STARTIA, INC.
3393 Tokyo Stock Exchange First Section

26-Jan.-16

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Fundamental Earnings Power Remains Unchanged—Strong Prospects for Returning to Growth, Leveraging New Products

Startia <3393> serves small and medium-sized companies with fewer than 300 employees. Most large system integrators and network equipment dealers bypass such companies, which typically cannot maintain full-time IT personnel. Startia provides one-stop IT-related services for these companies, constructing, operating, and maintaining hardware through systems for them.

Looking at business performance for FY3/16 1H (the six-month period from April to September 2015), Startia achieved its net sales forecast, but finished the interim period with earnings sharply below initial forecasts. The reason was clear. Sales of the ActiBook e-book production software and the COCOAR augmented reality (AR) service, both of which had served as earnings drivers until now, sharply underperformed forecasts. Startia managed to offset the lower-than-anticipated sales of these products with the sales of other products. However, given that ActiBook and COCOAR have very large profit margins, Startia was unable to cover the lower-than-expected earnings from each of these products with the earnings of other products.

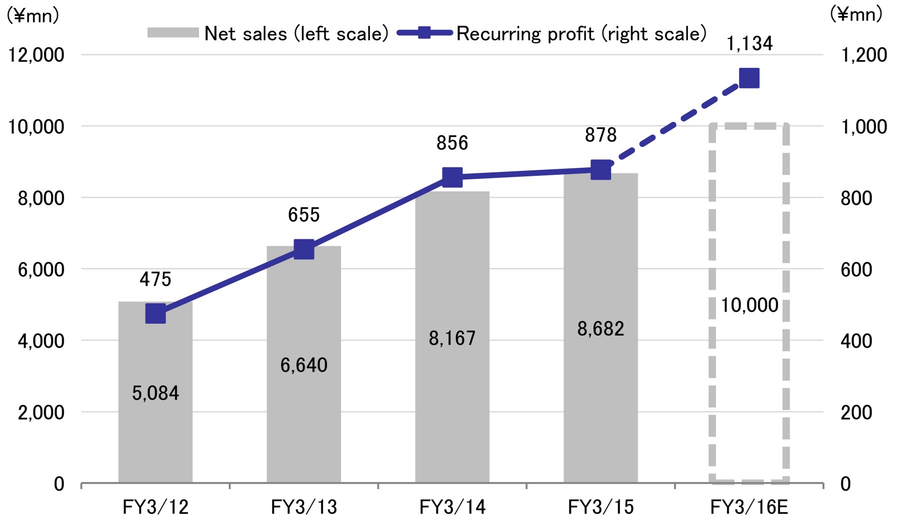
The reasons for the lackluster sales of both ActiBook and COCOAR were also clear. Startia was slow to address a shift in the target customer base for both products from early adopter customers to majority customers. Although the company needed to revise its marketing approaches in line with the shift in its customer base, Startia adhered to the same marketing approaches as before. As a result, the company was unable to convert marketing opportunities into sales. Startia has already taken steps to address this challenge and has begun to regain lost ground from Q3. Despite its performance in FY3/16 1H, Startia has not revised its initial full-year forecasts for FY3/16.

We believe the earnings shortfall against forecasts for FY3/16 1H is basically a temporary setback. Therefore, we have not changed our view of Startia's fundamental earnings power and growth scenario over the medium term. In addition to current services such as Startia Hikari fiber-optic lines and AppGoose, an online-to-offline (O2O) marketing service, Startia launched the new Secure MyNUMBER service in FY3/16. Moreover, Japan will fully liberalize the electricity retailing market in April 2016 and the gas market in 2017. Therefore, Startia has many opportunities to roll out many more appealing new products. Provided the company is able to restore sales of its main earnings drivers ActiBook and COCOAR, we believe Startia offers strong prospects for returning to growth.

Check Point

- Startia is focused on developing appealing products that complement its robust marketing capabilities.
- Management is forecasting higher net sales, operating income and recurring profit for FY3/16.
- Management is proactively returning profits to shareholders and has raised the dividend payout ratio to 15%.

Trend in corporate performance



Description of Businesses and Strengths

Providing an integrated IT environment to small and medium-sized companies with fewer than 300 employees

(1) Description of businesses

Hideyuki Hongo, the President, Representative Director and Chief Executive Officer, established Startia in 1996. It started out by selling business phones, expanding by offering Web hosting (rental servers) and other services with the spread of the Internet. Startia's business model focuses on serving small and medium-sized companies with fewer than 300 employees, which are often ignored by the competition, helping these entities overcome weak IT capabilities by providing an integrated IT environment. Startia currently provides one-stop solutions in the three business areas below.

