STARTIA, INC.
3393 Tokyo Stock Exchange First Section

13-Jan.-17

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FISCO Ltd. Analyst
Hiroyuki Asakawa

Made steady progress in 1H FY3/17. Attention is focusing on the AR service COCOAR

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.

The 1H FY3/17 results were basically as forecast, with net sales of ¥4,774mn and an operating loss of ¥119mn. Net sales were slightly lower than initially forecast due to the slow start in 1Q, including from the effects of the organizational reforms and changes to the sales structure and methods. But in profits, the initial forecast was exceeded as cost controls and other measures proceeded smoothly.

In the Digital Marketing segment in 1Q, package sales of the mainstay product of e-book software and the augmented reality (AR) service COCOAR slumped and results lagged behind the forecasts. But on entering 2Q, a hit smartphone game that uses augmented reality (AR) technology boosted sales of COCOAR. In addition, in Web applications, large-scale contracts were acquired for Web production projects and on an ordering basis, the momentum was recovered from the slow start in 1Q.

In the IT Infrastructure segment, from 1Q both net sales and profits were in line with the forecasts. Based on the slogan of “Customer First,” the Company is carrying out organizational reforms and changings its sales structure, and therefore profits declined year-on-year (YoY), but they were within the expected range. Stock revenue, including from the Startia Hikari service, Copiner Counters and Global Gate, steadily increased and supported the revenue base.

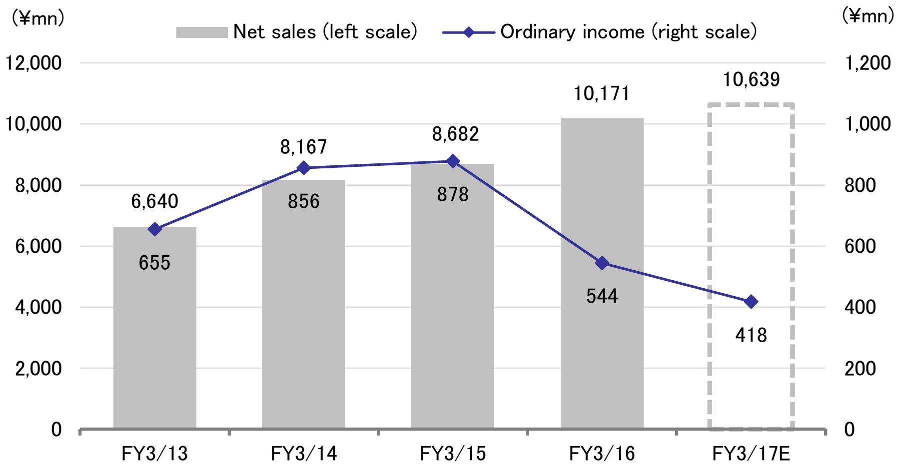
The Company’s results are strongly seasonal and frequently the pattern is that revenue is lowest in 1Q and then gradually increases toward peaking in 4Q, and the plan for FY3/17 also is for the revenue expansion to accelerate through 4Q. Since 2Q, the Digital Marketing segment has recovered and is back in line with the forecasts. In addition, at FISCO we think that in the IT Infrastructure segment as well, the Company can make steady progress in line with its forecasts through its customer-orientated structure and the spread of the customer first mindset among employees.

COCOAR, which is an AR service provided by the Company, has a presence of being virtually the only such service in Japan in terms of being easy for companies to introduce. The Company released COCOAR in December 2012, but even at the current time it is continuing to evolve it technologically, and at the end of November 2016, it released COCOAR Pro, which newly added a GPS function. As a result, its usability for customers has been furthered improved and further developments are expected from FY3/18 onwards

Check Point

- The results of higher sales and an operating loss were basically as expected
- Making steady progress with the Startia Hikari service
- For the FY3/17 full year, expects to record higher sales and profit from the recording of extraordinary income

Consolidated net sales and ordinary income



Analysis of results for 1H FY3/17

The results of higher sales and an operating loss were basically as expected

In its 1H FY3/17 results, the Company recorded net sales of ¥4,774mn (up 0.3% YoY), an operating loss of ¥119mn (compared to operating income of ¥86mn in the same period in the previous fiscal year), an ordinary loss of ¥110mn (ordinary income of ¥107m), and net income attributable to owners of the parent of ¥25mn (net loss of ¥5mn).

Immediately prior to announcing its 2Q results, the Company announced its revisions to its results forecasts for FY3/17, and the 2Q results were in line with these revised forecasts. The reason it revised its forecasts was despite initially forecasting a net loss, it recorded net income attributable to owners of the parent following the recording of extraordinary income. While net sales were slightly below their initial forecast, operating income and ordinary income slightly exceeded their initial forecasts.

