Startia

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Company Research and Analysis Report
FISCO Ltd.
http://www.fisco.co.jp

20-Jun-13

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■Towards Operating Profit of JPY800 Million in the Mid-term Management Plan's Final Year

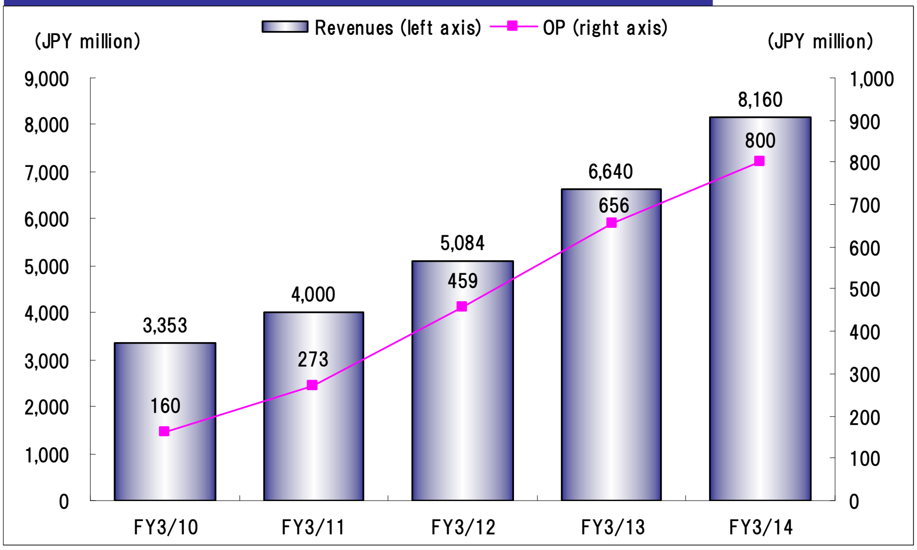
Startia maintained solid results again in FY3/13, with operating profit, recurring profit and net profit in lock-step setting new record highs. Despite a temporary decline in eBook production software Digit@Link ActiBook, Startia regrouped quickly which led to company-wide growth in revenues and earnings. Key network solution services such as Managed Gate and Secure Samba continued to perform well. Rentals of business phones and multifunction printers and counter services, which the business was founded on, also grew soundly.

FY3/14 represents the final year of the 3-year mid-term management plan in which the company will as a whole strive towards its goals of JPY8,000 million in revenues and JPY800 million in operating profit. Startia' s new growth strategy aims to attempt expansion into Asian markets, triggered by expansion into Shanghai and Taiwan, and domestically also to further strengthen sales in major metropolitan areas, based on strategic regional dominance, which is its forte. In expanding operational scale in strengthening server security, new staff training and other areas, Startia will directly confront unavoidable cost increases, however, armed with competitiveness in its services and its marketing capabilities, it is expected that double-digit growth in revenues and earnings will continue in this period also.

■Check Points

- FY3/13 To Exceed Initial Period Plan, Startia to Post 3 Consecutive Years of Record Earnings
- Expanding Sales Platform with Higashi Tokyo Branch Newly Opened April 2013
- Successively Establishing Bases in Asia & Strengthening Ability to Rollout

3-Year Mid-term Management Plan



■FY3/13 Results Overview

FY3/13 To Exceed Initial Period Plan, Startia to Post 3 Consecutive Years of Record Earnings

FY3/13 results showed revenues of JPY6,640 million (+30.6% YoY), operating profit of JPY656 million (+42.9% YoY), recurring profit of JPY655 million (+37.8% YoY), and net profit of 391 million (+40.4% YoY).

The relevant figures were already revised upward on May 1, however, they also exceeded the initial company plan for revenue growth in excess of 10%, operating profit growth in excess of 9% and net profit growth in excess of 30%. Revenues have displayed double-digit growth over 3 consecutive years, with sales volumes expanding from JPY3,300 million to exactly double at JPY6,600 million. Operating profit, recurring profit and net profit have demonstrated higher growth rates than revenues, setting new record highs for 3 consecutive years.

FY3/13 Operating Results Forecasts

	FY3/12 (A)	FY3/13 Initial Plan	(A)	vs Plan	YoY Chg (%)
Revenue	5,084	6,039	6,640	601 (+10.0%)	1,555 (+30.6%)
Operating Profit	459	600	656	56 (+9.3%)	196 (+42.9%)
Recurring Profit	475	600	655	55 (+9.2%)	179 (+37.8%)
Net Profit	278	300	391	91 (+30.3%)	112 (+40.4%)

Operations are expanding steadily. New businesses such as the network devices rental service Digit@Link Managed Gate (herein "Managed Gate") and online storage Digit@Link Secure SAMBA (herein "Secure SAMBA"), have developed into core businesses in the last few years, with significant growth at either of them a factor behind Startia's sound performance. Digit@Link Netless Q, an internal company total support service also tackles maintenance demand from small-scale enterprises, and is already contributing to expansion in one-off revenues compare to recurring income business as detailed in below.

Key businesses since the time of establishment such as business phone rentals, multifunction fax/copier rentals and the OTOKU Line telephone line service are also all growing steadily.

Only one line, eBook production software Digit@Link ActiBook, which was a high growth leader, showed temporary volatility from a sales perspective as a result of a price revision in line with enhanced functionality in Q3, giving rise to a decline in profitability in October 2012. Despite having recovered underlying growth to date in Q4, given that the previous growth rate was large, the temporary decline was clearly evident, and a full-year decline in that segment unavoidable. This issue is discussed below.