Description of three business areas

	Web solutions business	Network solutions business	Business solutions business
Proportion of sales	23.5%	28.0%	48.5%
Proportion of profit	45.2%	25.5%	29.3%
Description of business and main products	Provision of Web solutions e-book production software ActiBook Provision of the AR service ActiBook AR COCOAR Production, maintenance, and operation of websites Planning and development of Web applications Provision of log analysis and search engine optimization and management services Release of AppGoose	Provision of network outsourcing environments NW equipment and NW construction Provision of cloud services: Including Secure SAMBA, Digit@Link Cloud, and hosting services Provision of Global Gateway, a high-speed, high-security line linking China and Japan Supply of NetResQ, an internal IT network service for small enterprises	Provision of optimal communication lines, equipment Sale of business phones and multi-functional printers Distribution of Otoku Line as an agent Distribution of mobile phones for corporate clients as an agent Launch of Startia Hikari as part of Hikari Collaboration setup

a) Web solutions business
In the Web solutions business, Startia supplies Web solutions, including website production and operation and maintenance services, along with consulting services designed to boost website access, such as search engine optimization and management services. Currently, the core product of this business is the ActiBook e-book production software developed and sold by Startia Lab, Inc., a wholly owned subsidiary of Startia. Around 2,500 companies have adopted ActiBook, making this software the de facto standard in Japan. In addition, the AR service ActiBook AR COCOAR, an offshoot of ActiBook, has also been growing rapidly in recent years. Both of these products seem to have very high margins, and serve as earnings drivers for the Web solutions business, enabling this segment to account for almost half of Startia's operating income. Startia released AppGoose in FY3/16. We will detail that product later in this report, but in essence, AppGoose makes it simple for small and medium-sized enterprises and stores to produce O2O applications and marketing campaigns.

b) Network solutions business
In the network solutions business, Startia provides so-called "managed services" to small and medium-sized enterprises. Specifically, Startia provides integrated services encompassing internal IT network construction as well as network operation, administration and maintenance. As part of these services, Startia also sells network equipment such as routers and firewalls. Looking more closely at the lineup of services, Startia supplies rental servers and the Secure SAMBA and Digit@ Link Cloud services. Its offerings also include the Global Gateway dedicated line linking Japan and China and NetResQ, a maintenance service for the networks of small enterprises. Startia's strengths lie in its ability to propose optimal fee structures and network area environments, services and other offerings that fit the practical needs of small and medium-sized enterprises.

c) Business solutions business
In the business solutions business, Startia focuses on selling and maintaining wireline telephones and corporate mobile phones, copiers, and the Otoku Line service. The business model for many products in this segment provides a recurring revenue structure. Therefore, although margins are low this segment can stably amass earnings. In FY3/16, the company launched Startia Hikari, the brand for a retail business for fiber-optic lines. Startia is a provider under the Hikari Collaboration service of NTT <9432>. This new service could put the business solutions segment back on track for growth. We will discuss details later in this report.

Startia's Strengths: Strong Marketing Capabilities and a Balanced Revenue Structure With Recurring and Non-Recurring Revenue Streams

(2) Startia's Strengths

We believe Startia has two main strengths. First is the company's strong marketing capabilities. Second is the company's balanced revenue structure with recurring and non-recurring revenue streams.

a) Strong marketing capabilities: A seamlessly integrated IT-driven product lineup, catalyzed by a slim billing service
Startia is expanding business across three business segments. Each of these businesses is linked to one another through IT. Startia's product lineup is shaped in almost every respect by the success of the one-stop solutions and cross-selling that the company targets. Startia's slim billing service integrates all the billing tasks for its products, serving as a catalyst to accelerate the product lineup. We believe the source of Startia's strong marketing capabilities lies in having these frameworks in place to seamlessly integrate its various products and services.

