STARTIA, INC.

3393 Tokyo Stock Exchange First Section

26-Sept.-16

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FISCO Ltd. Analyst
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In 1Q FY3/17, the Company started reorganizing to achieve continuous growth

Startia <3393> provides one-stop information technology (IT) services, from selling hardware to constructing, operating, and maintaining systems, for smaller companies, those with 300 or fewer employees, which cannot afford to hire an IT manager and which are not served by large systems integration (SI) companies and dealers in network equipment.

In the first quarter of the fiscal year through March 2017, i.e., in 1Q FY3/17, the Company's consolidated net sales grew year on year (YoY) to ¥2,315mn, but the Company suffered an operating loss of ¥177mn, which was larger than its operating loss in 1Q FY3/16. From FY3/17, the Company reorganized its business segments into two segments: digital marketing and IT infrastructure. In 1Q FY3/17, the digital marketing segment developed somewhat more slowly than the Company had planned, but this setback was offset by the performance of the IT infrastructure segment, which receives a large portion of its revenue from services that provide steady revenue. Thus, overall results in 1Q FY3/17 were generally in line with the Company's plan.

From FY3/17, Startia is broadly restructuring, including reorganizing and changing its sales strategy. The aim of this restructuring is to achieve continuous growth by evolving from a company that sells IT products separately to one that sells integrated IT services. As mentioned previously, the Company has reorganized its businesses into two segments, digital marketing and IT infrastructure, and has substantially altered the sales strategy of both segments.

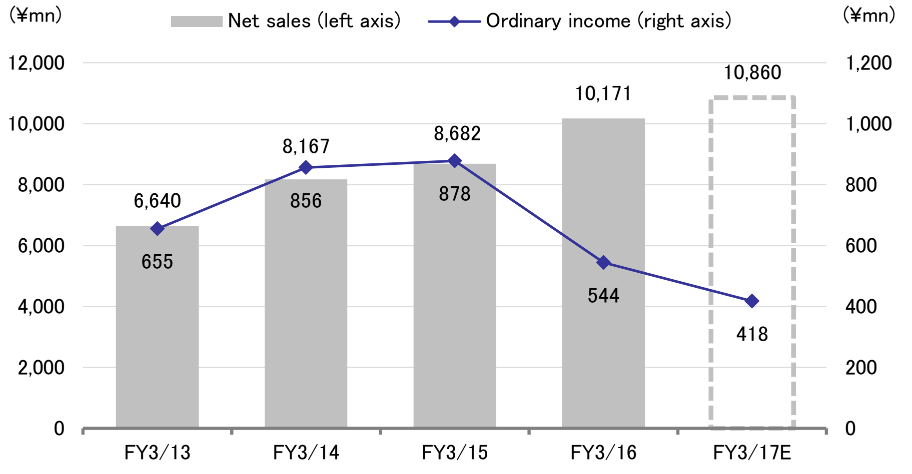
The digital marketing segment is partnering with other companies to pursue the majority of companies in creative industries as customers. In 1Q FY3/17, this segment was busy retraining its employees for their new mission, so it made only modest progress, but the Company considers this segment to be a key to continuous growth over the medium-to-long term. Time will be required for this segment to succeed because it must first raise the skills of its employees and change their mind-set, but FISCO has expectations of the segment and will watch over developments.

The IT infrastructure segment is undergoing the large change from a product orientation to a customer orientation and from a vertical orientation to a horizontal one. The segment appears to be making this transition smoothly, probably because its equipment has always been highly compatible and it has grown through cross-selling. Since a large part of its revenue is predictable (recurring), its profits are also steady. Until the digital marketing segment achieves commercial viability, the IT infrastructure segment should be able to support the Company's overall sales and profits.

Check Point

- Startia is evolving from a seller of separate IT products to a provider of integrated IT services
- It has rearranged its businesses into two segments: digital marketing and IT infrastructure
- The Company values its individual shareholders and is raising its dividend payout ratio

Consolidated net sales and ordinary income, FY3/13–FY3/17E



1Q FY3/17 results

Recurring revenue increased

In 1Q FY3/17, consolidated net sales increased 2.8% YoY to ¥2,315mn, while the Company suffered an operating loss of ¥177mn, compared with an operating loss of ¥107mn in 1Q FY3/16, an ordinary loss of ¥189mn, versus an ordinary loss of ¥85mn in 1Q FY3/16, and a net loss attributable to shareholders of the parent company of ¥43mn, which was less than the net loss of ¥80mn seen in 1Q FY3/16. The Company had originally projected an operating loss for 1Q FY3/17, but the operating loss it reported was smaller than the loss it had forecast.

1Q FY3/17 consolidated results versus 1Q FY3/16 consolidated results

(¥mn)

