

Business Report

ECHO

Vol. 45

2019.4.1–
2019.9.30

DAIICHIKOSHO Securities Code: 7458

To Our Stakeholders

TOP MESSAGE

Let me take this opportunity to express my appreciation to our shareholders for their continued support. Let me also convey my thoughts and prayers for everyone affected by the succession of major typhoons that struck Japan during September and October. Here we present the financial results of DAIICHIKOSHO CO., LTD. ("the Company") for the second quarter of the fiscal year ending March 31, 2020.

During the second quarter, shipments were weak in the commercial karaoke business as five years have passed since our flagship model LIVE DAM STADIUM was introduced to the market and also due to our announcement in April of new product launches in early fall. However, we were able to achieve net sales and income exceeding the initial plan thanks to the steady growth in the number of karaoke system rentals, which we are focusing on as the pillar of stable revenue, and the strong performance of the karaoke room and restaurant business.

In October, we launched LIVE DAM Ai, a new product in our flagship model. The product is the first karaoke system to feature an AI function and uses speech recognition, allowing users to control it through voice commands. LIVE DAM Ai represents our endeavor to create a new form of karaoke system and is also part of our further pursuit of the "joy of singing," the origin of karaoke itself. This new system has enriched content including more than 22,000 videos by real artists and a live sound function featuring the acoustic characteristics of actual concert arenas.

Our new product launch event DK EXPO2019 was held in Tokyo, Osaka and Fukuoka in September, attracting more than 5,000 participants and gaining favorable reviews from many customers. Since LIVE DAM Ai was launched, orders have continued to exceed our estimates, and we are still struggling to keep pace with demand for the product. From the third quarter onward, we will actively engage in sales activities focusing on this product.

On June 7, our founder Tadahiko Hoshi passed away. Mr. Hoshi led the development of the DAIICHIKOSHO Group since its establishment in 1976, with a focus on karaoke, under the corporate philosophy of "more music to society, more service to society." He strived to promote the karaoke industry as a whole. Today, karaoke has established itself as a familiar leisure activity that can be enjoyed by people of all ages and genders with an estimated 4.7 million participants. I would like to take this opportunity to express my appreciation for the kindness shown to Mr. Hoshi by our shareholders during his lifetime.

As a leading company in the karaoke industry, the Company will continue to grow by further enhancing the appeal and value of karaoke.

We ask for your continued support and understanding.

President **Tadahiro Hoshi**

A full model change for the LIVE DAM series

LIVEDAM 



INTERVIEW

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

Interview with Yasuhito Watanabe



Returning to the origins of karaoke, a Japan-originated culture, to develop our new product LIVE DAM Ai including its content

Karaoke culture originated in Japan, and the history of the DAIICHIKOSHO Group can be regarded as the history of the popularization and development of karaoke itself. Today, karaoke has become established as a familiar entertainment activity enjoyed by people of all ages and genders. It is one of the few leisure activities that can be enjoyed by three generations of a family together. For instance, cover versions of old popular songs are in fashion today. A karaoke song chosen by a young person may turn out to be the same song that his or her grandparents hummed to themselves in their youth. Three generations can share a happy time together, as the song sparks memories of bygone days.

By making our karaoke services easier to understand and use, we hope to return to karaoke's origin: the "joy of singing." With this aim in mind, we developed LIVE DAM Ai, the premium model of commercial online karaoke system, including its content. The "Ai" in LIVE DAM Ai refers to cutting-edge artificial intelligence (AI) technology. The product name expresses our determination to continue to make system controls easier to understand and operate, through the utilization of AI.

To give one example, LIVE DAM Ai features a speech recognition function as the first in the industry. Many operations can now be done through verbal instructions using functions such as SHABETTE YOYAKU, where users can speak the command "OK, DAM! Put in [song name] by [artist name]" into the microphone, or SHABETTE RIMOKON, where users can perform remote controller operations such as changing the key of songs through verbal commands. It also incorporates features such as SEIMITSU SAITEN Ai, which detects and scores emotive singing. We believe that LIVE DAM Ai expands ways to enjoy karaoke.

Through karaoke, we play an important part in the development of the whole music industry, and contribute to building a healthy, long-lived society with the power of singing

An important feature of the content we provide is the rich range of video content. We provide the industry's largest lineup of 22,000 videos featuring real artists. Because songs are chosen for their popularity, there is a variety of new hits and long-time favorites, and videos by real artists are available for many of the songs that users want to sing. Seeing videos by real artists displayed on an impressive large screen, users are able to gain a real sense of the artist's worldview, and enjoy the ambience of a live performance.

