STARTIA, INC.
3393 Tokyo Stock Exchange First Section

26-Dec.-14

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In the middle of "shifting gears" towards the achievement of the new middle term plan and the growth after the plan.

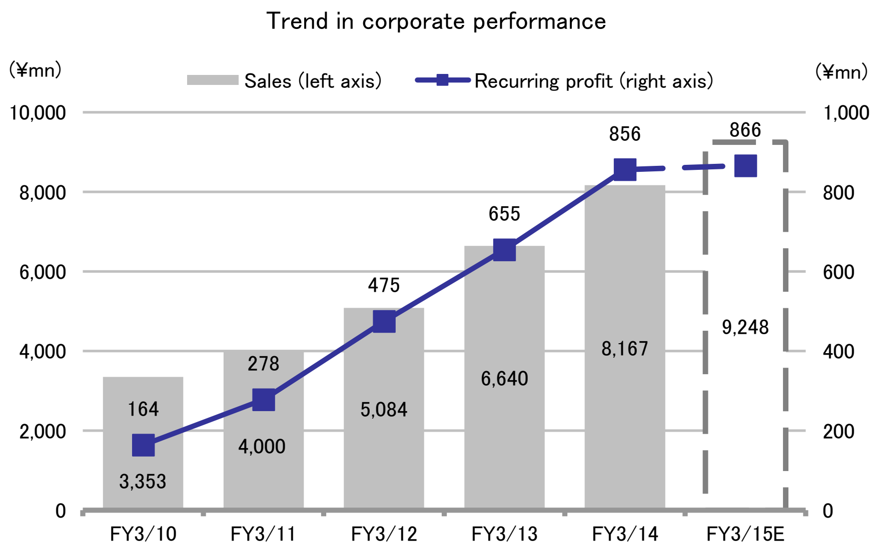
Startia<3393> provides a one-stop shop for internet-related services to small- and medium sized companies whose employees are less than 300. While centered on network devices sales and rental server operations, it also undertakes business phone sales, the business upon which it was founded, as well as printer sales and maintenance. Further, growth in eBook creating software "ActiBook" which was developed at a subsidiary, and the related ActiBook AR COCOAR software (herein "COCOAR") has been remarkable.

The expression of "In the middle of changing gears" symbolizes the current status of the company. Because Startia is the enterprise, the speed of shifting is not so spontaneous as automobiles. Until FY3/14, the company had grown based on the strong sales force. In FY3/15, enhancement of technologies and infrastructure and securing human resources are the main focus as well as the existing sales force. Although the financial result is expected to be stable, we evaluate that the company carried out meaningful investment during the first half of the fiscal year.

If the company complete the "changing gears = upfront investments," we predict that growth will be back to double digits after FY3/16. In the new middle term plan announced in August, the company forecasts annual average growth of the recurring profit will be 17.8%.We also predict that it is highly possible that the profit plan in the middle term plan will exceed in a large scale, because the company's products and services, such as "ActiBook" and its family products, have potential to grow more than expected.

Check Point

- Improvement of the gross profit will lead other profits to exceed the plan.
- The dividend payout ratio was raised to 15% from 10%
- FY3/17 is added to the profit plan. The double digit growth is expected in 2nd and 3rd year of the plan.



Description of businesses

Business areas expands to the current 3-pronged areas from business phone sales

(1) Details of segments

Startia was established by President, Representative Director and Chief Executive Officer Hideyuki Hongo in 1996. The company proposes the integrated IT environment to small- and medium sized companies whose employees are less than 300 to eliminate the digital divide among companies, and to help create energetic business organizations. Originally the company started the business only with the business phone sales. Since then, its business areas expand to the web hosting service etc. At present, the business areas consist of the following 3-pronged areas.

●Web Solutions related business

The Web solutions business engages in the producing, maintenance, and operation of the web sites and development and sales the web applications. At present, contribution by the development and sales of e-book creating software "ActiBook" becomes significant. "ActiBook" is introduced mainly by large companies, such as the principal printing companies and publishers. Recently, the sales volume of "COCOAR" has been also increasing. This is the software which applies AR (Augmented Reality) technology. It attracts attention as an advertisement technique. Development and sales of ActiBook and COCOAR are managed by the 100% owned subsidiary Startia Lab Inc.

