

Consolidated Financial Results for the Nine Months Ended May 31, 2022

Name of Company	Demaecan Co., Ltd
Stock exchange listing	Standard of Tokyo Stock Exchange (Code 2484)
URL	https://corporate.demaecan.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 Nine months ended May 31, 2022

(1) Operating results

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

	Year ended			
	May 31, 2021	May 31, 2022		
		%		%
Net sales (Millions of yen)	18,439	170.2	34,874	89.1
Operating profit (Millions of yen)	(13,594)	-	(29,662)	-
Ordinary profit (Millions of yen)	(13,577)	-	(29,872)	-
Profit attributable to owners of parent (Millions of yen)	(15,462)	-	(29,536)	-
Profit per share (Yen):				
Basic	(188.06)		(234.67)	
Diluted	-		-	
Comprehensive income:	Year ended May 31, 2022: (29,557) million yen Year ended May 31, 2021: (15,479) million yen			

(2) Financial position

	As of	
	August 31, 2021	May 31, 2022
Total assets (Millions of yen)	20,380	75,652
Total net assets (Millions of yen)	6,875	60,911
Equity ratio (%)	32.2	80.5
Equity:	60,903 million yen (as of May 31, 2022) 6,555 million yen (as of August 31, 2021)	

2. Dividends

	Year ended August 31, 2021	Year ending August 31, 2022
1Q-end dividends per share (Yen)	-	-
2Q-end dividends per share (Yen)	0.00	0.00
3Q-end dividends per share (Yen)	-	-
Year-end dividends per share (Yen)	0.00	
Annual dividends per share (Yen)	0.00	

- Note: Revision to the dividends forecasts most recently announce: None
The forecast dividends for the fiscal year ending August 31, 2022 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, 2022

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

	Year ending August 31, 2022	%
Net sales (Millions of yen)	47,000	62.3
Operating profit (Millions of yen)	(37,000)	-
Ordinary profit (Millions of yen)	(37,200)	-
Profit attributable to owners of parent (Millions of yen)	(36,700)	-
Profit per share (Yen)	(288.36)	

Note: Revision to the financial forecasts most recently announce: Yes

Please refer to the "Notice Concerning Revision of Earnings Forecast and Dividend Forecast" announced today (July 15, 2022) for the revision of the consolidated earnings forecast.

*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, (3) 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: Yes
 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 May 31, 2022:	131,755,230 shares
As of August 31, 2021:	85,486,500 shares
 2. Number of shares of treasury shares

As of May 31, 2022:	22,877 shares
As of August 31, 2020:	3,267,074 shares
 3. Average number of shares outstanding

As of May 31, 2022:	125,968,043 shares
As of May 31, 2021:	82,217,228 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) Future Forecast" on page 3 for further details.

1. Summary of Operating Results and Financial Position

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

During the first quarter of the fiscal year under review (September 1, 2021 to May 31, 2022), 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.

Some changes in personal spending behavior were seen during the third quarter of the fiscal year under review, including a slowdown in the growth of food delivery service in parallel with a significant recovery of demand for outings and dining out in response to the nationwide lifting of a state of emergency, the priority measures to prevent the spread of COVID-19, and other restrictions.

Under these circumstances, Demae-can Co., Ltd. (the “Company”) launched its second large scale promotion in Tokyo and the three adjacent prefectures (Saitama, Chiba, and Kanagawa) that lasts from April 26 to June 30, 2022, which created strong demand for food delivery services in these areas and resulted in an increase in the number of active users and the number of riders. Demae-can’s market share had grown to approximately 50% by the end of the previous quarter, and it was able to maintain this share throughout the third quarter. In addition, the Company continued to rank first in the number of app downloads by category from the first quarter and were able to steadily attract users amid accelerating rationalization among competitors.

The Company invested in marketing expenses taking into account the external environment and considering cost efficiency and emphasized the retention of existing users rather than the acquisition of new ones, as part of its flexible investment in light of market environment. The number of new riders steadily increased as a result of some initiatives and, and it has been able to secure sufficient numbers of riders to meet the demand, resulting in cost-effective per-delivery and shorter delivery times.