We have also paid meticulous attention to the ease with which songs can be sung. For karaoke, faithful rendition of the music alone is not enough to provide enjoyment. It is necessary to arrange the music without damaging the song's worldview, and craft it while bearing in mind that the music will emanate from speakers after blending with a singer's voice sung into the microphone. This is where we apply the expertise accumulated during more than four decades since our founding.

It is not easy to create a new hit song in the music industry. We consider it our mission to play a part in spreading the greatness of songs through the familiar medium of karaoke.

Guided by this belief, we have strived for many years to steadily build relationships with artists, record companies and artists' agents, and conveyed a deep awareness of the promotional power of karaoke. It is this awareness that has allowed us to provide our users with the industry's largest lineup of videos by real artists. We hope to continue to contribute to the development of the music industry by expanding the appeal of karaoke. Furthermore, in recent years, the use of karaoke has been proven to promote good health and prevent the need for nursing care, and the role of karaoke in the super-aging society is growing ever larger.

We hope to contribute to solving social issues by actively providing healthy content, in the context of our pursuit of the "joy of singing."

No.1 in the industry with abundant video content Providing over 22,000 videos by real artists



AIMYON



Official HIGE DANdism

Advanced entertainment content, further expanding the possibilities for enjoyment
Presenting battle games where users can triumph through their singing abilities



Towards maximum live-audience feel
LIVE DAM Ai – in pursuit of the joy of singing



Point 1

Featuring the Ai Assistant
Facilitating a large range of operations through verbal commands

A large range of intuitive commands is possible with just a microphone, through SHABETTE YOYAKU, where users can preset songs with the verbal command "OK, DAM! Put in [song name] by [artist name]," and SHABETTE RIMOKON, where users can perform basic operations through verbal commands, such as changing the key or stopping the music.



Advance scoring technology with Ai KANSEI
SEIMITSU SAITEN Ai even scores the expressiveness of performance

Through the machine learning of vast amounts of singing data, Ai KANSEI has the capacity to evaluate and score even the expressiveness of the singer's performance. The score is displayed on the Ai KANSEI Meter as well as in an analytical report shown after the song, and the extra elaborate screen effect is sure to enliven the karaoke stage.

The score generated by Ai KANSEI is displayed on a color-coded meter on the screen.



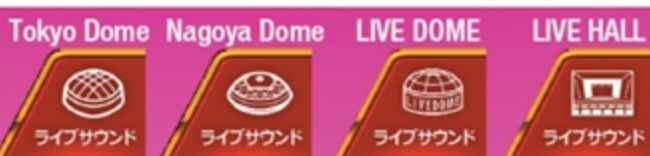
Point 2

LIVE SOUND

Perfectly recreating the acoustics of actual concert arenas
Overwhelming LIVE SOUND

Featuring a new reverb effect that creates a realistic acoustic space, LIVE DAM Ai perfectly recreates the acoustics of the Tokyo Dome and Nagoya Dome, in addition to the DAM original effects LIVE DOME and LIVE HALL. Users can immerse themselves in the experience of a live performance at their own dream venue. We plan to add more famous concert venues in the future.

Four sounds to choose from, to match the song and your mood



We plan to add more famous concert venues in the future.



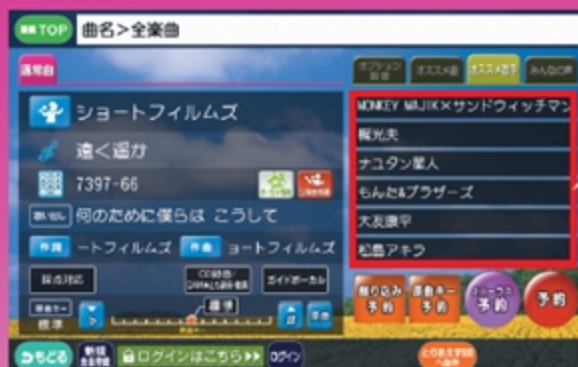
Point 3

SmartDAM Ai

Suggesting artists and songs to suit the singer
Featuring an AI-based recommendation function

LIVE DAM Ai uses the Company's vast store of song histories to infer and suggest the songs that the singer will most likely choose next. The more the user sings, the more LIVE DAM Ai learns, and the more accurate its recommendations become. This function will upgrade users' karaoke experience, with the discovery of latent repertoire and reductions in the time needed for selecting songs.

The songs recommended by the function are displayed on the screen.



