

Business Report

ECHO

Vol. 43

2017.4.1 -
2017.9.30



DAIICHIKOSHŌ

Securities Code: 7458



To Our Stakeholders

TOP MESSAGE

Let me introduce myself. My name is Tadahiro Hoshi and I took office as President on June 23, 2017.

Let me take this opportunity to express my appreciation to our shareholders for their continued support. I am presenting the financial results for the second quarter of the fiscal year ending March 31, 2018.

Regarding the commercial karaoke business, we focused on increasing the number of active karaoke equipment centering on the rental karaoke systems, which we position as the pillar of stable revenue. As a result, we achieved an increase in the number of active equipment thanks to the measures for introducing karaoke systems to municipal facilities, in addition to private-sector facilities, for the growing elder market. In October, we introduced a new product, LIVE DAM STADIUM STAGE (DAM-XG7000 II), which is our flagship model. From the third quarter onward, we will strive to further increase the number of active equipment in use centering on this new product.

In the karaoke room and restaurant business, we focused on enhancing the store service quality. In addition to efforts to secure human resources, and strengthen education and training, we promoted refurbishment of stores and refining of the existing business format. In June, we acquired all shares of Airside Co., Ltd., an operator of KARAOKE MAC at 40 locations (as of October 31, 2017) mainly in the Tokyo Metropolitan area and made it a subsidiary. Through ongoing efforts to enhance service quality, we will strengthen competitiveness of our stores to enhance the financial performance.

The music software business has been facing a harsh business environment. However, by strengthening collaboration among Group companies, we aim to recover the financial performance of the music software business.

Over more than 40 years, we have been offering the "joy of singing" to the world through karaoke in fulfillment of our corporate philosophy of "more music to society, more service to society." As a result, karaoke has definitely taken root as a familiar leisure activity. In recent years, karaoke is also being utilized as a service effective for preventing the elderly from becoming care dependent and also for forming local communities.

We will continue our endeavors to enhance the attractiveness and value of karaoke while contributing to society by continuing to offer high-quality service to people in all generations, ranging from children to the elderly.

The Company will continue to make a concerted effort to live up to the expectations of our shareholders. We, therefore, ask for your continued support and understanding.

President **Tadahiro Hoshi**



Brand New!!

Experience the realistic sensation of overwhelming live performance!!

LIVEDAM STADIUM STAGE

Senior Managing Director and Senior Corporate Officer
General Manager of Development Headquarters, and Chief Officer of
Production Dept., Program Planning Dept. and BGM Broadcasting Dept.

Interview with Tatsuya Kumagai



Be sure to deliver karaoke that is easy to sing and comfortable to listen to

The basic policy we have been adhering to ever since our foundation is “offer karaoke content that is easy to sing for singers and comfortable to listen to for listeners.” On this foundation, our development strategy is to offer an environment that enable users to sing in any situation. Considering the nature of commercial karaoke, the breakdown of the system is impermissible, as it will cause inconvenience to customers. We have thoroughly put in place design technology that enables to play karaoke even if a system has trouble.

At DAIICHIKOSHO, development of the DAM series, an online karaoke is carried out through cooperation between the Production Headquarters responsible for software and the Development Headquarters responsible for hardware. To realize karaoke that is “easy to sing and comfortable to listen to,” the Production Headquarters emphasizes quality of karaoke software. Craftmanship is utilized to the full in every detail of each karaoke title, including the way in which lyrics are presented on the screen.

The mission of the Development Headquarters is to develop products that faithfully play the high-quality karaoke software created by the Production Headquarters so that comfortable sound is offered.

You may think karaoke is a simple system, inputting the singing voice of a customer from the microphone, mixing it with the karaoke sound source, and outputting the mixed sound from the speaker through the amplifier. In fact, striking a balance between the singing voice and the karaoke sound source is a difficult task requiring sophisticated know-how. For commercial music CDs, professional artists sing and record instrumental pieces in well-equipped studios and mixing specialists painstakingly create the best sound. Music CDs produced like this are played through speakers. but karaoke on the other hand, customers sing, holding microphones, in a karaoke room, and the singing is output from speakers via an amplifier, mixed with the karaoke sound source in real time. If a karaoke system cannot produce accurate sound, there is a delay in microphones or balance is poor, making it impossible to sing comfortably.

DAM delivers the best performance when the amplifier, microphones, and speakers are all DAIICHIKOSHO products. It is designed to prevent howling, the great enemy of karaoke, and realizes karaoke that is “easy to sing and comfortable to listen to.”

New product, LIVE DAM STADIUM STAGE, launched

We launched a new product, LIVE DAM STADIUM STAGE (DAM-XG7000 II), on October 5.