1H FY3/17 Business Results

(¥mn)

	FY3/16		FY3/17			
	1H	Full year	1Q	2Q	1H	YoY % change
Net sales	4,761	10,171	2,315	2,458	4,774	0.3%
Gross profit	2,176	4,609	930	1,096	2,027	-6.9%
Gross profit margin	45.7%	45.3%	40.2%	44.6%	42.5%	-
SG&A expenses	2,089	4,106	1,108	1,038	2,146	2.7%
Ratio of SG&A expenses to sales	43.9%	40.4%	47.9%	42.2%	45.0%	-
Operating income	86	503	-177	58	-119	-
Operating income margin	1.8%	5.0%	-7.7%	2.4%	-2.5%	-
Ordinary income	107	544	-189	79	-110	-
Net income attributable to shareholders of owners of the parent	-5	253	-43	68	25	-

Source: Prepared by FISCO from the Company's financial results summary

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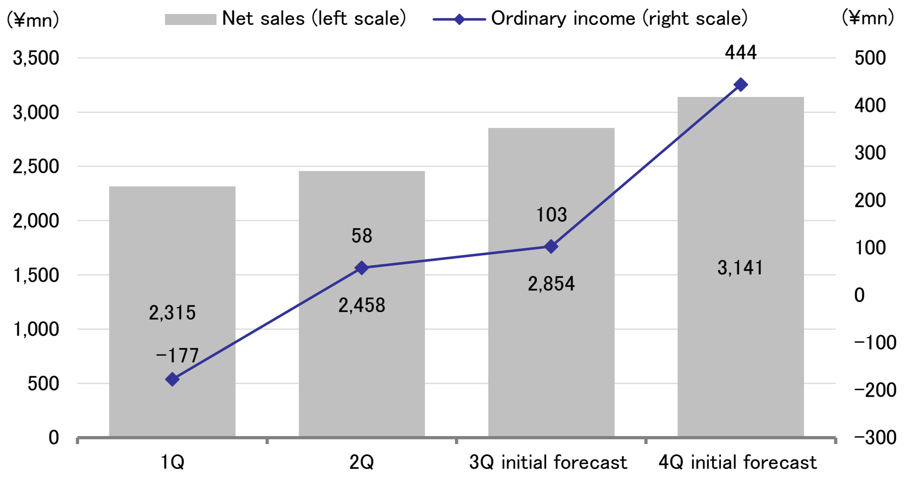
At FISCO, we evaluate the 1H FY3/17 results as confirming that the Company is making steady progress. The initial forecast was for an operating loss, and at FISCO we think the progress made compared to the forecasts is more important than a YoY comparison. Therefore, the fact that the level of profits was actually above the initially forecast is the biggest reason for our positive evaluation.

The bad start to 1Q in the Digital Marketing segment was the direct reason why net sales did not achieve their initial forecast. More details on this are given below, but the situation since 2Q is that the Company is acquiring orders at a pace that is making-up for this slow start. As the IT Infrastructure segment has accumulated sales of stock-type products, it is now structured to stably secure revenue.

The reasons why profits exceeded the initial forecasts were that on the one hand the Company is building a sales base in the IT Infrastructure segment from the steady progress in net sales, while on the other hand it has been able to successfully control costs. This absorbed the impact of the delay in recording net sales in the Digital Marketing segment. However, the results were significantly worse than in the same period in the previous fiscal year, but this was due to the effects of upfront investment, including to change the organizational structure and for business restructuring, such as to reorganize the sales force under the “Customer First” slogan. The impact of this upfront investment was particularly large in 1Q and the plan is for this investment to gradually return to the same pace as a typical year from 2Q onwards.

Trends in the FY3/17 quarterly results



Note: As the actual values in 1Q and 2Q and the initial forecasts for 3Q and 4Q are simply arranged, when these values are totaled, they are not the same as the full fiscal year forecasts for net sales and operating income.
Source: Prepared by FISCO from Company materials

Trends by business segment

Made a slow start due to organizational reforms and new initiatives for sales methods

(1) Digital Marketing segment

a) Description of businesses

The Digital Marketing segment handles products mainly developed by the Company's wholly owned subsidiary Startia Lab, Inc. Representative products include ActiBook, which is an e-book production tool, and COCOAR, an AR content production tool. Its other operations include outsourced Web production and SEO consulting for client companies.

