

Business Report

ECHO Vol.42
2016.4.1 - 2016.9.30



DAIICHIKOSHO

NEW PRODUCTS

Launched Two Models of New Products on October 21

DAIICHIKOSHO released two new models of commercial online karaoke DAM

Cyber DAM HD, a model tailored for the night-time market, has been upgraded.

Cyber DAM HD, a standard model for the night-time market, has taken a new form.

The new model which boasts a shiny purple tone and a contoured layout adds a hint of high-class sophistication regardless of the interior of bars and pubs where they are installed. There are more enka (popular ballads), popular songs, and foreign songs which are popular in the night-time market, and videos in which the original singers appear were also increased. Furthermore, new contents such as SEIMITSU SAITEN DX Lite and SENGOKU KARAOKE TENKATOITSU have been added to amplify the fun of karaoke.

We aim to further expand our market share by introducing this new Cyber DAM HD to the mainstay night-time market.

Introducing the FREE DAM HD, a dedicated model for the elder market.

We launched a new product for the elder market, which is a sector we are currently focusing on.

FREE DAM HD is dedicated machine for DK ELDER SYSTEM, a comprehensive lifestyle improvement system is greatly enhanced with increased number of songs and improved videos which is characteristic of a standard karaoke. In addition, sound quality is heightened with bigger woofers in order to make it easier for the elderly to hear. With enhanced contents effective for preventing care dependence and function trainings among the elderly, a wide range of continuable and fun-filled music and health sessions can be provided through "Songs and Music." Also, its controls were made easier in the aim of supporting facility staff's handling of this system. Seizing this occasion of launching the FREE DAM HD, we are intent on further expanding sales of DK ELDER SYSTEM, which have been introduced in more than 20,000 elderly facilities, while also contributing to better health and preventing care dependence among the elderly.

Cyber DAM HD
G100XII



DAM-G100XII

FREE DAM HD



DAM-F750HD



Supporting restoration and revitalization efforts

Public donations to Kumamoto Prefecture

In June, we contributed 100 million yen to the Kumamoto Prefecture to help victims and the restoration and revitalization efforts in the affected areas of the Kumamoto Earthquake occurred in April 2016. And public donations with a total of 5,907,363 yen collected from more than 500 karaoke room locations including BIG ECHO in April and May were sent through the Japanese Red Cross Society. We greatly appreciate the support from our customers.



President Hayashi and
Ikuo Kabashima,
Governor of Kumamoto Prefecture

Attentive services for people in temporary housings for maintaining and enhancing health

As a joint project with Kumamoto Prefecture and NTT WEST, DAIICHIKOSHO started the "Songs and Health Service" in September, using the music and health sessions provided by DAIICHIKOSHO that are effective for maintaining health and preventing disease syndrome, among other health benefits, at MINNA NO IE, an assembly area located within the temporary housings.

DAIICHIKOSHO intends to provide continuous support in various ways, hoping that the people affected by the disaster can rebuild their lives as soon as possible.



Music and health sessions at MINNA NO IE



We will pursue profit-oriented management while fulfilling our responsibilities as a leading company.

President **Saburo Hayashi**

We are seeing continued brisk shipments of the model in the current fiscal year. As for the current fiscal year, our company released two models of new products, namely Cyber DAM HD (DAM-G100XII) for the night-time market and FREE DAM HD (DAM-F750HD) for the elder market in October. Cyber DAM HD has received reputation from our dealers for the price advantage and high investment efficiency because we kept its price unchanged but with higher specifications by bringing it closer to LIVE DAM series, the more superior model.

In the elder market, due to the amendments to the long-term care insurance system in 2015, demand had remained flat. However, after one year of a wait-and-see attitude toward the effects of this policy change, the demand began to increase.

Capitalizing on this trend, FREE DAM HD was introduced in the elder market with even greater enhancement on basic specifications compared to existing models. Supporting full HD, it has been made possible to show karaoke and elder contents effective for preventing care dependence and better health on a big screen with clean and high-definition videos. With contents deeply focused on three health-contributing factors: exercise, singing, and perception, we are receiving offers from an increasing number of local municipalities who are seeking for initiatives for extended healthy life expectancy of local residents and local community's revitalization.

It has been proven by joint research conducted by our Company, universities, and nursing homes, etc. that karaoke is beneficial not only to the elderly, but also to workers living in stressful society to reduce stress. DAIICHIKOSHO as a leading company in this field will continue to engage in social contribution activities so that business entities and local municipalities throughout Japan will come to realize karaoke's benefit and effect, in turn ultimately obtaining growth opportunities.