●**Network solutions related business**

The network solutions business engages the sale of network equipment (rooters, firewalls, anti-spam, etc.), the network construction service, the web hosting service (rental servers), providing various cloud services, the maintenance service of IT network. The core business of the area is to take in the demand by clients who desire to outsource the network service with using servers owned by the company. This business model requires to hold fixed assets through capital investment and to maintain equipment. Major part of the strategies, which will be mentioned later, such as "upfront investment" and various business alliances are related to this network solutions business.

●**Business solutions business**

This business is the origin of the company and includes the sale of business phones, multi-functional printers, the distributer of "Otoku Line" and mobile phones for corporate clients provided by Softbank.

3 Description of business areas

	Network solutions business	Web solutions related business	Business solutions related business
Proportion of sales	28.1%	22.5%	49.4%
Proportion of profit	44.0%	35.5%	20.5%
Description of business and products	・Providing the network environment ・NW equipment and NW construction ・Hosting service ・Maintenance of IT network ・Providing high-speed/high-security line between China and Japan	・Providing Web solutions ・e-book creating software "ActiBook" ・Providing AR service "COCOAR" ・Producing, maintenance, and operation of the web sites ・Planning and development of Web applications	・Providing optimal communication line, equipment ・Sale of the business phone, and multi-functional printers ・Distribution of "Otoku Line" as an agent ・Distribution of the mobile phone for corporate clients as an agent

Note: Proportion is based on the actual financial result of 1H FY3/15

The strong sales force is the company's strength. Its strength is based on "Cross selling", "Slim billing" and "Area marketing"

(2) The company's strength = its sales force

The company's strength is its sales force, which are backed by "Cross selling", "Slim billing", and "Area marketing."

●**Cross selling**

"Cross selling" means that selling other products and services related to ones which clients has already purchased. We analyze that the reasons why the company is successful are its products and services line-up which is easy to promote "Cross selling", the company's technology which enable to create new products and services suit to "Cross selling", and the service, called "Slim billing" which attracts clients to accept proposals of "Cross selling."

●**Slim billing**

"Slim billing" is one stop billing system which covers all products and services, such as fixed phone lines, mobile phone lines, printers, internet service provider, and network maintenance. This service enables clients' accounting division to reduce administrative burden. The company established a 100% owned subsidiary, Crosscheck Inc. in order to improve the convenience of the service.

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●Area sales

Another reason of its strong sales force is that the company focuses on the areas for marketing. Although there are 5,430,000 small- to mid-size companies with less than 300 employees nationally, the company is not targeting all of those as potential clients. Its business is highly related to the physical distance to the clients' location. Therefore, the company focuses on clients located within 1 to 1.5 hour from each branch. We analyze that this contribute to clients' satisfaction and holding existing clients.

■New middle term profit plan and "Shifting gears"

Adding FY3/17 to the plan and forecasting double digit growth in 2nd and 3rd year

(1) Announcing New middle term 3 year profit plan

In August 2014, the company announced "New middle term 3 year profit plan" for the period from FY3/15 to FY3/17. Although the company announced 2 year profit plan for the period of FY3/15 and FY3/16 in May 2014, the plan for FY3/17 is added this time.

New middle term 3 year profit plan

(¥mn)

	FY3/14	FY3/15		FY3/16		FY3/17	
	Actual	Plan	Growth rate	Plan	Growth rate	Plan	Growth rate
Recurring profit	856	866	1.2%	1,134	30.9%	1,400	23.5%

The notable point of this new middle term 3 year profit plan is that the company forecasts double digit growth in 2nd and 3rd year, while the 1st year growth is nearly zero. This is the difference from the previous middle term 3 year profit plan for the period from FY3/12 to FY3/14.

The profit growth of FY3/15, which is the first year of the plan, will slow down because of the upfront investment which we will describe later. Until now, the company generated the high profit growth in spite of various investment, such as securing and training human resources, expansion of branches, and starting up overseas businesses. Despite this fact, the profit growth will slow down at this stage because of the large scale investment to the security system related to the hosting service which costs ¥220mn (total of net increase in FY3/14 and FY3/15). Otherwise, the costs for expansion of branches and for recruiting and training of new graduates are also considered.

