

## BRIDGE REPORT



Hiroshi Koshidaka President

Koshidaka HOLDINGS Co., Ltd(2157)



## Company Information

Market	TSE 1st Section
Industry	Service
President	Hiroshi Koshidaka
HQ Address	World Trade Center Building 23 <sup>rd</sup> Floor, 2-4-1 Hamamatsucho, Minato-ku, Tokyo
Year-end	August
Homepage	<a href="https://www.koshidakaholdings.co.jp/en/">https://www.koshidakaholdings.co.jp/en/</a>

## Stock Information

Share Price	Share Outstanding		Total market cap	ROE Act.	Trading Unit
¥1,537	81,318,284 shares		¥124,986 million	21.7%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥16.00	1.0%	¥90.62	17.0 x	¥391.24	3.9 x

\*The share price is the closing price on October 15. The number of shares issued was obtained by subtracting the number of treasury shares from the number of outstanding shares as of the end of the latest quarter. ROE and BPS are the values at the end of the previous term.

## Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Aug. 2016Act.	51,170	4,810	4,699	1,900	26.18	32.00
Aug. 2017Act.	55,283	6,146	6,354	3,255	43.63	36.00
Aug. 2018Act.	61,771	7,858	8,207	4,426	54.44	25.00
Aug. 2019Act.	65,840	9,507	9,562	6,226	76.57	12.00
Aug. 2020Est.	72,029	11,054	11,049	7,369	90.62	16.00

\*The forecasted values were provided by the company. Unit: million yen

\*A 4-for-1 stock split was conducted in June 2018. (EPS and DPS have been revised retroactively)

This Bridge Report presents an overview of Koshidaka HOLDINGS's earnings results for fiscal year ended August 2019 and earnings estimates for full fiscal year August 2020.

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## Key Points

- For the term ended August 2019, sales and operating profit grew 6.6% and 21.0%, respectively, year on year. The sales of the karaoke business increased 11.9% due to the favorable performance of existing stores and the effects of opening of new stores, the sales of the Curves Fitness Club business rose 0.4% as the decrease of opening of new stores was covered by shopping, etc., and the sales of the hot spring business grew 3.3% as its measures for reeling in customers were effective. Like this, all of the segments saw sales growth. As for profit, gross profit rate improved thanks to the good performance of existing stores in the karaoke business, the incorporation of royalties through the acquisition of the headquarters in the Curves Fitness Club, etc., offsetting the augmentation of SGA.
- Through share-distribution spin-off (dividends in kind of a subsidiary's shares), the Curves Fitness Club business will be spun off, and a subsidiary named Curves Holdings Co., Ltd. will become an independent publicly traded company (to be listed in the first section of Tokyo Stock Exchange on March 1, 2020). The company plans to strengthen its governance structure further, improve its popularity, and try to expand its business through global business operation and the operation of new low-price businesses inside Japan. With the record date being February 29, 2020, the company will allocate a share of Curves Holdings Co., Ltd. per share of Koshidaka Holdings Co., Ltd. held by shareholders recorded in the latest list of shareholders as of the record date.
- As for the earnings forecast for the term ending August 2020, if the spin-off is not taken into account, it is estimated that sales and operating profit will increase 9.4% and 16.3%, respectively, year on year. Through the spin-off, the company will no longer earn revenue from the Curves Fitness Club business, and will operate the karaoke and hot spring businesses. The karaoke business was sluggish, as it was affected by the rush shopping in September before the consumption tax hike. It is forecasted that Tokyo Olympics in the next summer, too, will decrease customers. This was taken into account for the forecast. For existing stores, the company assumes the same results as in the previous term.

## 1. Company Overview

Koshidaka HOLDINGS Co., Ltd. is a “comprehensive entertainment and leisure services provider” and it promotes a strategy of “creating new businesses in existing industries” in the four realms of “amusement,” “sports and fitness,” “tourism and travel,” and “hobbies and cultural activities.” Based upon its two main cornerstones of the karaoke club business and Curves Fitness Club business, Koshidaka has been able to continue to grow both sales and profits since its listing and in the karaoke business, the company implements the strategy of opening clubs in the vicinity of stations and in downtown areas mainly in Tokyo, Chiba, Saitama, and Kanagawa based on its “price competitiveness,” which has realized reasonable prices with its low-cost operation capability nurtured in a local area, and its “capability of giving proposals,” which keeps offering new value. On the other hand, in the Curves Fitness Club business, the company is operating business outside Japan after acquiring the global headquarters, and developing new businesses. The hot spring business now earns profit stably.

## Corporate Philosophy

Koshidaka maintains a corporate philosophy of “contributing to the creation of a peaceful world by providing bountiful hope and lifestyles rich with entertainment, while continuing to provide evolutionary and significant services and products to people worldwide.” Based upon this corporate philosophy, Koshidaka has also established five visions: 1) cultivating new businesses in existing industries to provide easily accessible entertainment that only requires a short amount of time, and is close and reasonable, 2) developing optimized businesses and structures based upon conditions in each country, area, and industry, 3) continuing to offer surprising and highly satisfying services and products with customers’ needs in mind, 4) fostering inspired and entrepreneurial human resources, and 5) seeking to cultivate and maximize synergies between the various businesses of the group.

## 【To prohibit smoking in all rooms of Karaoke Manekineko as one of ESG measures】

Since September 1, 2019, smoking has been prohibited in all rooms of all clubs of Karaoke Manekineko around Japan. Karaoke Manekineko hires about 9,000 part-time workers, and many of them hope that their workplaces are clean, so the prohibition of smoking in all rooms made it easier to recruit part-time workers. At clubs in the Tokyo Metropolitan Area, where smoking was prohibited earlier than other regions, the increase of young people and families as customers is reportedly evident.