■FY3/13 Results Overview

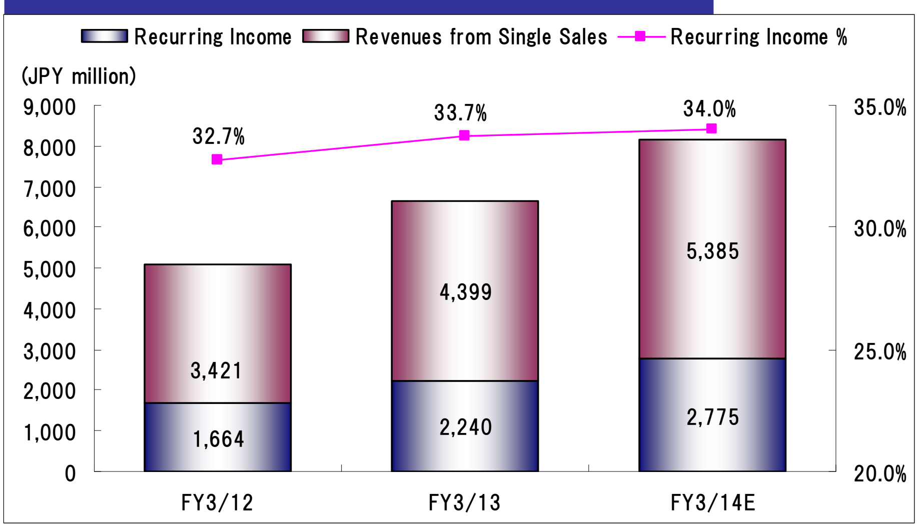
In the last few years there is no room for doubt that the building-up of recurring income business is supporting Startia's core operations. Revenues from recurring income services grew again in FY3/13 by 34.6% YoY to JPY2.24 billion. With it representing a ratio of 33.7% of total company sales, organizationally one third of Startia's earnings now come from recurring income services.

Recurring income services form a business model where revenues are not all recorded at the point that the product is sold, but where revenues are recorded gradually in installments corresponding to the period over which the service is provided. Given a leveling of the revenue recording period, growth rates in numbers are below those where there is a one-off recording of revenue, however, for that reason they increase the stability of the business.

Amidst a shift to a structure that aims for stable growth, revenues from single sale one-off business in FY3/13 are particularly visible. This is because sales of network devices such as Managed Gate performed well, with one-off revenues of JPY4,399 million 15% above the JPY3,818 million planned at the beginning of the period.

Recurring income characteristically accumulate steadily in line with the plan established at the beginning of the period, with, for example them suddenly rising to two times the plan being normally difficult to occur. Accordingly, in order to increase revenues over the plan it is necessary to record one-off revenues. Given that increases in revenues over the plan are added as such over the forecasts for overall company revenues, to that extent, the fact that one-off revenues were above forecasts had a significant impact towards the sound results performance in FY3/13.

Recurring Income: Absolute & Percentage Contributions



■FY3/13 Results Overview

In aiming for continuous growth over the long term, Startia has, in the last few years emphasized strengthening sales staff, including new graduate recruits. It hired 65 new graduate recruits in April 2012 taking total staff numbers to 382. In April 2013 Startia again hired 87 younger employees including new graduate recruits, focusing squarely on strengthening sales capabilities. In sales locations also in October 2012 Startia opened its Yokohama Branch following the opening of its Fukuoka Branch in H1 FY3/13. In April 2013 the Higashi Tokyo Branch was opened in Shin Okachimachi. The policy to establish new sales locations in major cities and to hire large numbers of young staff both carry the intent of stabilizing revenues by raising the percentage of recurring income services.

Further, a point worthy of mention in the FY3/13 results is the change visible in the balance sheet. Utilizing its abundant cash generating capabilities Startia repaid short- and long-term borrowings. Already possessing a robust financial position, by doing this it is now both in name and fact non-leveraged management, with the ratio of net assets (shareholders' equity) to total assets reaching 70.9%. It also possesses cash and near cash as at year-end of JPY2,068 million.

Consolidated Balance Sheet (¥mn)

	FY3/12	FY3/13
Current asset total	3,092	3,396
Cash & near cash	2,055	2,068
Accounts receivable	837	1,033
Materials & supplies	25	35
Other	213	312
Provisions for doubtful receivables	▲ 39	▲ 53
Fixed asset total	676	878
Tangible fixed assets	108	100
Intangible fixed assets	258	327
Goodwill	53	42
Other	204	284
Investments & other assets	309	450
Deferred charges	9	4
Total Assets	3,777	4,279
Current liability total	1,126	1,242
Accounts payable	354	453
Current portion of long-term debt	141	-
Other accounts payable	207	259
Other	423	530
Fixed liability total	0	0
Long-term debt	-	-
Other	0	0
Total Liabilities	1,126	1,243
Net Asset Total	2,650	3,035
Total Liabilities & Net Assets	3,777	4,279

Possessing its current financial stability and cash generating capabilities it should be able to undertake new measures to expand operations, including establishing new domestic sales locations to expand business, entering into alliances with overseas companies, developing new products and services, and introducing new measures aimed at customer acquisition.

