

Business Report

ECHO

Vol. 44

2018.4.1–
2018.9.30

30th
ANNIVERSARY



THANK YOU!

BIG ECHO Celebrates the 30th Anniversary Together with “Songs”

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.

Here we present the financial results of DAIICHIKOSHO CO., LTD. (“the Company”) for the second quarter of the fiscal year ending March 31, 2019.

A series of natural disasters occurred in Japan during the second quarter, including the Northern Osaka Prefecture Earthquake, torrential rainfall in western Japan in July, frequent major typhoons, and the Hokkaido Eastern Iburi Earthquake. My thoughts and prayers are with everyone affected by the disasters.

The DAIICHIKOSHO Group was adversely affected by these disasters, causing directly managed stores in the affected areas such as BIG ECHO karaoke rooms to temporarily close. Nevertheless, since the business foundation of the commercial karaoke business and the karaoke room and restaurant business, the Company’s mainstay businesses, are dispersed across Japan, the impact on the financial performance was minor, and we were able to achieve second-quarter income exceeding the initial plan.

In the commercial karaoke business, we focused on enhancing content with an eye on “enabling people of all generations to experience greater enjoyment from karaoke.” We are further boosting product competitiveness by means such as exclusive distribution in karaoke format of content from nationally popular artists, including music videos of all single titles of B’z and live performance videos from the Namie Amuro Final Tour. In the continuously growing elder market, we are achieving steady increases in the number of operating karaoke equipment by enhancing content and strengthening the service structure.

In the karaoke room and restaurant business, since the beginning of the fiscal year, we have been implementing a year-long BIG ECHO 30th anniversary campaign, expressing our gratitude to BIG ECHO customers until now and working to acquire new fans. We have been strengthening competitiveness of our stores through various efforts including BIG ECHO becoming the first karaoke room chain to install Wi-Fi and introduce “d POINT,” the loyalty points service provided by NTT DOCOMO, INC. at all locations, as part of its efforts to enhance service quality.

The music software business has been facing a harsh business environment. However, by strengthening collaboration among Group companies and boosting efficiency, we aim to achieve early recovery in the financial performance of the music software business.

In the results for other businesses, the parking business, which has begun a nationwide rollout, operates more than 7,000 parking spaces at 500 parking facilities (as of September 30, 2018). We will aim to rapidly expand this business by utilizing the business network of the commercial karaoke business, a key strength of the Group.

As a leading company in the karaoke industry, the Company will continue to contribute to society by enhancing the attractiveness and value of karaoke and continuing to fulfill our corporate philosophy of “more music to society, more service to society.”

We ask for your continued support and understanding.

President **Tadahiro Hoshi**

The Thirty-Year History of BIG ECHO



INTERVIEW

Senior Corporate Officer
General Manager of Store Business Headquarters

Interview with Takeshi Iijima



Aiming for corporate growth and industry vitalization in our role as a leading company in the karaoke industry

The DAIICHIKOSHO Group, in its role as a leading company in the karaoke industry, is in a position to drive the entire industry forward. For this reason, we believe that attracting large numbers of customers to BIG ECHO karaoke rooms to enjoy karaoke contributes both to growth of the Company and to vitalization of the industry as a whole.

To attract customers, we must create high-quality karaoke rooms, and we are actively making investments in this area. We strive to provide quality, not only in the basic element of designing and maintaining attractive, comfortable spaces, but also in providing high-quality sound by leveraging our strength as a karaoke system manufacturer to introduce top-of-the-line models. At some stores, we are expanding opportunities for greater enjoyment of karaoke by opportunely introducing collaboration rooms featuring leading artists and popular animation/characters and concept rooms, rooms decorated with a specific concept.

One of the reasons for BIG ECHO's popularity among customers is that we serve delicious foods. To increase the quality of our menu items, we carefully select ingredients and preparation methods and revise the grand menu (menu for food and drinks) once a year. We also continue to simplify preparation procedures and improve operations to avoid having customers to wait, even during busy hours.

To promote further growth, we will pursue customer satisfaction and employee satisfaction concerning store operation. To obtain customer satisfaction, it is essential to create store environments that our employees can satisfy and relate to and to bolster our employee education and training system. Beginning this fiscal year, we have subdivided the education curriculum and introduced web-based training that enables employees nationwide to receive the same training content. The outcome of this education is expressed on the smiling faces of customers when they leave our stores and is contributing to employees' firm motivation and growth.