However, the company has been proving the achievement of the plan very well. For the last 5 years, the actual results surpassed the plan every year. We analyze the reason of this successful result is that the attractiveness and competitiveness of the company's products and service in any aspects including pricewise and that the company's subtle marketing strategy to focusing the marketing target, etc.

The upfront investment in the plan, which will be described later, will strengthen the company further. As a result, we expect that the result will surpass the new middle term 3 year profit plan again.

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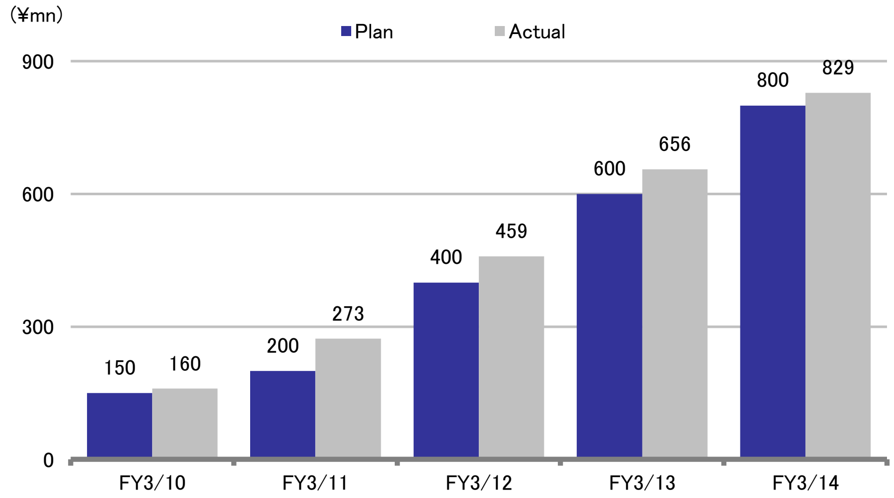
Achievement of the profit plan in the past (operating income basis)



The company takes on recruiting new graduates actively. Ratio of SG&A to sales will decrease because productivity by new graduates will increase.

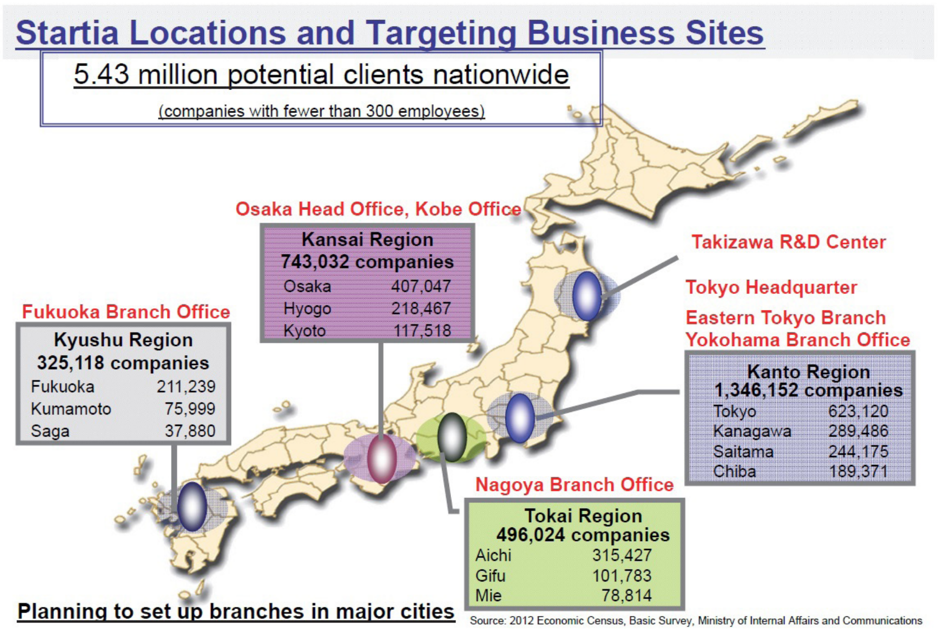
(2) Details of "Shifting gears"

The company is taking various tactics during FY3/15 which is the period of the upfront investment for the next growth. The list of major policies is as below. The large investment is the cost for improvement of security systems of the hosting service. The cost increases ¥120mn more to the precious fiscal year (¥170mn more to the average year). Specifically, the personnel cost for transferring data consists of the major part of the investment as well as updating equipment and software for improving security. Another characteristic policy of this fiscal year is the business alliance policy, which includes some actual projects which have been already announced consecutively. Some of those even include capital cooperation. The expected effect of these alliances is to improve productivity of human resources. The achievement of middle-term hiring plan of this fiscal year is around 50%. Those alliances seem to fill in the gap between the plan and actual result.

