COMPANY RESEARCH AND ANALYSIS REPORT

Startia Holdings Inc.

3393

Tokyo Stock Exchange First Section

16-Jan.-2019

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Index

Summary

Launched a holding company organization
Striving to become the No.1 IT global company in Asia by cultivating new and overseas businesses

Startia Holdings Inc. <3393> (hereafter, also "the Company") provides digital marketing-related software and one-stop solutions for IT-related services for medium and small enterprises (SMEs) with 300 or fewer employees that cannot afford to hire an IT manager and which are not served by large system integration companies and network equipment dealers. The Company is working on establishing a stable income model through recurring services.

1. Healthy growth in mainstay businesses, posted higher sales and profits

Startia posted 1H FY3/19 results with higher sales and profits at ¥5,731mn in net sales (up 6.7% YoY) and ¥294mn in operating income (up 33.0% YoY). It reached all-time high 1H sales on healthy sales growth in mainstay Digital Marketing and IT Infrastructure segments and gains in other businesses. Operating income significantly exceeded forecast from the start of the fiscal year that projected profit decline on investments in new businesses, thanks to cost savings from efficient management of advertising and promotional expenses and personnel costs.

2. Launched a holding company organization, aims to realize growth through proactive acquisitions and increased customer sales and productivity

The Company switched to a holding company organization on April 1, 2018 with four main group companies (three in Japan and one overseas). It intends to seek growth as a group through profit expansion at each of these companies. For the core IT Infrastructure segment, it plans to broaden the scope of infrastructure services for customer business operations via proactive acquisitions. For the Digital Marketing and Business Applications segments, it aims to expand businesses through provision of "sales enhancement" and "productivity enhancement" value respectively to customers and will aggressively invest in these two areas in order to quickly ramp them up as second and third income sources because they are smaller than the IT Infrastructure segment.

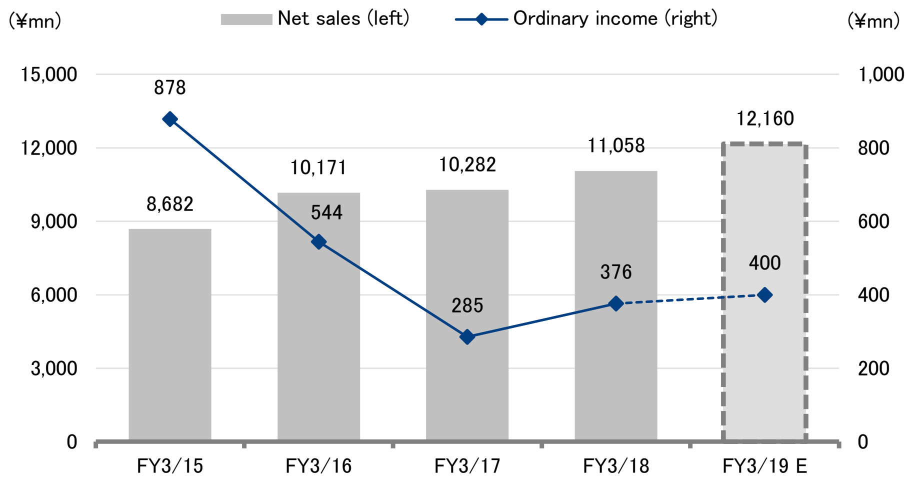
3. Outlook for FY3/19 is for higher sales and profits, due to the increase in upfront investment in the two new companies

The Company raised FY3/19 forecast to ¥12,160mn in net sales (up 10.0% YoY) and ¥400mn in operating income (up 11.7% YoY). These revisions change its outlook from anticipating profit decline initially to higher sales and profits. In sales, we expect continued growth in COCOAR and CMS Blue Monkey for the Digital Marketing segment. We also think the Company should be capable of reaching the target for the IT Infrastructure segment because of sustained stable sales growth through build-up of products with recurring income and ongoing strong security-related demand for network equipment. In profits, meanwhile, the Company actually lowered its 2H outlook when compared to the period-start stance. However, this adjustment factors in spending that aims to drive longer-term growth, including higher personnel costs from employee additions and increases in R&D and advertising and promotional costs. We want to focus on progress in longer-term measures rather than profit upside expectations.