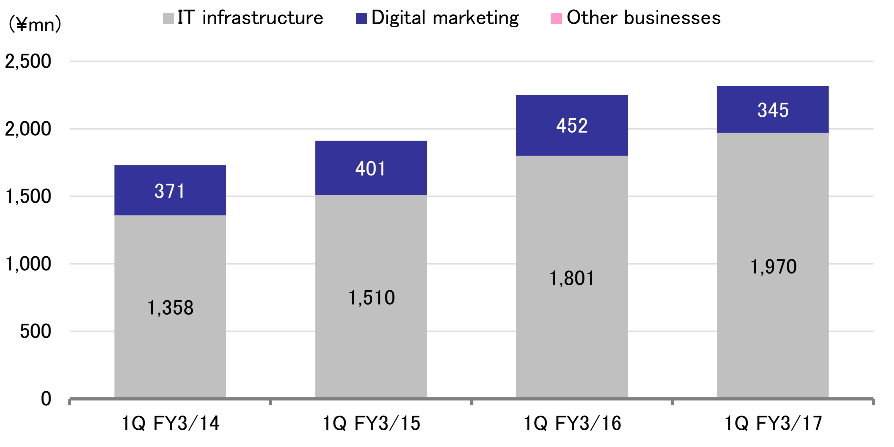
	FY3/16		FY3/17			
	1Q	Full year	1Q Co. f	1Q result	Absolute change YoY	Absolute change between 1Q result and 1Q Co. f
Net sales	2,253	10,171	2,291	2,315	62	24
Gross profit	982	4,609	-	931	-51	-
Gross profit margin	43.6%	45.3%	-	40.2%	-	-
SGA costs	1,089	4,106	-	1,108	19	-
Ratio of SGA costs to sales	48.3%	40.4%	-	47.9%	-	-
Operating income	-107	503	-201	-177	-70	24
Operating income margin	-	5.0%	-	-	-	-
Ordinary income	-85	544	-	-189	-104	-
Net income attributable to shareholders of parent company	-80	253	-	-43	36	-

Source: Prepared by FISCO from Company materials

Net sales in the digital marketing segment fell 23.6% YoY in 1Q FY3/17 to ¥345mn, and the segment reported an operating loss of ¥99mn, compared with an operating loss of ¥10mn in 1Q FY3/16. The sales decline stemmed from a temporary weakening of operations due to the Company's overhaul of sales strategy. Sales dropped sharply in April and May but appear to have in June. The increase in the segment's operating loss was due to the sales decline and to an upturn in personnel cost and other costs reflecting the addition of employees to the support department in April and a rise in the outsourcing of product development.

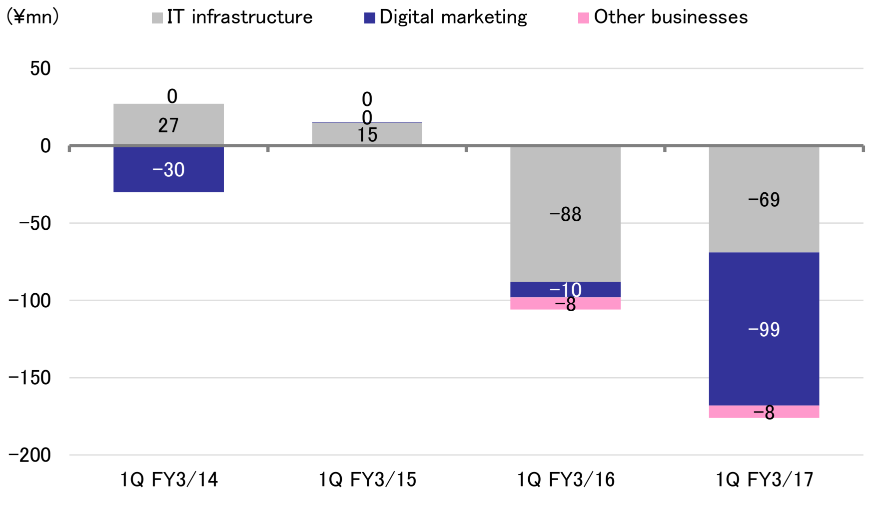
In the IT infrastructure segment, net sales were ¥1,970mn, an increase of 9.2% YoY relative to the combined sales of the two segments that merged to form the IT infrastructure segment, and the segment operating loss shrank to ¥69mn from ¥88mn a year earlier. Sales growth was led by sales of the Startia Hikari service, which sells fiberoptic telecommunications service to consumers in collaboration with the FLET's Hikari fixed broadband fiberoptic service offered by Nippon Telegraph and Telephone Corp. (NTT), and by steady revenue of counter fees. The Company had originally forecast an operating loss for the IT infrastructure segment, primarily because of the organizational reform that created the segment, the costs of training segment employees, and a rise in personnel costs reflecting an increase in the number of new employees. Therefore, the segment's operating loss in 1Q FY3/17 was smaller than the Company had expected.

Consolidated net sales by segment, 1Q FY3/14–1Q FY3/17



Source: Prepared by FISCO from Company materials

Consolidated operating income by segment, 1Q FY3/14–1Q FY3/17



Source: Prepared by FISCO from Company materials

FISCO finds the Company's 1Q FY3/17 results to be in line with its forecasts for FY3/17. As detailed hereafter, FY3/17 is a year of complete makeover for the Company, as it reconstructs its sales strategy, organization and personnel system to achieve continuous growth. One quarter of results is not adequate to appraise the new sales strategy and reorganization, so we will continue to observe this transformation. However, the Company probably saw unexpected cost rises and other events in 1Q FY3/17, yet results for sales and operating income were better than had been forecast.