The list of "the upfront investment" policies

	Contents	Remarks
Through FY	Improving security of the hosting service	¥170mn increase in Investment for in comparison with normal years
April	Recruiting 84 new graduates	Large number of hiring following 87 of the last year Among 541 employees on the consolidated basis, about 15% is new graduate and about 30% is the fresh employees with the career of less than two years
1 May	Establish Takizawa R&D center	Seeking for joint development with Iwate Prefectural College
2 June	Open Kobe branch	Enable to target about 220,000 companies in Hyogo prefecture.
22 August	Capital tie-up with A.T. WORKS Inc.	10% of capital contribution to start with Aiming at joint development of products and services, technical support of the hosting service, and personnel exchange
28 August	Operating tie-up with Japan PC Service Co., Ltd.	Personnel exchange for the purpose of mutual customer introductions and business Synergy improvement
30 September	Business and Capital tie-up with Kakehashi Promotion Co., Ltd.	Countermeasure to the chronic lack of an excellent "sharp" talented person
30 September	Announcement of establishing 100 % owned subsidiary, Crosscheck Inc. (Established in October)	Taking a major role to improve quality of one stop billing service "Slim billing", which is the significant service in marketing strategy.
23 October	Announcement of an acquisition of a part of NextIT Inc.'s business (An acquisition date is due in late November)	Accepted business and 21 engineer for the purpose of technology reinforcement

In terms of reinforcement of the sales force, Kobe branch was opened. The company is targeting the marketing area only within 1 to 1.5 hour from clients' office as one of the marketing strategy. It is essential to maintain the client satisfaction and to hold the existing client. Prior to Kobe branch opening, Osaka branch is only branch in Kansai area. Opening of the Kobe branch enables to target about 220,000 companies in Hyogo prefecture.



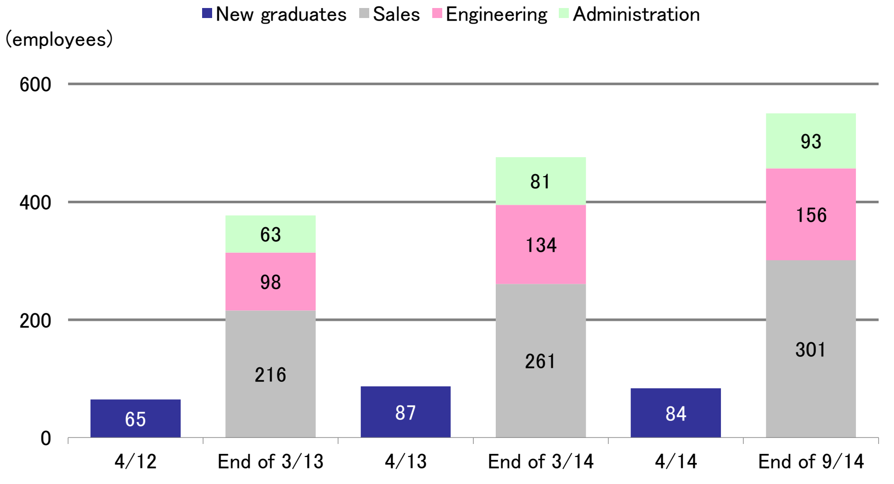
Source: Company materials

Takizawa R&D center in Takizawa city, Iwate prefecture is established by the 100% owned subsidiary, Startia Lab Inc. In Takizawa city, there is a Takizawa campus of Iwate prefectural University which has a faculty of software information. The company's policy is to utilize the R&D center to be a base of various purposes, such as joint development with academia and new graduate recruiting and training. In addition, the company expects the center to be the front line in Tohoku and Hokkaido areas where there is no branch so far.