Key Points

- Primary strengths are the customer base of over 20,000 smaller and mid-sized companies and strong relationships
- Clearly positioning acquisitions as the growth engine in IT infrastructure related business, pursuing growth through proactive acquisitions
- Aims to rapidly expand sales in Digital Marketing with products that meet the latest needs and flexible fees and sales methods

Result trends



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

Result trends

Reached all-time high sales with gains led by core businesses
Booked sharply higher profits thanks to efficiency cost utilization

1. Overview of 1H FY3/19 results

In 1H FY3/19, the Company achieved higher sales and significant increase in profits, with net sales of ¥5,731mn (up 6.7% YoY), operating income of ¥294mn (up 33.0% YoY), ordinary income of ¥330mn (up 40.6% YoY), and profit attributable to owners of parent of ¥228mn (up 8.6% YoY).

Sales proceeded roughly on track with forecast and reached an all-time high for 1H. Operating income significantly exceeded forecast from the start of the fiscal year that projected profit decline on investments in new businesses, thanks to cost savings from curtailment of advertising and promotional expenses and personnel costs.

Overview of 1H FY3/19 results

(¥mn)

	1H FY3/18	1H FY3/19			
	Result	Forecast	Result	YoY	Progress rate
Net sales	5,372	5,814	5,731	6.7%	47.1%
Operating income	221	46	294	33.0%	73.7%
Operating margin	4.1%	0.8%	5.1%	-	-
Ordinary income	235	46	330	40.6%	75.6%
Profit attributable to owners of parent	210	25	228	8.6%	84.6%

Note: Progress rate indicates the 1H fulfillment rate against the revised full-year forecast.
Source: Prepared by FISCO from the Company's financial results

The Company switched to a holding company organization on April 1, 2018 and thereby changed from previous operations with three segments to a new format with six segments (including “others”) (refer below for details).

It delivered healthy sales growth YoY in mainstay Digital Marketing and IT Infrastructure segments and gains in other business segments in 1H FY3/19. These trends supported all-time high 1H sales.

Profit improved YoY in the Digital Marketing segment thanks to sales build-up for products with recurring sales. While profit nominally fell in the IT Infrastructure segment mainly due to the impact of management guidance fee revisions accompanying the transition to a holding company organization, we think it posted a healthy gain, similar to sales, on a real basis. Despite operating losses in other business segments, the Company had a steep 33.0% YoY rise in overall operating income because of higher profits in the two main businesses.

Operating income was sharply higher at roughly six times the period-start target, primarily on cost savings from efficient usage of advertising and promotional costs and personnel costs. The Company managed to reduce its advertising and promotional costs with help from continuation of the effect of measures to raise name awareness prior to the switch to a holding company organization in 2H FY3/18 during 1H FY3/19. It also successfully curbed increase in personnel costs through raising the productivity of existing employees amid growing manpower shortages.

Results by segment

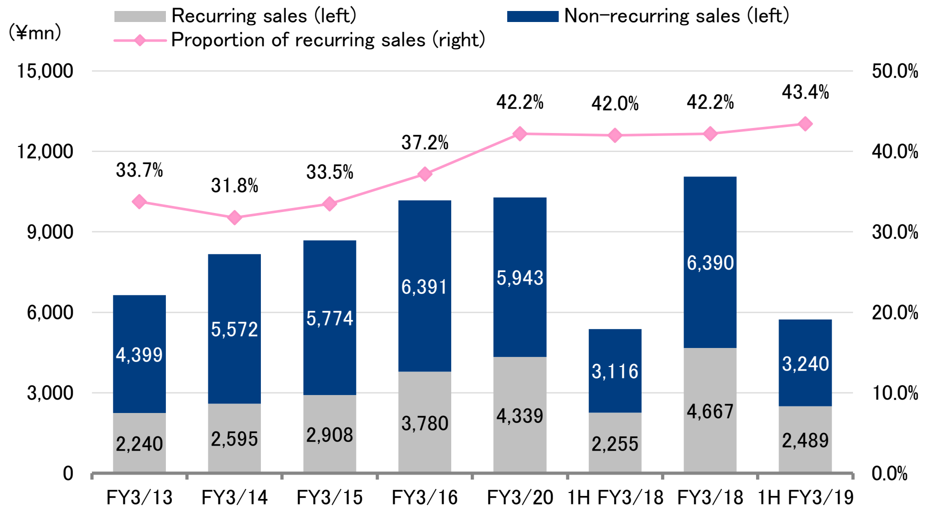
(¥mn)