■Operational Characteristics & Segment Details

Aiming for Cross-Selling Methodology Encouraging Purchase of Additional Services

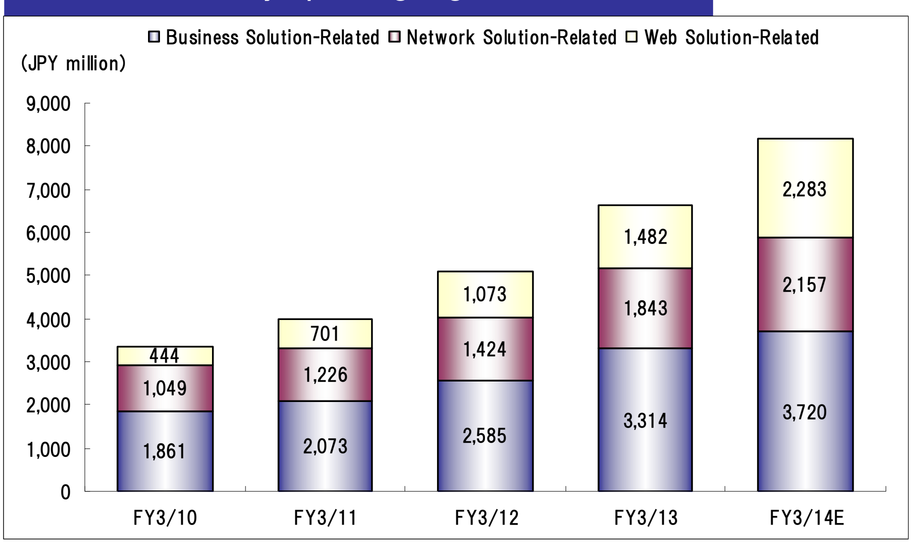
Startia is selling total cutting edge internet-related IT services. Focusing its marketing target to small- and mid-sized enterprises with 300 or less employees, it has taken as its mission the elimination of the digital divide (i.e. the gap between those that have mastered information technology (IT) such as PCs and the internet and those who haven't). Marketing areas are based on strategic regional dominance, focused on the major metropolitan areas of Tokyo, Osaka, Nagoya and Fukuoka, conducting business by limiting areas to those that sales staff can quickly visit to customers within 1 to 1.5 hours from receiving an enquiry from a corporate client.

At the time of establishment in 1996, business phones, IP phones and other business solution-related operations were core, however, Startia directly confronted the internet revolution from the second half of the 1990s and expanded broadly into web and network solutions-related businesses. In the FY3/13 results the weighting of business solutions operations fell below 50% for the first time.

One of the distinguishing characteristics of Startia's business stance is its inclination to a "Cross Selling Methodology". In particular, Startia doesn't compete by each product and sector for new customer acquisition, but rather has a sales methodology whereby customers using its web services will initially take IP phones and multifunction copiers, then additionally purchase services such as network devices and hosting (cloud storage), and Digit@Link Netless Q (support services). It aims to be positioned as a familiar and reliable partner in relation to IT services for small- and mid-sized enterprises.

Startia's operating segments may be divided into 3: (a) Web Solution-related Operations, (b) Network Solution-related Operations, and (c) Business Solution-related Operations. In each of these segments there is a combination of one-off revenues and steady revenues that continuously deliver revenue.

Revenue Trends By Operating Segment



ActiBookk AR COCOAR Expected to Become a New Business Pillar

(a) Web Solution-Related Operations (WS)

FY3/13 segment results showed revenues of JPY1.482 billion (+38.0% YoY) and segment income of JPY165 million (+25.1% YoY).

In this operating segment eBook production software Digit@Link ActiBook and Digit@Link CMS2 (corporate website creation support and consulting), as well as website creation, access enhancement consulting (consulting to increase the number of website access hits) and other functions are undertaken. The percentage of overall revenues represented by this segment is 22.3%, a rise of 1.0% in the last year.

Web Solution-related Operational Results

	FY3/12	FY3/13	YoY (%)
Revenue	1,073	1,482	38.0%
Segment income	220	165	-25.1%

This is a core operation that supports Startia’ s progress, with a background in the rapid popularity of eBook production software Digit@Link ActiBook, launched in 2006. Additionally, the AR (Augmented Reality: technology that adds new information into real images mainly using computers such mobile devices) content creation service ActiBook AR COCOAR (herein “COCOAR”) was released in November 2011. It is steadily securing orders, and it is hoped that it will be a pillar that supports the future of web solution-related operations.

eBook Production Software Digit@Link ActiBook

※ Extract from company materials

■Operational Characteristics & Segment Details

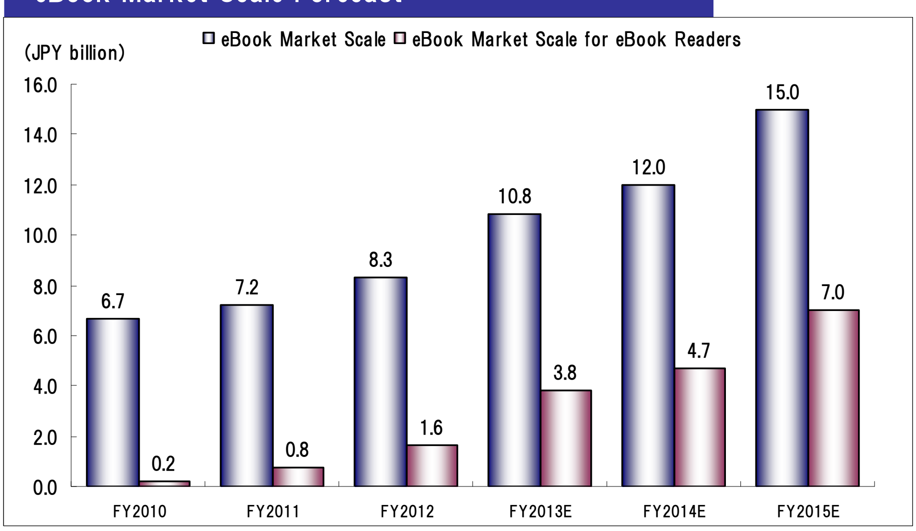
However, entering Q3 FY3/13 Digit@Link ActiBook hit a temporary stumbling block. One of the selling points of this product is in its “log analysis function”. This analyzes which pages of Digit@Link ActiBook users viewed and how long they spent on each page, and for an information provider is a useful function to determine at a glance where best to reinforce or emphasize.