30th anniversary as an opportunity to create a sense of unity among employees and work to resolve issues and realize new projects

We have made "BIG ECHO is a Magic Box," the theme for 2018, BIG ECHO's 30th anniversary. It expresses our desire to "deliver fun and excitement, courage, and energy for tomorrow" to all customers who visit BIG ECHO karaoke rooms and team members who work there, and we have implemented various projects to accomplish this. A new initiative was the industry-first introduction of free Wi-Fi and a smartphone charger rental service. Regarding customer payment options, we began accepting payment using the WeChat Pay, a mobile payment service for customers from China, and the LINE Pay, a mobile remittance and payment service for Japanese customers, as well as began participating in NTT DOCOMO's "d POINT" loyalty points service. These moves attest to the Company's stance of pursuing to create karaoke rooms that are convenient and easy to use through the timely introduction of things that many of our customers want and use.

In September, we opened Shibuya Center-gai Honten, a flagship store located at the entrance to Center-gai in Shibuya, Tokyo. Redevelopment in and around Shibuya is progressing, and the number of visitors to Center-gai is steadily increasing. Our strategic objective in opening the flagship store there was to further increase brand recognition among customers, including inbound tourists, by putting up a BIG ECHO signboard in the heart of Center-gai. We believe that opening of a karaoke room in a fiercely competitive location where sites are difficult to acquire is attributable to the power of the BIG ECHO brand, which we have built and strengthened together with our customers for 30 years.

A message I have been conveying to all of our team members in the 30th anniversary year is "create a sense of unity." By that, I emphasize that we should join together in sharing a once-in-a-decade milestone, engaging in various projects, resolving issues, and operating stores with a vision of the Company 10 years from now and furthermore 100-year company in mind. The enjoyment of singing is timeless. We will redouble our efforts to create even more comfortable stores and pleasant environments for our customers.

Complete with a free Wi-Fi and smartphone charger rental service in all rooms at all BIG ECHO karaoke rooms



BIG ECHO is the first karaoke room chain to introduce WeChat Pay.



CLOSE-UP

BIG ECHO 30th anniversary year



A flagship store!

Shibuya Center-gai Honten opened

The Shibuya Center-gai Honten is a new flagship store with 58 rooms that occupies five floors in total of a building located at the entrance to Shibuya Center-gai. Its customers are treated to a vast selection of rich content.

The flagship store features a wide variety of karaoke rooms. Furifu Collaboration Rooms and Skymark Collaboration Rooms are open for a limited time only. Princess Rooms decorated with cute wallpaper on fairytale princess themes are a must-see for girls. Luxury Rooms have an exquisite ambience, and the event and party rooms accommodate groups of up to 45 customers. Be sure to visit the Shibuya Center-gai Honten, which is certain to become a new symbol of the Shibuya district.

Available only at the Shibuya Center-gai Honten!

Limited-time-only collaboration rooms



Furifu Collaboration Room

Increasing numbers of young women have awakened to the appeal of kimono in recent years, and this collaboration room is irresistible to fans of traditional Japanese clothing. The wallpaper features a kimono pattern, and the room is decorated with textiles from Furifu, a Japanese clothing brand that captures the traditional spirit of Japan.

Skymark Collaboration Room

The wallpaper of this room features a photograph of an aircraft fuselage, and Skymark promotional videos are projected. This collaboration room is an essential experience for aircraft and Skymark fans.



A first for a karaoke room chain!

BIG ECHO participates in the "d POINT" program.

BIG ECHO (479 locations*) has become the first nationwide karaoke room chain to introduce "d POINT," the loyalty points service provided by NTT DOCOMO, INC.

As part of efforts to improve its services, BIG ECHO is using information and communication technology to enhance customer convenience and further increase the efficiency of store operation.

*As of October 31, 2018

The 6th-generation product in the Party DAM series for the lodging and banquet markets

New Product Party DAM 20V launched

The latest system provides high-quality karaoke and creates memories.

The Party DAM series is a line of self-contained, portable karaoke systems designed especially for the lodging and banquet markets. With the concept of "greater ease of viewing and ease of use," the system is equipped with a large 19.5-inch full HD display and control panel. Furthermore, the new product comes with more songs than the previous model and greatly enhanced functions and content.

We will aim to further increase our market share by continuing to develop product that meets market and customer needs.



Songs

Party DAM 20V is equipped with 130,000 songs, the largest selection in the Party DAM series. It includes the latest songs and a large number of foreign songs as well as many real artist's videos of songs which are popular on DAM nationwide.