Consequently, consolidated net sales for the first nine months of the fiscal year under review increased by 89.1% year on year, to 34,874,344 thousand yen, reflecting continued business expansion. However, aggressive business development and investment resulted in operating loss of 29,662,567 thousand yen (operating loss of 13,594,319 thousand yen in the previous fiscal year), ordinary loss of 29,872,117 thousand yen (ordinary loss of 13,577,003 thousand yen in the previous fiscal year) and loss attributable to owners of parent of 29,536,071 thousand yen (loss attributable to owners of parent of 15,462,008 thousand yen in the previous fiscal year).

Meanwhile, to make a change in its accounting policy, the Company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29. March 31, 2020), etc. at the beginning of the first quarter of the fiscal year under review. More information is provided in (4) Notes to Consolidated Financial Statements (Changes in Accounting Policies) under “3. Consolidated Financial Statements and Notes to Consolidated Financial Statement.”

(Thousands of yen)

Category	Nine months ended May 31, 2021		Nine months ended May 31, 2022		YoY	
	Amount	Sales ratio (%)	Amount	Sales ratio (%)	Amount	Change (%)
Demae-can business						
Demae-can service fees	7,597,955	41.2	11,132,353	31.9	3,534,398	46.5
Delivery commissions	9,304,540	50.5	21,542,533	61.8	12,237,992	131.5
Other transactions	1,081,104	5.9	1,761,608	5.1	680,503	62.9
Sub-total	17,983,600	97.5	34,436,495	98.7	16,452,894	91.5
Mail order business	455,421	2.5	437,849	1.3	(17,572)	(3.9)
Total	18,439,022	100.0	34,874,344	100.0	16,435,321	89.1

The business results for each segment are described below:
(Demae-can Business)

In the Demae-can business segment, GMV at the end of the first quarter under review increased to 164. billion yen (up 44% year on year). In parallel with this increase, the number of active users climbed 35% year on year, to 8.78 million, and the number of riders rose 306% year on year, showing an expansion in line with the management plan.

As a result, net sales in the segment came to 34,436,495 thousand yen (up 91.5% year on year) for the third quarter

under review, including 11,132,353 thousand yen in Demae-can service fees, 21,542,533 thousand yen in delivery commissions and 1,761,608 thousand yen from other transactions.

(Mail Order Business)

The Mail Order business segment, which sells shochu and other products to restaurants by mail order, was affected by the shortened operating hours of restaurants due to the COVID-19 pandemic. As a result, net sales in the Mail Order business came to 437,849 thousand yen (down 3.9% year on year) for the third quarter under review.

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

Current assets at the end of the third quarter under review amounted to 75,286,396 thousand yen, an increase of 55,243,749 thousand yen from the end of the previous fiscal year. This increase was mainly attributable to an increase of 3,062,620 thousand yen in account receivable-other and an increase of 50,947,495 thousand yen in cash and deposits.

Non-current assets at the end of the third quarter under review amounted to 366,316 thousand yen, an increase of 28,923 thousand yen from the end of the previous fiscal year. This increase was mainly attributable to a rise of 32,082 thousand yen in guarantee deposits.

As a result, total assets at the end of the third quarter under review amounted to 75,652,712 thousand yen, an increase of 55,272,673 thousand yen from the end of the previous fiscal year.

Current liabilities at the end of the third quarter under review amounted to 14,682,178 thousand yen, an increase of 1,596,221 thousand yen from the end of the previous fiscal year. The change was caused primarily by an increase of 1,727,437 thousand yen in accounts payable - other and a decrease of 103,462 thousand yen in provision for bonuses.

Non-current liabilities at the end of the third quarter under review decreased 359,210 thousand yen from the end of the previous fiscal year, to 59,072 thousand yen. Key factors contributing to this decrease included a decrease of 359,210 thousand yen in other non-current liabilities.

As a result, total liabilities at the end of the third quarter under review amounted to 14,741,251 thousand yen, an increase of 1,237,010 thousand yen from the end of the previous fiscal year.