## 1-1 Koshidaka Group

Koshidaka Co., Ltd.	Karaoke Business (including the “Karaoke Honpo Manekineko,” “One Kara,” Individual Use Karaoke Club) Hot spring business (“Maneki No Yu,” “Lamp No Yu”)
Koshidaka Korea Co., Ltd.	Karaoke club operations in Korea
KOSHIDAKA INTERNATIONAL PTE.LTD. KOSHIDAKA SINGAPORE PTE.LTD. KOSHIDAKA MALAYSIA SDN. BHD. KOSHIDAKA THAILAND CO.,LTD.	Intermediary holding company that oversees karaoke business operations in Southeast Asia Company that operates karaoke business in Singapore with 10 directly operated clubs in Singapore It directly runs 2 karaoke stores in Malaysia. A local corporation was established in Thailand in Feb. 2018 and operates one store.
Curves Holdings Co., Ltd. Curves Japan Co., Ltd. High Standard Co., Ltd. Curves International, Inc.	Intermediary holding company for three Curves Fitness Club business related companies Curves franchise business headquarter and directly operated store operations Operation of 62 Curve Fitness Clubs in Hokkaido, Saitama, Tokyo and Chiba Global franchiser of the Curves business
Koshidaka Products Co., Ltd.	Management of group intellectual properties and real estate
Koshidaka Business Support Co., Ltd.	Supervision of group management

## 1-2 Business Segments

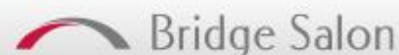
### Karaoke Club Business

The company has the second largest number of karaoke shops in the industry. The company runs “Karaoke Manekineko” and “Individual-use Karaoke Club: One Kara.” The number of clubs is the second largest in this industry. Differentiate with high quality service and low price. We established a business foundation by operating regional and suburban stores, and began focusing on opening stores in the Tokyo metropolitan area and downtown areas in the fiscal year ended August 31, 2015. This has contributed to the expansion of the karaoke business in recent years. The company has offices in South Korea, Singapore, Malaysia and Thailand and has expanded overseas.

### Curves Fitness Club Business

The company boasts the largest numbers of transactions, clubs, and members in this industry. The company offers a women-only 30-minute fitness exercise “curve” through a directly managed and franchised gym. As of the first half of the period to August 2019, the company has 1,946 gyms and 819,000 members in Japan. The company boasts the largest sales in the industry, the largest number of gyms, and the largest number of members. It had been an area franchiser (a local headquarters managing the business in Japan) under the control of the global headquarters of Curves, but the company acquired the global headquarters of Curves in March 2018 and the FC business section in 8 European countries in July 2019. The current business areas are South Korea, Taiwan, Ukraine & Russia, the U.K., Italy, and Spain.

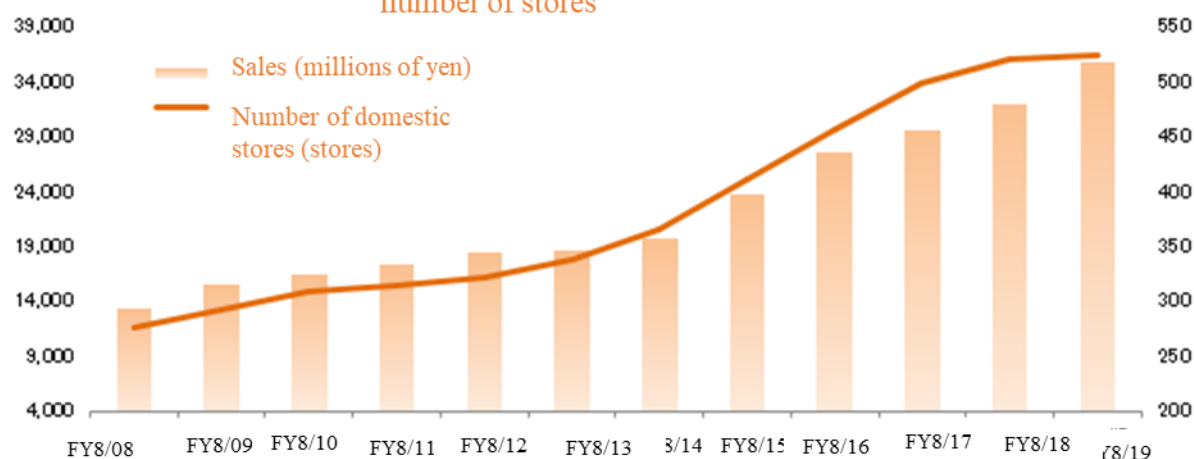
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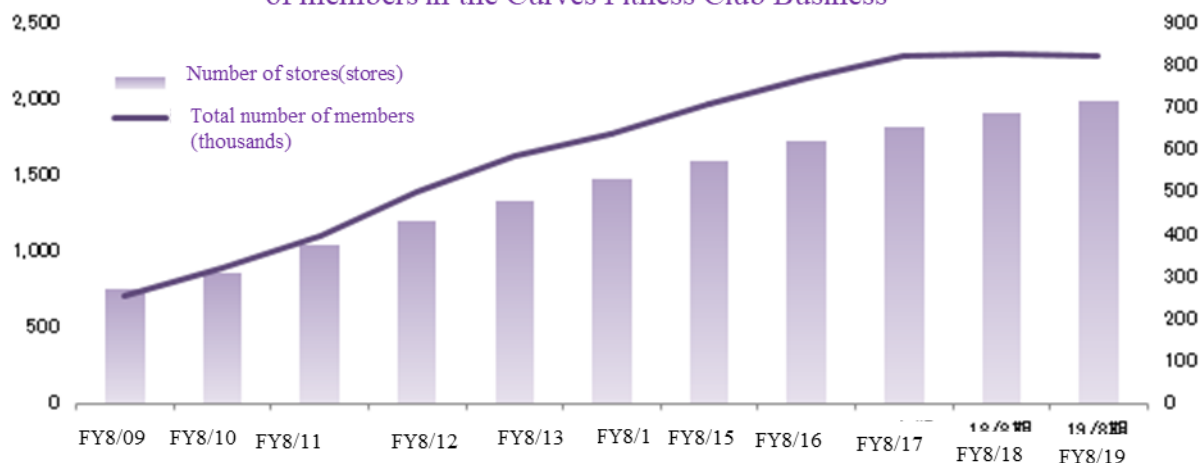
## Hot Spring Business

Under the brand names “Maneki-no-yu” and “Lamp-no-yu,” five facilities are operated in Japan. The company succeeded in moving into the black by taking measures for reeling in various customers, adopting a variety of contents, and promoting the energy saving for equipment.