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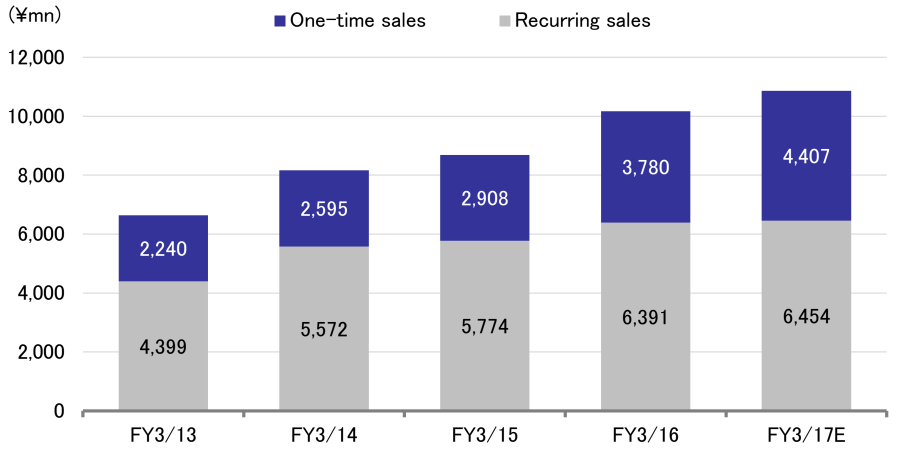
A positive achievement in 1Q FY3/17 was a continued increase in steady or recurring revenue, which is an important objective of the Company as it seeks continuous growth. For FY3/17, the Company projects total consolidated net sales of ¥10,860mn. Of this, it expects steady revenue of ¥4,407mn. In 1Q FY3/17, steady revenue amounted to about ¥1,100mn, accounting for a proportion of total sales in line with the Company's forecast for the full fiscal year.

Recurring sales and one-time sales, FY3/13–FY3/17E



Source: Prepared by FISCO from Company materials

■ Progress in measures to achieve continuous growth

Evolving from a seller of separate IT products to a supplier of integrated IT services

(1) Background for new measures

In FY3/17, the Company is starting a major restructuring to change from a seller of individual IT products to a provider of comprehensive IT services in order to achieve continuous growth.

The motivation for this restructuring was the poor performance in FY3/16 by the web solutions segment. This segment handles software produced in-house, which provides high profit margins. Startia started out selling business telephones, then branched into software and general IT services. During its history, it has thought about advancing into the next stage of its business model, but since its sales and profits were growing under the original model, it did not consider the risks of changing the model to be worthwhile. However, its performance in FY3/16 convinced the Company that major changes in business structure, organization, and sales strategy were necessary.

The phrase "changing into an integrated IT services provider" is not literally correct because the Company has considered itself a provider of IT services since its inception. Perhaps, it was aware that it had only gone some way toward the direction it had initially targeted. Despite this, FISCO sees the above statement to mean that it had been basically selling IT products (network equipment, software, cloud services, etc.) separately and now is reorganizing to become a true provider of integrated IT services with a stress on a "customer first" mindset.

(2) Reorganization

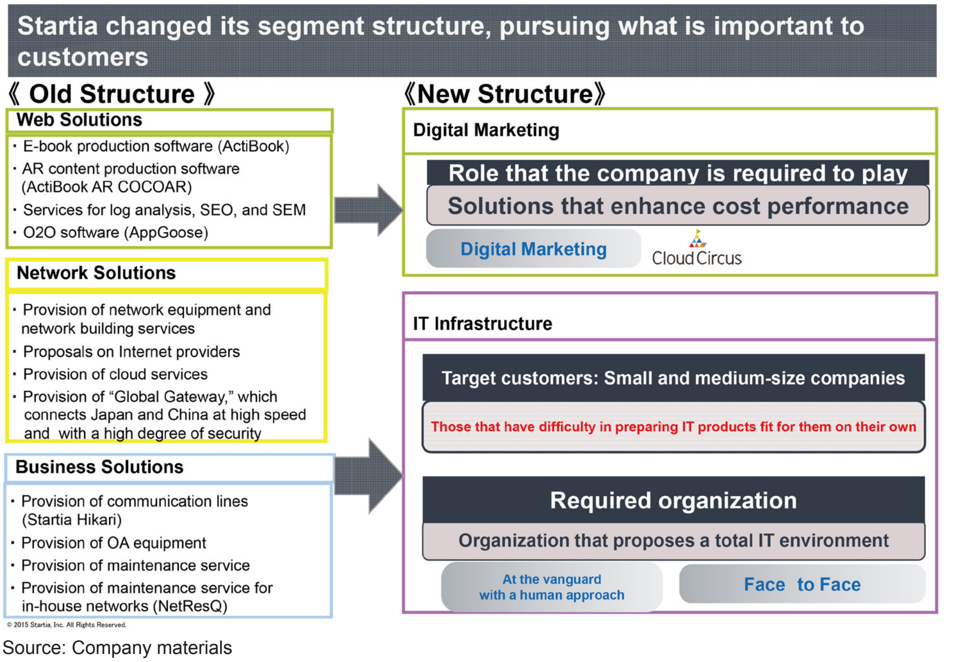
The Company has regrouped its businesses into two domains. One of these domains is marketing support businesses, which improve the efficiency of marketing by customer companies and contribute to their increased sales using application software and tools developed by the Startia group of companies. The Company's marketing support tools are not limited to Web marketing and e-commerce, but include e-mail marketing, omni-channel measures, and customer databases. Most of these businesses were previously undertaken by the Company's Web solutions segment, but this segment has been renamed the digital marketing segment.

The other new domain is systems integration businesses. Most of these businesses were previously undertaken by the network solutions segment and the business solutions segment. In the new organization, these two segments have been integrated to form the IT infrastructure segment.

