

Consolidated Financial Results for the Six Months Ended February 28, 2023

Name of Company	Demaecan Co., Ltd
Stock exchange	Standard of Tokyo Stock Exchange (Code 2484)
URL	https://corporate.demaecan.co.jp/en/
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Scheduled date of filing of quarterly report:	April 14, 2023
Scheduled start of dividend payment:	-
Supplementary materials for quarterly financial results:	Yes
Hosting quarterly financial results meeting:	Yes (for institutional investors & analyst)

- 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 Year Ended February 28, 2023

(1) Operating results

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

	Six months ended			
	February 28, 2022		February 28, 2023	
		%		%
Net sales (Millions of yen)	22,737	118.4	25,386	11.7
Operating profit (Millions of yen)	(22,422)	-	(8,739)	-
Ordinary profit (Millions of yen)	(22,660)	-	(8,687)	-
Profit attributable to owners of parent (Millions of yen)	(22,886)	-	(8,715)	-
Profit per share (Yen):				
Basic	(185.73)		(66.20)	
Diluted	-		-	
Comprehensive income:	Six months ended February 28, 2023: (8,713) million yen, - %			
	Six months ended February 28, 2022: (22,866) million yen, -%			

(2) Financial position

	As of	
	August 31, 2022	February 28, 2023
Total assets (Millions of yen)	69,190	57,700
Total net assets (Millions of yen)	54,225	45,513
Equity ratio (%)	78.4	78.9
Equity:	45,502 million yen (as of February 28, 2023)	
	54,215 million yen (as of August 31, 2022)	

2. Dividends

	Year ended August 31, 2022	Year ending August 31, 2023	Year ending August 31, 2023 (forecast)
Q1-end dividends per share (Yen)	-	-	
Q2-end dividends per share (Yen)	0.00	0.00	0.00
Q3-end dividends per share (Yen)	-		-
Year-end dividends per share (Yen)	0.00		0.00
Annual dividends per share (Yen)	0.00		0.00

Note: Revision to the dividends forecasts most recently announce: None
No dividend will be paid for the fiscal year ending August 31, 2023 (forecast).

3. Financial forecasts for the fiscal year ending August 31, 2023

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

(Millions of yen unless otherwise stated)	Year ending August 31, 2023	
		%
Sales	50,000	5.7
Operating Profit	(17,000)	
Ordinary Profit	(16,900)	
Net income attributable to owners of the	(16,950)	
Earnings per share (Yen)	(128.76)	

(Note) Revisions to the most recently announced earnings forecasts: Yes

Please refer to the "Notice of Revision of Earnings Forecasts" released today (April 12, 2023) for the revision of consolidated earnings forecasts.

*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 consolidated financial statements: Yes
(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Notes (3) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements)" on page 8 of the attached materials.
- (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 28, 2023:	131,755,230 shares
As of August 31, 2022:	131,755,230 shares
 2. Number of shares of treasury shares

As of February 28, 2023:	119,647 shares
As of August 31, 2022:	91,587 shares
 3. Average number of shares outstanding

As of February 28, 2023:	131,649,524 shares
As of February 28, 2022:	123,222,811 shares

*** These Consolidated Financial Results are not subject to audits by certified public accountants or audit corporations.**

*** Explanation of the appropriate use of financial forecast and other notes:**

- The financial forecasts and estimates provided in these Consolidated Financial Results are based on information available at the time of report issuance and certain assumptions judged to be reasonable by the Company and are, therefore, not guarantees of future performance. Consequently, actual results may differ substantially from those described in these Consolidated Financial Results. Please refer to 1. Summary of Operating Results and Financial Position (3) Explanation of Consolidated Financial Forecasts and Other Forward-Looking Statements on page 5 for further details.

- The amounts of items and other matters stated in the Company's quarterly consolidated financial statements were previously stated in units of thousand yen; however, during and after the first quarter of the fiscal year under review, units of million yen are used in stating such amounts. For easier comparison, units of million yen are also used for the previous consolidated fiscal year and the previous consolidated first Six months.

1. Summary of Operating Results and Financial Position

(1) Summary of Operating Results for the Fiscal Year under Review

During the second quarter of the fiscal year under review (September 1, 2022 to February 28, 2023), the Group stepped up its efforts to expand the Demae-can business with a view toward attaining its goal of making food delivery part of everyday life.