New content

Let's sing together! Non-stop karaoke:
New content that enables continuous, non-stop singing of 10 consecutive songs
SEIMITSU SAITEN DXLite:
This is a scoring content similar to the highly popular SEIMITSU SAITEN DX (precision scoring). Users can enjoy singing using an on-screen guide melody.

Infrared wireless condenser microphones

Industry first WRC SERIES launched

The industry's first microphones equipped with a condenser unit realize highly sensitive, clear sound quality.

The newly launched WRC SERIES is the industry's first line of condenser microphones, made commercially viable through the introduction of new technology and resolution of cost issues.

Going forward, the Company plans to enhance its lineup of peripheral equipment, including the WRC SERIES, to enable customers to enjoy high-quality karaoke using online karaoke DAM.

Sound quality

The use of top-quality condensers has made it possible to pick up sounds over a wide range of frequencies and reproduce highly sensitive, clear sound quality. Anyone can sing comfortably, regardless of pitch or volume of voice, with more beautiful singing sounds.

Durability

The condenser unit and the inside of the microphone body have increased durability, reducing malfunctions due to dropping.



Industry No. 1 in Video Content Quantity
Appealing new content for
the LIVE DAM STADIUM series!

The LIVE DAM STADIUM series, which features a tremendous selection of video content from popular singing artists, is popular among customers of both genders and all ages.

In J-POP content on DAM, we exclusively distribute 29 live performance videos carefully selected from the Namie Amuro Final Tour, who retired in September 2018. The videos reproduce all the energy and excitement of a concert venue, enabling customers to simultaneously enjoy performance footage and the artist's singing voice. Singing along with dynamic live performance footage adds even more excitement to the karaoke experience.

We also distribute enka (popular ballad) content featuring "Kiyoshi Hikawa Premium Duets," a DAM original video collection of ten specially recorded performances with Kiyoshi Hikawa himself singing the male parts. This collection enables customers to experience realistic virtual duets as if the artist himself were in the room, singing right before their eyes.

We will continue to enhance LIVE DAM STADIUM series content in pursuit of the joy of singing. We invite you to look forward to more great performances.



Parking Business

Steady expansion of THE PARK



THE PARK is the Company's coin-operated parking brand. We started a local parking business in 1999 and began rolling it out nationwide in 2012. The business related to THE PARK has expanded to more than 7,000 parking spaces at 500 parking facilities, as of September 30, 2018.

We will continue to actively open new parking facilities by utilizing the business network of our nationwide commercial karaoke business. We respectfully encourage our shareholders to use THE PARK.

Also, please contact us if you know any potential parking lot sites.



Toward expanded introduction of the DK ELDER SYSTEM

"Music Recreation You Can Start Using from Tomorrow," a seminar hosted by JAPAN Music Health Association, was held at fourteen locations across Japan beginning in May 2018, which the Company supported as part of activities to expand the elder business. More than 2,300 people, mainly care workers and care dependence prevention business practitioners, attended the seminar, filling each location to capacity.

With a theme of daily recreation as an important issue for care facilities, the seminar introduced music recreation utilizing DK ELDER SYSTEM, our comprehensive lifestyle improvement system, through hands-on experience at care facilities. It was well received by the participants, who obtained "useful hints for future recreation activities at their workplaces."

The Company considers the elder business a socially beneficial business that contributes to "extending healthy life expectancy" and will continue to actively engage in activities to popularize DK ELDER SYSTEM.



"Music Recreation You Can Start Using from Tomorrow" seminar



Recommended model of DK ELDER SYSTEM FREE DAM HD

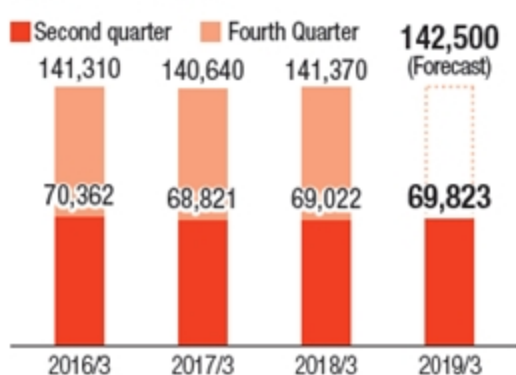
DK ELDER SYSTEM

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, 2018, DK ELDER SYSTEM has been introduced to over 23,000 facilities nationwide, including those for the elderly and municipal facilities.