Net assets amounted to 60,911,461 thousand yen, an increase of 54,035,662 thousand yen from the end of the previous fiscal year. Key factors contributing to this were an increase of 99,288,650 thousand yen in capital surplus due to capital increase and transfer from share capital, and a decrease in retained earnings as a result of the posting of 29,536,071 thousand yen as a loss attributable to owners of parent.

(3) Explanation of Information on Future Forecasts, Including the Forecast of Consolidated Results

The business environment surrounding the delivery market is characterized by rapid changes, which may have a significant impact on the Company's financial results. With this in mind, the Company had expected that the GMV will be 330 billion yen and operating profit will be in the range from negative 50 billion yen to negative 55 billion yen, based on current assumptions, for the fiscal year ending August 31, 2022.

After the nationwide priority measures to prevent the spread of COVID-19 was fully lifted on March 21, 2022, people are more inclined to go out and eat out, resulting in a significant increase in flow of people. With the demand for dining out recovering, business sentiment for restaurant industry is becoming optimistic, while the rapid growth speed of the food delivery market appears to be slowing down.

Accordingly, the initial GMV forecast was revised from 330 billion yen to 220 billion yen, and operating loss is expected to decrease as a result of curbing expenditures for marketing and other advertising and promotional expenses.

*GMV refers to Gross Merchandise Value, which amounted to 162.7 billion yen in the fiscal year ended August 31, 2021.

2. Consolidated Financial Statements and Notes to Consolidated Financial Statement

(1) Consolidated Balance Sheets

	(Thousands of yen)	
	As of August 31, 2021	As of May 31, 2022
Assets		
Current assets		
Cash and deposits	10,196,926	61,144,422
Notes and accounts receivable—trade	290,586	85,379
Merchandise and finished goods	59,464	60,400
Accounts receivable-other	9,108,784	12,171,404
Other	475,750	1,859,527
Allowance for doubtful accounts	(88,866)	(34,738)
Total current assets	<u>20,042,646</u>	<u>75,286,396</u>
Non-current assets		
Property, plant, and equipment	71,623	60,440
Intangible assets		
Software	6,802	4,962
Other	138	138
Total intangible assets	<u>6,941</u>	<u>5,100</u>
Investments and other assets		
Investment securities	210,002	219,866
Guarantee deposits	35,547	67,629
Deferred tax assets	12,896	12,896
Other	9,182	1,738
Allowance for doubtful accounts	(8,800)	(1,356)
Total investments and other assets	<u>258,828</u>	<u>300,774</u>
Total non-current assets	<u>337,393</u>	<u>366,316</u>
Total assets	<u>20,380,039</u>	<u>75,652,712</u>

(Thousands of yen)

	As of August 31, 2021	As of May 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	26,604	44,062
Accounts payable - other	12,616,764	14,344,201
Income taxes payable	141,552	63,937
Provision for bonuses	131,909	28,446
Other	169,125	201,530
Total current liabilities	13,085,957	14,682,178
Non-current liabilities		
Other	418,283	59,072
Total non-current liabilities	418,283	59,072
Total liabilities	13,504,240	14,741,251
Net assets		
Shareholders' equity		
Share capital	16,113,422	100,000
Capital surplus	12,980,932	112,269,582
Retained earnings	(21,966,290)	(51,502,362)
Treasury shares	(633,319)	(3,705)
Total shareholders' equity	6,494,744	60,863,514
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	60,739	39,633
Total accumulated other comprehensive income	60,739	39,633
share acquisition rights	320,315	8,313
Total net assets	6,875,798	60,911,461
Total liabilities and net assets	20,380,039	75,652,712