		1H FY3/18	1H FY3/19	
		Result	Result	YoY
Net sales	Digital Marketing	868	973	12.1%
	IT Infrastructure	4,326	4,565	5.5%
	Business Applications	139	146	5.1%
	CVC	-	-	-
	Overseas	46	63	34.9%
	Others	-	0	-
	Net sales before adjustment	5,381	5,748	6.8%
	Adjustment	-8	-17	-
	Net sales	5,372	5,731	6.7%
Operating income	Digital Marketing	32	54	67.0%
	IT Infrastructure	244	208	-14.9%
	Business Applications	-20	-58	-
	CVC	-12	-2	-
	Overseas	15	-38	-
	Others	-	-3	-
	Operating income before adjustment	261	161	-38.3%
	Adjustment	-39	133	-
	Operating income	221	294	33.0%

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

While the Company handles many products, it has been strengthening those with recurring sales from the standpoint boosting income stability. In 1H FY3/19, it booked ¥2,489mn in recurrent sales, an increase of 10.4% from the previous year's ¥2,255mn, due to healthy growth in sales of products with recurring income in the Digital Marketing segment and higher segment sales for the IT Infrastructure segment that already has numerous products that provide recurrent income.

Recurring sales and non-recurring sales



Source: Prepared by FISCO from the Company's results briefing materials

AR production software (COCOAR) has grown into a major income source in the Digital Marketing segment

2. Breakdown by business segment

(1) Digital Marketing

In the Digital Marketing segment, net sales were ¥973mn (up 12.1% YoY) and operating income was ¥54mn (up 67.0% YoY).

This segment's operational structure has not changed. Startia Lab, Inc. is the core entity with development, production, and sales of various software products that support corporate marketing activities and web production and assistance services. Products with the largest sales shares from the segment's extensive line-up (in order) are CMS Blue Monkey, COCOAR, and ActiBook. CMS Blue Monkey and COCOAR had the biggest contributions to sales increase in 1H FY3/19.

COCOAR is an AR (augmented reality) production software with rapidly growing opportunities for use in corporate sales promotion activities. Roughly 1,700 companies have deployed the software thus far, and it has more than two million app downloads.

CMS Blue Monkey is a software product for web production assistance and contents management. In 1H FY3/19, sales growth benefited from upbeat progress in upgrades to the SSL-complaint plan in order to convert all web site pages to SSL/TLS.

(2) IT Infrastructure

The IT Infrastructure segment posted higher sales but lower profit, with net sales of ¥4,565mn (up 5.5% YoY) and operating income of ¥208mn (down 14.9% YoY).

The Company itself operated businesses in this segment previously, but it established Startia Inc. and transferred these businesses to the new entity at the point of transitioning to a holding company organization. As indicated in the name, segment businesses sell various products used in building IT infrastructure at smaller companies. Leading products in sales composition are multi-function printers (MFPs), network equipment, and optical collaboration line (sold under the Startia Hikari brand) contracts. MFPs and Startia Hikari use a recurring-type business model and make large income contributions.

The segment posted higher sales in 1H FY3/19 due to large spot deal orders in network equipment sales and steady, continuous expansion of demand for security equipment. Profit fell on paying management guidance fee as part of the transition to a holding company organization. Nevertheless, we think profit improved in real terms.

(3) Business Applications

The Business Applications segment reported ¥146mn in net sales (up 5.1% YoY) and a ¥58mn operating loss (vs. a ¥20mn loss in the previous year).

This segment consists of the cloud storage business, which was formed by splitting the SaaS online storage service Secure SAMBA from the IT Infrastructure segment, and the new RPA business. The main entity is Startia Raise, Inc., a company created as part of the transition to a holding company organization.

Secure SAMBA business steadily contributed to income with an established customer base. It mainly boosted contracts as support for corporate business continuation plans (BCP). In recent years, however, demand has risen from the standpoint of work style reforms.

Robotic process automation (RPA) business handles distributor tasks for RPA software from other firms. There is substantial interest in RPA amid growing manpower shortages. However, even though this area attracts many visitors at exhibits and seminars, the Company has not achieved much headway in actual deployments at smaller companies. We think this reflects a large gap between local needs and services provided by RPA.

(4) CVC

The CVC segment had ¥0 sales and a ¥2mn operating loss (vs. a ¥12mn loss a year earlier).