The royal red base color of the exterior creates a classy look while gold lines provide an accent. The front panel is equipped with illuminations. The moment customers step into a karaoke room, they recognize the “new DAM” and have the “desire to sing.” This is important for commercial karaoke systems.

Regarding the contents, we have greatly increased the number of titles of LIVE KARAOKE and MAMAOTO visual contents compatible with the industry’s first dual monitor function which is mounted on LIVE DAM STADIUM (DAM-XG7000) and has been well received. Dual monitors enable users to enjoy a rich and diverse experience by outputting two different videos synchronously. It is an epoch-making function. For example, the artists’ stage performance is shown on the main monitor while videos shot from a different angle are shown on the special monitor.

As a new scoring function, SEIMITSU SAITEN DX MILLION was introduced. Based on the SEIMITSU SAITEN series of karaoke scoring functions, familiar in karaoke competition TV programs, the limit of the highest score of 100 is eliminated with this new scoring content. The better you sing, the more points are added, and users can enjoy karaoke in a music-game-like form.

We have also launched a new service, DAM★TOMO VOCAL. Utilizing the karaoke singing data uploaded by the recording function of DAM★TOMO to the server, selected singing is offered as a good example of vocals, played in synchronization with karaoke instruments on DAM. Customers whose singing is selected for good examples can experience the prestige of having their singing voices played on DAM, while customers who wish to try songs they are unfamiliar with can practice by listening to the examples. Taking the introduction of DAM★TOMO VOCAL as an opportunity, we are hoping to create an online venue where customers can socialize. We are entering an era in which people can enjoy interactive communication via karaoke.

Eager to develop products that always convey something “new”

With LIVE DAM STADIUM STAGE, having launched linkage with DENMOKU mini, a smartphone app using Bluetooth® (a wireless technology standard for near-field communication), we plan to promote enhancement of app functions.

Going forward, we will continue our pursuit of “ease of singing” and “ease of use,” which are the basics of karaoke, as well as “realistic sensation” of contents, so that more people can enjoy karaoke. Inspired by our mission as a product development division, we are resolved to develop products that always enable customers to experience something “new.”

LIVEDAM STADIUM STAGE

Realistic Sensation of Live Performance

LIVE DAM STADIUM Evolves

Equipped with SEIMITSU SAITEN DX MILLION for the thrill of a music game and Nipponenglish to enable you to sing with native-like pronunciation

LIVE DAM STADIUM STAGE (DAM-XG7000 II) is our new flagship model equipped with the dual monitor function and the live sound function.

The base color of the main unit is royal red for a classy look. The front panel equipped with illumination creates a gorgeous impression. The singing experience is enriched more than ever by an array of visual and scoring contents as well as Nipponenglish, an innovative phonetic transcription system for English based on an academic theory and scientific data, mounted on a karaoke system for the first time.



Threefold experience transforms the joy of singing into heart-moving excitement!



Experience the Realistic Sensation of a live performance! Innovative dual monitor videos

Equipped with an epoch-making dual monitor function that outputs two different videos from the main unit. Diverse presentations by the main video and the special video evoke the excitement of a live performance overflowing with enthusiasm and thrilling realism.



Experience dynamic stereo sound! High-quality live sound

The live sound function for high-quality sound with depth and presence reproduces the energetic, dynamic audio experience unique to live performances. In a sound environment where karaoke users can sing comfortably, LIVE DAM STADIUM STAGE helps create a heart-moving stage performance.



Experience fun you'll want to repeat again and again! Superbly entertaining content

LIVE DAM STADIUM STAGE is packed with an array of entertainment contents to boost the fun of karaoke. SEIMITSU SAITEN DX MILLION lets you enjoy karaoke in a music-game-like form. DAM★TOMO VOCAL is a new service to play back singing by DAM★TOMO members as good examples. Nipponenglish helps you sing English songs with native-like pronunciation just by following the katakana captions. Use MINNA DE UTAGASSEN to enjoy a karaoke competition. Explore the abundance of contents.



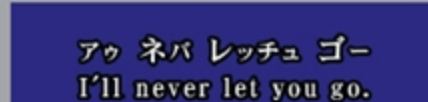
▲SEIMITSU SAITEN DX MILLION



▲DAM★TOMO VOCAL



▲Ordinary captions for English lyrics



▲Captions in Nipponenglish

Airside Co., Ltd., an operator of KARAOKE MAC at 40 locations, became a subsidiary

On June 1, 2017, DAIICHIKOSHO acquired all shares of Airside Co., Ltd. Airside is an operator of KARAOKE MAC at 40 locations mainly in the Tokyo Metropolitan area. By making Airside a subsidiary, we expect to expand the scope of our karaoke room business and strengthen the business foundation as a result of synergies.