The Company's reorganization is a substantive change in its sales structure. As detailed below, this is not just a formal change in sales structure, but a significant, real change in the Company's system of evaluating employees. We applaud the Company for aligning substantive change with the change in form, which should contribute to achieving the desired results. However, we expect that such a large reorganization will take some time to yield results. Looking ahead it will be the focus of much attention to see the status of progress, including 1Q FY3/17 results.

The Corporate Venture Capital Business Promotion Office established in FY3/16 will continue as the other businesses segment. Thus, the Company now has three business segments for IR disclosure.

Startia's organizational change



Source: Company materials

Shift to a two segment system for digital marketing and IT infrastructure

(3) Digital marketing segment

The main product of the digital marketing segment is software developed by subsidiary Startia Lab, Inc., such as the e-book production tool ActiBook and the augmented reality (AR) content production tool ActiBook AR COCOAR (COCOAR). These software support customer acquisition and the electronic processing of administrative procedures and is generally sold to companies in creative industries, such as the advertising agencies and printing companies. This marketing support software enhances the IT function of companies in creative industries and their customers, general companies, assisting both to acquire more business.

Main products in the digital marketing segment

Name	Function	Distinguishing characteristics
ActiBook	e-book production tool	Security function that blocks forwarding to other users, log analysis into depth of content is possible
ActiBook AR COCOAR	Tool for producing augmented reality (AR) content	Increases the effective use of flyers, directing routes cannot be compared, measures the effect of flyers
ActiBook Docs	Document management tool	Shares materials among all sales people, allows materials to be improved based on data, enables viewing of on-site negotiations with customers
Content management system (CMS) Blue Monkey	Tool for the production and management of websites	Provides long-tail search engine optimization (SEO) function, offers work flow function with updating rights for page setting
Plusdb	Tool for producing and managing databases	Enables the generation of product databases, can be installed on existing websites, allows searches based on complex (detailed) conditions
AppGoose	Tool for producing application software programs	Simplifies online-to-offline marketing
Bow Now	Marketing automation (MA) tool	Enables the management of information on prospective customers and the nurturing of these customers, allows the configuration of one-to-one email contacts, produces content for limited parties

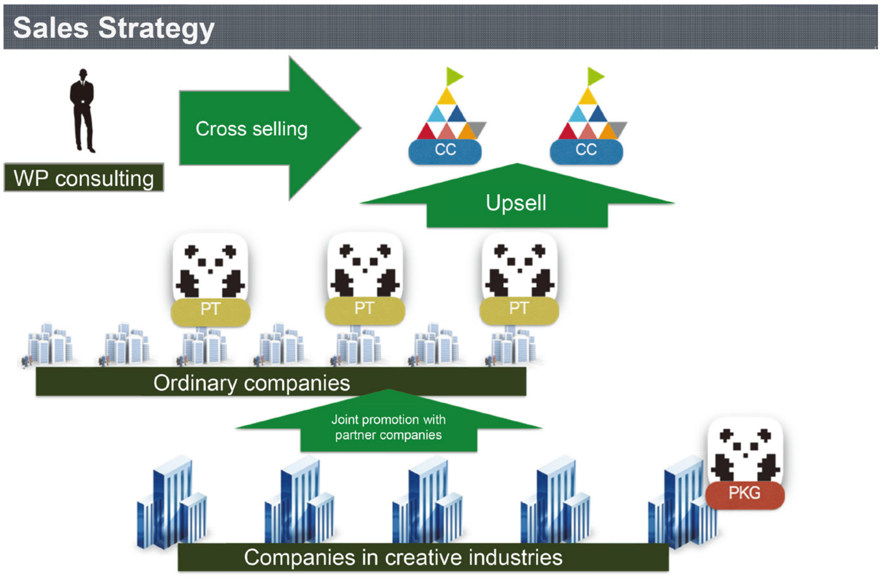
Source: Prepared by FISCO from Company materials

Up to now, the Company has sold its software individually as package software (a one-time sale) or as part of a cloud computing service paid for in monthly fees. Most of the sales were in packages and to early adopters of new products. However, FY3/16 results revealed that the Company's software sales to early adopters had peaked. The Company will therefore target the majority of companies expected to form the next customer group, but many of this group is cautious in adopting the products. The main aim of the Company's reorganization and change of sales strategy is to better serve this majority.

There are two main points to make about the concrete measures being taken by the Company. The first is that the Company has launched a new product called Cloud Circus as a cloud computing service offering many of the Company's software programs for a fixed fee and as a software package. For general companies, which tend to be light users of marketing support software, the Cloud Circus service is cheaper than buying all the component software programs. This service is also being offered to companies in creative industries, but such companies tend to be heavy users of marketing support software, so buying the software package is cheaper for them than subscribing to the service. Users can choose the service or the package depending on their frequency of use.

The second point is that the Company has adopted a new partnership approach to selling its marketing support software. According to this sales strategy, the Company forms partnerships with the majority of companies in creative industries that has not introduced the Company's software products to sell these products to general companies that could be potential customers of the majority of companies in creative industries. Many of the majority of companies in creative industries is reluctant to invest in software without the prospect of receiving concrete revenue. The Company has a strategy of forming partnerships with potential customers from among the majority of creative companies and getting general companies to install the Company's various types of marketing tools.

Diagram of digital marketing sales strategy



Source: Company materials

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FISCO estimates that the change in sales strategy in the digital marketing segment was implemented slightly less than the Company had planned in 1Q FY3/17. In order for partnership sales to succeed, organizational changes at Startia alone are insufficient. Cooperative relationships must be established with the companies in creative industries that are potential customers for Startia. Few of such relationships were probably formed in the first two months of FY3/17, i.e., in April and May 2016, and this delay probably hurt profits in the segment. The Company claims that segment business recovered somewhat in June, compared with the previous two months, but we suspect that the new sales structure will not become operational until 2Q FY3/17, in line with the Company's expectation.