The Company moved the CVC segment from its corporate venture capital business promotion office to Startia Asia Pte. Ltd., which handles the Overseas segment, in the transition to a holding company organization. While the Company might still be involved in some CVC business, mainly for domestic deals, Startia Asia is fundamentally in charge of CVC activities to find deals in Asia.

Startia Asia decided to invest in OSAM Cloud Innovator Pte. Ltd. (with headquarters in Singapore) and implemented a portion in 1H FY3/19. The CVC segment recovers investments through dividends and exit gains (typically by selling shares in an IPO) and books this income under sales. However, it takes a considerable amount of time to reach this point and the investment stage is likely to continue for the time being.

(5) Overseas

The Overseas segment reported ¥63mn in net sales (u up 34.9% YoY) and a ¥38mn operating loss (vs. a ¥15mn loss in the previous year).

The Company established Startia Asia under the holding company to oversee existing businesses in other countries (Startia Taiwan, Inc. is a subsidiary of Startia Lab) – Startia Shanghai, Inc., XI'AN STARTIASOFT INC., and Shanghai Find It Intelligence Technology Co., Ltd.

At this point, the Overseas segment mainly consists of "Global Gateway" high-speed Internet communications service between Japan and China provided by Shanghai Startia. This service targets Japanese companies and individuals in China and has been steadily recruiting subscriber firms thanks to favorable assessment of communications quality. Shanghai Startia formed an alliance with a Chinese telecom carrier and began SIM sales in China in 1H FY3/19.

Longer-term growth strategy after transitioning to a holding company organization

Pursuing "long-term sustainable growth" via proactive acquisitions and business investments in six segments

1. Overview of businesses and growth strategies

On April 1, 2018, the Company transitioned to a holding-company structure. It stated that the aim and purpose of this was "to not lag behind in responding to the changing times in the IT industry, and while keeping a watch on the latest technological trends, to promote timely decision making and flexible management."

The Company revamped the business domains of its group companies with the transition to a holding company organization as the catalyst and moved from three segments prior to then (IT Infrastructure, Digital Marketing, and CVC) to six segments by adding Business Applications, Overseas, and Other Businesses to the three existing segments. It also established new Startia, Startia Raise, and Startia Asia.

Business segments, group companies, and business domains

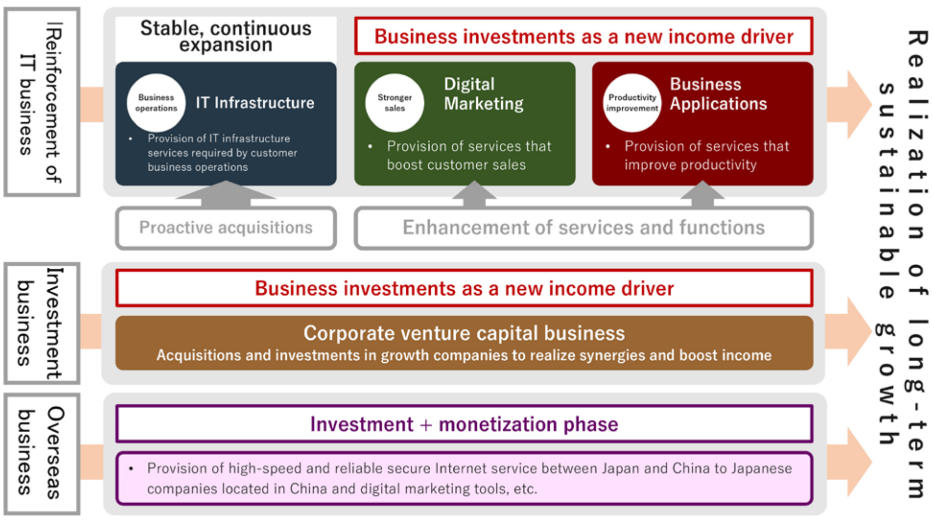
<table>
<tr><th>Business segment</th><th>Company name</th><th>Business domain</th><th>Subsidiaries and affiliates</th></tr>
<tr><td>IT Infrastructure</td><td>Startia, Inc.</td><td>IT infrastructure-related businesses (excluding the cloud storage business)</td><td>BCMEDIA Co., Ltd., NOS Ltd., three affiliated companies</td></tr>
<tr><td>Digital Marketing</td><td>Startia Lab, Inc.</td><td>Digital marketing-related businesses</td><td>Mtame, Inc., Startia Taiwan</td></tr>
<tr><td>Business Applications</td><td>Startia Raise, Inc.</td><td>Cloud storage business, RPA business</td><td>-</td></tr>
<tr><td>CVC</td><td rowspan="2">Startia Asia Pte. Ltd.</td><td rowspan="2">Centralized management of overseas businesses, corporate venture capital business</td><td>-</td></tr>
<tr><td>Overseas</td><td>Startia Shanghai Inc., XI'AN STARTIASOFT INC., Shanghai Find IT Intelligence Technology Co., Ltd.</td></tr>
</table>