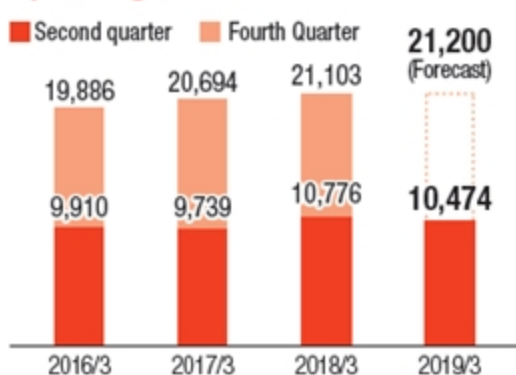
FINANCIAL HIGHLIGHTS

Item	2017/3		2018/3		2019/3	
	Second quarter	Fourth Quarter	Second quarter	Fourth Quarter	Second quarter	Fourth Quarter (Forecast)
Operating results (Millions of yen)						
Net sales	68,821	140,640	69,022	141,370	69,823	142,500
Operating income	9,739	20,694	10,776	21,103	10,474	21,200
Operating income to net sales (%)	14.2	14.7	15.6	14.9	15.0	—
Ordinary income	10,012	22,539	11,474	21,857	11,225	22,000
Net income attributable to owners of parent	4,203	11,115	7,373	13,115	7,253	13,500
Financial position (Millions of yen)						
Total assets	182,634	186,927	186,821	180,190	182,759	—
Net assets	115,858	119,069	122,527	125,356	129,491	—
Cash flows (Millions of yen)						
Net cash provided by operating activities	14,811	33,076	14,296	33,303	13,239	—
Net cash used in investing activities	△ 8,667	△ 16,331	△ 13,951	△ 22,841	△ 9,101	—
Net cash used in financing activities	△ 3,569	△ 8,546	△ 7,911	△ 21,951	△ 3,563	—
Cash and cash equivalents at the end of period	54,426	61,254	53,941	49,736	50,563	—
Per share data (Yen)						
Basic earnings per share	72.98	193.53	129.16	229.97	127.33	236.98
Net assets per share	1,992.46	2,057.98	2,124.49	2,173.02	2,244.44	—
Dividend per share (interim/year-end)	54.00	55.00	55.00	56.00	56.00	56.00
Major management indicators (%)						
Ordinary income to total assets (ROA)	—	12.3	—	11.9	—	—
Return on equity (ROE)	—	9.7	—	10.9	—	—
Equity ratio	62.6	62.9	64.8	68.7	70.0	—
Payout ratio	—	56.3	—	48.3	—	47.3

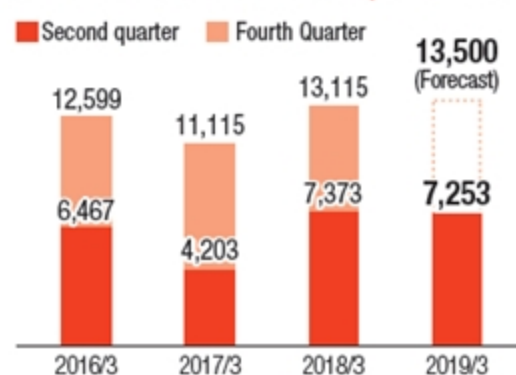
Net sales (Millions of yen)



Operating income (Millions of yen)



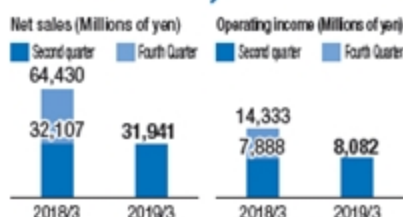
Net income attributable to owners of parent (Millions of yen)



Overview by Segment



Net sales **31,941** million yen
Operating income **8,082** million yen



- We focused on increasing the unit revenue from information provision fees by promoting replacement of former models with new models, in addition to an increase in the number of system rental contracts.
- In the elder market, we focused on increasing the number of operating equipment by implementing promotional campaign for DK ELDER SYSTEM.
- Despite a decrease in sales because of weakness in product shipments, income increased owing to efforts to reduce costs of product sales and system rental.