In the second quarter under review, sales in the food service industry exceeded that of 2019, the level before the COVID-19 pandemic, for the two consecutive quarters, reflecting an increase in the flow of people due to a subsiding COVID-19 pandemic and the governments' move to ease the guideline regarding the wearing of masks. (Source: Japan Foodservice Association)

Meanwhile, Japan's core consumer price index rose 4.0% in December 2022 compared to last year, hitting a 41-year high, and real wages fell 4.1% year over year in January 2023, dropping the most in eight years and eight months. As a result, household consumption expenditures continue to decline and demand for food delivery had inevitably been affected (Source: Ministry of Internal Affairs and Communications, Ministry of Health, Labor and Welfare)

In this macro environment, the Company strove to maximize the satisfaction and retention of users, riders, and merchants by steadily improving the fundamental service experience, including the expansion of the merchant lineup in both food and non-food categories, enhancement of the accuracy of displayed delivery waiting time, and improvement of the quality of customer service.

In accordance with the above, GMV in the second quarter under review stood at 54.2 billion yen (down 11% year on year), and the number of active users came to 7.70 million (down 10% year on year). Looking ahead to the third quarter and beyond, the Group will continue to offer services chosen by users, riders, and merchants by focusing on the essential enhancement of service quality through the improvement of products.

On the cost side, unit economics continues to improve as steady progress is being made in optimizing compensation per-delivery due to stable supply of riders and continued improvements in delivery efficiency. The gross profit margin remained roughly flat at 18% from the previous quarter. Regarding marketing expenditure, the Company will continue to focus on return on investment while continuously monitoring market trends.

Consequently, consolidated net sales for the first half of the fiscal year under review increased by 11.7% year on year, to 25,386 million yen, reflecting continued business expansion. However, aggressive business development and investment resulted in operating loss of 8,739 million yen (operating loss of 22,422 million yen in the previous fiscal year), ordinary loss of 8,687 million yen (ordinary loss of 22,660 million yen in the previous fiscal year) and loss attributable to owners of parent of 8,715 million yen (loss attributable to owners of parent of 22,886 million yen in the previous fiscal year).

Effective from the first quarter of the fiscal year under review, the Group's reportable segments, which traditionally reflected two businesses, namely, the Demae-can business and the Mail Order business, are merged into a single Demae-can business segment. Segment information therefore is omitted.

(2) Summary of Financial Position in the Fiscal Year under Review

1) Assets, Liabilities, and Net Assets

Current assets at the end of the second quarter under review amounted to 57,353 million yen, a decrease of 11,510 million yen from the end of the previous fiscal year. This was primarily due to decreases of 8,518 million yen in cash and deposits and 1,838 million yen in accounts receivable - other.

Non-current assets at the end of the second quarter under review amounted to 347 million yen, an increase of 20 million yen from the end of the previous fiscal year. This was mainly due to an increase of 26 million yen in investment securities.

As a result, total assets at the end of the second quarter under review amounted to 57,700 million yen, a decrease of 11,489 million yen from the end of the previous fiscal year.

Current liabilities at the end of the second quarter under review amounted to 12,133 million yen, a decrease of 2,781 million yen from the end of the previous fiscal year. This decrease mainly reflected a decrease of 2,864 million yen in accounts payable - other.

Non-current liabilities at the end of the second quarter under review increased 3 million yen from the end of the previous fiscal year to 53 million yen. Key factors contributing to this increase included an increase of 3 million yen in other non-

current liabilities.

As a result, total liabilities at the end of the second quarter under review amounted to 12,187 million yen, a decrease of 2,777 million yen from the end of the previous fiscal year.

Net assets amounted to 45,513 million yen, a decrease of 8,711 million yen from the end of the previous fiscal year. The decrease mainly reflected a decline in retained earnings due to the posting of 8,715 million yen as a loss attributable to owners of parent.

2) Cash flows

The balance of cash and cash equivalents ("cash") at the end of the first half of the fiscal year under review decreased 44,744 million yen from the end of the previous fiscal year to 8,518 million yen.