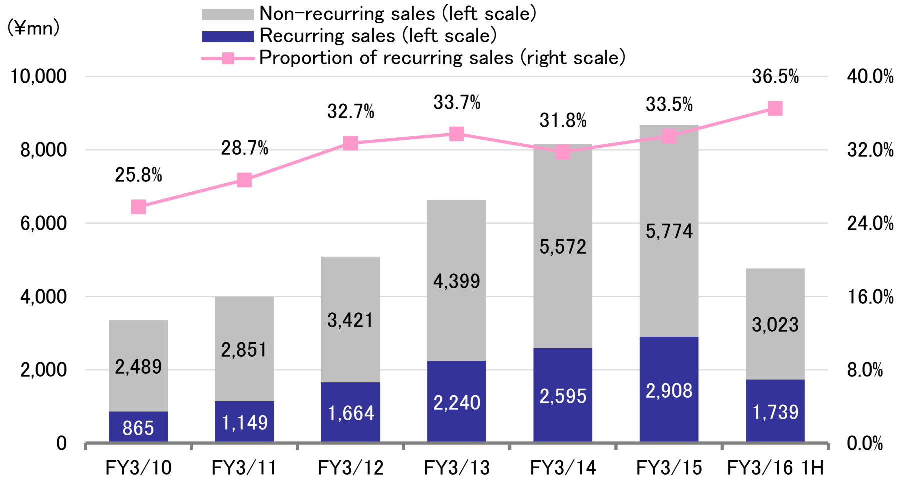
In terms of marketing strategies, Startia is concentrating on specific target customers by focusing on companies with fewer than 300 employees, most of which do not have full-time IT personnel. The company has also narrowed down its sales areas to increase efficiency and avoid spreading its resources too thin. (Startia restricts sales to areas where customer service can be provided within one hour to assure customer satisfaction, and conducts sales primarily in Japan's three major cities and Fukuoka Prefecture where it can efficiently make sales calls.) Efforts on these fronts have been helping to solidify Startia's strong marketing capabilities.

b) Revenue structure with balanced recurring and non-recurring revenue streams

Startia's products can be broadly divided into products that generate recurring revenue and those that generate non-recurring revenue. The former generate revenues at the point of sale, whereas the latter generate monthly revenues during the product and service subscription periods. Some products such as ActiBook offer customers a choice between making a one-time purchase and making installment payments while using the product over the cloud. Other products such as multi-functional printers (MFPs) have a two-tiered revenue structure. MFPs initially generate non-recurring revenue when MFPs are sold. This is followed by recurring revenues generated from MFP counter fees, which are charged according to the number of printed sheets.

Generally speaking, management is on a more stable footing when the ratio of recurring revenues is higher. Startia has a large number of products and services that have a two-tiered revenue structure that shifts from non-recurring to recurring revenues. Therefore, increasing non-recurring revenues will lead directly to increasing future recurring revenues. In FY3/15, Startia had a larger ratio of non-recurring revenues, with non-recurring revenues accounting for 66.5% and recurring revenues accounting for 33.5% of net sales. Startia has many products generating non-recurring revenues that also have high margins. Moreover, many of the company's products have substantial growth potential. Considering this situation, we believe Startia should continue giving priority to efforts to expand its non-recurring revenues. We also believe Startia currently has an optimal balance of recurring and non-recurring revenues.

Recurring and non-recurring sales proportional to net sales



Source: Compiled by FISCO Ltd. based on earnings presentation materials

■ FY3/16 Results

Finishing FY3/16 1H with lower earnings on higher sales

In FY3/16 1H, Startia posted net sales of ¥4,761 mn (YoY +17.7%), operating income of ¥86 mn (-65.9%), recurring profit of ¥107 mn (-66.6%) and a net loss of ¥5 mn (against net income of ¥237 mn in FY3/15 1H). Although Startia surpassed its net sales forecast, operating income was ¥80 mn below forecast. Earnings also fell below forecasts at all other levels.

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FY3/16 1H Business Results

(¥mn)

	FY3/15		FY3/16				
	1H	Full year	1H E	1H	YOY	Vs. forecast (%)	Vs. forecast
Net sales	4,045	8,682	4,416	4,761	17.7%	7.8%	345
Gross profit on sales	2,016	4,356	-	2,176	7.9%	-	-
Gross margin	49.8%	50.2%	-	45.7%	-	-	-
SG&A	1,762	3,609	-	2,089	18.6%	-	-
Ratio of SG&A to sales	43.6%	41.6%	-	43.9%	-	-	-
Operating income	253	747	166	86	-66.0%	-48.2%	-80
Operating margin	6.3%	8.6%	3.8%	1.8%	-	-	-
Recurring profit	320	878	166	107	-66.6%	-35.5%	-59
Net income	237	592	83	-5	-	-	-88

Source: Compiled by FISCO Ltd. based on earnings reports

The main reason for the shortfalls against forecasts in FY3/16 1H was that sales of two core products, namely the e-book production software ActiBook and the AR service COCOAR, fell significantly below forecasts. The reasons for these drops in sales are evident. For both products, Startia was unable to fully address the shift in target customers from early adopter customers (customers who proactively adopt new technology), who had been Startia's primary customer base until now, to majority customers (customers who adopt new technology only after others around them have done so).