This “log analysis function” had been raised from an optional contract to part of the standard set, with at the same time the unit price for one-off sales raised by JPY500,000. However, in October due to a slight lack of training for sale staff, it led to some confusion in the field.

Sales structures were soon restored, and from November 2012 it again returned to the previously sound pace in sales growth, however, in Q3 which is the busy season (2012 Oct-Dec) one-off revenue from Digit@Link ActiBook remained around the same as that in the previous period, ending in the result that it fell 30%+ below plan. Given characteristically the propensity for Startia's revenues to be biased towards H2, shouldering the damage from October, which is supposed to be a high earning period, despite securing full-year double-digit growth year-on-year in one-off revenues, without doubt produced the double-digit decline from the plan. For the segment overall also, against a significant rise in revenues, from an earnings perspective it led to a double-digit decline year-on-year.

To the extent that Digit@Link ActiBook, to cumulative Q2, experienced high, double-digit increases in both one-off and steady revenues, illustrate that the standstill here imparted a greater-than-expected negative impact. However, if we just look at Q4 (Jan-Mar 2013) above-plan growth had again been regained. Given that expectations for operational expansion in web solution-related operations are the highest, the targets from the beginning of the period themselves were more bullish than those for other sectors. FY3/13 saw a temporary about face on this.

eBook Market Scale Forecast



Source: Yano Research Institute “Research for eBook Market Scale 2012”

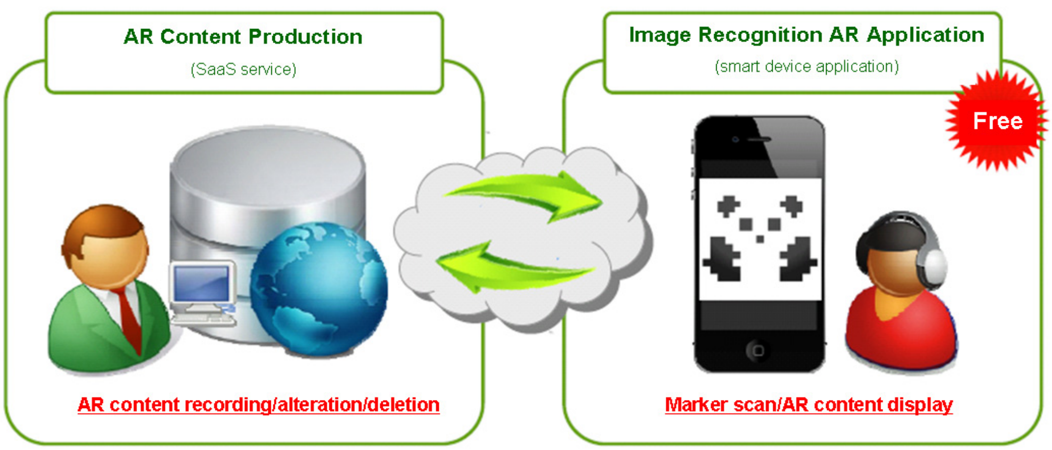
■Operational Characteristics & Segment Details

In circumstances where the rate of proliferation in smartphones and tablets is accelerating, the trend to shift catalogues, manuals and IR materials from their traditional paper format to Digit@Link ActiBook is rapidly spreading not only amongst small- and mid-sized enterprises but also among large companies. In conjunction with technological advances in big data analysis and other areas, the need for log analysis that grasp what parts users spent a long time on and other background behavior will continue to grow; and it is expected that cases of recruitment by large companies will also emerge.

The AR creation tool COCOAR was released in November 2012 as a new product. "AR" is an abbreviation of "Augmented Reality", and refers to technology that augments human perception of reality by adding information produced via digital and other technologies on to actual information perceived in the natural human state. When an actual scene is captured by a smartphone camera, information such as eateries and landmarks that are stored as positioning data and maps obtained via GPS may be added and displayed. The Sekai Camera that operates on iPhones and Androids is a classic example of this, with users, when using AR, being able to have a deeper understanding of what is happening where through looking at the world via a smartphone.

ActiBook AR COCOAR Overview

Service Name	Actibook AR COCOAR
AR Type	Markerless AR service
Related Systems	SaaS format A content creation tool + free AR viewer
Commenced Providing Service	December 2012



※ Extract from company materials

COCOAR is a service that allows simple creation of low cost, original AR content. After stating COCOAR on a smartphone, if the paper media is scanned via an application, Digit@Link ActiBook, websites video and other items may be activated on the smartphone. For example, if using a school prospectus for student recruitment, things such as the atmosphere of classroom settings, club activities and the school environment that cannot be adequately conveyed in paper recruiting prospectuses may be expressed by AR. Promotions that help give a better understanding of the school also become possible.

■Operational Characteristics & Segment Details

To date everyone acknowledged the potential for AR to be linked to smartphone positioning data and map data, but its proliferation lagged due to the facts that the cost of developing was high, and the merit in using it, apart from novelty, was not obvious. However, Startia, by putting to work the "planning proposal support from sharing actual cases at other firm" know-how cultivated in other services to date, was able to discern a customer led method of use at low cost, even using search engines. This was a trigger on the corporate customer side to take another look at AR.

COCOAR has been steady from the outset, not only being recommended by Startia's sales staff when visiting customers, but also receiving many online requests. Currently one-off revenue is the core, however, it is expected that sooner or later AR will become one of the steady revenue sources.

Network Solution-related Operations To Expand Most Out Startia's 3 Businesses

(b) Network Solution-related Operations (NS)

FY3/13 segment results showed revenues of JPY1,843 million (+29.4% YoY), and segment income of JPY362 million (+101.6% YoY).