We believe that the delayed performance of the digital marketing segment in 1Q FY3/17 was not unexpected by the Company. As mentioned earlier, the IT infrastructure segment performed well enough to counter the shortfall in the performance of the digital marketing segment. The digital marketing segment is still in the "do" phase of the plan-do-check-act (PDCA) cycle for its partnership sales operation, and it will have to continue to implement the operation for some time before reaching the "check" phase.

FISCO believes that the launch of the Cloud Circus multiple software product and the introduction of partnership sales operations theoretically match the Company's desired direction for its digital marketing segment and expects these actions to bear fruit. A possible issue is that the Company's sales people may need different skill sets and mindsets than they have held previously to succeed at partnership sales. If so, time and expense will be needed to train and optimally reassign personnel. The Company's planned quarterly performance for FY3/17 reflects this probability, so we will monitor its performance versus its plan in coming quarters.

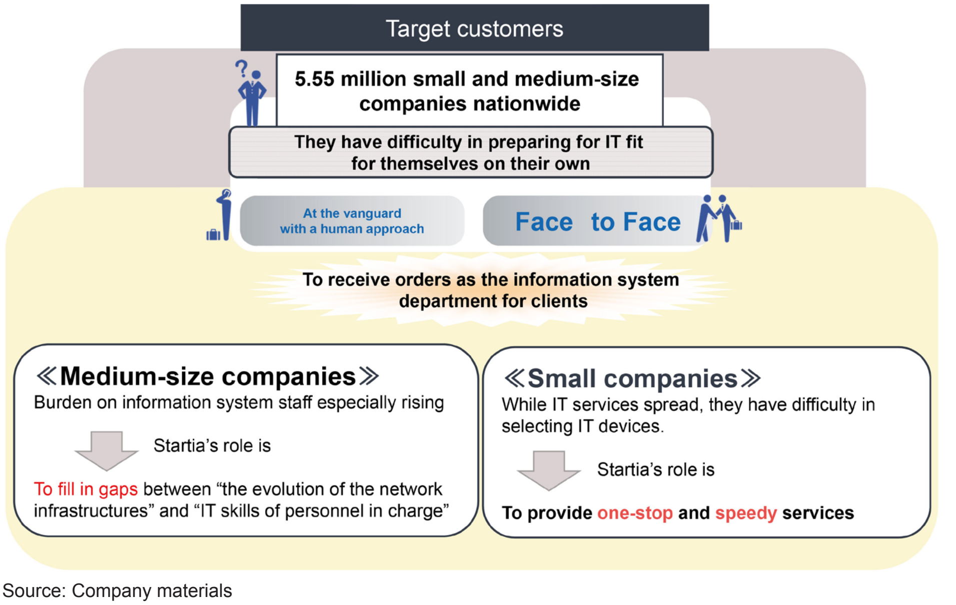
(4) IT infrastructure segment

The IT infrastructure segment is comprised of the former network solutions segment and business solutions segment. FISCO considers this merger to be very effective in rationalizing operations because the Company can function better as a systems integrator by combining the goods and services of the former two segments.

As a provider of IT services, Startia wants to strengthen its ability to offer high-value-added systems integration services to medium-sized offices more than any other capability. Among such systems integrations services are the replacement of obsolete infrastructure servers, the implementation of high-speed network environments, the migration of all services to a cloud computing environment, and the construction, maintenance and operation of networks based on the Amazon Web Service (AWS). To promote this business model, the Company must reorganize and change the skill sets and mindsets of its sales people.

Therefore, it is changing its structure and sales approach from a vertical organization selling individual products to a horizontal organization selling all of its products and changing the mindset of its sales people from being sellers of products to being subcontractors for systems construction.

Diagram of business model for IT infrastructure segment



Source: Company materials

Until this fiscal year, the Company's sales organization had focused on products, and it had trained and assigned product specialists as sales people. Accompanying the spread of SI business, however, it has become important to concentrate on the needs of each customer and assign an account manager as a one-stop provider of all the equipment and systems needed by the customer. The Company's potential customers are small and medium-sized companies that cannot afford their own IT managers. For these companies, Startia becomes the external IT manager. Thus, it is natural for Startia to change the orientation of its sales people to their customer's overall needs.

In 1Q FY3/17, the IT infrastructure segment seems to have made the transition to a new structure more than the digital marketing segment. This may have been due to the fact that the Company had previously used product specialists as sales people and had encouraged cross selling as an important sales strategy. Thus, its sales people were knowledgeable about many products, making it easier for sales people in the IT infrastructure segment to change to an orientation on customers. In addition, the products in this segment tend to be related, which may have facilitated the change. One of the products that sold well in 1Q FY3/17 was the Startia Hikari fiberoptic telecommunications service. FISCO believes that Startia's sales people took advantage of sales of this service to cross-sell business telephones, multifunction printers (MFPs) and network security services with the aim of reducing total costs for their customers.

A large portion of the goods and services in the IT infrastructure segment are sold according to recurring revenue contracts, which tend to secure customers. FISCO believes that these contracts supply regular sales and profits to the Company and allow it to concentrate on developing and promoting new products. On the other hand, such contracts may make the Company conservative and unwilling to assume risks. In 1Q FY3/17, the positive aspects of these contracts were more evident than the negative aspects. However, one quarter is not enough to fully appraise this approach, so we will continue to monitor it along with the performance of the IT infrastructure segment overall.