Grand menu/
Pancakes produced by GINZA COFFEE



Party Courses/
NIGIYAKA WAIWAI COURSE

Major changes to the BIG ECHO grand menu and party courses

BIG ECHO changed its grand menu and party courses in October.

In the grand menu, the selection of snacks has been enriched. In particular, the tapas menu is classified into Japanese and Western and is organized so that customers can have the pleasure of selecting exactly what they like and order with ease. In addition, to reinforce the dessert menu, we introduced private-brand original pancakes produced by GINZA COFFEE, which is part of DAIICHIKOSHO's restaurant operations.

Regarding the party courses, we refined the menu of the two mainstay courses: DOUBLE MAIN DISH SELECTION COURSE and NIKUMORI VOLUME COURSE. We also newly introduced NIGIYAKA WAIWAI COURSE that contains temaki-sushi (make-your-own sushi) and pancakes that you can decorate yourself.

DAIICHIKOSHO will spare no effort to develop menus that thrill customers and enhance their satisfaction. We hope you will enjoy our new food and drinks on your visit.

Use a karaoke room as your office: Greater application of BUSINESS PLAN

As part of initiatives to reform working styles and enhance productivity, BIG ECHO launched BUSINESS PLAN in April to offer karaoke rooms as workspaces. In response to customers' demand for BUSINESS PLAN outside the Tokyo Metropolitan area because of the great convenience for business use, BUSINESS PLAN has been available at BIG ECHO locations in major commercial hubs nationwide (Sapporo, Sendai, Nagoya, Kyoto, Osaka, Kobe, Okayama, Hiroshima, and Fukuoka) since September.

BIG ECHO is mostly located near stations offering good access. Considering that business people do not need to worry about the surroundings when making business phone calls and handling confidential documents, the advantage of karaoke rooms that are private spaces, can be utilized.

We will continue making proposals for new ways of using karaoke rooms and cultivating demand in order to improve earnings.



DK ELDER SYSTEM: greater introduction by municipalities

Contributing to extended healthy life expectancy and creation of communities

A comprehensive care dependence prevention and livelihood support project (new comprehensive project) will be launched in fiscal 2018 in which municipalities will take the initiative in supporting the elderly, including those who require care support. Pioneering municipalities have already been vigorously addressing the support of the elderly before the official launch. Many municipalities have adopted DAIICHIKOSHO's proposals on projects utilizing DK ELDER SYSTEM, its comprehensive lifestyle improvement system.

For example, Uji City in Kyoto Prefecture contracted us to hold KENKO CLUB MARUGOTO TRAINING CLASS, a general care dependence prevention project, for the period from April 2017 to March 2018. We are holding a total of 264 music and health sessions, mainly featuring contents that can also be used at home, at 12 locations in Uji City.

From Nakano City, Tokyo, we received a contract for an audio-system-based care dependence prevention project in June 2017. DK ELDER SYSTEM has been introduced and music and health sessions are held at four locations where a short-term intensive care dependence prevention service is offered and at 16 locations where WAIWAI KARAOKE TAISO PROGRAM for the general elderly is offered.

Through the elder business, DAIICHIKOSHO will continue efforts to contribute to prevention of care dependence among the elderly and for health promotion, while creating and vitalizing communities by expanding the scope of venues where local residents can find a purpose in life.



KENKO CLUB MARUGOTO TRAINING CLASS



Recommended model of DK ELDER SYSTEM FREE DAM HD

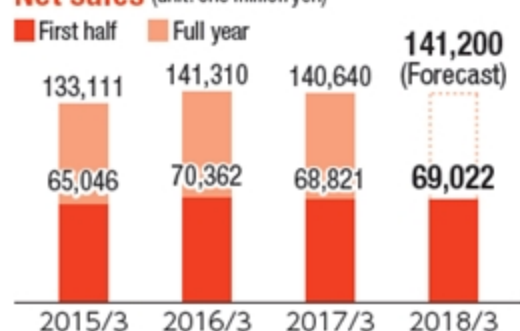
DK ELDER SYSTEM

By offering programs, such as those involving the use of music, taking exercise, and watching videos, the system helps the elderly stay healthy psychologically and physically. The benefits in terms of maintaining and enhancing overall functioning in daily life, including exercise, voicing, and perception, are recognized. As of October 31, 2017, DK ELDER SYSTEM has been introduced to over 22,000 facilities nationwide, including those for the elderly and municipal facilities.

