinary income		
Loss on retirement of non-current assets	8,924	-
Loss on sales of shares of subsidiaries and associates	8,676	-
Total extraordinary income	17,600	-
Profit/Loss before income taxes	(36,865)	(866,051)
Income taxes	(3,599)	38,502
Profit/Loss	(33,266)	(904,554)
Profit/Loss attributable to owners of parent	(33,266)	(904,554)

Consolidated Statements of Comprehensive Income

	(Thousands of yen)	
	Six months ended February 28, 2019	Six months ended February 29, 2020
Profit/Loss	(33,266)	(904,554)
Other comprehensive income		
Valuation difference on available-for-sale securities	41,718	(125,009)
Foreign currency translation adjustment	(1,043)	-
Total other comprehensive income	40,674	(125,009)
Comprehensive income	7,408	(1,029,564)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,408	(1,029,564)
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statements of Cash Flows

	(Thousands of yen)	
	Six months ended February 28, 2019	Six months ended February 29, 2020
Cash flows from operating activities		
Profit before income taxes	(36,865)	(866,051)
Depreciation	112,969	151,382
Loss on retirement of non-current assets	8,924	
Loss (gain) on sales of investment securities	-	(100,039)
Loss (gain) on sales of shares of subsidiaries and associates	8,676	-
Increase (decrease) in allowance for doubtful accounts	29,236	6,973
Increase (decrease) in provision for bonuses	13,287	7,064
Interest and dividend income	(1,762)	(1,964)
Interest expenses	1,011	1,297
Share of (profit) loss of entities accounted for using equity method	(14,029)	(24,030)
Decrease (increase) in notes and accounts receivable - trade	131,260	(35,221)
Decrease (increase) in inventories	(35,283)	(4,632)
Increase (decrease) in notes and accounts payable – trade	(16,656)	1,747
Decrease (increase) in accounts receivable-other	(213,926)	(770,853)
Increase (decrease) in accounts payable-other	153,174	1,168,847
Other	6,219	(8,127)
Subtotal	<u>146,237</u>	<u>(473,309)</u>
Interest and dividend income received	7,147	9,982
Interest expenses paid	(1,064)	(1,479)
Income taxes paid	(91,168)	(44,640)
Income taxes refund	1,001	84,383
Net cash provided by) operating activities	<u>62,153</u>	<u>(423,755)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(67,927)	(183)
Purchase of intangible assets	(117,406)	(257,566)
Proceeds from sales of investment securities	-	134,277
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(10,118)	-
Other	(6,820)	(14,876)
Net cash provided by (used in) investing activities	<u>(202,272)</u>	<u>(138,347)</u>
Cash flows from financing activities		
Increase in short-term loans payable	1,000,000	3,800,000
Decrease in short-term loans payable	(1,200,000)	(4,000,000)
Repayments of long-term loans payable	(2,004)	(2,004)
Purchase of treasury shares of subsidiaries	(299,947)	-
Proceeds from disposal of treasury shares of subsidiaries	91,184	27,280
Cash dividends paid	(145,738)	(147,365)
Other	(2,094)	(2,406)
Net cash provided by (used in) financing activities	<u>(558,590)</u>	<u>(324,495)</u>
Effect of exchange rate change on cash and cash equivalents	(455)	(2)
Net increase (decrease) in cash and cash equivalents	(699,165)	(888,208)
Cash and cash equivalents at beginning of period	2,928,218	2,185,728
Cash and cash equivalents at end of period	<u>2,229,054</u>	<u>1,297,520</u>

(4) Notes to Consolidated Financial Statements

(Notes on the going concern assumption)

Not applicable.

(Significant changes in Shareholders' Equity)

Not applicable.

(Adoption of special accounting methods for preparation of quarterly financial statements)

Tax expenses are calculated by rationally estimating an effective tax rate for profit before income taxes for the fiscal year including the current first half of the consolidated fiscal year under review after the application of tax effect accounting and multiplying the profit before income taxes by the estimated effective tax rate. However, if the calculation of tax expenses using the estimated effective tax rate would result in a materially unreasonable result, profit or loss before income taxes multiplied by the statutory tax rate takes into account the recoverability of deferred tax assets.

(Segment information)

1) Six months ended February 28, 2019 (from September 1, 2018 to February 28, 2019)

Net sales and profit or loss in reportable segments

(Thousands of yen)

	Reportable segments			Adjustments Note 1	Total Note 2
	<i>Demae-can</i> business	Mail order business	Segments total		
Sales					
Sales to external customers	2,462,440	657,140	3,119,580	-	3,119,580
Intersegment sales or transfers	-	119,974	119,974	(119,974)	-
Net sales	2,462,440	777,114	3,239,555	(119,974)	3,119,580
Segment profit/loss	(32,988)	105,796	72,807	(112,969)	(40,161)
Other items					
Depreciation	104,386	8,133	112,969	-	112,969

Note: 1. The details of the adjustments are as follows:

The adjustment of (112,969 thousand yen) in the segment profit is depreciation expenses for the reporting segments.

2. The total segment profit in each reporting segment and the total value of adjustment are consistent with the operating profit in the consolidated income statement.

2) Six months ended February 29, 2020 (from September 1, 2019 to February 29, 2020)

Net sales and profit or loss in reportable segments

(Thousands of yen)

	Reportable segments			Adjustments Note 1	Total Note 2
	<i>Demae-can</i> business	Mail order business	Segments total		
Sales					
Sales to external customers	3,215,674	612,885	3,828,559	-	3,828,559
Intersegment sales or transfers	19	142,751	142,770	(142,770)	-
Net sales	3,215,693	755,636	3,971,330	(142,770)	3,828,559
Segment profit/loss	(936,425)	98,489	(837,936)	(151,382)	(989,318)
Other items					
Depreciation	143,320	8,062	151,382	-	151,382

Note: 1. The details of the adjustments are as follows:

The adjustment of (151,382 thousand yen) in the segment profit is depreciation expenses for the reporting segments.

2. The total segment profit in each reporting segment and the total value of adjustment are consistent with the operating profit in the consolidated income statement.