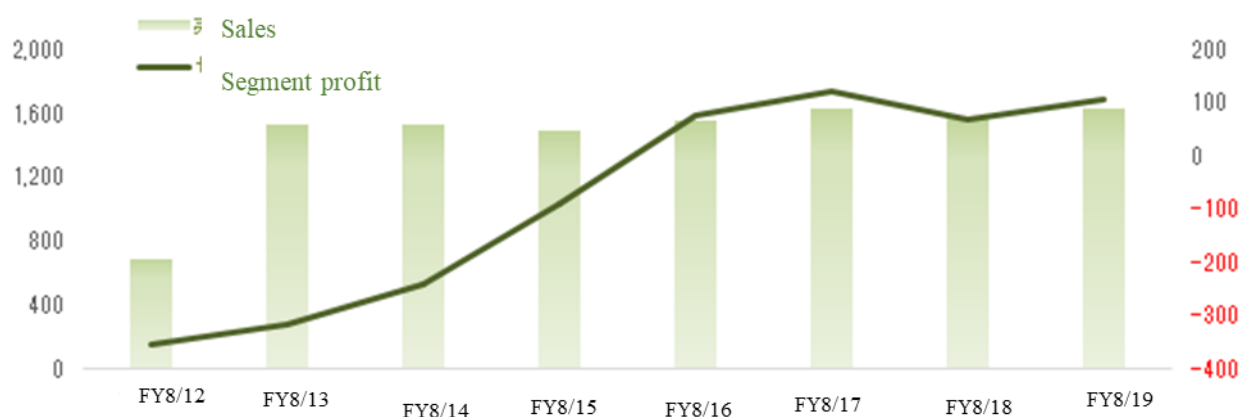
Changes in karaoke business sales and number of stores



Changes in the number of stores and the total number of members in the Curves Fitness Club Business



Trends in sales and profit • loss in the hot bath business (million yen)



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## 2.Fiscal Year ended August 2019 Earnings Results

### 2-1 Consolidated Earnings

	FY Aug. 18	Ratio to sales	FY Aug. 19	Ratio to sales	YoY	Revised forecast at 3Q	Difference from the forecast
Sales	61,771	100.0%	65,840	100.0%	+6.6%	66,124	-0.4%
Gross profit	16,706	27.0%	19,762	30.0%	+18.3%	-	-
SG&A	8,848	14.3%	10,254	15.6%	+15.9%	-	-
Operating Income	7,858	12.7%	9,507	14.4%	+21.0%	9,804	-3.0%
Ordinary Income	8,207	13.3%	9,562	14.5%	+16.5%	10,212	-6.4%
Net profit attributable to parent	4,426	7.2%	6,226	9.5%	+40.7%	6,071	+2.6%

\*Unit: million yen

### Sales and operating profit grew 6.6% and 21.0%, respectively, year on year

Sales were 65,840 million yen, up 6.6% year on year. The sales of the karaoke business increased 11.9% due to the favorable performance of existing stores and the effects of opening of new stores. The sales of the Curves Fitness Club business rose 0.4% as the decrease of opening of new stores was covered by shopping, etc. And the sales of the hot spring business grew 3.3% as its measures for reeling in customers were effective. These results are almost in line with the estimates. The sales from the real estate management business increased 37.6% year on year, as the company acquired real estate during that term.

Operating profit was 9,507 million yen, up 21.0% year on year. Gross profit rate increased 3.0 points to 30.0%, thanks to the favorable performance of existing clubs in the karaoke business, the incorporation of royalties through the acquisition of Curves International, Inc. (the global headquarters of Curves Fitness Club; hereinafter called “CVT”), etc. This offset the augmentation of SG&A due to the amortization of trademarks in the Curves Fitness Club business, expenses for the master licensee in Europe, etc.

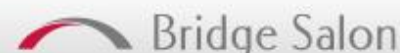
While an income from cancellation money amounting to 442 million yen was posted, an exchange loss of 262 million yen was posted (an exchange gain of 302 million yen was posted in the previous term), worsening non-operating profit/loss. Extraordinary loss augmented due to the increase in the loss from the liquidation of affiliated companies and the loss from valuation of shares of affiliated companies, but net profit rose 40.7% to 6,226 million yen, thanks to the tax effect accounting.

### 2-2 Sales and Profit by Business Segment

	FY Aug. 18	Ratio to sales • Profit margin	FY Aug. 19	Ratio to sales • Profit margin	YoY	Forecast	Difference from the forecast
Karaoke Club	31,936	51.7%	35,732	54.3%	+11.9%	36,034	-0.8%
Curves Fitness Club	27,933	45.2%	28,036	42.6%	+0.4%	28,043	-0.0%
Hot Spring	1,587	2.6%	1,640	2.5%	+3.3%	1,657	-1.0%
Real Estate Management	313	0.5%	431	0.7%	+37.6%	390	+10.5%
Consolidated Sales	61,771	100.0%	65,840	100.0%	+6.6%	66,124	-0.4%
Karaoke Club	3,153	9.9%	4,518	12.6%	+43.3%	4,639	-2.6%
Curves Fitness Club	5,345	19.1%	5,679	20.3%	+6.3%	5,750	-1.2%
Hot Spring	71	4.5%	108	6.6%	+51.0%	155	-30.3%
Real Estate Management	133	42.6%	59	13.8%	-55.6%	117	
Adjustments	-846	-	-858	-	-	-857	
Consolidated Operating Income	7,858	12.7%	9,507	14.4%	+21.0%	9,804	-3.0%