The company is also active in recruiting new graduates. In FY3/14, 87 new graduates were employed. The East Tokyo branch was established. The branch is utilized as a training center for the new graduates as well. In April 2014, 84 new graduates are employed. As at the end of September 2014, the number of employees on a consolidated basis is 541. Among them, about 15% is new graduates and about 30% is fresh employees with the career within 2 years. The human resource costs related to them are the upfront investment until they contribute to the profit of the company.

The company's active new graduates recruiting strategy seems successful. In FY3/14, 87 new graduates were employed in April. The result of 1H indicates that the ratio of SG&A costs to sales was 43.6%. However, that of 2H when the new graduates started to contribute to the sales indicates that the ratio decreased to 40.3%. Although the seasonal effect of the business (2H's sales tend to be higher than 1H and the proportion of 1H to 2H was 45 to 55) has to be considered, we analyzed that the strategy which to make the large scale recruitment of the new graduates drive force of the top-line growth (growth in sales and profit).

Trend is the number of new graduates and employees



Operational results and Financial outlook

Due to increase of the gross profit, etc., every accounting item in profit surpasses the plan.

(1) The financial results of 1H in FY3/15 and business trend.

The Interim results of FY2/15 is as follows; ¥4,045mn in sales (YoY +9.8%), ¥253mn in operating income (YoY +6.8%), ¥320mn in recurring profit (YoY +32.7%), and ¥237mn in net income (YoY +64.4%). Although the sales was ¥100mn less than the plan, increase of the gross profit due to improvement of the product mix, and SG&A, which was less than the plan, contributes to exceed every profits to the plan.

Improvement of the product mix was due to the brisk sales of profitable products, such as "ActiBook", "COCOAR", and network equipment.

Decrease of SG&A was because new hiring was less than a plan and the amount of the performed budget adding up as the expense was saved. Lack of resources was covered by business tie-up with other companies as described earlier. Therefore there will be no inverse effect to future activities.

The operating income increased in comparison with the previous year and surpassed the plan. However, the growth rate remained to one digit. This is, as described earlier, because of increase of costs to improve the security in the network solutions business.

The cause of inflation of recurring profit was the profit from the equity-method affiliates. Specifically, the results of MAC Office Inc. and Urban Plan Inc. were brisk.

Because increase of the equity in net income of affiliates is not temporary but continuous due to advancement of tie-ups, the company changed KPI (Key performance indicator) from operating income to recurring profit.

Trend of Business results by segment

(¥mn)

Segment	Item	Unit	FY3/12	FY3/13	FY3/14		FY3/15			
					1H actual	Annual actual	1H actual	Growth rate	Annual (E)	Growth rate
Web solutions business	Net sales	¥mn	1,074	1,482	861	1,943	910	5.7%	2,202	13.3%
	Segment profit	¥mn	220	165	79	323	97	22.8%	-	-
	Net margin on profit	%	20.5%	11.1%		16.6%			-	-
Network solutions business	Net sales	¥mn	1,425	1,843	980	2,160	1,135	15.8%	2,567	18.8%
	Segment profit	¥mn	179	363	157	301	121	-22.9%	-	-
	Net margin on profit	%	12.6%	19.7%		14.0%			-	-
Business solutions business	Net sales	¥mn	2,585	3,314	1,842	4,063	1,999	8.5%	4,479	10.2%
	Segment profit	¥mn	91	170	26	254	56	115.4%	-	-
	Net margin on profit	%	3.5%	5.1%		6.3%			-	-