BIG ECHO, now more convenient and easier to use Measures to enhance customer satisfaction

All rooms at BIG ECHO now feature DAM Enhancing store attractiveness

All karaoke rooms at BIG ECHO stores are now equipped with DAM-series products, which have the No.1* share in the industry. Users can enjoy a premium "karaoke experience" thanks to our abundant original content.



* According to the Company's own research.

Enhancing customer convenience Expanding cashless payment services

In May we introduced eight types of QR payment, and from November customers can pay with public transport e-money such as Suica cards. By expanding the payment methods available to customers, we aim to enhance customer convenience.



Commencing joint services with businesses Expanding Office Box to all stores

We have expanded the introduction of Office Box, where karaoke rooms are provided as work spaces, to all stores.* At the same time, we have commenced joint services with businesses, further enhancing convenience.



* Excluding the Kasai and Gyoutokuekimae stores.

Presenting two new business formats in the restaurant business!



A restaurant where customers can create customized curries to suit their own tastes "Time is Curry" opened on June 28

The concept behind the specialty curry restaurant Time is Curry, which opened inside the Ichikawa Station on the JR Sobu Line, is "a selfish and splendid dinner for one." The light and fashionable interior of the restaurant makes it easy for anyone to enjoy a casual meal, including ladies. The restaurant offers one-plate-style dining, where customers can select a curry or soup from the menu, their choice of rice, and customize the volume and spiciness to their own tastes. The restaurant also offers a range of free topping spices for beauty and health-conscious customers.

Promoting our Women's Participation Project

Time is Curry was planned as a new business format for women, with a project team composed entirely of women. One of the major aims of the project is to "support working women." Please come and enjoy the specialty curries, painstakingly created by our team through trial and error.



Presenting the next level of entertainment REGALO TOKYO opened on September 27

REGALO TOKYO, a new business format combining a darts bar and karaoke, was opened in Akihabara, Tokyo. Featuring state-of-the-art facilities and premium service, REGALO TOKYO provides a superior entertainment space for refined adults. Customers can choose from a selection of over 100 kinds of drinks, including craft beers, as well as genuine cuisine such as fresh-cut prosciutto and the bar's signature sausages. REGALO TOKYO is also a brilliant venue for parties.



A new style of karaoke The launch of COCOKARA

The concept is "anytime, anywhere, simply karaoke." We propose a new style of facility, available in locations such as shopping malls, where customers can casually enjoy karaoke whenever they have a few minutes to spare.



COCOKARA Type-A



COCOKARA Type-B

Binding together local communities with the "power of song and music" Creating a "gathering place" where people would actively come back

In the new policy outline on dementia issued by the Japanese government in June 2019, which is centered around the concepts of "prevention and coexistence," local municipalities take the initiative to expand and enhance "gathering places" such as community centers. One of the main policies is to raise the participation rate of the elderly from the current 4.9% to 8% by 2025. In the context of increasing focus on initiatives to utilize the power of "song and music" to bring people together, the field of action for the DK ELDER SYSTEM is expected to continue to grow. In September, at a seminar for municipalities held by the JAPAN Music Health Association, we carried out a demonstration of a music and health session using the DK ELDER SYSTEM. Through the DK ELDER SYSTEM, the Company will contribute to solving social issues in the super-aging society.

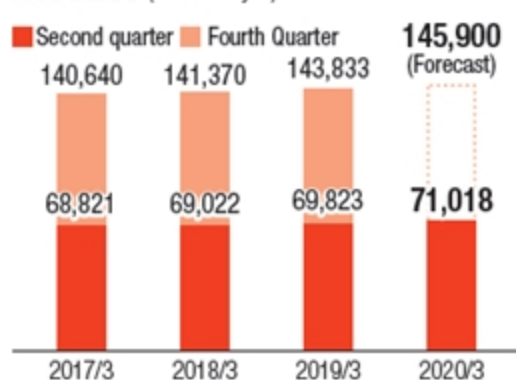


DK ELDER SYSTEM
By offering programs, such as those involving the use of music, taking exercise, and watching videos, the system offers benefits that are recognized to maintain and enhance overall functioning in daily life, including exercise, voicing, and perception. As of October 31, 2019, DK ELDER SYSTEM has been introduced to over 25,000 facilities nationwide, including those for the elderly and municipal facilities.