\*Unit: million yen

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### Karaoke Club Business

Sales were 35,732 million yen, up 11.9% year on year, and profit was 4,518 million yen, up 43.3% year on year. The sales of existing clubs in Japan, mainly the clubs in downtown areas around stations, increased due to the effects of opening of new clubs and various campaigns. As for profit, gross profit rate increased from 20.3% in the previous term to 22.4%, as existing clubs performed well and profitability improved through the optimization of operating hours, prices set by time of day, and staffing at clubs based on managerial data, although expenses for opening clubs rose 164 million yen and advertisement cost augmented 70 million yen. On the other hand, SG&A ratio decreased from 10.4% in the previous term to 9.8%, as the posting of goodwill amortization (268 million yen) for a subsidiary in Singapore was ended in the previous term.

The sales of existing clubs in Japan were 105.2% of those in the previous term. The number of customers grew 8.8%, thanks to the far-sighted campaigns for reeling in customers, including “Mafu (Manekineko Free Time)” exclusively for groups of students of colleges, junior colleges, and vocational schools, “Zero Kara” exclusively for high school students, and “Kazoku-wari (Family Discount)” with which elementary and junior high school students can enjoy karaoke free of charge (Average spending per customer was 96.9% of that in the previous term, due to the effects of the campaigns).

The company opened 33 new clubs in Japan (31 clubs in the previous term). In downtown areas around stations, 16 clubs (18 clubs in the previous term) were opened. As the company’s capability of reeling in customers improved through the popularization of the brand, the average number of rooms of new clubs is 32.6 (25.5 in the previous term), indicating the enlargement of clubs. In addition, the company opened 7 clubs (49.8 rooms on average) by using the old clubs of Shidax, and renewed 42 clubs (42 clubs in the previous term). The company closed 28 clubs (10 clubs in the previous term). As a result, the number of clubs in Japan as of the end of the term was 525, up 5 from the end of the previous term.

### Overseas Situation

	Sales		Operating Income		Club Number at Term End	
	FY Aug. 18	FY Aug. 19	FY Aug. 18	FY Aug. 19	FY Aug. 18	FY Aug. 19
Singapore	1,509	1,477	12	-106	10	9
South Korea	246	179	-70	-25	12	8
<b>Total</b>	<b>1,755</b>	<b>1,656</b>	<b>-58</b>	<b>-131</b>	<b>22</b>	<b>17</b>
Malaysia	-	-	-	-	1	3
Thailand	-	-	-	-	-	1

\*Unit: million yen

In Singapore, the company renewed all clubs, introducing the Manekineko brand, two years ago, but the capability of reeling in customers is declining, so it is becoming necessary to review them. On the other hand, in South Korea, the company is adopting the Manekineko brand for all clubs, and has closed 4 clubs. Two clubs were opened in Malaysia, and one club was opened in Thailand. The company is preparing for opening clubs in Indonesia, with the aim of promoting business in Southeast Asia.

The number of clubs outside Japan decreased by 2 to 21 (9 in Singapore, 8 in South Korea, 3 in Malaysia, 1 in Thailand).

### Curves Fitness Club Business

Sales were 28,036 million yen, up 0.4% year on year, and profit was 5,679 million yen, up 6.3% year on year. As for sales, the effect of the decrease of new gyms opened from 91 to 82 (- 50 million yen) and the effect of the decline in temporary revenue (- 100 million yen; the decrease in sale of fitness machines due to the renewal of gyms that have been operated for 10 years since they were opened) were offset by the rise in running revenue (55 million yen), the increase in sales from shopping (103 million yen) and others (96 million yen). As for profit, the rise in gross profit thanks to the inclusion of royalties in CVI (the effect of acquisition of CVI: 1,050 million yen) offset the augmentation of SGA due to the amortization of trademarks, etc. (875 million yen) and temporary expenses (cost for acquiring the master licensee in Europe: 108 million yen).

As the company closed 3 gyms while opening 82 new gyms, the number of Curves gyms in Japan as of the end of the term increased 79 (4.1%) to 1,991 (including 64 directly managed gyms). On the other hand, the number of members decreased 5,000 (0.6%) to 822,000. Withdrawal rate decreased, but the number of new members was stagnant.



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## Hot Spring Business

Sales were 1,640 million yen, up 3.3% year on year, and profit was 108 million yen, up 51.0% year on year. Sales grew, as measures for reeling in customers, such as the use of natural hot spring water in all spas and the enrichment of facilities for women, turned out to be effective. The sales growth and the curtailment of SGA covered the augmentation of energy costs.

## 2-3 Financial Position and Cash Flow

### Balance Sheet Summary

	8/18	8/19		8/18	8/19
Cash	11,926	12,582	Payables	2,430	2,476
Receivables	3,824	3,870	Taxes Payable	2,433	3,289
Inventories	19,963	20,762	Deposits received	1,806	1,893
Current Assets	17,552	22,192	Interest-bearing liabilities (Lease obligations)	24,348 (27)	22,250 (6)
Tangible Assets	24,627	22,536	Liabilities	41,660	40,272
Intangible Assets	6,214	6,596	Net Assets	26,697	31,815
Investments and Others	48,394	51,324	Total Liabilities and Net Assets	68,357	72,087

\*Unit: million yen

The total assets at the end of the term were 72,087 million yen, up 3,729 million yen from the end of the previous term. On the debit side, tangible assets increased as the company acquired real estate to be used as overall management facilities (in Maebashi-shi, Gunma Prefecture; about 2.5 billion yen), opened new clubs (about 5 billion yen), and so on, while goodwill and trademarks decreased through amortization. On the credit side, net assets grew, while interest-bearing liabilities decreased through the repayment of debts. Capital-to-asset ratio was 44.1% (37.5% at the end of the previous term).