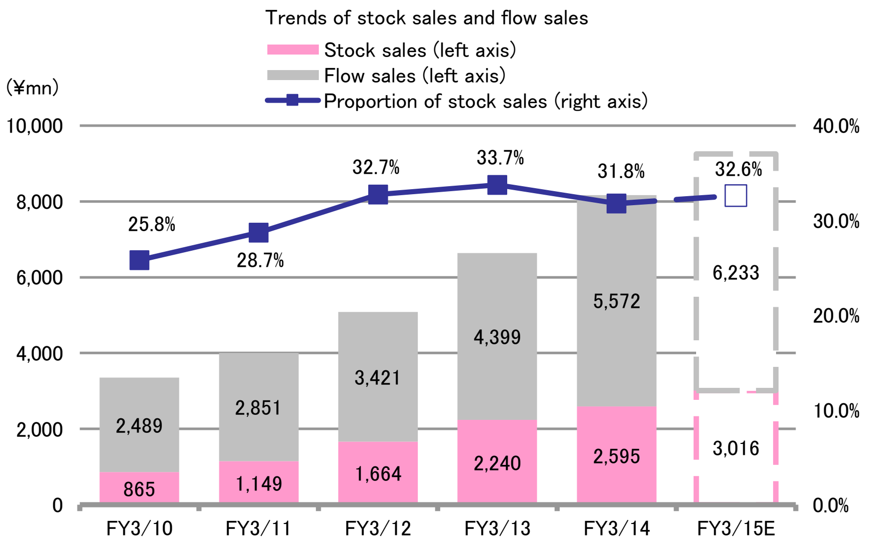
Proportion of stock sales gradually rises, which makes the performance stable.

(2) Way of thinking for 2H forecast of FY3/15

2H forecast of FY3/15 is; ¥9,248 mn in sales (YoY +13.2%), ¥840mn in operating income (YoY +1.3%), ¥ 866mn in recurring profit (YoY +1.2%), ¥433mn in net profit (YoY +0.2%).

FY3/15 is the first year of the new 3 year plan. In this year, we forecast that the profit growth will be subdued by the upfront investment as mentioned earlier. Specific items of the cause to increase costs are; personnel costs for 84 new graduates hiring, costs to improve the security system of the network solution business, the upfront investment for expansion of the business in Asia.

There is no change in forecast of the annual result from one at the beginning of this fiscal year. Considering that the interim result surpassed the plan, it is most likely that the company will achieve the annual target in the plan. The proportion of the company's stock sale has been gradually increasing to 1/3 of the total sales. This fact also contributes to the stable outcome of operation and the accuracy of the forecast.



Summarized profit and loss statement and principal indicators

(¥mn)

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14			FY3/15		
					1H	2H	Annual	1H	2H(E)	Annual(E)
Net sales	3,353	4,000	5,084	6,640	3,684	4,483	8,167	4,045	5,203	9,248
YOY Growth rate	-29.7%	19.3%	27.1%	30.6%	19.2%	26.3%	23.0%	9.8%	16.1%	13.2%
Profit on sales	1,966	2,257	2,779	3,487	1,845	2,400	4,245	2,016	-	-
Ratio of gross profits to sales	58.6%	56.4%	54.7%	52.5%	50.1%	53.5%	52.0%	49.8%	-	-
SG&A	1,806	1,984	2,319	2,831	1,608	1,807	3,415	1,762	-	-
Ratio of SG&A to sales	53.9%	49.6%	45.6%	42.6%	43.7%	40.3%	41.8%	43.6%	-	-
Operating income	160	273	459	656	237	592	829	253	587	840
YOY Growth rate	-33.8%	70.8%	68.0%	42.9%	-13.9%	55.8%	26.5%	6.8%	-1.0%	1.2%
Recurring profit	164	278	475	655	241	615	856	320	546	866
YOY Growth rate	-34.8%	68.7%	71.1%	37.7%	-14.6%	65.0%	30.6%	32.7%	-11.3%	1.2%
Net Income	115	129	278	391	144	288	432	237	196	433
YOY Growth rate	22.5%	12.3%	115.2%	40.4%	-13.4%	28.2%	10.5%	64.4%	-32.1%	0.2%
EPS (¥)	5,375.80	29.41	56.24	78.62	28.68	50.38	85.50	46.61	38.90	85.51
Dividend (¥)	350.00	5.00	5.62	7.86	0.00	15	15.00	5.00	7.83	12.83
BPS (¥)	63,709.49	484.44	534.86	605.71	-	-	689.67	-	-	-
EPS after stock split adjustment (¥)	26.88	-	-	-	-	-	-	-	-	-
Dividend after stock split adjustment (¥)	1.75	-	-	-	-	-	-	-	-	-
BPS after stock split adjustment (¥)	318.55	-	-	-	-	-	-	-	-	-