The Company's software and services are intended primarily for companies in creative industries (advertising agencies and printing companies) to support their shift to IT for operations and to acquire customers. General companies are the customers of these creative companies, but by providing more useful IT functions to both these creative companies and their customers of general companies, the Company's marketing-support software support their respective acquisition of business. This is the background to the Company changing the name of this business segment from Web Solutions to Digital Marketing.

Main products in the Digital Marketing segment

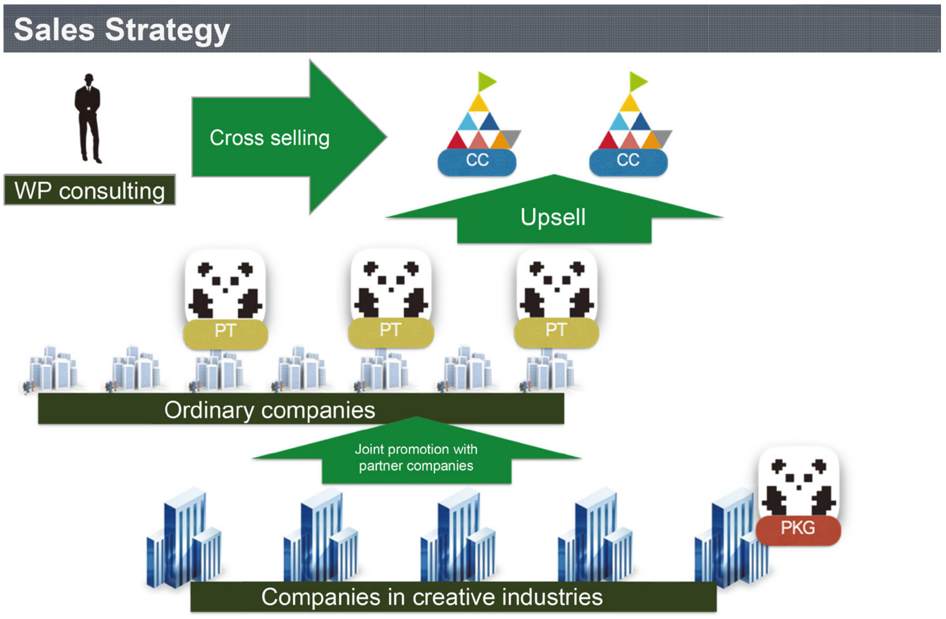
Name	Function	Distinguishing characteristics
ActiBook	e-book production tool	Security function that blocks forwarding to other users, log analysis into depth of content is possible
ActiBook AR COCOAR	Tool for producing augmented reality (AR) content	Increases the effective use of flyers, directing routes cannot be compared, measures the effect of flyer
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

The Company had sold its software individually in the form of package sales (a one-time sale) or a cloud service (monthly fees). Until now, it has expanded its business content by focusing on selling each individual software as a package. However, alongside the increase in the number of companies that have installed software created by the Company, the attributes of its new target customer segment have changed, and from FY3/17, it launched an integrated cloud service that is easier to use for small creative companies and also general companies. The benefits for companies of introducing this cloud service, which is called Cloud Circus, include that they can use multiple software extremely inexpensively compared to having to purchase each package software individually.

The Company has also been working on new forms for its sales methods. The partnership system that it has newly introduced is an example of this. It is a sales strategy where the Company considers creative companies close to introducing its software as partners, and together with these partners cultivates general company customers. Most of the reason why a company hesitates to introduce software is the fact that the cost of introducing is incurred prior to it actually contributing to revenue. Therefore, the Company is forming partnerships with creative companies, which are its prospective customers, and working to support the installation of various marketing tools by general companies (a creative company can introduce software with concrete customers already confirmed).

Diagram of digital marketing sales strategy



Source: Reprinted from the Company's financial results briefing materials

b) Trends in 1H FY3/17 and outlook for the future

2Q FY3/17 followed on from the slow start in 1Q, in which net sales were below the Company's forecast due to the organizational reforms and trials of new sales methods. However, on entering 2Q, as a stand-alone period (July to September), the momentum recovered greatly and 2Q stand-alone net sales recovered to be in line with the initial forecast.

The driving force behind the recovery in 2Q on a stand-alone basis was sales of COCOAR. The explosive success of a smartphone game application using AR technology has greatly improved the name awareness of AR, and inquiries have increased from its potential customer companies. In particular, there have been many inquiries arising from the interest in AR shown by decision makers, such as company managers. Many of these inquiries resulted in completed contracts, which pushed-up 2Q net sales.

One more development in 2Q that we should pay attention to is the progress made in acquiring orders for Web production projects. In terms of content, it is noticeable that some have been large-scale projects and on an ordering basis, progress is being made as planned.