ActiBook has been adopted by 2,464 companies (as of September 30, 2015), ranging from small and medium-sized enterprises, middle-market companies and large blue-chip corporations, making this software the de facto standard in the field of e-book production in Japan. Moreover, the number of companies that have adopted COCOAR is now well above 800, making COCOAR Japan's leading product in its class. As we have seen, demand from early adopter customers had largely run its course, and since FY3/16, majority customers have been accounting for most of Startia's target customers. In general, majority customers are less familiar with technology than early adopter customers and are more cautious about deciding to adopt technology. Therefore, sales representatives must embrace a different sales approach than before (including revising the main selling points conveyed in sales collateral and presentations). However, first- and second-year sales representatives account for nearly half of Startia's current sales force, making it harder for the company to adapt to its changing customers. This was arguably the single most important factor behind Startia's business performance in FY3/16 1H.

In light of these conditions, in the Web solutions business, net sales rose slightly YoY to ¥915 mn, but segment profit fell to a loss of ¥7 mn. Meanwhile, in the network solutions business, Startia posted net sales of ¥1,406 mn, up 23.9%, on the back of steady growth in managed services. Segment profit decreased by 24.0% to ¥92 mn. However, this was primarily due to the transfer of certain operations to the business solutions business. In the business solutions business, net sales were ¥3,137 mn, up 56.9%. This was the result of a proactive drive to promote the adoption of color multi-functional printers (MFPs) among customers, along with commencing Startia Hikari sales in earnest in July under NTT's Hikari Collaboration service. Segment profit in the business solutions business declined 7.1% to ¥52 mn. The main reason was a loss incurred on the launch of subsidiary Crosscheck Inc.

Trend of business results by segment

(¥mn)

Segment	Item	FY3/14		FY3/15		FY3/16	
		1H	Full year	1H	Full year	1H	YOY
Web solutions business	Net sales	861	1,943	910	2,041	915	0.5%
	Segment profit	79	323	97	359	-7	-
	Net margin on profit	9.2%	16.6%	10.7%	17.6%	-0.8%	-
Network solutions business	Net sales	980	2,160	1,135	2,432	1,406	23.9%
	Segment profit	157	301	121	202	92	-24.0%
	Net margin on profit	16.0%	13.9%	10.7%	8.3%	6.5%	-
Business solutions business	Net sales	1,842	4,063	1,999	4,208	3,137	56.9%
	Segment profit	26	254	56	232	52	-7.1%
	Net margin on profit	1.4%	6.3%	2.8%	5.5%	1.7%	-

Source: Compiled by FISCO Ltd. based on earnings reports

Driving medium-term growth with new products

Startia is focused on developing appealing products that complement its robust marketing capabilities

(1) Overview

Startia has been sparing no effort to develop new products. As noted earlier, strong marketing capabilities and appealing products complement one another. Leveraging these strengths using the slim billing (integrated billing) service and other capabilities as catalysts, Startia has achieved a positive cycle and has thereby expanded its revenues. Opportunities for new products are created through not only internal R&D, but also deregulation and other trends. Below we take a look at two products developed in-house, namely AppGoose and Secure MyNUMBER. We also examine Startia Hikari and the liberalization of the power market as examples of opportunities spawned by deregulation and regulatory changes.

Launching sales of tools for easily creating and managing O2O apps

(2) AppGoose

O2O marketing has been attracting interest in the retail sector. Startia has released AppGoose as a tool for easily creating and managing O2O apps. AppGoose went on sale in FY3/16.

To execute O2O marketing, stores have to develop their own apps, which consumers must download from the App Store or Google Play. Stores then distribute coupons and event and other information through the apps. Startia's AppGoose service offers two key advantages. The first is that stores that do not have their own apps can use Startia's GOOSEE app to distribute coupons and event and other information. Second, it enables stores that want to engage in O2O marketing with their own apps to create them simply (distributing coupons and information through the apps). Startia's business model is to charge stores an initial fee and then a monthly usage charge.

Sales of AppGoose in FY3/16 1H appear to have reached only around several ten million yen. However, these sales have been steadily increasing over time since 1Q. Moreover, as with ActiBook and COCOAR, AppGoose is considered to be a high margin product. Therefore, AppGoose is expected to make a sizable contribution to profits once sales reach a certain threshold.