Note: stock split at the rate of 1:200 on October 1, 2010

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Summarized Balance sheet

(¥mn)

	FY3/09	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15 1H
Current asset	1,827	2,004	2,808	3,092	3,396	4,051	3,663
Cash and deposits	1,082	1,216	2,010	2,055	2,068	2,247	2,227
Notes and accounts receivable-trade	543	604	631	837	1,033	1,438	997
Other	202	184	167	199	294	366	439
Noncurrent assets	467	538	615	676	878	1,115	1,197
Tangible noncurrent assets	63	64	97	108	100	105	117
Intangible noncurrent assets	240	199	240	258	327	502	567
Investment and other assets	163	274	277	309	450	507	512
Deferred assets	–	–	14	9	4	0	0
Total assets	2,295	2,543	3,439	3,777	4,279	5,167	4,860
Current liabilities	795	886	898	1,126	1,242	1,661	1,211
Accounts payable-trade	273	247	291	354	453	618	471
Short term borrowings	182	299	151	141	–	0	0
Others	340	340	454	631	789	1,043	740
Noncurrent liabilities	242	293	141	0	0	12	0
Long term borrowings	242	293	141	0	0	0	0
Others	0	0	0	0	0		0
Shareholder's equity	1,256	1,362	2,404	2,658	3,044	3,450	3,636
Capital stock	416	416	777	777	789	795	824
Capital surplus	401	401	918	919	930	937	965
Retained earnings	478	585	707	961	1,324	1,717	1,879
Treasury stock	-40	-41	-0	-0	-0	-0	-32
AOCI (Accumulated Other Comprehensive Income)	0	0	-4	-7	-8	42	9
Minority shareholders' interest	0	0	0	0	0	0	0
Subscription rights to shares	0	0	0	0	0	1	2
Total net assets	1,256	1,363	2,399	2,650	3,035	3,493	3,648
Total liability and net assets	2,295	2,543	3,439	3,777	4,279	5,167	4,860

Statement of cash flows

(¥mn)

	FY3/09	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15 1H
Net cash provided by operating activities	243	116	410	461	566	638	213
Net cash provided by investment activities	-182	-140	-214	-240	-591	-286	-146
Net cash provided by financing activities	-48	158	597	-186	-146	-24	-51
Effect of exchange rate change on cash and cash equivalents	-2	–	–	–	–	-0	15
Net increase (decrease) in cash and cash equivalents	11	133	793	35	-171	326	31
Cash and cash equivalents at beginning of period	1,066	1,077	1,211	2,005	2,040	1,868	2,195
Cash and cash equivalents at end of period	1,077	1,211	2,005	2,040	1,868	2,195	2,227

Watch over the declining ROE. ROE is expected to rise if profit growth accelerates,

(3) Financial status analysis

In terms of the trend in the company's equity (ROE), after ROE was 13.8% FY3/13, it declined to 13.2% in FY3/14. Although both sales and profit increased, low leverage affected to decline of ROE. (in another word, capital adequacy ratio was high). It should not be criticized because ROE of 13% is rather good result than that of other Japanese companies. We appreciate that the company achieved the good ROE in quality, if we watch over the balance sheet. However, it is worth watching the downwards trend because the level and trend of ROE might affect evaluation of the stock price.

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In terms of FY3/15, the calculation of the estimated ROE based on the company's forecast and the capital adequacy with any given assumption turned out to be 12.6%. It seems that the decrease of the profit margin and lower leverage are affected. The company has already decided to increase the dividend as described later, the company remains the state of "capital adequacy > net income" in the growth ratio. Nevertheless, we expect that this is not significant because ROE will rise if the trend of profit growth become upwards again.