Comparing 1Q and 2Q as stand-alone periods, the extent of the decline in sales in 1Q was considerable, at 22.8%, indicating the delay in recording sales. An operating loss of ¥99mn was recorded in 1Q, and while in 2Q on a stand-alone basis this had recovered to the profit-loss breakeven point, because of the long deadlines for deliveries of large-scale projects, the result for 1H, as the total of 1Q and 2Q, remained an operating loss.

Based on the above developments, net sales in the Digital Marketing segment in 1H were ¥795mn, down 13.4% YoY.

1H FY3/17 results in the Digital Marketing segment

(¥mn)

	FY3/16			FY3/17					
	1Q	2Q	1H	1Q	YoY % change	2Q	YoY % change	1H	YoY % change
Net sales	452	466	918	349	-22.8%	446	-4.3%	795	-13.4%
Operating income	-10	3	-7	-99	-	0	-	-99	-

Source: Prepared by FISCO from the Company's financial results summary

It would seem that one of the keys for the current 2H is whether the previously described strong performance of COCOAR continues. Up to the present time, there have been no major changes to the attention being paid to AR technology in the world or the Company's sales of COCOAR, and this 2Q momentum seems likely to continue. Further, the same as for COCOAR, strong orders of Web production projects and SEO consulting projects seem set to continue in 2H. With Web production projects, there is always the risk that the timing of the delivery will be pushed back and will fall in the next fiscal period. But with the premise that this risk will not be actualized, it would seem that sufficient orders are being accumulated to recover the portion that net sales fell below forecast in the current 1Q.

If net sales trend as expected, it seems highly likely that profits will also reach their forecasts, as there are many products with a high gross profit margin in the Digital Marketing segment, including COCOAR. Web production also includes the process of subcontracting, so there is the project management-related risk that the initially expected profits cannot be secured. While it is necessary to be aware of this point, the percentage of total sales provided by software sales in this business is overwhelmingly high, so at FISCO we think that, alongside the growth in sales, sufficient profit will also be secured.

c) COCOAR

1) Overview of the service

COCOAR is the service launched in December 2012 by Startia Lab, the Company's wholly owned subsidiary. In the past, URL utilizing QR codes were provided mainly for the purposes of advertising and publicity, but by replacing them with AR, it becomes possible to provide inexpensively richer content (for example, video and music).

Compared to QR codes, AR markers using COCOAR are extremely flexible. COCOAR makes it possible to freely use photographs and illustrations as AR markers, as well as three-dimensional objects. It also enables various things to be used for the information that the customer wants to send, including video, images, audio, text information, and websites.

Specific examples of its use include the collaborative planning of "Glico Pocky" and "Kirin Gogo no Kocha," and also "Ezaki Glico Co., Ltd. and White Cat Project: Almond Peak" and "Ito En Oi Ocha." The mechanism in each of these case was that the product label (such as the logo mark, or newly printed on the label) was set as the AR marker, and after downloading the (free) COCOAR app, various content appears when the smartphone is held over the AR marker.

2) Profit model and business scale

Not limited to COCOAR, AR services are comprised of four main elements; the AR marker and the AR object, and also the AR app and server. Previously when a company held a sales-promotion event utilizing AR, the costs would be enormous, as the AR app had to be developed exclusively for each individual project. Moreover, frequently it was not easy to change and update the AR markers and AR objects once they had been produced and set up.

COCOAR is provided as a cloud service for customer companies by Startia Lab, which manages the server and provides the AR app (the COCOAR app). Customers are able to easily and freely update the AR markers and AR objects by simply setting, creating, and uploading them. In terms of fees, they pay an initial fee and then a monthly fee for the cloud service (which changes according to the server capacity and other factors). Customers can achieve considerable cost reductions compared to in the past when they used AR software developed from scratch. Conversely for Startia Lab, it is a stock-type model providing stable revenue in the form of monthly cloud service fees.

According to the Company, as of the end of September 2016, the service had been introduced by 1,207 companies, mainly creative companies, such as printing companies and Web production companies, while the AR apps, COCOAR and COCOAR2, had been downloaded more than one million times. The name awareness of AR leaped in an instant in the summer of 2016 following the enormous success of a smartphone game using AR technology, and currently sales are continuing to accelerate.

The Company continues to evolve COCOAR technologically, and from the end of November 2016, it launched a service linking AR markers to a GPS function. In this new service, companies are able to provide information (the AR object) limited to a certain area based on locational information. In terms of specific examples utilizing this function, it is thought to be used to promote sales of products and attract visitors to events by setting AR markers on leaflets and products, and then limiting to the venues of actual events, such as sightseeing spots or commercial facilities, the places where this AR content can be viewed. We will be paying attention to how it develops in the future.