Focus in core investments that will dampen the effects of earthquake over the full business year

It was soon after the Great East Japan Earthquake when I took a position of President. Amid the uncertainty about the future of the Japanese economy, the DAIICHIKOSHO Group was able to get through trying times by gathering full force as a whole. Learning from this experience, I have endeavored to strengthen our corporate structure since my assumption of office.

At the beginning of the current fiscal year, the Kumamoto Earthquakes occurred and severely damaged Kumamoto Prefecture and the surrounding regions. Although the DAIICHIKOSHO Group's business was seriously affected by the earthquake, we worked in a unified manner. As a result, with respect to the operating results for the first half ended September 30, 2016, net sales amounted to 68,821 million yen, 2.2% down compared with the same period of the previous fiscal year, operating income came to 9,739 million yen, 1.7% down from the same period of the previous fiscal year, and ordinary income totaled 10,012 million yen, 6.7% down from the same period of previous fiscal year. These results exceeded the forecasts during the beginning of the current fiscal year. We will aim to absorb the effects of the earthquake over the full business year, and achieve our initial performance targets set at the beginning of the current fiscal year. More investments have been planned for the coming fiscal year and beyond, foreseeing further sales expansion of the elder business and the revitalization of the night-time market.

While it has only been a little more than 40 years since our foundation, we will keep striving to become a long-lasting company centered on karaoke. We hope that you will look forward to the DAIICHIKOSHO Group's activities and growth. Please accept my sincerest appreciation for your ongoing support and patronage.

Focusing on strengthening contents adapted to markets

Karaoke markets are mainly divided into the "night-time market," the "karaoke room market" and the "other market," and these markets can be described as "shrinking", "stable" and "expanding", respectively.

The night-time market comprising bars and pubs is continuously experiencing uncontrollable shrinkage in general. The biggest problem is that young people are shifting away from such bars and pubs due to the gap between them and the aging owners. However, positive changes are seen little by little in this generation shift. For instance, the karaoke business in particular is witnessing an increasing number of high-end bars and pubs that have multiple karaoke equipment for their VIP rooms. Moreover, considering that more bars and pubs are now more conscious of female customers thanks to women's advancement in society, the enhancement of contents tailored to women in the development of karaoke is important.

Through the years, while young people have always been the major customers of the karaoke room market, the demand from the elderly group and families for daytime use has been increasing, resulting in the improvement of occupancy rate. Although the DAIICHIKOSHO Group already worked on creating an environment where parents can enjoy singing with a peace of mind, mainly by providing Kids Room, as an initiative for drawing in family demand, it will further promote providing family-oriented services with the aim of increasing customers' satisfaction. Various initiatives targeting a wide range of customers such as the creation of a healthy food and drink menu for elderly customers will be proactively taken as well.

Meanwhile, the elder market is continuing to grow and expanding steadily. Our company commenced the provision of the DK ELDER SYSTEM, a comprehensive lifestyle improvement system that is effective for maintaining health and preventing care dependence among the elderly in 2001. The system has been delivered to more than 20,000 elderly facilities, and has been earning a good reputation. With 100,000 or more similar facilities throughout Japan, our company will try to expand business by boosting demand.

Aiming for growth by introducing new models for the night-time and elder markets.

Under the above mentioned market environment, LIVE DAM STADIUM, the flagship model of commercial online karaoke DAM, was introduced for the karaoke room market last year. The model was developed by pursuing ultimate live sound and videos, and has been earning a great reputation.

Enhanced dual monitor videos of LIVE DAM STADIUM

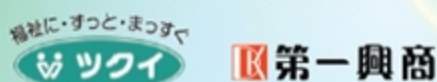
The dual monitor function equipped on the flagship model LIVE DAM STADIUM has been well received. Dual monitors enable users to enjoy a rich and diverse video experience by outputting two different videos synchronously. For example, the artists' stage performance is shown on the main monitor while scenes showing the excited audience are shown on the special monitor, allowing the users in karaoke rooms to enjoy an overwhelming real sense of presence. In particular, the impressive visual effects projected on the powerful large screen by a projector are so spectacular that we are experiencing an increasing number of repeating customers.

DAIICHIKOSHO is working to enhance special videos along with MAMAOTO (literally, "sound, as it is") featuring real artist's videos and voices, and LIVE KARAOKE that recreates enthusiastic live performances. We invite everyone to try them out.