Restructuring of businesses and group for continuous growth

(5) Restructuring of businesses and group in 1Q FY3/17

From 1Q FY3/17 into the first half of 2Q, Startia restructured its businesses and group companies to transform itself. These measures all abide by the aforementioned corporate vision that the Company is aiming for, and FISCO believes that these were rational decisions.

a) Converted Crosscheck, Inc. from a consolidated subsidiary to an affiliate accounted for by the equity method

Crosscheck, Inc. had been a wholly-owned subsidiary of Startia, but Startia sold part of its holdings in this subsidiary to a third party on June 30, 2016, and the subsidiary also allocated new shares to a third party. Thus, Startia now owns 42.31% of Crosscheck, which has become an affiliate accounted for by the equity method.

Crosscheck operates a one-stop invoicing service that allows customers to consolidate their expenses and consults about the use of such a service. Startia, which provides business phones, MFP, various types of telecommunication lines and cloud services, established Crosscheck to deepen its relations with customers by providing one-stop invoicing. Crosscheck's business grew to include invoicing for not just the IT field, but other fields, as well. Furthermore, Crosscheck wanted to strengthen its financial base. These developments led to the changes in Crosscheck's ownership. FISCO believes that these decisions by Startia and Crosscheck were a natural development. To grow faster, Crosscheck needed to expand its business beyond the IT product invoicing for Startia. At the same time, Startia can better select and concentrate its resources on businesses other than Crosscheck.

b) Sold hosting business

On July 1, 2016, Startia sold its hosting (server rental) business to A.T. Works, Inc., which is headquartered in Toyama City. In FY3/16, the hosting business generated sales of ¥270mn and gross profit of ¥12mn. Startia sold the business for ¥70mn.

Startia had previously taken an equity stake in A.T. Works and consigned to that company the repair and maintenance of rented servers. Startia decided to sell its hosting business because it has decided to concentrate on its strength in selling general IT services, including hosting. FISCO believes that this was a wise decision because it clarifies the role of both companies and should improve their management efficiency.

c) Bought BCMEDIA Co., Ltd.

On July 29, 2016, Startia purchased BCMEDIA Co., Ltd., which is headquartered in Sakai City, Osaka Prefecture, making it a wholly-owned subsidiary. BCMEDIA sells, supports and maintains office automation (OA) equipment. In its fiscal year through July 2015, it generated sales of ¥328mn and operating income of ¥6mn.

FISCO believes that this purchase bolstered Startia's sales and support capabilities in the Osaka area. Startia has a branch office in the Umeda area of Kita Ward, Osaka. Part of Startia's sales strategy is to focus on customers within an hour to an hour and one-half from its offices, so the Company can respond to customer requests quickly and increase customer satisfaction. Sakai City is about one hour south of Startia's Osaka branch office, enabling Startia to serve more customers quickly. BCMEDIA's business also overlaps with the business of the IT infrastructure segment, so FISCO expects this purchase to contribute to Startia's sales and profit growth quickly.

Business Trends

A year to embed reorganization

(1) Company forecasts for FY3/17

For FY3/17, Startia projects a 6.8% YoY rise in consolidated net sales to ¥10,860mn, a 17.0% decrease in operating income to ¥418mn, a 23.3% fall in ordinary income to ¥418mn, and a 21.0% drop in net profit attributable to shareholders of the parent company to ¥200mn. The Company has not revised its initial forecasts.

Company forecasts for FY3/17 versus its FY3/16 results

(¥mn)

	FY3/16		FY3/17				
	1H	Full year	1Q	1H Co. f	YoY % change	Full-year Co. f	YoY % change
Net sales	4,761	10,171	2,315	4,865	2.2%	10,860	6.8%
Gross profit	2,176	4,609	931	-	-	-	-
Gross profit margin	45.7%	45.3%	40.2%	-	-	-	-
SGA costs	2,089	4,106	1,108	-	-	-	-
Ratio of SGA costs to sales	43.9%	40.4%	47.9%	-	-	-	-
Operating income	86	503	-177	-129	-	418	-17.0%
Operating income margin	1.8%	5.0%	-	-2.7%	-	3.8%	-
Ordinary income	107	544	-189	-129	-	418	-23.3%
Net income attributable to shareholders of parent company	-5	253	-43	-132	-	200	-21.0%

Source: Prepared by FISCO from Company materials

Startia forecasts a steady quarter-on-quarter increase in its net sales and operating income in FY3/17. In 1Q, the Company suffered an operating loss, but this loss was smaller than the Company had foreseen.

As mentioned earlier, in the first two quarters of FY3/17, the Company will concentrate on investing in reorganization, so it projects lower sales and profits than normal for those quarters. However, it foresees an upturn in sales and profits in the final two quarters of FY3/17 to normal levels.