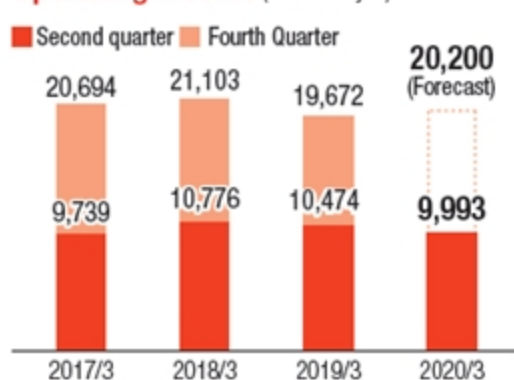
FINANCIAL HIGHLIGHTS

Item	2018/3		2019/3		2020/3	
	Second quarter	Fourth Quarter	Second quarter	Fourth Quarter	Second quarter	Fourth Quarter(Forecast)
Operating results (Millions of yen)						
Net sales	69,022	141,370	69,823	143,833	71,018	145,900
Operating income	10,776	21,103	10,474	19,672	9,993	20,200
Operating income to net sales (%)	15.6	14.9	15.0	13.7	14.1	–
Ordinary income	11,474	21,857	11,225	20,881	10,697	21,200
Net income attributable to owners of parent	7,373	13,115	7,253	15,600	6,655	13,100
Financial position (Millions of yen)						
Total assets	186,821	180,190	182,759	188,814	182,975	–
Net assets	122,527	125,356	129,491	132,636	136,200	–
Cash flows (Millions of yen)						
Net cash provided by operating activities	14,296	33,303	13,239	30,221	11,489	–
Net cash used in investing activities	△ 13,951	△ 22,841	△ 9,101	△ 14,192	△ 8,100	–
Net cash used in financing activities	△ 7,911	△ 21,951	△ 3,563	△ 9,547	△ 10,299	–
Cash and cash equivalents at the end of period	53,941	49,736	50,563	56,439	49,473	–
Per share data (Yen)						
Basic earnings per share	129.16	229.97	127.33	274.43	117.45	231.14
Net assets per share	2,124.49	2,173.02	2,244.44	2,310.79	2372.79	–
Dividend per share (interim/year-end)	55.00	56.00	56.00	56.00	56.00	57.00
Major management indicators (%)						
Ordinary income to total assets (ROA)	–	11.9	–	11.3	–	–
Return on equity (ROE)	–	10.9	–	12.2	–	–
Equity ratio	64.8	68.7	70.0	69.3	73.5	–
Payout ratio	–	48.3	–	40.8	–	48.9

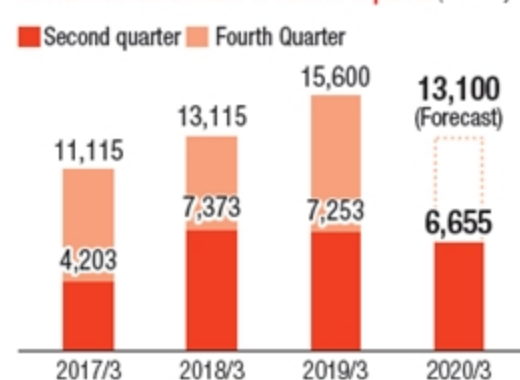
Net sales (Millions of yen)



Operating income (Millions of yen)



Net income attributable to owners of parent (Millions of yen)



Overview by Segment



Net sales **31,043** 百万円

Operating income **7,298** 百万円



- We worked to strengthen stable revenue bases by increasing the number of system rental contracts, including the acquisition of operating assets, and promoting replacement of former models with new models, as well as focused on enhancing the product appeal of the DAM karaoke series.
- In the elder market, we worked towards broader awareness of the effectiveness of karaoke in preventing dementia, and focused on increasing the number of operating units.
- Sales decreased because of factors such as weakness in product shipments, and income also decreased, affected by the occurrence of temporary expenses associated with new product launch events.



Net sales **31,441** 百万円

Operating income **3,185** 百万円

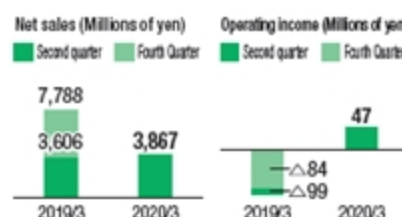


- We strived to strengthen brand power by opening new stores in prime locations and enhancing customer satisfaction.
- In addition to efforts to enhance customer convenience through features such as a smartphone payment service, we worked to enhance our service quality by continuing to strengthen our hiring and training systems.
- Despite the effect of an increase in personnel expenses due to a rise in hourly wages for casual workers, both sales and income grew because of factors such as a strong performance from existing stores.