Projected videos using a projector * for sample purposes only

<p>LIVE DAM STADIUM DUAL MONITOR VIDEOS</p> <p>These are few examples of our diverse artists' videos</p> <p>* Arranged according to the Japanese syllabary</p> <p>Top: Main video Bottom: Special video</p>	<p>BULLET TRAIN</p>  	<p>NAOTO INTI RAYMI</p>  	<p>TSUYOSHI NAGABUCHI</p>  
<p>MOTOHIRO HATA</p>  	<p>BAND-MAID</p>  	<p>BEGIN</p>  	<p>MASAYOSHI YAMAZAKI</p>  



Implemented a joint research with TSUKUI regarding the prevention of cognitive decline and reduction of BPSD symptoms.

With the aim of development of a program that will support the prevention of cognitive decline and the reduction of BPSD symptoms (behavioral and psychological symptoms of dementia), DAIICHIKOSHO is working on a joint research from September 2016 until March 2017 with TSUKUI CORPORATION, the largest day service provider.

By presenting the benefits and effects of the new support program aimed at patients with mild dementia based on the results of this research, we believe that the program will contribute to maintaining the life functioning of those affected by dementia as much as possible, improving the quality of support services for care providers, and taking some burden off these providers as well.

The problem of dementia affects not only the patients, but also their family members, care providers, and local communities. Moreover, there are many social issues that need to be addressed, including direct costs such as medical and nursing care payment and indirect costs like the loss of labor force. TSUKUI and DAIICHIKOSHO, by mutually utilizing both of our infrastructure and know-how, will strive to propose new support initiatives for taking care of patients with dementia, and aim to become a role model for supporting other communities and care facilities.

Class practice during the program for the prevention of cognitive decline and reduction of BPSD using the DK ELDER SYSTEM
Top: TSUKUI Yamashina Kanshuji
Bottom: TSUKUI Kobe Itayado



New special menu is available!

Major changes to the BIG ECHO grand menu

At BIG ECHO locations, the revamped grand menu was available since October.

By limiting the number of menu items, operation work will be streamlined and food loss will be reduced.

Our food menu now consists of dishes which we confidently recommend, and which require only simple preparation. Following this change, BIG ECHO now offers three items on its special meat menu: grilled cheese with chunky beef stew, oven-baked chicken with fresh tomato and basil sauce, and roasted dolce porco.

For our drinks menu, the lineup of highball, a popular type of alcoholic beverage, has been expanded just for the highball lovers. To name a few, we have a stronger strength variation in addition to the normal strength, and flavored highball such as ginger-flavored and cola-flavored variations are also available.

Aiming to earn No.1 in customer satisfaction, DAIICHIKOSHO will spare no effort to make BIG ECHO more attractive and develop menus that our customers will enjoy. We hope you will enjoy our new food and drinks on your next visit.



Development of new type of restaurants

Rapid opening of new restaurants

In recent years, customers have developed the tendency to pick specialty restaurants as they mature in age. DAIICHIKOSHO is exploring new restaurant formats in order to capture this unique customers' demand.

With different styles of tables and chairs to furnish each area, customers will be able to enjoy themselves on all occasions, regardless of whether they come in alone or as a group. Moreover, our menu is full of delicious dishes, featuring unique local dishes, usage of direct-from-the-farm ingredients and produce harvested in that morning, and more. We are committed to provide satisfying and convincing dishes as well as comfortable atmosphere in all of our restaurants.

Opening new type restaurants on the premises of existing karaoke room locations provides new additional value and creates a synergy effect of getting the restaurant customers to use our karaoke rooms. We will continuously make the best effort to develop attractive restaurants that will fit closely with market trend.



AOBA COFFEE Asaka, Saitama



SHINAGAWA HIGHBALL BAR Shinagawa, Tokyo



IL MARE Yokohama, Kanagawa



BISTRO-YA Ueno, Tokyo

Launch of DAM CHANNEL APP

DAM CHANNEL, which shows music information contents between songs of online karaoke DAM, has been upgraded to a new service, DAM CHANNEL APP since July.

Enhanced contents include favorite artists' information, live-linked function to make live events more exciting, in addition to karaoke room finder and karaoke ranking.

By further improving the value of DAM CHANNEL as owned media which provides useful information to DAM users, we can promote the deepening of the connection between DAM users and artists, and in turn attracting more customers to karaoke rooms equipped with DAM. Please stay tuned for more about the ever improving DAM CHANNEL!