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Making steady progress with the Startia Hikari service

(2) IT Infrastructure segment

a) Description of businesses

The IT Infrastructure segment was formed from the integration of the former Network Solutions segment and Business Solutions segment. The Network Solutions segment mainly engaged in the construction of networks, the sales of related equipment, and the provision of various cloud services, while the Business Solutions segment primarily involved the sales of communication lines and communication equipment. In other words, the new segment that was created when these two segments were combined covered the business area of system integrators (SIers). As an IT service provider, the area the Company most wants to strengthen is its provision of SI services with even higher value-added, including replacing aging infrastructure servers and upgrading the speed of the network environment, the complete migration to the cloud environment, and constructing, maintaining, and operating networks on AWS (Amazon Web Service), targeting medium-sized business establishments. In order to achieve this objective more efficiently, it would seem that the integration of these two former businesses was inevitable.

On other hand, in order to promote its business model, alongside its organizational reforms the Company needed to greatly change the skillset and the mindset required of its sales force. As the specific measure to achieve this, it changed from its traditional sales structure of a “product-orientated structure” in which it trained and deployed product specialists, to a “customer-orientated structure,” in which it focused more on the needs of individual customers through assigning account managers to each of them. The image it held was that by setting an account manager for each customer, these customers can receive one-stop service with the account manager as the point-of-contact for every aspect. Small- and medium-sized companies that cannot afford to appoint a specialist in-house IT manager are the potential customers, and the Company’ value is in realizing the “outsourcing of the IT manager.” Therefore, this transition to a customer-orientated system would seem to be a natural development. As described above, this is a large-scale change that also requires that each individual member of the sales force change their mindset, so it is thought that a certain amount of time will be needed for this mindset to permeate among them. However, the Company has positioned FY3/17 as a “Year of change for next-generation growth” and it is taking-on this challenge.

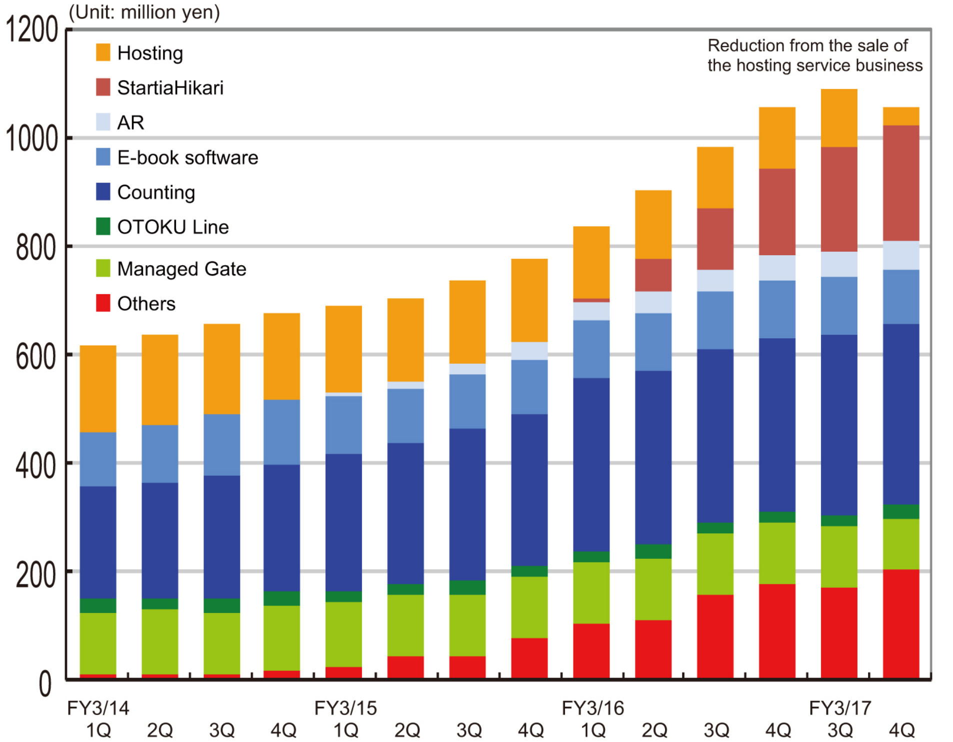
b) Trends in 1H FY3/17 and outlook for the future

A feature of the IT Infrastructure segment is that the percentage of total revenue provided by stock-type revenue is high. The Company does not disclose results solely for its IT infrastructure-related departments, but at FISCO, we estimate that prior to the sale of the hosting service, more than 50% of total net sales in the IT Infrastructure segment were from stock revenue. The percentage from stock revenue is still only just below 50% even after the sale of the hosting service, and so we think that as before, revenue stability is being maintained.