### Cash Flow (CF)

	FY Aug. 18	FY Aug. 19	YoY	
Operating cash flow (A)	8,327	12,577	+4,250	+51.0%
Investing cash flow (B)	-23,405	-8,732	+14,673	-
Free•Cash Flow (A+B)	-15,078	3,845	+18,923	-125.5%
Financing cash flow	13,276	-3,193	-16,469	-
Cash and Equivalents at the end of term	11,889	12,530	+641	+5.4%

\*Unit: million yen

The company secured an operating cash flow of 12,577 million yen, as pretax profit was 8,828 million yen (7,687 million yen in the previous term), depreciation was 4,095 million yen (3,581 million yen in the previous term), goodwill amortization was 262 million yen (473 million yen in the previous term), the amortization of trademarks was 1,059 million yen (242 million yen in the previous term), and tax expenses were negative 3,382 million yen (negative 4,105 million yen in the previous term).

### Reference: ROA•ROE Trend

	FY Aug. 15	FY Aug. 16	FY Aug. 17	FY Aug. 18	FY Aug. 19
ROA	7.42%	5.92%	8.43%	7.90%	8.87%
ROE	16.16%	14.10%	18.49%	18.71%	21.67%
Net profit margin on sales	4.74%	3.71%	5.89%	7.17%	9.46%
Total asset turnover	1.56 times	1.59 times	1.43 times	1.10 times	0.94 times
Leverage	2.18x	2.38x	2.19x	2.37x	2.44x

\* ROE = Ratio of net profit to sales × Total asset turnover × Leverage

\* Total assets and equity capital are average balances in the term.

### 3. Fiscal Year August 2020 Earnings Estimates

#### 3-1 Spin-off of the Curves Fitness Club business

Through share-distribution spin-off (dividends in kind of a subsidiary's shares), the Curves Fitness Club business will be spun off, and a subsidiary named Curves Holdings Co., Ltd. will become an independent publicly traded company. The company started preparations for the spin-off 2 years ago as the best solution to the growth of Koshidaka Co., Ltd., which operates the karaoke business, and Curves Holdings Co., Ltd., which carries out the Curves Fitness Club business. Since then, the Curves Fitness Club business has grown steadily, accounting for the majority of total profit of Koshidaka Holdings Co., Ltd. and contributing to the expansion of revenue of the corporate group. From now on, the company will strive to expand its business by operating global business and developing a new business offering services at affordable prices in Japan, and strengthen the governance structure as an independent publicly traded company and enhance the popularity as an independent listed company. In addition, the company plans to motivate executives and employees through the listing.

On the other hand, Koshidaka Holdings Co., Ltd. plans to operate karaoke clubs inside and outside Japan. Inside Japan, the company will open clubs in downtown areas in the vicinity of stations in Nagoya, Osaka, and local cities where demand is expected to grow, in addition to Tokyo Metropolitan Area. Outside Japan, the company will run clubs in Southeast Asia, including Malaysia, Thailand, and Indonesia.

#### To allocate a share of Curves Holdings Co., Ltd. per share of Koshidaka Holdings Co., Ltd.

As dividends in kind, the company will allocate a share of Curves Holdings Co., Ltd. (book value: 0.22 yen) per share of Koshidaka Holdings Co., Ltd. held by shareholders recorded in the latest list of shareholders as of the record date, which is Saturday, February 29, 2020. Here, February 29 falls on a holiday of the shareholder registry administrator, so the record date is virtually February 28, 2020.

Through the share-distribution spin-off, the profit/loss from transfer of the corporation that will distribute shares will be posted, shareholders will be exempted from taxes on the dividends, and the taxation on profit/loss from transfer of shareholders will be deferred.

#### Schedule of distribution of dividends in kind

Schedule	Description
Nov. 27, 2019	Annual meeting of shareholders (scheduled)
Feb. 14, 2020	Date of announcement of the record date
Feb. 27, 2020	Ex-rights date
Feb. 29, 2020 (Feb. 28, 2020)	Record date for distribution (virtual record date)
Mar. 1, 2020	Effective date for dividends in kind
Mar. 2, 2020	Date of distribution (to be listed in Tokyo Stock Exchange)

(Produced with reference to the reference material of the company)

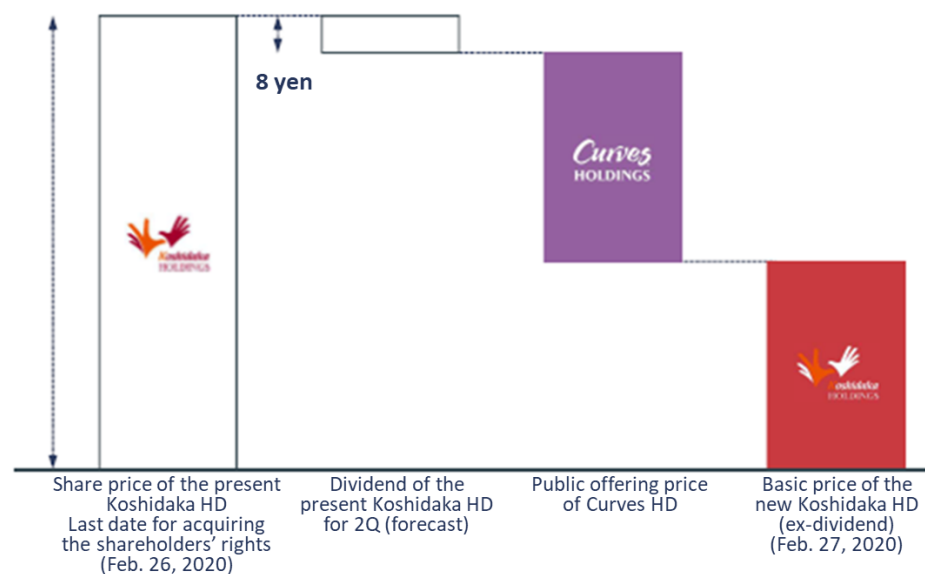
#### Stock Price Image



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1,716 yen (the share price as of Sep. 30, 2019 used)