Table of Financial analysis

			FY3/11	FY3/12	FY3/13	FY3/14	FY3/15 (E)	Note
Major indicators	Net sales	¥mn	4,000	5,084	6,640	8,167	9,248	The company's forecast
	SG&A	¥mn	1,984	2,319	2,831	3,415	3,867	Assuming the ratio to sales unchanged from FY3/14
	Operating profit	¥mn	273	459	656	829	840	The company's forecast
	Recurring profit	¥mn	278	475	655	856	866	The company's forecast
	Net income	¥mn	129	278	391	432	433	The company's forecast
	Total assets	¥mn	3,439	3,778	4,279	5,167	5,524	Assuming the asset turnover ratio unchanged from FY3/14
	Equity capital	¥mn	2,400	2,651	3,036	3,492	3,860	Considering only dividend as outflow Dividend is based on the company's forecast
Profitability and efficiency	Return on equity	%	6.9%	11.0%	13.8%	13.2%	12.6%	ROE
	Return on assets	%	9.3%	13.2%	16.3%	18.1%	17.7%	ROA
	Return on sales	%	3.2%	5.5%	5.9%	5.3%	4.7%	Margin
	Total assets/equity	Times	1.59	1.43	1.42	1.45	1.42	Leverage
	Asset turnover ratio	Times/year	1.34	1.41	1.65	1.73	1.73	Assuming the total asset turnover ratio unchanged from FY3/14
	Ratio of Recurring profit to sales	%	7.0%	9.3%	9.9%	10.5%	9.4%	
	Ratio of net income to sales	%	56.4%	54.6%	52.5%	52.0%	50.9%	
	Ratio of SG&A to sales	%	49.6%	45.6%	42.6%	41.8%	41.8%	
	Ratio of operational profit to sales	%	6.8%	9.0%	9.9%	10.2%	9.1%	
Growth	Net sales	%	-	-	-	26.9%	22.1%	Average of annual growth rate for the last 3 years
	Operational profit	%	-	-	-	44.8%	22.3%	Average of annual growth rate for the last 3 years
	Recurring profit	%	-	-	-	45.5%	22.2%	Average of annual growth rate for the last 3 years
	Net income	%	-	-	-	49.6%	15.9%	Average of annual growth rate for the last 3 years

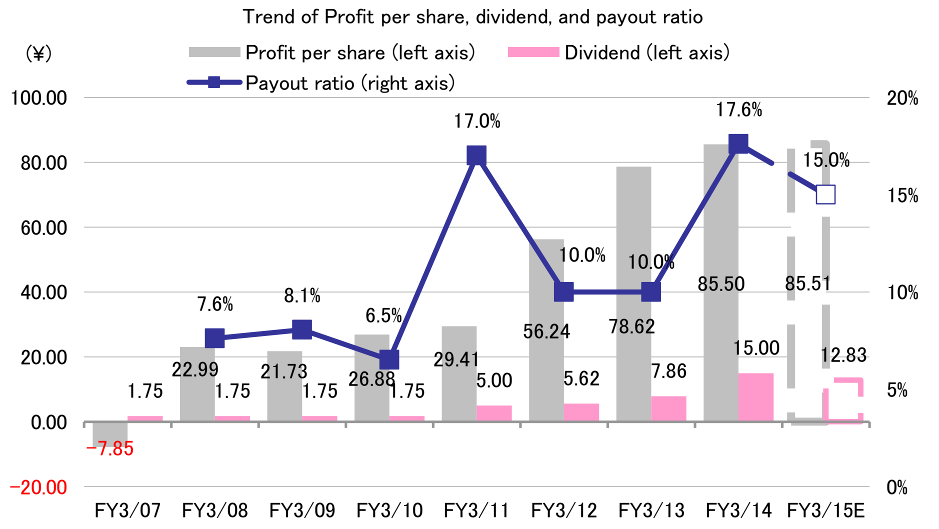
■ Shareholder's return

Raise the payout ratio from 10% to 15%

The company's basic policy of shareholder's return is to pay dividend.In the past, the company applied 10% rule for the payout ratio. In another word, the company distributes 10% of the consolidated net income to shareholders. The company decided to raise the payout ratio for FY3/15 to 15%. Since the current forecast of the consolidated net income is ¥85.51, the expected dividend will be ¥12.83 (¥5.00 for interim dividend and ¥7.83 for the end of fiscal year as a breakdown.)

The payout ratio of 15% is not one of the highest among Japanese companies, since there are more companies with the payout ratio of 30%. However, the company is at the growing stage, and there are many investments to infrastructure and financial activities. We analyze that the company's policy to retain profit for growth is justifiable and investors will appreciate it.

■Shareholder's return



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