Breaking down the stock revenue, we see the largest percentage is provided by counter fees, but that the Startia Hikari service has also grown rapidly in the last year. This was from sales of optical lines under the Company’s own brand following the start of the “Hikari Collaboration” service with The Nippon Telegraph and Telephone Corporation <9432> East and West Corporation. Although the rapid growth period seems to have passed, going forward it will continue to stably provide a certain level of fees every month.

Stock revenue reversed direction and declined in 2Q FY3/17 due to the previously mentioned sale of the hosting service business. This temporarily had a major impact, but counter fees are expected to steadily increase in the future alongside the increase in MFP (multi-functional color printer) sales. In addition, stock revenue in the Digital Marketing segment is increasing (including for maintenance for e-book software and other products, and cloud service fees), so at FISCO we think that it is entirely feasible that the Company will recover the reduction resulting from this sale in a relatively short period of time.

Quarterly trends in major stock-type service products



Source: Reprinted from the Company's financial results briefing materials

The IT Infrastructure segment made steady progress in the current 2Q. In the current 1H, net sales increased 3.4% YoY to ¥3,988mn, while the operating loss was ¥3mn. Looking at the trends on a quarterly basis, in 1Q net sales rose 9.1% and the operating loss was ¥69mn. This is considered to be due to the effects of the higher costs associated with the organizational reforms and the changes to the sales structure. On entering 2Q, as a stand-alone period (July to September), net sales declined 1.7%, but operating income was ¥66mn, meaning profitability was recovered from the loss in the previous quarter. The YoY decline in net sales was from the impact of the sale of the hosting service business to A.T. Works, Inc. on July 1. Operating income was achieved compared to the previous operating loss as costs, which had risen temporarily, were eliminated, and also sales from the remaining business after the sale of the hosting service increased substantively.

1H FY/17 results in IT Infrastructure segment

(¥mn)

	FY3/16			FY3/17					
	1Q	2Q	1H	1Q	YoY % change	2Q	YoY % change	1H	YoY % change
Net sales	1,806	2,050	3,857	1,971	9.1%	2,016	-1.7%	3,988	3.4%
Operating income	-88	197	109	-69	-	66	-66.5%	-3	-

Source: Prepared by FISCO from the Company's financial results summary

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The Company's results forecasts for the current fiscal period assume that revenue will rise from 1Q through to 4Q. Specifically, on a quarterly basis, net sales are expected to increase approximately ¥300mn YoY every quarter. Within this increase of ¥300mn, at FISCO we estimate that around ¥200mn is to be provided by the IT Infrastructure segment. In 2H also, stable growth is expected from stock revenue, and there is considered to be little risk with regards to this point. But in order to realize this, it will not be enough simply to rely on the natural increase in stock revenue from existing contracts, and it will be essential to accumulate new contracts and new customers.

The Company will acquire new customers and new contracts from both flow-type and stock-type products. But the effects of flow revenue are not limited to simply on profit and loss in the period, as it also has the aspect of raising-up the base of stock revenue, so at FISCO we think its impact on results is considerable. A model example of this is the relationship between MFP sales (flow) and the subsequent counter fees (stock). The results for this are created from combinations with new contracts for typical stock-type products, such as the Startia Hikari service, and the hurdles to be cleared to achieve this are reasonably high, so it is possible that results will either fall below or exceed the forecasts.

As explained above, from this fiscal period the Company has changed from a product-orientated sales structure to a customer-orientated sales structure. We can expect that the confusion caused by these changes to have been eliminated by the end of 2Q and that the new sales structure to be on track and fully contributing to higher revenues from this 3Q onwards.

Outlook

For the FY3/17 full year, expects to record higher sales and profit from the recording of extraordinary income

For FY3/17, Startia projects a 4.6% YoY rise in consolidated net sales to ¥10,639mn, a 17.0% decrease in operating income to ¥418mn, a 23.3% fall in ordinary income to ¥418mn, and a 33.6% increase in net income attributable to owners of the parent to ¥338mn.

As described above, the full fiscal year results forecasts were revised following the 2Q results, and while the forecast for net sales has been slightly downwardly revised, the initial forecasts for both operating income and ordinary income have been maintained. The forecast for net income attributable to owners of the parent was upwardly revised following the recording of extraordinary income in 2Q.