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

	(Thousands of yen)	
	Nine months ended May 31, 2021	Nine months ended May 31, 2022
Net sales	18,439,022	34,874,344
Cost of sales	10,234,761	37,707,162
Gross profit	8,204,261	(2,832,818)
Selling, general and administrative expenses	21,798,581	26,829,749
Operating profit	(13,594,319)	(29,662,567)
Non-operating income		
Interest income	143	347
Dividend income	826	929
Share of profit of entities accounted for using equity method	28,508	50,645
Insurance claim income	3,303	10,164
Subsidy income	10,314	137,438
Other	2,075	6,925
Total non-operating income	45,171	206,450
Non-operating expenses		
Interest expenses	452	545
Loss on cancellation of insurance policies	11,048	-
Compensation for damage	15,039	7,227
Share issuance costs	-	397,580
Other	1,314	10,647
Total non-operating expenses	27,855	416,000
Ordinary profit	(13,577,003)	(29,872,117)
Extraordinary income		
Gain on sales of non-current assets	8	3,272
Gain on sale of investment securities	68	-
新株予約権戻入益		589,301
Total extraordinary income	76	592,574
Extraordinary losses		
Loss on retirement of non-current assets	69	10
Impairment losses	1,720,459	-
Costs related to correction of prior period financial statements	-	181,403
Retirement benefits for directors	100,000	-
Other	7,445	-
Total extraordinary losses	1,827,974	181,414
Profit before income taxes	(15,404,901)	(29,460,957)
Income taxes	57,106	75,114
Loss	(15,462,008)	(29,536,071)
Loss attributable to owners of parent	(15,462,008)	(29,536,071)

Consolidated Statements of Comprehensive Income

	(Thousands of yen)	
	Nine months ended May 31, 2021	Nine months ended May 31, 2022
Profit	(15,462,008)	(29,536,071)
Other comprehensive income		
Valuation difference on available-for-sale securities	(17,712)	(21,105)
Total other comprehensive income	(17,712)	(21,105)

	(Thousands of yen)	
	Nine months ended May 31, 2021	Nine months ended May 31, 2022
Comprehensive income	(15,479,720)	(29,557,177)
Comprehensive income attributable to owners of parent	(15,479,720)	(29,557,177)
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Consolidated Financial Statements

(Notes on the going concern assumption)

Not applicable.

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

The Company issued new shares through an overseas offering with a payment date of September 30, 2021 and disposed of part of its treasury shares. Consequently, share capital and legal capital surplus increased 13,377,393 thousand yen each and treasury shares decreased 5,624,640 thousand yen.

The Company increased capital through third-party allotment to Z Holdings Corporation and NAVER Corporation with a payment date of September 30, 2021. Consequently, share capital and legal capital surplus increased 25,629,870 thousand yen each.

Based on a resolution of the 22nd Annual General Meeting of Shareholders held on November 29, 2021, the Company reduced share capital in the amount of 55,020,686 thousand yen and transferred the same amount to other capital surplus pursuant to the provisions of paragraph 1, Article 447 of the Companies Act.

Based on a resolution of the meeting of the Board of Directors held on March 10, 2022, the Company issued new shares as restricted stock compensation. As a result, share capital and legal capital surplus increased 244,345 thousand yen each. In addition, based on a resolution of the Board of Directors' meeting held on the same day, the Company took procedures to issue new shares simultaneously with a reduction of the amount of share capital and transferred the entire amount to other capital surplus.

As a result, share capital is 100,000 thousand yen, capital surplus is 112,269,582 thousand yen, and treasury shares are 3,705 thousand yen as of the end of the third quarter of the fiscal year under review.

(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 third 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.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition and other standards)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the "Revenue Recognition Accounting Standard"), etc. since the beginning of the first quarter under review and recognizes revenue from goods or services which the Group promised to provide at an amount expected to be received in exchange for the goods or services at the time when control over the promised goods or services is transferred to a customer.

Major changes attributable to the application of the Revenue Recognition Accounting Standard and related measures are as follows.

Part of promotion expenses, etc. targeting users, which were posted under selling, general and administrative expenses in the past, have been changed to a reduction from transaction prices as transactions that include variable consideration.

The Revenue Recognition Accounting Standard is applied according to the provisional measures stipulated in the proviso in Paragraph 84 of the standard. With respect to the application of a new accounting policy, it is applied to the balance of retained surplus at the beginning of the first quarter of the fiscal year under review. This balance of retained surplus is obtained through calculation using the cumulative amount of the impact from retrospective application of the new accounting policy to periods prior to the beginning of the first quarter, either by adding it to or deducting it from the retained surplus.