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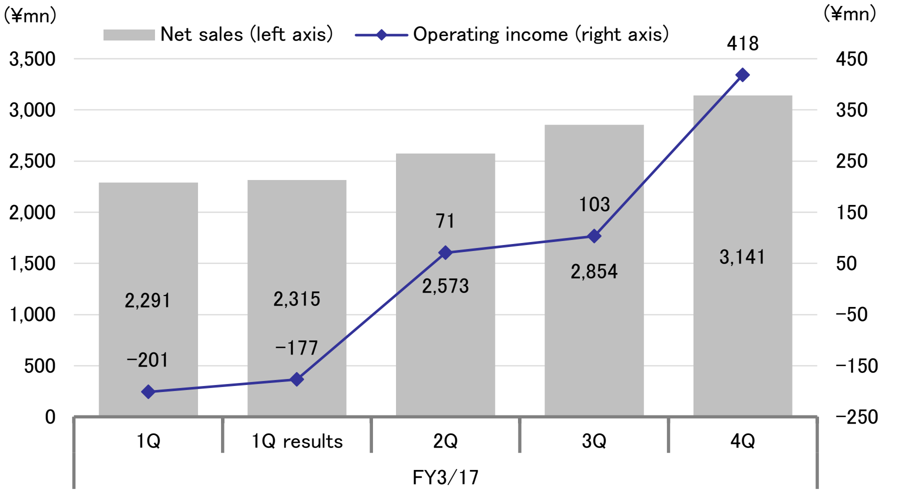
Company forecasts of FY3/17 net sales and operating income by quarter with 1Q results



Source: Prepared by FISCO from Company materials

FISCO believes that Startia is likely to achieve its forecasts for FY3/17 because these forecasts incorporate a conservative projection of the recurring sales base that the Company has built. More important than the Company's results in FY3/17 is the completion of its reorganization to enable profit growth from FY3/18. This will be a major change, and it would be unwarranted to get over-optimistic about its prospects.

From 2Q FY3/17, FISCO will be most interested in the success of the partnership sales structure and the progress of consulting sales in the digital marketing segment. Specifically, we will focus on the segment's sales of mainline software and new services, as well as the rate of increase in the number of segment customers. For the IT infrastructure segment, we will monitor the implementation of the customer-specific sales orientation. Specifically, we will track the rate of change in sales per customer and the change of recurring sales as a proportion of total segment sales.

(2) Prospects for FY3/18 and beyond

With the completion of 1Q FY3/17, FISCO's outlook for FY3/18 has not changed. We summarize this outlook on a quarterly basis below.

In the past, Startia's sales and profits have been quite seasonal, being weakest in 1Q and strongest in 4Q. In the first half of FY3/17, this pattern is likely to be exacerbated by the additional expenses incurred for reorganization, such as the cost of retraining personnel. Results in the second half of FY3/17 are likely to be closer to normal.

In 1H FY3/18, Startia is unlikely to incur costs similar to the additional costs it will bear in 1H FY3/17. We estimate these costs at ¥200–300mn. Thus, profits should increase by this amount YoY in 1H FY3/18 even if sales do not grow. If sales increase YoY in 1H FY3/18, profit would grow by more than ¥200–300mn YoY, and for all of FY3/18, operating income could surpass the Company's operating income in FY3/14. However, profits in FY3/18 will depend on the success of restructuring in FY3/17.

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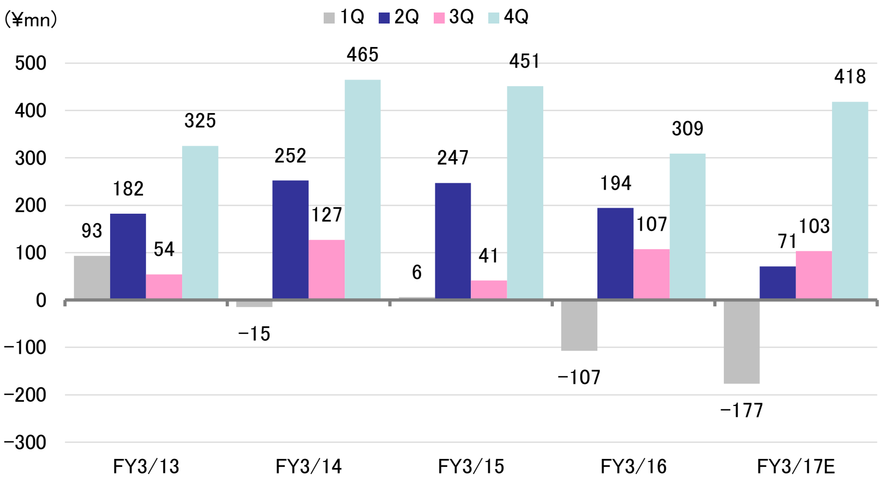
Consolidated operating income by quarter, FY3/13–FY3/17E



Note: 1Q FY3/17 is actual operating income.
Source: Prepared by FISCO from Company materials

Condensed consolidated income statement and per-share data, FY3/15–FY3/17E

(¥mn)

	FY3/15	FY3/16	FY3/17		
			1Q	1H Co. f	Full-year Co. f
Net sales	8,682	10,171	2,315	4,865	10,860
YoY % change	6.3%	17.1%	2.8%	2.2%	6.8%
Gross profit	4,356	4,609	931	-	-
YoY % change	2.6%	5.8%	-5.2%	-	-
Gross profit margin	50.2%	45.3%	40.2%	-	-
SGA costs	3,609	4,106	1,108	-	-
YoY % change	5.7%	13.8%	1.7%	-	-
Ratio of SGA costs to sales	41.6%	40.4%	47.9%	-	-
Operating income	747	503	-177	-129	418
YoY % change	-10.0%	-32.6%	-	-	-17.0%
Operating income margin	8.6%	5.0%	-	-	3.8%
Ordinary income	878	544	-189	-129	418
YoY % change	2.6%	-38.0%	-	-	-23.3%
Net income attributable to shareholders of parent company	592	253	-43	-132	200
YoY % change	37.2%	-57.3%	-	-	-21.0%
Adjusted EPS (¥)	58.09	24.82	-4.28	-13.23	20.04
Adjusted DPS (¥)	10.00	9.00	-	3.00	9.00
Adjusted BPS (¥)	389.90	400.57	-	-	-

Note: The Company made a 2-for-1 share split on October 1, 2015.