(Source: the company)

### 3-2 Consolidated Earnings Without spin-off

	FY Aug. 19 Act.	Ratio to sales	FY Aug. 20 Est.	Ratio to sales	YoY
Sales	65,840	100.0%	72,029	100.0%	+9.4%
Operating Income	9,507	14.4%	11,054	15.3%	+16.3%
Ordinary Income	9,562	14.5%	11,049	15.3%	+15.5%
Net profit attributable to parent	6,226	9.5%	7,369	10.2%	+18.3%

\*Unit: million yen

### Sales and Profit by Segment

	FY Aug. 19 Act.	Ratio to sales • Profit margin	FY Aug. 20 Est.	Ratio to sales • Profit margin	YoY
Karaoke Club	35,732	54.3%	40,511	56.2%	+13.4%
Curves Fitness Club	28,036	42.6%	29,236	40.6%	+4.3%
Hot Spring	1,640	2.5%	1,664	2.3%	+1.5%
Real Estate Management	431	0.7%	618	0.9%	+43.4%
Consolidated Sales	65,840	100.0%	72,029	100.0%	+9.4%
Karaoke Club	4,518	12.6%	5,557	13.7%	+23.0%
Curves Fitness Club	5,679	20.3%	5,790	19.8%	+2.0%
Hot Spring	108	6.6%	176	10.6%	+63.0%
Real Estate Management	59	13.8%	19	3.1%	-67.8%
Adjustments	-858	-	-487	-	-
Consolidated Operating Income	9,507	14.4%	11,054	15.3%	+16.3%

\*Unit: million yen

### With spin-off

	FY Aug. 19 Act.	Ratio to sales	FY Aug. 20 Est.	Ratio to sales	YoY
Sales	65,840	100.0%	57,209	100.0%	-
Operating Income	9,507	14.4%	8,084	14.1%	-
Ordinary Income	9,562	14.5%	8,125	14.2%	-
Net profit attributable to parent	6,226	9.5%	5,482	9.6%	-

\*Unit: million yen

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## Sales and Profit by Segment

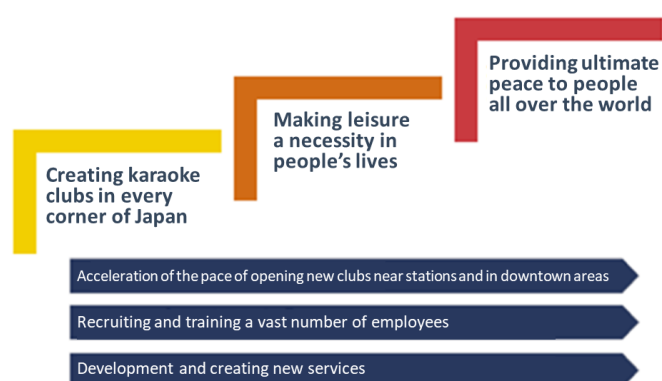
	FY Aug. 19 Act.	Ratio to sales•Profit margin	FY Aug. 20 Est.	Ratio to sales•Profit margin	YoY
Karaoke Club	35,732	54.3%	40,511	70.8%	+13.4%
Curves Fitness Club	28,036	42.6%	14,416	25.2%	-48.6%
Hot Spring	1,640	2.5%	1,664	2.9%	+1.5%
Real Estate Management	431	0.7%	618	1.1%	+43.4%
<b>Consolidated Sales</b>	<b>65,840</b>	<b>100.0%</b>	<b>57,209</b>	<b>100.0%</b>	<b>-13.1%</b>
Karaoke Club	4,518	12.6%	5,557	13.7%	+23.0%
Curves Fitness Club	5,679	20.3%	2,819	19.6%	-50.3%
Hot Spring	108	6.6%	176	10.6%	+63.0%
Real Estate Management	59	13.8%	19	3.1%	-67.8%
<b>Adjustments</b>	<b>-858</b>	<b>-</b>	<b>-487</b>	<b>-</b>	<b>-</b>
<b>Consolidated Operating Income</b>	<b>9,507</b>	<b>14.4%</b>	<b>8,084</b>	<b>14.1%</b>	<b>-15.0%</b>

\*Unit: million yen

## 3-3 Future Strategies

## Karaoke Business

Under the slogan “making entertainment into infrastructure,” the company will implement the EIP (Entertainment Infrastructure Plan). As its final targets, the company aims to achieve 100 billion yen in sales and 30 billion yen in operating profit. As its immediate targets, the company aims to reach 65 billion yen in sales and 20 billion yen in operating profit in the term ending in August 2024.



## Mid-term management plan

	FY 8/19 Results	FY 8/20 Forecast	FY 8/24 Targets	Goal Final Targets
Sales [Unit: million yen]	35,732	40,511	65,000	100,000
No. of rooms	11,400	12,100	20,000	30,000

(Source: the company)

## Business operation in Japan

As part of its plan to open 30 karaoke clubs every term, the company is focusing on opening clubs in the vicinity of stations and in downtown areas, as well as upsizing the clubs. As for the existing clubs, the company will continue increasing the rooms and renewing them while being flexible to the idea of demolishing some of them as well. However, recruiting and training a vast number of employees is necessary to implement the above plan. Therefore, the company uses a variety of recruitment methods, such as recruitment based on a designated work location and recruitment based on designated work hours. Furthermore, the company is enhancing its training programs and benefit plans.