Net sales **3,867** 百万円

Operating income **47** 百万円



- We achieved certain positive results in our continued efforts to create hit songs and discover new artists by vigorously utilizing the DAICHIKOSHO Group network.
- We engaged in an organizational restructuring in September to strengthen the business foundation of two subsidiaries that were continuing to produce poor business results, and worked towards enhancing operational efficiency.
- As a result of the above, both sales and income increased.



Net sales **4,666** 百万円

Operating income **819** 百万円



- In addition to the continuing smooth expansion of the parking business, which is operated under THE PARK brand, businesses such as the karaoke streaming services intended for consumers also performed strongly.
- Sales increased due to increased revenue from the parking business, while income decreased in the absence of the temporary real estate revenue recorded in the previous year.

Enka (Popular Ballad)

Hiroshi Miyama



Last year, Hiroshi Miyama was selected for the NHK Kohaku Uta-Gassen for the fourth year running, and he was also lauded for his part in completing the Guinness record-breaking 124-person consecutive *kendama* cup-and-ball game challenge at the event.

The Definitive Edition "World of Hiroshi Miyama" (10 CDs, 161 songs) by U-CAN, a project to celebrate the tenth anniversary of his debut, sold 33,500 sets. His new song "Bokyo Sanga," marking the start of his eleventh year as a professional singer, has had a favorable reception, and he has been selected to perform in the NHK Kohaku Uta-Gassen at the end of this year, for the fifth year running.



J-POP

FES☆TIVE



This six-member idol group is based on a "festival" concept. The group is popular around Asia, and is energetically involved in live performances in countries including Thailand, Vietnam, Taiwan and Mongolia, as well as of course Japan.

Now in the fourth year since its debut, the group is enjoying rapid growth in sales and popularity, with the single "Yura Yura Yurari Koi Gokoro," released in January this year, ranking-in at No. 5 in the ORICON song rankings. FES☆TIVE is gaining increasing attention as one of the most vigorous forces on the idol scene.



CORPORATE INFORMATION (as of September 30, 2019)

Corporate Profile

Corporate name	DAIICHIKOSHO CO., LTD.
Established	April 16, 1973
Capital	12,350 million yen
Number of employees	Parent: 1,915 Group: 3,514
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: 9 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	16,601

Major Shareholders

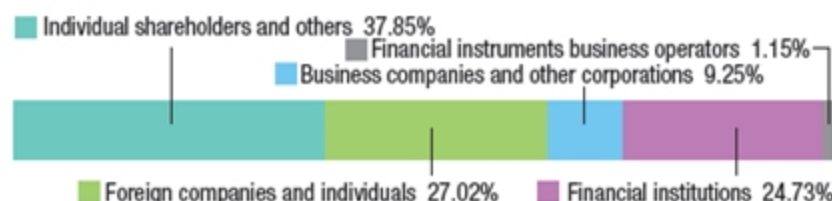
Name of shareholder	Number of shares held (Thousands of shares)	Shareholding ratio (%)
Tadahiro Hoshi	6,246	11.02
Harutoshi Hoshi	6,119	10.80
The Master Trust Bank of Japan, Ltd. (Trust account)	4,225	7.45
Hoshi Create Co., Ltd.	2,449	4.32
JP MORGAN CHASE BANK 380072	2,312	4.08

* Shareholding ratio is calculated after deducting 559,062 treasury shares.

Executive Officers

President	Tadahiro Hoshi	Director (part-time)	Katsuhiko Baba
Senior Managing Director and Senior Corporate Officer	Yasutaka Wada	Director (outside)	Atsuya Furuta
Senior Managing Director and Senior Corporate Officer	Tatsuya Kumagai	Director (outside)	Chika Masuda
Senior Managing Director and Senior Corporate Officer	Yuichi Murai	Corporate Auditor (standing, outside)	Nobuaki Otsuka
Director and Senior Corporate Officer	Yasuhito Watanabe	Corporate Auditor (standing, outside)	Hiroshi Umetsu
Director and Senior Corporate Officer	Noriyuki Takehana	Corporate Auditor (standing)	Shigeki Kobayashi
Director and Senior Corporate Officer	Kenji Otsuka	Corporate Auditor (outside)	Masumi Arichika
Director and Senior Corporate Officer	Takeshi Iijima		
Director and Senior Corporate Officer	Harutoshi Hoshi		

Shareholding Ratio by Category



Shareholder Special Benefits

Shareholders recorded in the final shareholder registry on September 30, 2019 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 4, 2019
Validity period	January 1, 2020 to June 30, 2020

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 the 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 will be provided in the Nihon Keizai Shimbun.
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