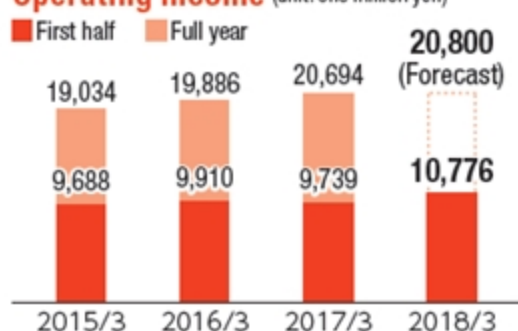
FINANCIAL HIGHLIGHTS

Item	2016/3		2017/3		2018/3	
	First half	Full year	First half	Full year	First half	Full year (Forecast)
Operating results (Millions of yen)						
Net sales	70,362	141,310	68,821	140,640	69,022	141,200
Operating income	9,910	19,886	9,739	20,694	10,776	20,800
Operating income to net sales (%)	14.1	14.1	14.2	14.7	15.6	—
Ordinary income	10,727	21,127	10,012	22,539	11,474	21,300
Net income attributable to owners of parent	6,467	12,599	4,203	11,115	7,373	13,100
Financial position (Millions of yen)						
Total assets	177,631	179,641	182,659	186,954	186,845	—
Net assets	109,692	112,754	115,858	119,069	122,527	—
Cash flows (Millions of yen)						
Net cash provided by operating activities	12,472	27,100	14,811	33,076	14,296	—
Net cash used in investing activities	△ 15,320	△ 27,434	△ 8,667	△ 16,331	△ 13,951	—
Net cash used in financing activities	△ 4,100	△ 7,299	△ 3,569	△ 8,546	△ 7,911	—
Cash and cash equivalents at the end of period	53,011	52,247	54,426	61,254	53,941	—
Per share data (Yen)						
Basic earnings per share	111.85	218.25	72.98	193.53	129.16	229.95
Net assets per share	1,881.43	1,933.03	1,992.46	2,057.98	2,124.49	—
Dividend per share (interim/year-end)	54.00	54.00	54.00	55.00	55.00	55.00
Major management indicators (%)						
Ordinary income to total assets (ROA)	—	11.7	—	12.3	—	—
Return on equity (ROE)	—	11.4	—	9.7	—	—
Equity ratio	61.0	62.0	62.6	62.9	64.8	—
Payout ratio	—	49.5	—	56.3	—	47.8

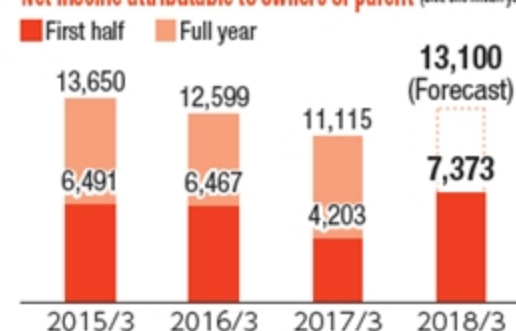
Net sales (unit: one million yen)



Operating income (unit: one million yen)



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



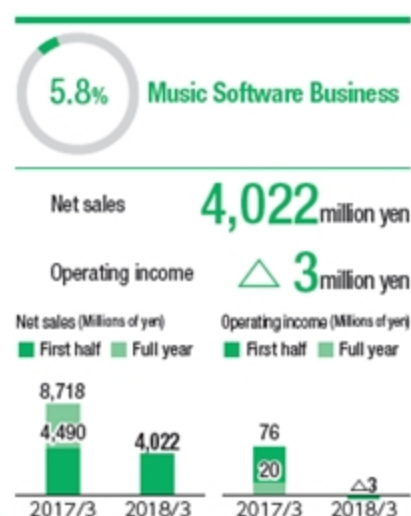
Overview by Segment



- We focused on increasing the number of karaoke operating equipment centering on rental systems.
- We achieved an increase in the number of operating equipment thanks to the measures for introducing karaoke systems for the elder market.
- Despite a decrease in net sales owing to restrained purchasing before the launch of new products, income increased owing to increases in system rental revenue and revenue from information provision fees as well as a decrease in temporary expenses associated with the 2016 Kumamoto Earthquake.



- We focused on enhancing the store service quality. In addition to efforts to secure human resources and strengthen education and training, we promoted refurbishment of stores and refining of the existing business format.
- Both sales and income increased owing to the favorable performance of existing karaoke rooms and the contribution of the financial performance of Airside Co., Ltd. that became a subsidiary.