The state of cash flows and factors for each category for the first half under review are as follows:

(Cash flows from operating activities)

Net cash used in operating activities during the first half under review was 8,525 million yen (a decrease of 24,692 yen in the same period of the previous fiscal year). The main contributing factors were a loss before income taxes of 8,687 million yen, a decrease in accounts payable - other of 2,867 million yen, and a decrease in accounts receivable - other of 1,838 million yen.

(Cash flows from investing activities)

Net cash provided by investing activities was 7 million yen (net cash used of 165 million yen in the same period of the previous fiscal year). The main contributing factor was an increase in Other of 5 million yen.

(Cash flows from financing activities)

Net cash used in financing activities stood at 0 million yen (net cash provided of 83,017 million yen in the same period of the previous fiscal year).

(3) Explanation of Consolidated Financial Forecasts and Other Forward-Looking Statements

Demand for food delivery is lower than expected as a result of the changes in the external environment, including inflation and lower household consumption. In consideration of these circumstances, the consolidated forecasts for the fiscal year ending August 31, 2023 are, GMV*: 200.0 billion yen, Sales: 50.0 billion yen, and since operating expenses are expected to decrease due to aggressive cost reductions, Operating income: (17) billion yen.

*GMV stands for Gross Merchandise Value, which is 220.1 billion yen for the fiscal year ended August 2022.

The above forecasts are based on currently available information and actual results may differ significantly due to various uncertainties.

2. Consolidated Financial Statements and Notes to Consolidated Financial Statement

(1) Consolidated Balance Sheets

	(Millions of yen)	
	As of August 31, 2022	As of February 28, 2023
Assets		
Current assets		
Cash and deposits	53,262	44,744
Notes and accounts receivable—trade	104	124
Merchandise and finished goods	17	4
Accounts receivable-other	13,332	11,494
Other	2,188	1,006
Allowance for doubtful accounts	(42)	(21)
Total current assets	68,863	57,353
Non-current assets		
Investments and other assets		
Investment securities	254	280
Guarantee deposits	59	54
Deferred tax assets	12	12
Other	1	2
Allowance for doubtful accounts	(1)	(2)
Total investments and other assets	326	347
Total non-current assets	326	347
Total assets	69,190	57,700
Liabilities		
Current liabilities		
Accounts payable - other	14,615	11,750
Income taxes payable	97	23
Provision for bonuses	21	31
Other	180	327
Total current liabilities	14,915	12,133
Non-current liabilities		
Other	50	53
Total non-current liabilities	50	53
Total liabilities	14,965	12,187
Net assets		
Shareholders' equity		
Capital stock	100	100
Capital surplus	112,269	53,891
Retained earnings	(58,184)	(8,521)
Treasury shares	(3)	(3)
Total shareholders' equity	54,181	45,466
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	34	36
Total valuation and translation adjustments	34	36
Share acquisition rights	9	11
Total net assets	54,225	45,513
Total liabilities and net assets	69,190	57,700

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

	(Millions of yen)	
	Six months ended February 28, 2022	Six months ended February 28, 2023
Net sales	22,737	25,386
Cost of sales	26,127	20,749
Gross profit	(3,389)	4,637
Selling, general and administrative expenses	19,032	13,376
Operating profit	(22,422)	(8,739)
Non-operating income		
Interest income	0	0
Dividend income	0	0
Share of profit of entities accounted for using equity method	33	40
Insurance claim income	6	4
Subsidy income	123	-
Other	3	10
Total non-operating income	168	56
Non-operating expenses		
Interest expenses	0	-
Compensation for damage	5	0
Foreign exchange losses	-	3
Share issuance cost	394	-
Other	5	1
Total non-operating expenses	405	4
Ordinary profit	(22,660)	(8,687)
Extraordinary income		
Gain on sales of non-current assets	3	2
Total extraordinary income	3	2
Extraordinary losses		
Loss on retirement of non-current assets	0	-
Correction of prior period financial statements expenses	181	-
Loss on change in equity method	-	2
Total extraordinary losses	181	2
Profit before income taxes	(22,838)	(8,687)
Income taxes etc.	48	27
Profit	(22,886)	(8,715)
Profit attributable to owners of parent	(22,886)	(8,715)