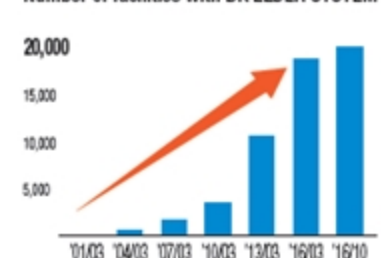
QR code for downloading the DAM CHANNEL APP

DK ELDER SYSTEM Introduced to over 20,000 facilities

The number of the elderly facilities with DK ELDER SYSTEM, DAIICHIKOSHO's a comprehensive lifestyle improvement system, exceeded 20,000 in October.

The biggest advantage of the program is not only its benefits to the life functioning of the elderly, including exercise, singing, and perception, but also that the system is easy to continue and full of fun. We intend to continue expanding the sales of DK ELDER SYSTEM, aiming to contribute to extended healthy life expectancy.

Number of facilities with DK ELDER SYSTEM



Earn unlimited score with new SEIMITSU SAITEN!

Launch of Karaoke@DAM for "PlayStation 4"

Karaoke@DAM for "PlayStation 4" have started. It is a karaoke streaming service with high quality sound and videos, and makes "Ouchi Karaoke (Home Karaoke)" an easier and more fun experience. By downloading a free app dedicated to PlayStation®4, and purchasing tickets for 1,000 yen (tax excluded) each, users can have unlimited access to approximately 120,000 songs for 30 days. New songs are available soon because about 200 songs are added every week.

Moreover, this app also features the new SEIMITSU SAITEN ∞ (infinity) in addition to SEIMITSU SAITEN, which is a familiar theme seen on TVs. It is a new revolved content which enables users to earn high scores through combos executed with accuracy of key, timing, and singing techniques. While the highest score for SEIMITSU SAITEN is 100, SEIMITSU SAITEN ∞ is literally infinite as the scores are countlessly added.

We are planning to upgrade Karaoke@DAM as necessary to respond to various needs and to support varying devices, as well as release accompanying new functions.

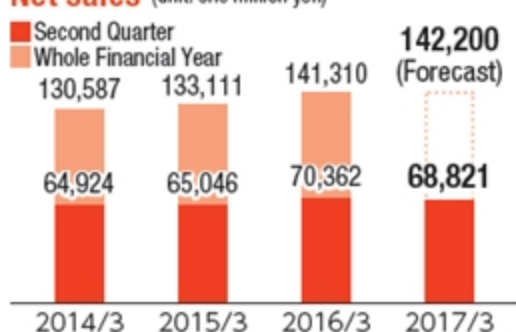
*PlayStation is a registered trademark or trademark of Sony Interactive Entertainment LLC.



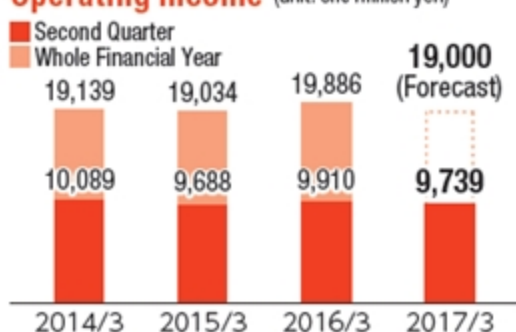
FINANCIAL HIGHLIGHTS

Item	2015/3		2016/3		2017/3	
	Second Quarter	Whole Financial Year	Second Quarter	Whole Financial Year	Second Quarter	Whole Financial Year (Forecast)
Operating results (Millions of yen)						
Net sales	65,046	133,111	70,362	141,310	68,821	142,200
Operating income	9,688	19,034	9,910	19,886	9,739	19,000
Operating income to net sales (%)	14.9	14.3	14.1	14.1	14.2	—
Ordinary income	10,791	21,082	10,727	21,127	10,012	20,400
Net income attributable to owners of parent	6,491	13,650	6,467	12,599	4,203	10,100
Financial position (Millions of yen)						
Total assets	173,013	180,312	177,631	179,641	182,659	—
Net assets	106,321	110,264	109,692	112,754	115,858	—
Cash flows (Millions of yen)						
Net cash provided by (used in) operating activities	11,442	30,264	12,472	27,100	14,811	—
Net cash provided by (used in) investing activities	△ 10,804	△ 18,459	△ 15,320	△ 27,434	△ 8,667	—
Net cash provided by (used in) financing activities	7,071	3,672	△ 4,100	△ 7,299	△ 3,569	—
Cash and cash equivalents at end of period	52,156	60,007	53,011	52,247	54,426	—
Per share data (Yen)						
Basic earnings per share	111.75	235.13	111.85	218.25	72.98	175.86
Net assets per share	1,812.11	1,879.44	1,881.43	1,933.03	1,992.46	—
Dividend per share	50.00	50.00	54.00	54.00	54.00	54.00
Major management indicators (%)						
Ordinary income to total assets (ROA)	—	12.3	—	11.7	—	—
Return on equity (ROE)	—	13.0	—	11.4	—	—
Equity ratio	60.8	60.5	61.0	62.0	62.6	—
Payout ratio	—	42.5	—	49.5	—	61.4