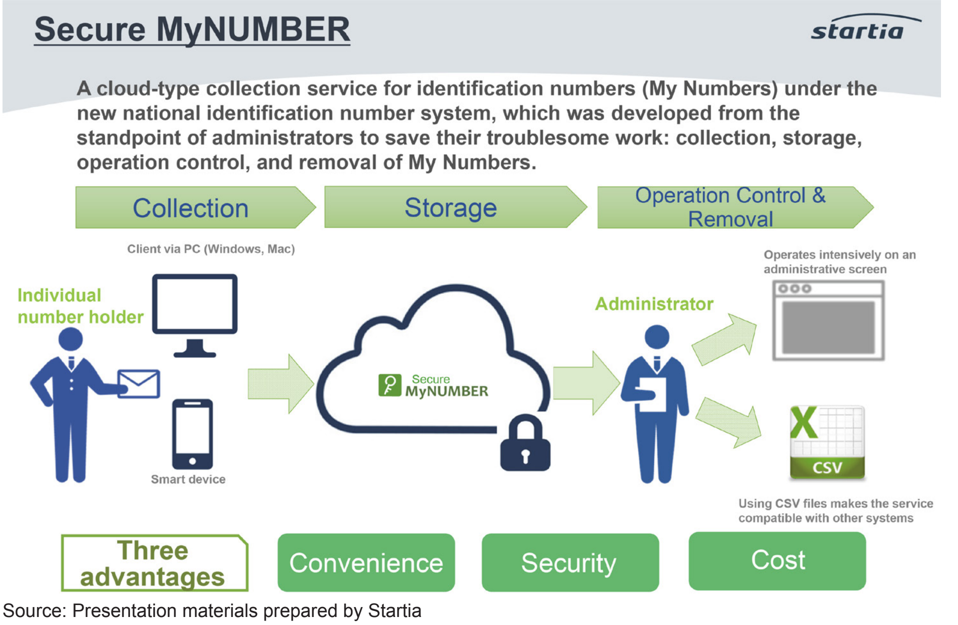
Providing a new service to reduce the onerous administrative tasks of the "My Number" System

(3) Secure MyNUMBER

With the start of the "My Number" system, companies will be expected to process the Individual Numbers of employees in more and more situations. Typically, companies will be required to print an employee's Individual Number on withholding tax certificates for submission to their tax office. Therefore, corporate staff will need to collect Individual Numbers from employees and process and administer this data (including deleting data as necessary) in a highly secure environment.

Considering the nature of these matters, these tasks could very conceivably impose an onerous burden on companies, even those with only a few employees. In some cases, companies will need to establish or revise their internal manuals. Startia developed Secure MyNUMBER to streamline these burdensome tasks. Since its launch in FY3/16, sales of Secure MyNUMBER have steadily increased in FY3/16 1H. We believe Secure MyNUMBER sales will start growing in earnest from FY3/17 onward, when Japan's "My Number" system will come into full force.

Product Outline: Secure MyNUMBER



Source: Presentation materials prepared by Startia

Expanding NTT's Hikari Collaboration Service through a proprietary packaged service

(4) Startia Hikari

NTT has made it possible for service providers to sell FLET's Hikari fiber-optic broadband connections, which it previously marketed itself. Those providers can add FLET's Hikari to their own services and sell these service packages to consumers at fees that those companies set independently. This setup is called the Hikari Collaboration Service. Providers are called Hikari Collaboration businesses. Startia is one such business, marketing its service package under the Startia Hikari brand. Consumers using FLET's Hikari can switch to services from Startia Hikari or other Hikari Collaboration businesses, without needing to change their phone numbers or commission construction work for the changes and only requiring a change in contract form. The usage environment remains the same for consumers after the change, as the contracts allow them to continue using services that are available only from NTT.

Fiber-optic lines constitute the most basic component of services offered by Startia as a total solution provider for IT services. Fiber-optic lines have an extremely strong affinity with Startia's existing products and services. This affinity is reflected in Startia's actual sales activities—the company is boosting sales through the cross-selling of fiber-optic lines to existing customers. In FY3/17 and beyond, this cross-selling approach is also expected to play an effective role in developing new customers in conjunction with electricity retailing, which will be discussed later.

Pushing ahead with the selection of PPS partners and other initiatives to enter the electricity retailing business

(5) Electricity retailing

Japan has already liberalized the electricity retailing sector for large commercial users, but not the electricity retailing sector for low-voltage and small users with demand under 50 kW. This sector, which includes many households and small businesses (convenience stores), has remained regulated. However, Japan will liberalize this sector from April 2016, marking the full liberalization of the country's electricity retailing market. Startia's main customers are small and medium-sized enterprises. Although some of these customers are companies that fall under the high voltage sector with demand of 50 kW or more but less than 2,000 kW, we estimate that most of Startia's client companies (both existing and potential customers) belong to the low voltage sector.