Outlook for FY3/17

(¥mn)

	FY3/16			FY3/17				
	1H	2H	Full year	1H	2H (E)	YoY % change	Full-year Co. f	YoY % change
Net sales	4,761	5,409	10,171	4,774	5,864	8.4%	10,639	4.6%
Operating income	86	416	503	-119	537	28.9%	418	-17.0%
Operating income margin	1.8%	7.7%	5.0%	-2.5%	9.2%	-	3.9%	-
Ordinary income	107	437	544	-110	528	20.7%	418	-23.3%
Net income attributable to owners of the parent	-5	258	253	25	312	21.0%	338	33.6%

Source: Prepared by FISCO from the Company's financial results summary

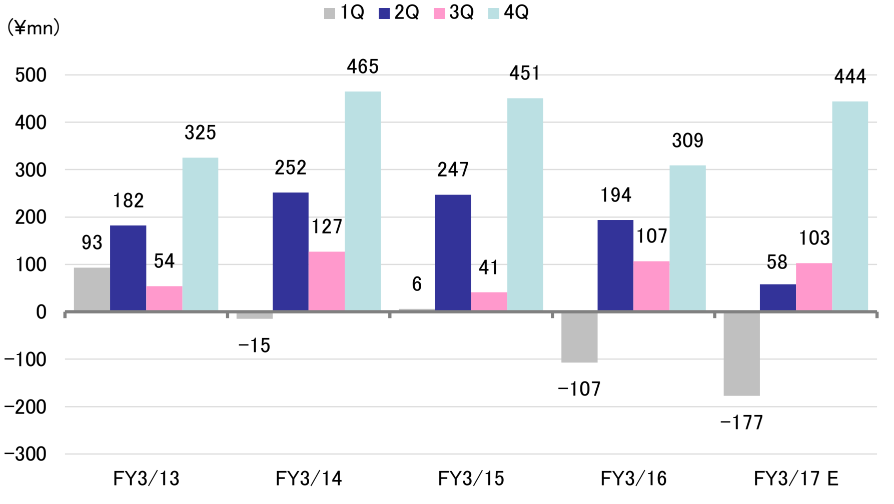
■ Outlook

As described in the section on trends by business segment, results are now back in line with the forecasts in both the Digital Marketing segment and the IT Infrastructure segment. In the Digital Marketing segment, strong orders of Web production projects have continued up to the present time, and if sales are recorded in the current fiscal period as planned, they will be at a level able to cover for the shortfall from the delay in sales in 1Q. But on this point, it is necessary to also be aware of the part relating to the physical factor of production time, which means that some of the sales recording may be pushed back to FY3/18.

The 2Q results in the IT Infrastructure segment trended as forecast. At FISCO, we think that the focus in 3Q will shift to acquiring new contracts and new customers. Stock revenue starts from the acquisition of flow revenue, so the important point for the current 2H will be the progress made in flow revenue in order to steadily expand stock revenue from FY3/18 onwards. So it will also be essential that the Company accumulates new contracts and new customers for stock-type products. If the new sales structure, which was changed in this fiscal period from a product-orientated system to a customer-orientated system, functions as planned, then it would seem fully possible that the Company will achieve its expected targets.

In profits, as the temporary costs associated with the organization reforms incurred in 1Q will disappear, at FISCO we think that if sales are secured, then operating income will be as forecast from the effects of the higher sales. Inherently, the Company's results are strongly seasonal, and in particular profits tend to be weakest in 1Q and strongest in 4Q. Profits in the current 1Q sank well below the break-even line due to the temporary costs, but in 2Q on a single-period basis, the amount was recovered to above the break-even line and was as forecast. Profits are projected to return to their normal level from 3Q, and when considering the results up to 2Q, at FISCO we think it is highly likely that the Company will steadily achieve its forecasts from 3Q onwards.

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



Note: 1Q and 2Q FY3/17 is actual operating income.
Source: Prepared by FISCO from the Company's financial results summary

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Condensed consolidated income statement and per-share data

(¥mn)

	FY3/15	FY3/16	FY3/17		
			1H	2H (E)	Full-year Co. f
Net sales	8,682	10,171	4,774	5,864	10,639
YoY % change	6.3%	17.1%	0.3%	8.4%	4.6%
Gross profit	4,356	4,609	2,027	-	-
YoY % change	2.6%	5.8%	-6.9%	-	-
Gross profit margin	50.2%	45.3%	42.5%	-	-
SG&A expenses	3,609	4,106	2,146	-	-
YoY % change	5.7%	13.8%	2.7%	-	-
Ratio of SG&A expenses to sales	41.6%	40.4%	45.0%	-	-
Operating income	747	503	-119	537	418
YoY % change	-10.0%	-32.6%	-	28.9%	-17.0%
Operating income margin	8.6%	5.0%	-2.5%	9.2%	3.9%
Ordinary income	878	544	-110	528	418
YoY % change	2.6%	-38.0%	-	20.7%	-23.3%
Net income attributable to owners of the parent	592	253	25	312	338
YoY % change	37.2%	-57.3%	-	21.0%	33.6%
Adjusted EPS (¥)	58.09	24.82	2.46	30.69	33.15
Adjusted DPS (¥)	10.00	9.00	3.00	6.00	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