In this operating segment the provision of network devices and network development technology such as routers and antispam products, internet provider proposals, and cloud hosting and other services are undertaken. The percentage of overall revenues represented by this segment is 27.8%, which is a decline of 0.2% in the last year. However, it is the greatest contributor to profits. In FY3/13 it was the business that grew the most.

Network Solution-related Operational Results

	FY3/12	FY3/13	YoY (%)
Revenue	1,424	1,843	29.4%
Segment income	179	362	101.6%

Managed Gate network devices rentals and SaaS online storage Secure SAMBA are included in this operating segment.

Managed Gate is not merely the rental of network devices as hardware, but is a service comprising a set of 24 hour a day 365 days a year running and maintenance services for mid-sized enterprises, including consulting services in relation to network development, response to network faults, and replacement of devices when they breakdown.

■Operational Characteristics & Segment Details

Also, Secure SAMBA is a cloud format file server that allows users to store files on cloud servers by merely dragging and dropping files on their PCs and desktops. It is run in an SaaS format, enabling use of only those functions required for only the time required at a fixed fee. Secure SAMBA and Managed Gate are firmly established as stable sources of revenue, succeeding in building up steady revenue again in FY3/13 and contributing greatly to revenue growth.

Additionally, in FY3/13 from the beginning of the period effort was put into network device sales, which contributed to improved revenues throughout the financial year. Both revenues and gross profits recorded close to 200% growth over the plan, and even achieved over 70% growth year-on-year.

Digit@Link Cloud also, which is a hosting service that stores back-up and other data on cloud continues to deliver double-digit growth. In March 2011 the Great East Japan Earthquake occurred, immediately after which demand for data back-up at many companies soared. Startia had anticipated tough challenges in FY3/13 due a reaction against this from the beginning of the period, however, with continuing growth in demand for data back-up due to the proliferation of smartphones, and broad recognition form society as a whole of the convenience of cloud storage, back-up demand is expanding more than Startia expected. As a result, Digit@Link Cloud revenue growth was close to 20% year-on-year.

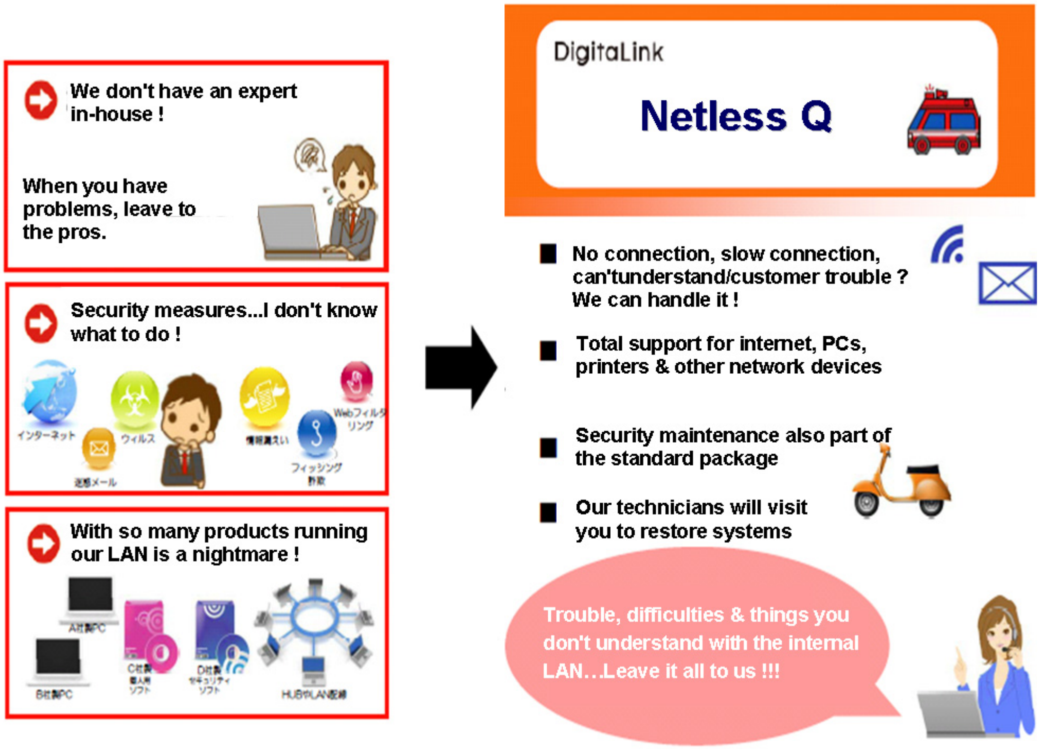
From September 2012 the Digit@Link Netless Q service commenced which performs internal corporate IT maintenance services. While only a mere 6 month contribution it grew significantly in FY3/13.

Digit@Link Netless Q is one form of Managed Gate, and is a service that provides total support for developing internal corporate networks including PCs and printers, as well as security. It is an IT maintenance service including after-sales service, so that if an anomaly occurs in the corporate customer’s network environment, a sales staff will quickly pay a visit to the company, and provide appropriate measures without delay.

If faults occur at customers that have installed Startia’s network devices, repairs may be carried out remotely from distant offsite locations. This is a business that has been strengthened in response to concerns held internally at small- and mid-sized enterprises that they don’t have human resources well versed in IT operations and network development, is in keeping with Startia’s mission to eliminate the digital divide between companies, and is the operational area it has engaged the most. From H2 immediately following the commencement of the service it rapidly started to contribute steady revenue, and reflects the fact that there is sure demand.

■Operational Characteristics & Segment Details

Digit@Link Netless Q Overview



※ Extract from company materials

BS-related Operations' Revenue Share to Fall Below 50% for the 1st Time

(c) Business Solution-related Operations (BS)

FY3/13 segment results show revenues of JPY3.314 billion (+28.2% YoY) and segment income of JPY169 million (+84.4% YoY).