Breakdown of Electricity Retailing Market by Sector

	Special high voltage	High voltage	Low voltage
Percentage of aggregate electricity demand	Approx. 25%	Approx. 35%	Approx. 40%
Electricity sales liberalized	April 2000	April 2004	April 2016
Major users	Large factories, large office buildings	Small and medium-sized factories and supermarkets	General households and convenience stores Small and medium-sized enterprises and small home offices
Receiving voltage	20,000 volts or more	Over 6,000 volts or more	100 to 200 volts or more
Demand	2,000 kW or more	50 kW or more but less than 2,000 kW	Less than 50 kW

Source: Compiled by FISCO Ltd.

Enterprises that have registered as Power Producer and Suppliers (PPSs) see electricity retailing as a highly promising growth field for FY3/17 and beyond. These PPSs plan to drive electricity retailing forward by building sales networks through the signing of sales agent agreements with companies in various industries and through the formation of PPS groups known as balancing groups.

In response, Startia has decided to market electricity at this time, but has not yet finalized its plans for entering the electricity retail business, including the selection of PPS partners. For Startia, we believe electricity retailing will play an effective role in developing new customers mainly through the combined sales of electricity and Startia Hikari, in conjunction with the cross-selling of electricity to existing customers as a matter of course.

■ Outlook

Management is forecasting higher net sales, operating income and recurring profit for FY3/16

(1) Outlook for FY3/16

Management's forecasts for FY3/16 are for ¥10,000 mn in net sales (YoY +15.2%), ¥1,134 mn in operating income (+51.8%), ¥1,134 mn in recurring profit (+29.2%), and ¥567 mn in net profit (-4.2%). Management has not revised its initial forecasts.

Outlook for FY3/16

(¥mn)

	FY3/15			FY3/16					
	1H	2H	Full year	1H	YOY	2H (E)	YOY	Full year (E)	YOY
Net sales	4,045	4,637	8,682	4,761	17.7%	5,239	13.0%	10,000	15.2%
Gross profit on sales	2,016	2,340	4,356	2,176	7.9%	-	-	-	-
Gross margin	49.8%	50.5%	50.2%	45.7%	-	-	-	-	-
SG&A	1,762	1,847	3,609	2,089	18.6%	-	-	-	-
Ratio of SG&A to sales	43.6%	39.8%	41.6%	43.9%	-	-	-	-	-
Operating income	253	494	747	86	-66.0%	1,048	112.1%	1,134	51.8%
Operating margin	6.3%	10.7%	8.6%	1.8%	-	20.0%	-	11.3%	-
Recurring profit	320	558	878	107	-66.6%	1,027	84.1%	1,134	29.2%
Net income	237	355	592	-5	-	572	61.1%	567	-4.2%

Source: Compiled by FISCO Ltd. based on earnings presentation materials and earnings reports

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In FY3/16 1H, Startia's earnings decreased sharply due to ActiBook and COCOAR in the Web solutions business. In response, Startia has revised its marketing approaches for these two products and is now conducting marketing activities better matched to the needs and IT literacy of majority customers, who account for most of its target clientele. Specific measures have included redeveloping sales proposals to make them easier to understand and to avoid one-sided sales pitches by the company at every stage of the process, from product outlines to demonstrations, case examples, business models and planning. In the network solutions business, sales of Secure MyNUMBER, a cloud-based service for Individual Numbers ("My Numbers") offer strong prospects from FY3/16 2H. Managed services have also been performing strongly since FY3/16 1H. In the business solutions business, Startia appears to be steadily growing sales of Startia Hikari under Hikari Collaboration primarily to existing customers, and these sales are expected to increase further in FY3/16 2H. For these reasons, Startia seeks to achieve its initial full-year targets for FY3/16 by making up for the shortfalls in FY3/16 1H during FY3/16 2H.

In regard to Startia's full-year forecasts for FY3/16, we believe Startia's countermeasures in the Web solutions business and its growth scenarios for the network solutions and business solutions businesses carry a certain degree of persuasiveness. The company expects to achieve its full-year forecasts by making up for the shortfalls in FY3/16 1H during FY3/16 2H. As noted earlier, the key point to watch will be whether Startia is able to generate sales of ActiBook and COCOAR, both of which have extremely high gross margins, in line with forecasts. In this regard, it will be key to watch whether Startia is able to restore earnings to its forecast level in FY3/16 2H through various means including driving growth in sales of Secure MyNUMBER and Startia Hikari.

Moreover, some may argue that it is more important for Startia to focus on fully capturing majority customers by reshaping its sales force and marketing tools, along with providing extensive training to its sales representatives, most of whom are relatively young. This should be done even if it means foregoing short-term sales in FY3/16. In any case, the main point is to ensure that the setbacks experienced in FY3/16 1H do not hinder the company's future performance.