(¥mn)

	FY3/15	FY3/16	FY3/17 1H
Current assets	4,057	4,700	4,238
Cash and deposits	2,335	2,638	2,371
Notes and accounts receivable	1,319	1,597	1,428
Non-current assets	1,604	1,828	1,811
Tangible non-current assets	150	172	125
Intangible non-current assets	811	927	886
Investments and other long-term assets	642	728	799
Total assets	5,662	6,529	6,050
Current liabilities	1,684	1,878	1,604
Trade accounts payable	565	640	554
Short-term borrowings, etc.	-	333	346
Non-current liabilities	-	561	374
Long-term borrowings	-	559	373
Shareholder's equity	3,960	4,095	4,069
Capital stock	824	824	824
Additional paid-in capital	965	965	965
Retained earnings	2,208	2,344	2,318
Treasury stock	-38	-38	-38
Accumulated other comprehensive income	15	-11	-7
Subscription rights to new shares	2	2	0
Net assets	3,977	4,088	4,070
Total liabilities and net assets	5,662	6,529	6,050

Consolidated cash flow statement

(¥mn)

	FY3/15	FY3/16	FY3/17 1H
Cash flow from operations	768	366	43
Cash flow from investing	-595	-762	-179
Cash flow from financing	-82	705	-107
Changes in cash and cash equivalents due to currency exchange fluctuations	48	-24	-27
Absolute change YoY in cash and cash equivalents	139	284	-271
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	2,349

Shareholder returns

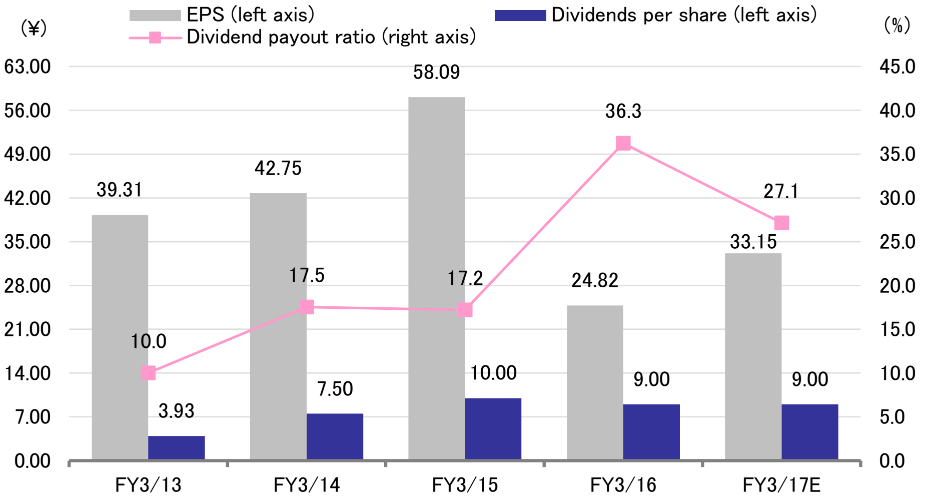
Determines the dividend while maintaining a balance with internal reserves

The Company values its individual shareholders and actively returns profits to them. Its basic policy for shareholder returns is to determine the dividend while maintaining a balance with supplementing internal reserves to invest in growth for the future.

For FY3/17, the Company has announced that it will pay an annual dividend of ¥9 per share (interim dividend of ¥3 per share and year-end dividend of ¥6 per share), which is unchanged from FY3/16. Reflecting the recording of extraordinary income, the forecast EPS has been raised to ¥33.15, but it has not changed its initial dividend forecast. Based on the new forecast, the dividend payout ratio will be 27.1%.

As described above, the Company is reforming its business model in FY3/17 and therefore it is forecasting a decline in operating income for the second consecutive fiscal year. At FISCO, we think that the Company will start to fully return profits to shareholders once it has confirmed that it has returned to a growth trajectory, and we will be paying close attention to the progress it makes in its current reforms.

EPS, dividends per share, and dividend payout ratio



Note: The Company made a 2-for-1 share split on October 1, 2015.
Source: Prepared by FISCO from the Company's financial results summary

FISCO

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