- We focused efforts on achieving synergy and enhancing operational efficiency through utilization of the Group's network, such as the commercial online karaoke business, and strengthened collaboration.
- Despite vigorous efforts to find new artists and create hit songs, the business environment remained challenging, resulting in decreases in both sales and income.



- In the BGM broadcasting 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 due to strong performances by the real estate leasing and parking businesses.

J-POP

Yoshiko Hanzaki



After the debut in April 2017, Yoshiko Hanzaki became a woman in the news, introduced by various media as the "diva of the shopping malls." Her lyrics emphasizing listeners' feelings and her tender voice are a breath of fresh air in Japan's music scene.

In August, she also released her debut mini-album "Utaben" in Taiwan. Her performance in a mini concert at a shopping mall in Taiwan moved many of the audience to tears. Reaching out to the world, Yoshiko Hanzaki is on an upward trajectory.



J-POP

magokoro brothers



YO-KING and Hidetoshi Sakurai formed magokoro brothers in 1989 when they were members of a music club at university where they were students. They won a folk song competition on a variety show 10 weeks in a row and debuted with a major label "Dokaan," "Summer Nude," and "Haikai, John Lennon" are among the many great songs they have released.

In September 2017, magokoro brothers released their 15th album of their own songs, "FLOW ON THE CLOUD." In October they began a concert tour consisting of 18 performances nationwide.



CORPORATE INFORMATION

CORPORATE INFORMATION (as of September 30, 2017)

Corporate Profile

Corporate name	DAIICHIKOSHO CO., LTD.
Established	April 16, 1973
Capital	12,350 million yen
Number of employees	Parent: 1,829 Group: 3,462
Description of main businesses	Commercial karaoke business, karaoke room and restaurant business, music software business and other businesses
Consolidated subsidiaries	Domestic sales subsidiaries: 23 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	57,234,200 shares
Number of shareholders	14,481

Major Shareholders

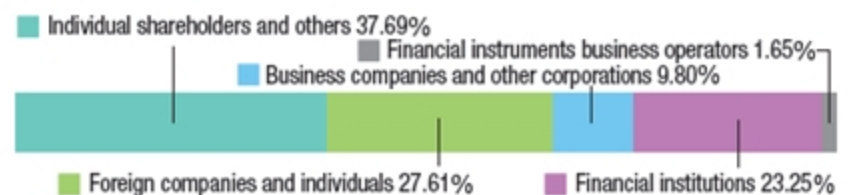
Name of shareholder	Number of shares held (Thousands of shares)	Shareholding ratio (%)
Tadahiro Hoshi	6,246	10.91
Harutoshi Hoshi	6,119	10.69
The Master Trust Bank of Japan, Ltd. (Trust account)	3,201	5.59
JP MORGAN CHASE BANK 380072	2,787	4.87
Hoshi Create Co., Ltd.	2,449	4.28

* Shareholding ratio is calculated after deducting 266,168 treasury shares.

Executive Officers

President	Tadahiro Hoshi	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	Yasutaka Wada	Director (outside)	Chika Masuda
Senior Managing Director and Senior Corporate Officer	Tatsuya Kumagai	Corporate Auditor (standing, outside)	Michitoshi Tsuruoka
Senior Managing Director and Senior Corporate Officer	Hiroshi Mitomi	Corporate Auditor (standing, outside)	Nobuaki Otsuka
Senior Managing Director and Senior Corporate Officer	Yuichi Murai	Corporate Auditor (standing)	Nobuyuki Takase
Director and Senior Corporate Officer	Yasuhito Watanabe	Corporate Auditor (outside)	Masumi Arichika
Director and Senior Corporate Officer	Noriyuki Takehana		
Director and Senior Corporate Officer	Kenji Otsuka		

Shareholding Ratio by Category



Shareholder Special Benefits

Shareholders recorded in the final shareholder registry on September 30, 2017 as holding 100 or more shares will be granted special benefits coupons according to the number of shares held.

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 BIG ECHO and KARAOKE MAC karaoke rooms and restaurants operated by the DAIICHIKOSHO Group including RAKUZO, UMEKO-NO-IE, and BISTRO-YA.

(**) CD albums are granted in exchange for total face value of coupons held.

Timing of delivery	On or after December 5, 2017
Validity period	January 1, 2018 to June 30, 2018

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 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
Method of public notice	Electronic public notice If it is impracticable to provide an electronic public notice because of an accident or any other unavoidable reason, a public notice is provided in the Nihon Keizai Shinbun.

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 1-1 Nikko-cho, Fuchu-shi, Tokyo Telephone: 0120-232-711 (toll-free in Japan only) Postal address: Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Division Shin-Tokyo Post Office, PO Box No. 29, 137-8081, Japan