Business Solution-related Operational Results

	FY3/12	FY3/13	YoY (%)
Revenue	2,585	3,314	28.2%
Segment income	91	169	84.4%

In this operating segment sales, installation and maintenance of business phones, copiers and multifunction printers are provided, as well as data terminals and telecommunications lines for small- and mid-sized enterprises such as OTOKU Line agency services, consulting on telecommunication lines, and corporate agency sales of mobile phones. It is also one of Startia's founding businesses and, while it has the highest representation of overall revenues at 49.9%, as noted above new areas of operations are growing rapidly and having declined 0.1% year-on-year it has fallen below the 50% mark for the first time.

■Operational Characteristics & Segment Details

At the same time, this area of operations is conducive to steady revenues, with steady revenues such as copy machine rentals and counter services in FY3/13 also recording rises of close to 40%. The one-off portions also maintained growth exceeding 20% year-on-year, and currently also continues to be a source of stable revenues. The copy machine counter service is a service whereby Startia bears the cost of copying paper, toner and other consumables, collecting fees from customers only for the actual count of copies or faxes used.

The market for one-off sales (including leasing) and rentals of business phones and multifunction copier/fax/printers etc. is already a mature one, and competitors are not tackling it with much vigor. As such, for Startia it has become an efficient market from which the benefit of being one of "the last men standing" may be obtained.

Further, Startia is hiring a large number of new graduate recruits and, from the aspect of helping them accumulate sales experience through sales of legacy business phones and multifunction copier products, it makes it an attractive proposition. Whenever new sales locations are opened such as Nagoya, Yokohama or Higashi Tokyo these products are sold first, with cross selling methodology used to the full to later lead to sales of network devices, Digit@Link ActiBook and other products. Business phones and copiers themselves are continuing to evolve in response to digital technology, and thus it is an important segment not merely from being one of the remaining players, but because it means that it is the entrée to cross selling.

Copier and multifunction printer rentals and counter services, which are easy to handle for new graduate recruits, continued stable, double-digit growth again in FY3/13. Agency subscription activities for Softbank Telecom's OTOKU Line telephone line subscriptions also grew more than 80% year-on-year resulting from the establishment of a specialist sales department into which staff with abundant product knowledge were selectively allocated. Going forward also it is hoped that there will be openings of new sales locations, and we may expect stable growth from this segment also.

■FY3/14 Results Outlook

Landmark Achievement of JPY800 Million Operating Profit in Final Year of 3-Year Mid-term Management Plan

In the results outlook for FY3/14 it is planned that revenues reach JPY8.16 billion (+22.9% YoY), operating profit JPY800 million (+21.9% YoY), recurring profit JPY800 million (+22.0% YoY) and net profit JPY400 million (+2.3% YoY). Given that absolute amounts are increasing growth rates themselves must slow, however, notwithstanding this the plan calls for double-digit growth to continue and the outlook is for operating profit, recurring profit and net profit following on from the last period to all set new record highs.

■FY3/14 Results Outlook

Full-Year Results Trends

(Unit: JPY million)

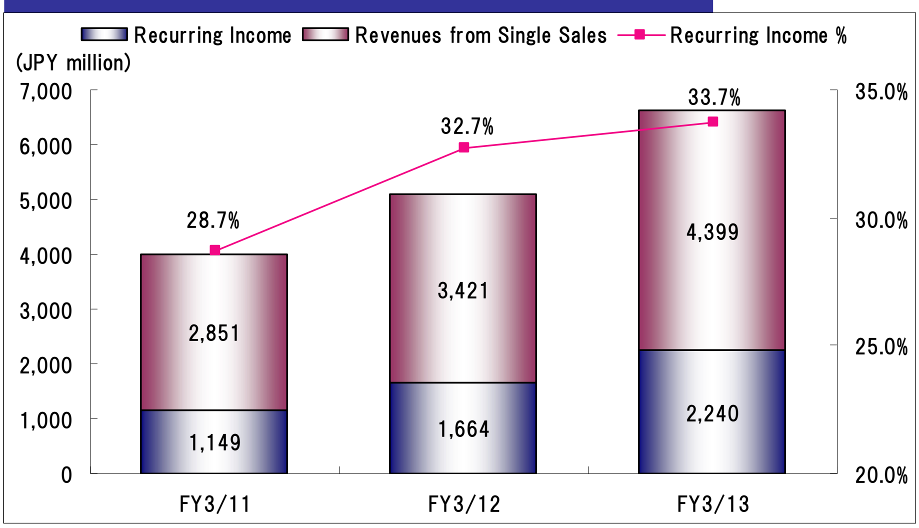
Period	Revenue	YoY %	OP	YoY %	RP	YoY %	NP	YoY %	EPS (JPY)	Dividend (JPY)
FY3/10	3,353	-29.7%	160	-33.8%	164	-34.8%	115	22.5%	26.88	1.75
FY3/11	4,000	19.3%	273	70.8%	278	68.7%	129	12.3%	29.41	5.00
FY3/12	5,084	27.1%	459	68.0%	475	71.1%	278	115.2%	56.24	10.00
FY3/13	6,640	30.6%	656	42.9%	655	37.8%	391	40.4%	78.62	10.00
FY3/14E	8,160	22.9%	800	21.9%	800	22.0%	400	2.3%	79.81	10.00

※ A 200:1 stock split was carried out effective October 1, 2010
FY3/10 EPS & dividends are revised to reflect the stock split

FY3/14 marks the final year of the Startia 3-year mid-term management plan. In the second year, which was last term, from a profit perspective they were able to conclude the term more than 10% above target figures. In FY3/14 Startia aims to attain a landmark JPY800 million in operating profit.