As a result, net sales decreased 7,352,957 thousand yen and selling, general and administrative expenses decreased 7,352,957 thousand yen for the third quarter of the fiscal year under review.

In accordance with the transitional measures stipulated in paragraph 89-2 of the standard, the reported amounts for the previous fiscal year have not been reclassified to conform with the current classifications. According to the transitional measures prescribed in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), the Company did not include information on the breakdown of revenue from contracts with customers in the third quarter of the previous consolidated fiscal year.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the first quarter of the consolidated fiscal year under review. Thus, it will apply the new accounting principles set forth in the Accounting Standard for Fair Value Measurement, etc. in accordance with the transitional provisions set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The application of the new accounting policies has no effect on quarterly consolidated financial statements.

(Segment information)

1) Net sales and profit or loss in reportable segments

Nine months ended May 31, 2021 (from September 1, 2020, to May 31, 2021)

(Thousands of yen)

	Reportable segments			Adjustments Note 1	Total Note 2
	Demae-can business	Mail order business	Segments total		
Sales					
Sales to external customers	17,983,600	455,421	18,439,022	-	18,439,022
Intersegment sales or transfers	18	539,560	539,579	(539,579)	-
Net sales	17,983,619	994,982	18,978,601	(539,579)	18,439,022
Segment profit / loss	(13,644,008)	61,653	(13,582,355)	(11,964)	(13,594,319)
Other items					
Depreciation	377	11,586	11,964	-	11,964

Note: 1. The adjustment of (11,964) thousand yen in the segment profit (loss) is depreciation expenses for the reporting segments.

Note: 2. The total segment profit (loss) in each reporting segment and the total value of adjustment are consistent with the consistent

2. Information on impairment loss in non-current assets and goodwill by reporting segment.

(Significant impairment loss on fixed assets)

In Demae-can business, the Company posted an impairment loss on fixed assets acquired during the second quarter of the current fiscal year. The amount of the impairment loss was 1,720,459 thousand yen in the third quarter of the current fiscal year.

Nine months ended May 31, 2022 (from September 1, 2021, to May 31, 2022)

(Thousands of yen)

	Reportable segments			Adjustment Note 1	Total Note 2
	Demae-can business	Mail order business	Segments total		
Sales					
Demae-can service fees (Note 3)	11,132,353	-	11,132,353	-	11,132,353
Delivery commissions (Note 3)	21,542,533	-	21,542,533	-	21,542,533
Mail order business (Note 3)	-	437,849	437,849	-	437,849
Other transactions	1,761,608	-	1,761,608	-	1,761,608
Sales to external customers	34,436,495	437,849	34,874,344	-	34,874,344
Intersegment sales or transfers	-	605,892	605,892	(605,892)	-
Net sales	34,436,495	1,043,741	35,480,236	(605,892)	34,874,344
Segment profit / loss	(29,724,536)	76,799	(29,647,737)	(14,830)	(29,662,567)
Other items					
Depreciation	44	14,786	14,830	-	14,830

Note:

1. The adjustment of segment profit or loss, (14,830) thousand yen, is the depreciation of reporting segments.
2. The total amount of segment profit or loss of the reporting segments and the total amount of adjustment are consistent with the operating loss reported in the quarterly consolidated statements of income.
3. Consists primarily of goods and services transferred at a point in time.

2. Information on impairment loss in non-current assets and goodwill by reporting segment.

Not applicable

3. Matters concerning changes in reporting segments, etc.

As described in "Changes in Accounting Policies," the Company adopted the Accounting Standard for Revenue Recognition, etc. and changed its accounting methods for revenue recognition at the beginning of the first quarter under review. Reflecting this change, it modified its method for measuring the profits and losses of its business segments.

Due to this change, net sales from the Demae-can business in the second quarter of the fiscal year under review decreased 7,352,957 thousand yen from the amount based on the previous method. This will not affect the segment profit or loss.