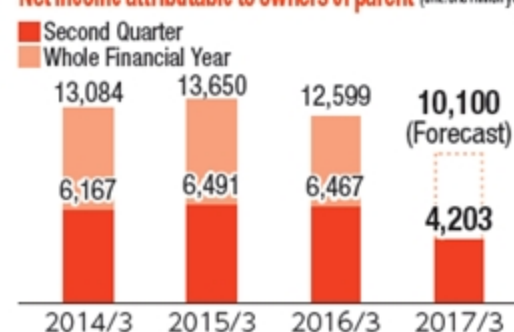
Net sales (unit: one million yen)



Operating income (unit: one million yen)



Net income attributable to owners of parent (unit: one million yen)



Overview by Segment



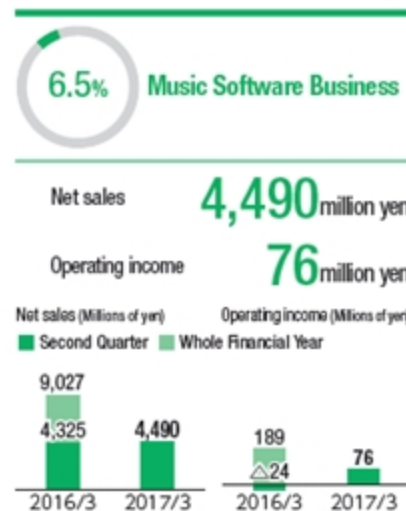
- As a result of strengthening stable revenue mainly with LIVE DAM STADIUM, the new product launched in the previous fiscal year, the number of system rental contracts and operating DAM systems steadily increased.

- In the elder market, steady growth is seen in the introduction of our products to various facilities of local municipals in addition to private care facilities.



- As for karaoke rooms, efforts were continuously made to strengthen revenue base by revitalizing existing karaoke rooms, reinforcing employee training, and improving customer satisfaction.

- At restaurants, efforts were made in the reinforcement of existing locations through brand changing and other means, and in the opening of new locations in response to new demand, including the development of a new business style such as a bar format.



- Although business environment remained harsh, both sales and income increased compared with the previous fiscal year due to mainstay enka (popular ballads) works by Hiroshi Miyama and Kaori Mizumori in addition to Saburo Kitajima, who celebrated his 55th year in the performing arts, and others.



- In the BGM broadcast service, we made efforts to expand sales of STAR digio Hikari, a BGM broadcast service that utilizes fiber optic lines and the karaoke streaming services intended for consumers.

- Both sales and income increased compared with the previous fiscal year due to strong performances by the real estate leasing and parking businesses.

Enka (Popular Ballad)/ Popular Songs

Saburo Kitajima

CROWN NIPPON CROWN Co., Ltd

Today's Saburo Kitajima wouldn't exist without his teachers namely the composer Toru Funamura and the late songwriter Tetsuro Hoshino, as well as the late director Noboru Saito and his fans, among others. Grateful for their kindness, Saburo Kitajima released "Ikuta no on," his third anniversary single for celebrating his 55th year in the performing arts to showcase his thoughts and extend his gratitude to all for the rest of his life as a popular ballad singer.



J-POP

The Super Ball

The Super Ball, nicknamed Supabo, is a twin vocal unit of Yogo Sasaki from Aomori and Riki Yoshida from Kanagawa. Being sweet and cute looking, with outstanding singing talent and high quality songwriting skills as their strong selling points, The Super Ball released its debut single "Tomodachi meter" on July 20 this year. Their song originally appeared as an opening song for "Fukigen na Mononokean," an anime television series airing on TOKYO MX and other channels. The Super Ball has been garnering attention as one of the recently rising stars.