They have already off to a flying start towards attaining that OP. To the extent that steady revenues are built-up, it is thought there will be no significant downside to this, after which it will rely on how much revenue from the one-off portion can be added. The growth path traced for FY3/14 is for steady revenue of JPY2.775 billion (+23.9% YoY) and one-off revenue of JPY5.385 billion (+22.4% YoY). This will bring the percentage of overall revenues represented by steady revenues to 34.0%.

Recurring Income: Absolute & Percentage Contributions



Regarding the factors behind being unable to regain the temporary delays in Q3 of the last period and the 25% decline in web solution-related operations segment income, Startia sees this as not only being due to pricing revisions for Digit@Link ActiBook. Including the pricing aspect, the following 3 awareness issues surfaced.

The 3 points were: (1) Whenever there are errors in sales planning or price setting on new services that are introduced as strategic products there is a protracted impact, (2) Startia had employed 87 new graduate recruits in FY3/14 2014 and over 60 in FY3/13, and due to this rapid expansion in the scale of the company there was a lack of human resources on the management side and organizational unbalance arose, and (3) because new services had been introduced in quick succession there were greater-than-expected costs that were not manifested in the numbers, and those cost increases were not able to be covered.

All of these are issues seen in growing companies where operations are expanding rapidly, and, bearing these circumstances in mind, in order to accomplish the target numbers in the final year of the mid-term management plan Startia forged a two-prong reinforcement plan: (a) strengthen domestic sales dominance, and (b) expansion into Asian markets.

Expanding Sales Platform with Higashi Tokyo Branch Newly Opened April 2013

(a) Strengthening Domestic Sales Dominance

Following on from the 4 domestic sales locations in Tokyo, Osaka, Nagoya and Fukuoka, in December 2012 Startia opened the Yokohama branch, with expansion in the sales platform proceeding without fanfare. Subsequently, in April 2013 the Higashi Tokyo store was opened in Shin Okachimachi.

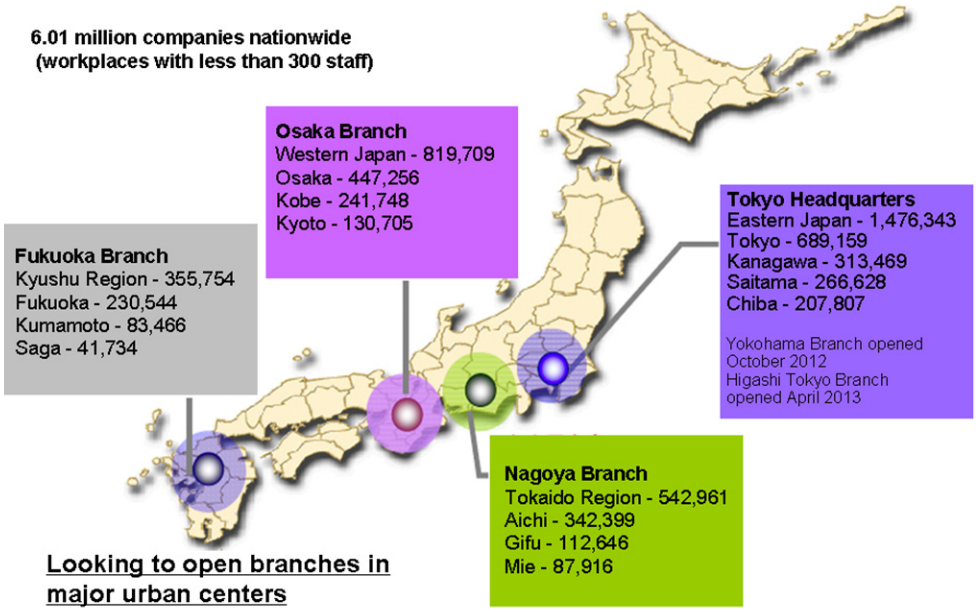
The Kanto area boasts 1.5 million small- and mid-sized enterprises, continuing to make it the largest operational zone domestically, and the region to which Startia pays the most attention. From the newly opened Higashi Tokyo branch Startia will acquire customers focusing on Taito Ward across the Sumida and Arakawa rivers, Katsushika Ward (in the Sky Tree vicinity), Adachi Ward and Saitama Prefecture’s Kawaguchi City.

Currently, the criteria for strategic dominance adopted by Startia is prescribed by the goal of having sales staff being able to quickly pay a visit to a customer within 1 to 1.5 hours. As a vision for the business, the ideal is that of meticulous attention to customers operating in small ranges that SI majors are not able to enter. The ideal is also not to be dealing company to company, but rather a trading relationship whereby corporate customers to be doing business with individual sales staff, and Startia feels that the greater the proliferation of the internet the more important become our human links.

From its headquarters in Shinjuku, Tokyo to the eastern districts of Adachi, Arakawa, Taito and Katsushika takes 2 hours. In order to fortify the Kanto region the Higashi Tokyo branch will play a significant role.

■Business Trends

Startia's Locations & Target Workplaces



In April 2013 Startia hired 87 new graduate recruits, expanding total staff numbers to 382. At the time it listed in December 2005 there were less than 100 staff. Of current total staff allocation sales represents 50%. Amongst the 87 new graduate recruits to join in April 2013 35 were assigned to Startia Labs Inc., which is responsible for research and development. Additionally, from within the 50 plus staff assigned to head office, it is planned that 20-30% will be redeployed for the next 6-12 months to technology and maintenance divisions. This is in response to growth in steady revenues.

Steady revenues are expected to rise from JPY2.24 billion in FY3/13 to JPY2.775 billion in FY3/14. Startia feels that the fact that steady revenues are increasing means that it is important how many staff who thinks logically that can perform the maintenance services that flow from it is able to secure internally. Internal training places emphasis in that direction, and going forward the percentage of sales staff may be curbed slightly with greater allocation of human resource to research, development and maintenance services. Although the percentage of human resources allocated to sales will decline from current levels in aiming to increase steady revenues, this is by no means a bad thing.