Condensed consolidated balance sheet, FY3/15-end–1QFY3/17-end

(¥mn)

	FY3/15-end	FY3/16-end	1Q FY3/17-end
Current assets	4,057	4,700	4,164
Cash and deposits	2,335	2,638	2,519
Notes and accounts receivable	1,319	1,597	1,204
Non-current assets	1,604	1,828	1,834
Tangible non-current assets	150	172	158
Intangible non-current assets	811	927	898
Investments and other long-term assets	642	728	777
Total assets	5,662	6,529	5,999
Current liabilities	1,684	1,878	1,533
Trade accounts payable	565	640	495
Short-term borrowings, etc.	0	333	346
Non-current liabilities	0	561	461
Long-term borrowings	0	559	460
Shareholder’s equity	3,960	4,095	4,001
Capital stock	824	824	824
Additional paid-in capital	965	965	965
Retained earnings	2,208	2,344	2,249
Treasury stock	-38	-38	-38
Accumulated other comprehensive income	15	-11	-5
Subscription rights to new shares	2	2	0
Net assets	3,977	4,088	4,004
Total liabilities and net assets	5,662	6,529	5,999

FISCO

STARTIA, INC.

3393 Tokyo Stock Exchange First Section

26-Sept.-16

Consolidated cash flow statement

(¥mn)

	FY3/15	FY3/16	1Q FY3/17
Cash flow from operations	768	366	59
Cash flow from investing	-595	-762	-135
Cash flow from financing	-82	705	-17
Changes in cash and cash equivalents due to currency exchange fluctuations	48	-24	-27
Absolute change YoY in cash and cash equivalents	139	284	-120
Balance of cash and cash equivalents at start of fiscal year	2,195	2,335	2,620
Balance of cash and cash equivalents at end of fiscal year	2,335	2,620	2,499

■ Shareholder returns

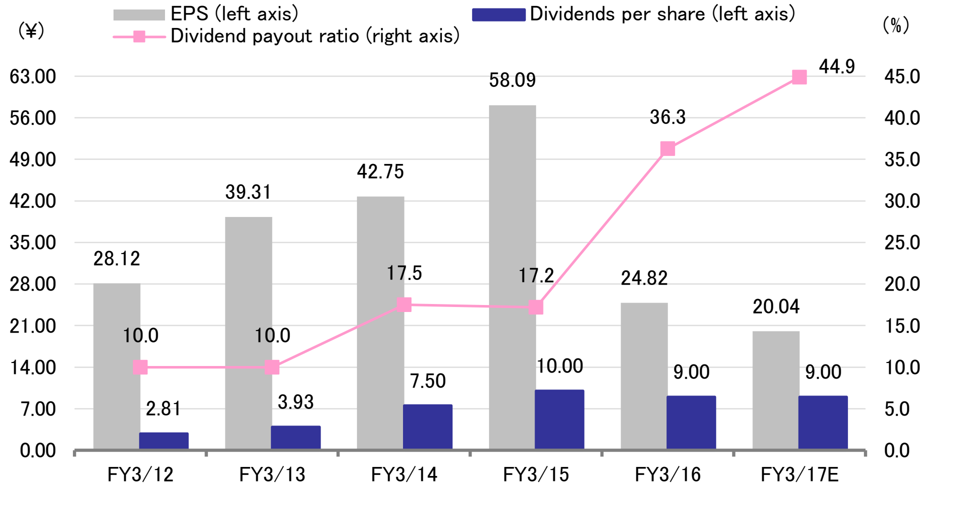
Startia values its individual shareholders and is raising its dividend payout ratio

Startia values its individual shareholders and rewards them accordingly with ample dividends after retaining enough profit to invest in future growth. In September 2015, the Company decided to implement the following dividend policy. It would pay interim dividends equivalent to one-third of 20% of the Company's forecast of consolidated net income attributable to shareholders of the parent. It would then pay year-end dividends equivalent to 20% of consolidated net income attributable to shareholders of the parent company minus the interim dividends.

For FY3/17, the Company has announced that it will pay total dividends of ¥9 per share (interim dividends of ¥3 per share and year-end dividends of ¥6 per share), unchanged from its dividends for FY3/16. Based on the Company's forecast of consolidated EPS for FY3/17, of ¥20.04, the dividend payout ratio should rise to 44.9% in FY3/17. The Company made no changes to its forecast of dividends for FY3/17 after the end of 1Q.

As described in this report, Startia is changing its business model in FY3/17 and therefore projects a second straight year of YoY declines in operating income. However, it is maintaining its dividends per share unchanged YoY for FY3/17. FISCO believes that this shows that the Company is confident of a return to profit growth from FY3/18. Thus, FISCO will monitor the Company's progress in overhauling its business model and recouping profit growth from 2Q FY3/17.

EPS, dividends per share, and dividend payout ratio, FY3/12 –FY3/17E



Note: The Company made a 2-for-1 share split on October 1, 2015.
Source: Prepared by FISCO from Company materials

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FISCO Ltd.