Concerning the marketing aspect, the company continues to make various efforts for reeling in customers and differentiation, such as strategies regarding foods and drinks, pricing, systemization, and automation.

## BRIDGE REPORT



(Source: the company)

### Overseas business operation

Concerning the overseas business operation in which the company has accumulated know-how and knowledge, the company plans to open clubs proactively, mainly in Southeast Asia. The company opened three clubs in Malaysia and one club in Thailand and is preparing to open one in Indonesia. As for Malaysia, where there are three clubs, two of them are already making profit (the third club has been just opened in September), and the overall business is making a profit as well.

### Development and Creation of New Services—Private Entertainment Rooms

The company is working on the development of unique contents by using karaoke rooms in collaboration with companies from other industries, such as manufacturers, game centers, Japanese-style pubs, fast food restaurants, family restaurants, and Internet cafes (the company is considering live viewing using a large high-definition video display device based on a tie-up with a manufacturer) to satisfy other needs than karaoke.

### Curves Fitness Club Business

Keep strengthening existing gyms and opening new gyms

The 15<sup>th</sup> of October marks a turning point for the company as the number of fitness gyms has reached 2000, and it continues to focus its efforts on enhancing the existing gyms and opening new ones. As for enhancing existing gyms, the company is working on improving the customer satisfaction level and reducing membership cancellation rate by strengthening its customer service. These efforts yielded results as the average annual membership cancellation rate decreased from 4.14% in the term ending August 2009 to 2.43% in the term ending August 2019. Most recently, the average membership cancellation rate from January to August decreased from 2.64% in 2018 to 2.43% in 2019, which means that the membership cancellation decreased by around 20,000 people in a year. Also, the percentage of gyms with membership cancellation rates under 2% increased from 30.12% in the term ending August 2018 to 40.10% in the term ending Aug. 2019.

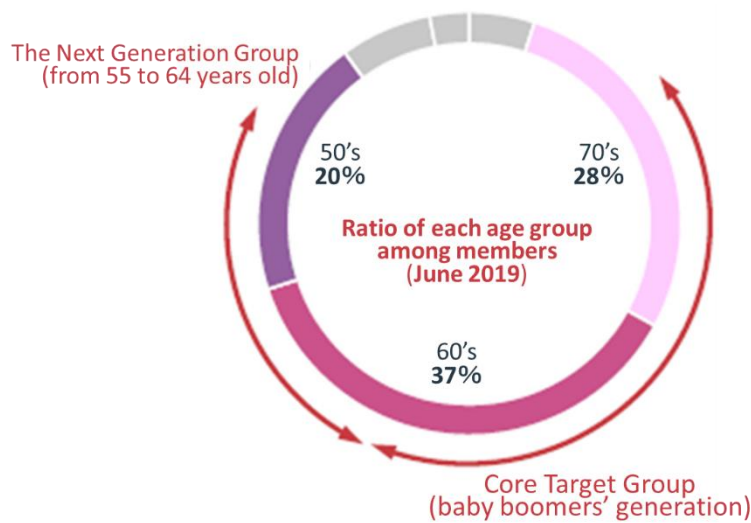
### To reel in more customers

The company also is working on increasing customers. Commemorating the number of gyms reaching 2000, the company launched a free one-month unlimited pass campaign in September and October. 35,000 new members (the number of people who officially joined during the free period) joined in September. The number of members at the beginning of the term was 822,000, falling below that at the beginning of the previous term: 827,000. However, due to the above enrollment of new members, the number of members at the end of September was 839,000, exceeding the number of members at the end of September last year: 836,000.

### Policies of the term ending August 2020

The company is continuing to improve customer satisfaction and decrease membership cancellation rates by strengthening its services as well as increasing its members through introductions and online reviews. The members who joined through introductions and online reviews have a high continuation rate. The company is also planning three free trial campaigns while improving customer satisfaction and sales by selling protein powder. Moreover, to attract its core target group, the baby boomer's generation, further, the company is reconstructing its marketing and enhancing its marketing to the next generation group (from 55 to 64 years old) by strengthening its campaigns and related promotions.

## BRIDGE REPORT



(Source: the company)

The company is planning to open 71 new gyms. The company is increasing the room for opening new gyms by using measures of redistribution of the network of gyms through strategic relocation, opening gyms implementing the amoeba management method, and opening more small gyms in the market areas. Through this, the company aims to open 400 gyms in the next three to four years.

Additionally, the company is opening multiple Men's Curves while focusing on supporting the local government's health-promoting policies. Aside from being a way of social contribution, collaborating with the local government can have a marketing effect by increasing the brand value among the local community. As for Men's Curves, the gym opened in Chino City in Nagano Prefecture is operating smoothly. The company succeeded in building a members' base through the introductions of Curves members, which contributed to decreasing the rate of membership cancellation, which was a concern for the company (dropped as much as female members). The company plans to open five new gyms in the term ending May 2020 and will continue to open 20 to 30 gyms from the term ending August 2021 (it is expected to open one Men's Curves gym per five Curves gyms).

Concerning the overseas business operation, the company is further strengthening its foundation (South Korea, Taiwan, Ukraine, and Russia) while working on business operations in Europe, where it has a high potential for growth. As for the further strengthening of its foundation, the company will spread the know-how and the business model (services and operation know-how, marketing know-how, sales of goods know-how, etc.) cultivated in Japan in South Korea, Taiwan, Ukraine and Russia which make up 93.7% or more of CVT's (Curves International, Inc.: global headquarters) sales (including the royalties from Japan).

Furthermore, the company is pursuing the high potential of growth in Europe with master licensees from eight European countries that purchased the master rights (franchise division) in July 2019 as its starting point. With a high-income level and an aging population, Curves Fitness Clubs business is a perfect match for Europe. Hence, it is a high priority region for the company's global expansion. The company is scheduled to establish Curves Europe B.V. (Netherlands) as the managing company of the business in Europe.