(Millions of yen)

	Six months ended February 28, 2022	Six months ended February 28, 2023
Profit	(22,886)	(8,715)
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	1
Total other comprehensive income	(0)	1
Comprehensive income	(22,886)	(8,713)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(22,886)	(8,713)
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended February 28, 2022	Six months ended February 28, 2023
Cash flows from operating activities		
Profit before income taxes	(22,838)	(8,687)
Depreciation	9	-
Share-based remuneration expenses	237	103
Loss on retirement of non-current assets	0	-
Increase (decrease) in allowance for doubtful accounts	(43)	(20)
Increase (decrease) in provision for bonuses	(107)	9
Interest and dividend income	(1)	(1)
Share issuance costs	394	-
Interest expenses	0	-
Share of (profit) loss of entities accounted for using equity method	(33)	(40)
Decrease (increase) in notes and accounts receivable - trade	155	(20)
Decrease (increase) in inventories	(8)	(10)
Increase (decrease) in notes and accounts payable – trade	7	-
Decrease (increase) in accounts receivable-other	(1,965)	1,838
Increase (decrease) in accounts payable-other	459	(2,867)
Other	(910)	1,250
Subtotal	(24,643)	(8,445)
Interest and dividend income received	11	15
Interest expenses paid	(0)	-
Income taxes paid	(65)	(97)
Income taxes refund	5	2
Net cash provided by) operating activities	(24,692)	(8,525)
Cash flows from investing activities		
Purchase of property, plant and equipment	(3)	-
Proceeds from property, plant and equipment	4	2
Purchase of intangible assets	(164)	-
Other	(2)	5
Net cash provided by (used in) investing activities	(165)	7
Cash flows from financing activities		
Proceeds from issuance of shares	77,619	-
Proceeds from disposal of treasury shares of subsidiaries	5,400	-
Cash dividends paid	(0)	-
Other	(2)	(0)
Net cash provided by (used in) financing activities	83,017	(0)
Effect of exchange rate change on cash and cash equivalents	-	-
Net increase (decrease) in cash and cash equivalents	58,159	(8,518)
Cash and cash equivalents at beginning of period	10,196	53,262
Cash and cash equivalents at end of period	68,356	44,744

(4) Notes to Consolidated Financial Statements

(Notes on the going concern assumption)

Not applicable

(Notes on significant changes in the amount of shareholders' equity)

Based on a resolution of the 23rd Annual General Meeting of Shareholders held on November 29, 2022, the Company reduced legal capital surplus in the amount of 0 million yen and transferred the same amount to other capital surplus pursuant to the provisions of paragraph 1, Article 448 of the Companies Act. The Company also reduced other capital surplus by 0 million yen and transferred the same amount to retained earnings brought forward to cover a deficit under Article 452 of the Companies Act.

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

(Calculation of tax expenses)

With respect to the calculation of tax expenses, reasonable estimations are performed on an effective tax rate established after applying tax accounting to profit before income taxes for the consolidated fiscal year, which includes the second quarter of the consolidated fiscal year under review, and such tax expenses are calculated by multiplying this estimated effective tax rate by profit before income taxes. If the calculation of tax expenses using the estimated effective tax rate is extremely unreasonable, profit/loss before income taxes multiplied by the statutory tax rate is used and the recoverability of deferred tax assets is taken into consideration.

(Segment information)

I. Six months ended February 28, 2022 (from September 1, 2021 to February 28, 2022)

As indicated in "II. Six months ended February 28, 2022 (Matters concerning changes in the reportable segment)"

II. Six months ended February 28, 2023 (from September 1, 2022 to February 28, 2023)

Since the Group has only single business segment, the statement is omitted.

(Matters concerning changes in the reportable segment)

Effective from the first quarter of the fiscal year under review, the Group's reportable segments, which traditionally reflected two businesses, namely, the Demae-can business and the Mail Order business, are merged into single Demae-can business segment because Demae-can Communications Co., Ltd., which is a subsidiary, transferred the Mail Order business it had been conducting on June 30, 2022.

With the Group's reportable segments merged into a single business segment as a consequence of this change, segment information is omitted in conjunction with the results for the second quarter of the previous fiscal year and the second quarter of the fiscal year under review.