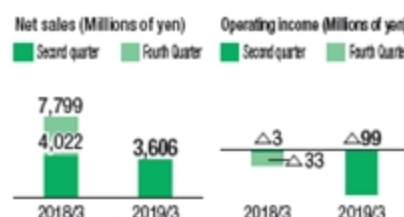
Net sales **30,031** million yen
Operating income **3,054** million yen



- We focused on strengthening both hard and soft aspects to enhance customer satisfaction, including opening of new stores. In addition to efforts to enhance customer convenience, we worked to strengthen education and training systems and to secure and develop human resources.
- Despite weak performance of existing stores, sales increased owing to the contribution to sales of Airside Co., Ltd., which became a subsidiary in the previous fiscal year. On the other hand, income decreased because of increases in cost attributable to opening of new stores, the average hourly wage of store staff, and selling, general and administrative expenses related to the 30th anniversary of BIGECHO.



Net sales **3,606** million yen
Operating income **△99** million yen



- 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.
- We made vigorous efforts to create hit songs and achieved certain positive results with regard to the discovery of new artists. However, both sales and income decreased in an increasingly challenging business environment.



Net sales **4,244** million yen
Operating income **830** million yen



- In the BGM broadcasting service, we launched STAR digio Air that utilizes mobile lines, in addition to STAR digio HIKARI, a BGM broadcast service that utilizes fiber optic lines. We worked to expand the parking business, which is operated under THE PARK brand.
- Both sales and income increased due to strong performances by the real estate leasing and parking businesses.

J-POP

Ryota Kaizo



Having won his second consecutive world championship title at the KARAOKE WORLD CHAMPIONSHIPS 2016 and 2017, Ryota Kaizo moved to major label NIPPON CROWN Co., Ltd. in June 2018. Thanks to "Ai no Katachi," his debut single addressing the difficult theme of dementia and emphasizing the importance of family ties, he is becoming well known and gaining a track record. Eagerly awaited by his fans, his first album featuring this song will be released in January 2019. His velvety voice, the ultimately soothing voice, will captivate audiences throughout Japan.



Enka (Popular Ballad)

Sanae Jonouchi



Sanae Jonouchi released "Yorisoi Hotaru," her first single after moving to the label of Tokuma Japan Communications Co., Ltd. Using a firefly as a metaphor for a woman beside a man, this song expresses the feeling of the devoted woman who wishes to illuminate a path together for the couple into the future with her soft light. The triple-time tune makes for delightful listening.

In a promotional campaign for this title and associated events, Sanae Jonouchi will be appearing at venues around Japan, in addition to appearances on TV and radio.

Sanae Jonouchi is doing her utmost to make this song her signature tune and appreciates your support.



CORPORATE INFORMATION (as of September 30, 2018)

Corporate Profile

Corporate name	DAIICHIKOSHO CO., LTD.
Established	April 16, 1973
Capital	12,350 million yen
Number of employees	Parent: 1,884 Group: 3,506
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

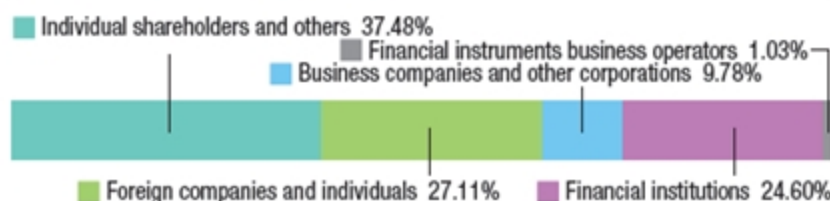
Executive Officers

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)	Nobuaki Otsuka
Senior Managing Director and Senior Corporate Officer	Hiroshi Mitomi	Corporate Auditor (standing, outside)	Hiroshi Umetsu
Senior Managing Director and Senior Corporate Officer	Yuichi Murai	Corporate Auditor (standing)	Shigeaki Kobayashi
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		

Status of the Shares

Number of authorized shares	200,000,000 shares
Number of outstanding shares	57,234,200 shares
Number of shareholders	14,690

Shareholding Ratio by Category



Major Shareholders

Name of shareholder	Number of shares held (Thousands of shares)	Shareholding ratio (%)
Tadahiro Hoshi	6,246	10.96
Harutoshi Hoshi	6,119	10.74
The Master Trust Bank of Japan, Ltd. (Trust account)	3,508	6.16
JP MORGAN CHASE BANK 380072	2,542	4.46
Hoshi Create Co., Ltd.	2,449	4.30

* Shareholding ratio is calculated after deducting 266,262 treasury shares.

Shareholder Special Benefits

Shareholders recorded in the final shareholder registry on September 30, 2018 as holding 100 or more shares will be granted special benefits coupons according to the number of shares held.

Details of benefits	Issued semiannually	
	Number of shares held	Special benefits coupon ^(*)
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, 2018
Validity period	January 1, 2019 to June 30, 2019

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