CORPORATE INFORMATION (as of September 30, 2016)

Corporate Profile

Corporate name	DAIICHIKOSHO CO., LTD.
Established	April 16, 1973
Capital	12,350 million yen
Number of employees	Parent : 1,768 Group : 3,342
Description of main businesses	Commercial karaoke business; karaoke room and restaurant business; music software business; BGM broadcast service; web service, etc.
Consolidated subsidiaries	Domestic sales subsidiaries: 24 companies Other domestic subsidiaries: 10 companies Overseas subsidiaries: 3 companies

Status of the Shares

Number of authorized shares	200,000,000 shares
Number of outstanding shares	57,434,200 shares
Number of shareholders	14,427

Major shareholders

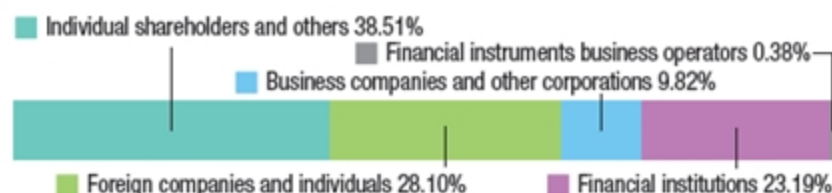
Name of shareholder	Number of shares held (Thousands of shares)	Shareholding ratio (%)
Tadahiro Hoshi	6,246	10.88
Harutoshi Hoshi	6,119	10.65
State Street Bank and Trust Company	3,863	6.73
The Master Trust Bank of Japan, Ltd.(Trust account)	3,155	5.49
Hoshi Create Co., Ltd.	2,449	4.27

* Shareholding ratio is calculated after deducting 3,102 treasury shares.

Executive Officers

President	Saburo Hayashi	Director (part-time)	Katsuhiko Baba
Senior Managing Director and Senior Corporate Officer	Kenichi Nemoto	Director (outside)	Atsuya Furuta
Senior Managing Director and Senior Corporate Officer	Tatsuya Kumagai	Director (outside)	Chika Masuda
Senior Managing Director and Senior Corporate Officer	Hiroshi Mitomi	Corporate Auditor (standing, outside)	Michitoshi Tsuruoka
Senior Managing Director and Senior Corporate Officer	Tadahiro Hoshi	Corporate Auditor (standing, outside)	Nobuaki Otsuka
Managing Director and Senior Corporate Officer	Yasutaka Wada	Corporate Auditor (standing)	Nobuyuki Takase
Managing Director and Senior Corporate Officer	Yuichi Murai	Corporate Auditor (outside)	Masumi Arichika
Director and Senior Corporate Officer	Yasuhito Watanabe		
Director and Senior Corporate Officer	Noriyuki Takehana		

Shareholding Ratio by Category



Shareholder Special Benefits

Shareholders recorded in the final shareholder registry on September 30, 2016 as holding 100 or more shares will be granted special benefits coupons according to the number of shares held.

Details of benefits Number of shares held	Issued semiannually	
	Special benefits coupon ^(*)	Exchange with CD(s) ^(**)
100 to 999 shares	Ten sheets of 500-yen coupon	1 CD
1,000 shares or more	25 sheets of 500-yen coupon	2 CDs

(*) The coupons can be used at businesses operated by the Company including BIG ECHO, RAKUZO, UMEKO-NO-IE, BISTRO-YA and other restaurants.
(**) CD albums are granted in exchange for total face value of coupons held.

Timing of delivery	On or after December 2, 2016
Validity period	January 1, 2017 to June 30, 2017

Information for Shareholders

Business term	From April 1 of each year to March 31 of the following year
Ordinary General Meeting of Shareholders	June of each year
Record date for above	Ordinary General Meeting of Shareholders: March 31 Other occasions: Other record date separately determined as necessary upon a prior public notice
Record date of shareholders to receive dividends from surplus	Year-end dividend: March 31 Interim dividend: September 30
Number of shares constituting one unit	100 shares

Newspaper in which public notices are inserted	The Nikkei
Transfer agent and account management institution for the special account	Mitsubishi UFJ Trust and Banking Corporation
Contact of above (postal address and telephone number)	Mitsubishi UFJ Trust and Banking Corporation, Corporate Agency Division 7-10-11 Higashisuna, Koto-ku, Tokyo 137-8081 Telephone: 0120-232-711 (toll-free in Japan only)