No fundamental change in Startia's medium- and long-term growth potential

(2) Perspectives on FY3/17

Despite the recent decline in earnings, we believe Startia's medium- and long-term growth potential remains fundamentally unchanged. From FY3/17 onward, we expect Startia to return to its previous growth trajectory.

With the full liberalization of the electricity retailing market in FY3/17, Startia will obtain a new product in the form of electricity. Needless to say, IT and communications rely on electricity as a source of energy. The theme of reducing electricity costs can be addressed through the products offered by Startia's Web solutions, network solutions, and business solutions businesses. Therefore, we believe this will facilitate Startia's cross-selling of electricity.

Furthermore, Secure MyNUMBER and Startia Hikari offer prospects for solid growth in FY3/17. Because the general public will begin using Individual Numbers in earnest from FY3/17, we expect Secure MyNUMBER to attract significant interest next fiscal year. Marketing of Startia Hikari seems to be currently centered on the cross-selling of this product to existing customers. However, we expect Startia to expand sales of Startia Hikari to new customers in FY3/17 mainly through the combined sales of this product and electricity. We are also excited about the prospects for continued growth in sales of new products such as AppGoose.

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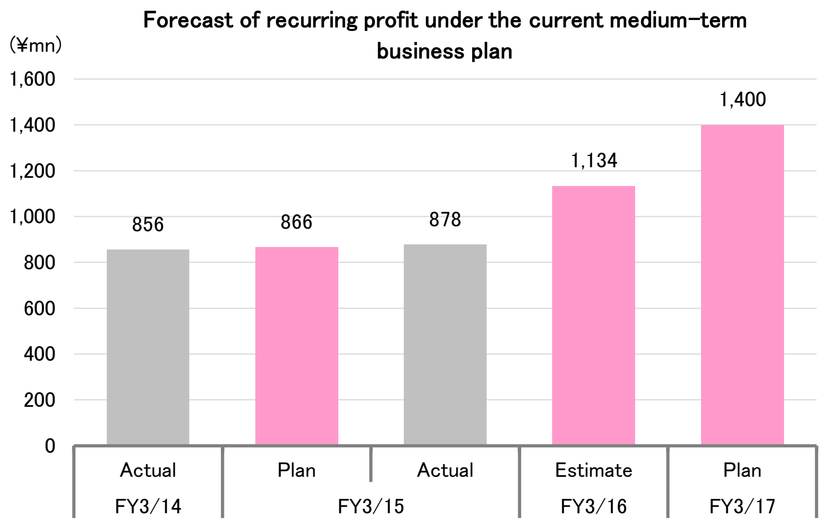

Source: Compiled by FISCO Ltd. based on earnings presentation materials

Under its current medium-term business plan, Startia has announced a recurring profit forecast of ¥1,400 mn for FY3/17. The starting line for this forecast will depend on Startia's final business results for FY3/16. Accordingly, Startia could revise its recurring profit forecast of ¥1,400 mn. However, even in the event of a downturn in Startia's business results for FY3/16, we believe such a downturn would be attributable to one-time factors specific to a single fiscal year. Therefore, we believe Startia's fundamental ability to generate recurring profit of ¥1,400 mn in FY3/17 would not be compromised at all.

Condensed income statements and key performance indicators

(¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16		
				1H	2H (E)	Full year (E)
Net sales	6,640	8,167	8,682	4,761	5,239	10,000
YOY	30.6%	23.0%	6.3%	17.7%	13.0%	15.2%
Gross profit on sales	3,487	4,245	4,356	2,176	-	-
YOY	25.5%	21.7%	2.6%	7.9%	-	-
Gross margin	52.5%	52.0%	50.2%	45.7%	-	-
SG&A	2,831	3,415	3,609	2,089	-	-
YOY	22.1%	20.6%	5.7%	18.6%	-	-
Ratio of SG&A to sales	42.6%	41.8%	41.6%	43.9%	-	-
Operating income	656	829	747	86	1,048	1,134
YOY	42.9%	26.4%	-9.9%	-66.0%	112.1%	51.8%
Operating margin	9.9%	10.2%	8.6%	1.8%	20.0%	11.3%
Recurring profit	655	856	878	107	1,027	1,134
YOY	37.9%	30.7%	2.6%	-66.6%	84.1%	29.2%
Net income	391	432	592	-5	572	567
YOY	40.6%	10.5%	37.0%	-	61.1%	-4.2%
EPS after stock split adjustment (¥)	39.31	42.75	58.09	-0.54	56.16	55.62
Dividend after stock split adjustment (¥)	3.93	7.50	10.00	4.00	7.500	11.500
BPS after stock split adjustment (¥)	302.86	344.84	389.90	-	-	-

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Condensed balance sheets

(¥mn)