## BRIDGE REPORT



Focused Countries and Regions		The Master Licensees From Eight European Countries	
Taiwan 141 clubs	<ul style="list-style-type: none"> <li>Reducing membership cancellation rate by applying service know-how</li> <li>Currently applying the know-how for selling goods</li> </ul>	The United Kingdom 41 clubs	Creating a business foundation with Europe as its high priority region aiming towards global expansion  Targets for the term ending Aug. 2025 Number of clubs in Europe: 300 Number of members in Europe: 100,000
South Korea 346 clubs	<ul style="list-style-type: none"> <li>Applying the service know-how</li> </ul>	Italy 48 clubs	
Ukraine & Russia 197 clubs	<ul style="list-style-type: none"> <li>Guidance for the strategy of the expansion of the master licensees' directly managed clubs</li> </ul>	Spain 53 clubs	

## Mid-term Management Vision

The company will pursue its growth strategy as a “company which solves social problems” and a “company which extends the healthy life expectancy” that contribute to the prevention of illnesses and long-term care.

	Achievements for the end of the term ended Aug. 2019	Targets for the end of the term ending Aug. 2025
No. of gyms of the group in Japan	1,991	3,000
No. of members of the group in Japan	822,000	1,350,000
Chain's sales	70.2 billion yen	130 billion yen
Number of gyms in Europe	188	300
Number of members in Europe	49,000	100,000

## Shareholder return

The company is going to reward shareholders with dividends based on a consolidated payout ratio of 50%, and shareholder incentives. As for the shareholder incentives, the company is now discussing the contents of shareholders' benefits for adopting the system for shareholders' benefits.

## 4. Conclusions

Global business operation, development of new businesses, and collaboration with municipalities. The growth stage of the Curves Fitness Club business is said to be about to change. Accordingly, it will run the business as a company listed in the first section of the Stock Exchange rather than as a business division of a listed company. As it is becoming difficult to recruit workers at local franchised gyms, the company expects that the listing will enhance the Curves brand and increase its social reliability and popularity.

In Japan, it operates Men's Curves, and outside Japan, it is fortifying its business bases in South Korea, Taiwan, Ukraine, and Russia and applying the Japanese-style model to Europe where it has acquired the master licensee. These are both growth drivers, but the upfront investment is required and there are risks. Accordingly, its business performance may improve or worsen. On the other hand, the karaoke business has a bright outlook for clubs in downtown areas and the vicinity of stations and little worry for the foreseeable future. The share price of a conglomerate company tends to fall into the conglomerate discount, but the above-mentioned spin-off will allow the shares of Koshidaka Holdings Co., Ltd. and Curves Holdings Co., Ltd. to be evaluated appropriately according to their respective business results. We would like to expect from their future business operations.

## <Reference: Regarding Corporate Governance>

### ◎ Organization type and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	8 directors, including 3 outside ones

### ◎ Corporate Governance Report

Updated on December 4, 2018

#### Basic Policy

The basic policy for corporate governance of our corporate group is to achieve swift decision making and flexible organizational operation for strengthening our corporate competitiveness amid the rapidly changing business environment, while keeping the transparency and soundness of business administration for maximizing the corporate value with respect to shareholders, and we have developed systems and implemented some measures for it. The important mission in our business administration is to achieve sustainable growth and improve our medium and long-term corporate value. In order to fulfill this mission, our corporate group has fostered good relationships with all stakeholders, including shareholders and customers, while respecting their respective standpoints, and set our group's "management philosophy" and "behavioral standards" for following the philosophy.

#### Corporate Mission

Our mission is to contribute to the realization of lifestyles full of leisure and to the establishment of a peaceful world filled with hope by continuing to create, offer and provide the world with new and meaningful products and services.

#### "Code of Conduct"

- |   |   |
|---|---|
| 1. Entrepreneurship                           | 6. Fairness and selflessness                        |
| 2. Customers First                            | 7. Compliance                                       |
| 3. Creation of new services                   | 8. Firm mindset of conserving the earth environment |
| 4. Polishing of hospitality                   | 9. Personnel who can brush up themselves            |
| 5. Spirit of prioritizing morals over profits | 10. Rich opportunities                              |

#### <Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Supplementary Principle 4-1-2 Roles and duties of the board of directors (1) Mid-term management plan

As for the mid-term management plan, the board of directors checks and shares the grounds for producing the plan, its details and progress, but its details have not been announced, because the business environment changes considerably and we need to modify the plan flexibly.

Considering the changes in the business environment, etc., we will discuss

#### <Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

【Principle 5-1 Policy for developing systems and activities for promoting constructive dialogue with shareholder】

Basic policy	Through constructive dialogue with shareholders, our company will facilitate the understanding of our company and lead to sustainable growth and improvement in mid/long-term corporate value.
Section in chief	In our company, the IR division deals with applications for dialogue (an interview) from shareholders. After checking the purpose, etc. of the dialogue (interview), our CEO or director in charge will meet the shareholders when necessary.
Means of dialogue other than personal interviews	In our company, directors, including CEO, disclose information regularly via results briefing sessions, etc.
Prevention of leakage of insider information	As for the management of insider information, our company tries to manage information thoroughly and prevent the leakage of insider information, in accordance with the in-company regulations titled "Regulations for the management of internal information and preventing insider trading."



**【Principle 5-2 Formulation and announcement of managerial strategies and plans】**

Our company checks the weighted average cost of capital (WACC) and the cost of shareholder equity regularly considers that the mission of our management is to produce better results than these levels. As our results are indicated by ROA or ROE, we consider that ROA and ROE are important management indicators.

This report is intended solely for information purposes, and is not intended as a solicitation for investment. The information and opinions contained within this report are made by our company based on data made publicly available, and the information within this report comes from sources that we judge to be reliable. However, we cannot wholly guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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