In opening its Yokohama branch Startia yet again reconfirmed the enormous size of the metropolitan market centered on Tokyo. There is no change in its plans to open stores in the north east region and former ordinance-designated cities which do not currently have sales locations, however, if we consider client demand in location distribution based on the internet VPN (virtual private network) development needs and BCP (business continuity planning), the possibility arises for a new location in the metropolitan subcenter Omiya City in Saitama.

The Higashi Tokyo branch at the same time as being the sales location for the eastern districts is also the technical maintenance unit as well as the new graduate recruit training center. At Startia after new employee training it takes about 1½ years before sales results can be posted empirically. In April 2014 the number of new graduate recruits may exceed 100. Not only within the framework of the final year of this mid-term management plan, but Startia is also broadening its vision to the next management plan.

■FY3/14 Results Outlook

Successively Establishing Bases in Asia & Strengthening Ability to Rollout

(b) Expansion Into Asian Markets

Startia is laying the foundation for the future, not only domestically but also for Asian markets. In March 2013 it established its 100% owned subsidiary Startia Shanghai. It commenced sales with a plan to sell network devices and develop communications network infrastructure.

In parallel with this in May 2013 it announced an investment of approximately 40% in Taiwan' s Horma Digital Technology Co., Ltd., which was in its 6th year since founding. In June 2013 it acquired the shares, undertaking production and sales of Digit@Link ActiBook eBook to Taiwanese government agencies, schools and publishing houses. Horma Digital already possessed a track record of Digit@Link ActiBook sales to 300-400 companies in Taiwan, with aim being that through this capital participation the alliance would be strengthened, Digit@Link ActiBook sales would be strengthened, and, by also holding the rights to COCOAR, it would be a leading IT service company in Asia.

The successive establishment of Asian locations upon entering 2013 is in either case because Startia is conscious of the Asean market. Originally it held a stake of 30% in STARTIASOFT INC. in Xian, China, however, the intention is to strengthen the ability to rollout with a sense of urgency. Using expansion in the Taiwanese distribution network as a trigger, Startia aims to accelerate a nationwide Chinese rollout starting in Shanghai. Going forward the aim is to undertake operational and capital tie-ups along with direct capital injections in the same way as the 100% owned Shanghai subsidiary and Horma Digital in Taiwan in branching out into Asian markets where IT infrastructure investment is growing rapidly.

Actually, in the Asian markets the Korean eBook Jibot is the only competing product that exists for Digit@Link ActiBook. Jibot is technically inferior to Digit@Link ActiBook, and even Jibot agents recognize the superiority of Digit@Link ActiBook. The growth of the Asian rollout was merely getting agents to switch from Jibot to Digit@Link ActiBook.

Startia Shanghai is scheduled to commence sales activities in earnest from June 2013, and is already trialing ActiBook at government agencies and banks. Antagonism between Japan and China remains unresolved, however, if expansion in Chinese sales is sought via Taiwan it is easier to gain acceptance than direct activity by Japanese companies. Following that it appears Startia' s intention is to expand sales of Digit@Link ActiBook to other regions within Asia.

In Shanghai the first round of services borrowed the robust exclusive line between Japan and China. Called Managed Gate Global Access it started a service that subdivided the exclusive line and renting it out to Japanese companies.

■FY3/14 Results Outlook

Even limiting the target to Japanese companies operating there still meant there were tens of thousands potential customers. Also, even within companies using the Managed Gate service there were many that possessed locations in China. These companies are currently experiencing this inconvenience, and there is a significant likelihood that they will contract soon. If the exclusive line is rented in volume the cost per line becomes cheaper and the service is able to be provided at low fee. Startia aims to firs make Managed Gate Global Access commercial and profitable, then gradually a broader market.

The target operating profit of JPY800 million in the 3-year mid-term management plan is by no means an easy one. Operational scale gradually grows and before you know it invisible costs increase.

For example, in FY3/11 the number of new graduate recruits that quit was more noticeable than most years. Also, what should be noteworthy "first orders" by new employees assigned to sales were on average later than most years. Reflecting on this point, in 2012 training for the 60 plus new employees was undertaken by proven managers and manager class employees. That led to setting a new record high for earnings in FY3/13. In FY3/14 with a large group of 87 staff hired the cost will increase further.

At the same time, the need to strengthen security in cloud services is increasing. Already 10 years have passed since Startia inaugurated hosting services, and amongst older customers there are some that have are storing data on old servers from 10 years ago. Recently, the threat of attack from hackers is increasing, in the field of rental servers and cloud services, old technology must be swiftly replaced with new technology that has strengthened security functions.

Startia commenced working on this task immediately from FY3/14. Costs that were not contemplated in FY3/11 when the mid-term management plan was drafted are occurring at a level of JPY100-200 million per annum. As a result, in respect of hosting operations in FY3/14 also, despite growth in revenues there is strong probability of a decline on an earnings base. Instead in FY3/15 it appears that significant profits will accrue.

Startia has, by building-up steady revenues corrected its course towards smoothing out the seasonal H2 bias in revenue trends, however, there is a strong possibility that it will record a loss in Q1 FY3/14. The negative elements behind this are that both staff training and security are increasing. The outlook is for profits to be recorded from Q2 FY3/14. The plan is to rally from Q2 and for that accumulated to that point to be recorded as profit in Q4. For that reason alone, for Startia the importance of quarterly results plans is increasing.

Two months of FY3/14 have already passed. steady revenues are steadily building-up on schedule, and investment in Asia, the opening game in globalization, has already commenced. Startia will surely let out all stops in this the final year.

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