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16 2Q
Current assets	3,092	3,397	4,051	4,057	4,452
Cash and deposits	2,055	2,069	2,247	2,335	2,742
Notes and accounts receivable-trade	838	1,033	1,438	1,319	1,250
Other	199	295	366	403	460
Noncurrent assets	676	878	1,115	1,604	1,744
Tangible noncurrent assets	109	100	105	150	159
Intangible noncurrent assets	258	328	502	811	848
Investment and other assets	309	450	507	642	735
Deferred assets	10	5	0	0	0
Total assets	3,778	4,279	5,167	5,662	6,196
Current liabilities	1,126	1,243	1,661	1,684	1,645
Accounts payable-trade	354	453	618	565	543
Short term borrowings	141	0	0	0	333
Other	631	790	1,043	1,119	769
Noncurrent liabilities	1	1	12	0	666
Long term borrowings	0	0	0	0	666
Other	1	1	12	0	0
Shareholder's equity	2,658	3,045	3,450	3,960	3,878
Capital stock	778	789	795	824	824
Capital surplus	919	931	937	965	965
Retained earnings	962	1,325	1,717	2,208	2,126
Treasury stock	0	0	0	-38	-38
AOCI (Accumulated Other Comprehensive Income)	-7	-9	42	15	4
Subscription rights to shares	0	0	1	2	2
Total net assets	2,651	3,036	3,493	3,977	3,884
Total liability and net assets	3,778	4,279	5,167	5,662	6,196

Statements of cash flows

(¥mn)

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16 1H
Net cash provided by (used in) operating activities	461	566	638	755	-56
Net cash provided by (used in) investment activities	-240	-591	-286	-582	454
Net cash provided by (used in) financing activities	-186	-146	-24	-82	923
Effect of exchange rate change on cash and cash equivalents	0	-1	-1	49	-914
Net increase (decrease) in cash and cash equivalents	35	-172	327	140	407
Cash and cash equivalents at beginning of period	2,005	2,040	1,868	2,195	2,335
Cash and cash equivalents at end of period	2,040	1,868	2,195	2,335	2,742

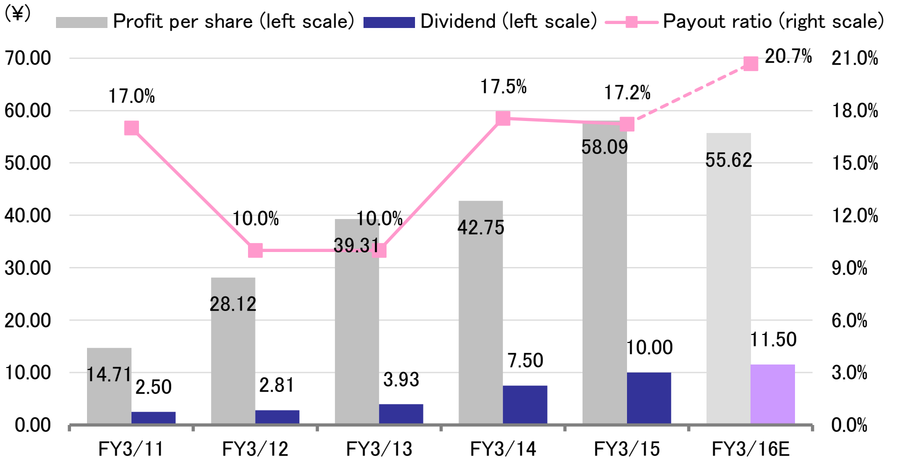
Returning profits to shareholders

Management is proactively returning profits to shareholders and has raised the dividend payout ratio to 15%.

Startia is emphasizing individual shareholders and proactively returning profits to shareholders. Dividends are fundamental to that approach, and management has determined dividends that strike a balance with the internal reserves set aside for growth investments. Management was previously committed to a payout ratio of 10%. However, from FY3/15, the company has raised the target payout ratio for common shares to 15%.

On October 1, 2015, the company conducted a two-for-one stock split of common shares. Management declared dividends of \8.0 per share at the end of FY3/16 2Q, before adjusting for the stock split. Furthermore, management plans to declare dividends of \7.5 per share at the end of FY3/16, after adjusting for the stock split. Based on a simple sum, the annual dividend is \15.5 per share. However, on a pre-stock split basis, the annual dividend is \23.0 per share, an increase of \3 from the actual annual dividend of \20.0 per share for FY3/15.

Trend of profit per share, dividend, and payout ratio



Note: Startia conducted a two-for-one stock split on October 1, 2015.

Source: Compiled by FISCO Ltd. based on earnings reports

FISCO

Disclaimer