Source: Prepared by FISCO from the Company's materials

The Company aims to "realize long-term sustainable growth" in its longer-term growth strategy. For the core IT Infrastructure segment, it plans to broaden the scope of infrastructure services for customer business operations via proactive acquisitions. For the Digital Marketing and Business Applications segments, it aims to expand businesses through provision of "sales enhancement" and "productivity enhancement" value respectively to customers and will aggressively invest in these two areas in order to quickly ramp them up as second and third income sources because they are smaller than IT Infrastructure.

Additionally, the Company hopes to foster investment business (CVC) into a new income source. It will select investment recipients with more emphasis on synergies and contributions to higher income. It plans to pursue new growth utilizing investments in the Overseas segment too, in addition existing Global Gateway service. Startia Asia handles the CVC and Overseas segments, enabling it to facilitate collaborative and highly efficient business activities.

Overview of businesses



Source: The Company's results briefing materials

Clearly positions acquisitions as a growth engine
Aims to become the top regional firm by supplying IT literacy and knowhow to local office automation (OA) equipment sales companies and others

2. Growth strategy for IT Infrastructure segment

The IT Infrastructure segment supplies IT infrastructure services needed in customer business operations. This is the reason for developing business with a customer-oriented and customer-centric stance.

Previous growth strategy focused on organic growth with specific approaches of 1) raising customer satisfaction with a strong "customer first" stance and expanding "repeat" sales with this support in order to maximize the lifetime value (LTV) of each customer company and 2) building up recurrent sales with the aim of stabilizing income. The segment made healthy gains in 1H FY3/19 thanks to these measures, as explained above. The Company intends to continue deepening these initiatives.

Following healthy progress in the organic growth strategy and the launch of a holding company organization, the Company is advocating "acquisition-led growth" as a key measure. While it has already been making acquisitions, the new approach clearly positions acquisitions as a growth engine on par with organic growth and seeks to ramp up scale and volume. Primary targets are local OA equipment sales companies with shortages of IT literacy, web services, sales personnel, and other aspects. The Company wants to secure a top position as an IT infrastructure business in subject regions by covering the inadequacies. Via multiple acquisitions, it hopes to expand coverage and establish a position as the market leader.

Aims to expand sales with products that meet the latest needs and flexible billing and sales methods

3. Growth strategy for Digital Marketing segment

The Digital Marketing segment covers a business domain of "provision of services that contribute to expansion of customer sales." It mainly delivers a variety of software that assists corporate marketing activities.

The main software provided by Startia Lab and the Group

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	A tool for creating AR (Augmented Reality) 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

Results in this business weakened from FY3/16 due to slowdown in sales growth in the shift from the early adopter segment (with strong interest in deploying new products) to the majority segment (with average interest in deploying new products). However, the Company has recently entered a rebound phase after bottoming out of results through expansion of demand by adopting new sales methods, such as grouping multiple software products for provision as a single cloud-based package service and freemium service, and matching its innovative software to the latest needs.

The Company plans to quickly expand sales in light of these improvements in the business environment. As explained earlier, it has filled out the line-up of software as marketing tools. It also offers bundled sales of multiple software products and provision of software products individually as sales methods and accommodates a variety of needs in the fee menu ranging from heavy users to light users.

Leveraging these strengths, it aims to develop and break into markets and thereby expand income by 1) adding value to existing services, 2) creating new services, and 3) approaching various industries.

Pursuing a strategy that leverages its over 20,000 smaller and mid-sized corporate customers amid fierce competition

4. Growth strategy for the Business Applications segment

The Business Applications segment generates value through provision of services that contribute to enhanced customer productivity. This is another area, along with above-mentioned Digital Marketing, with the prospect of becoming a next-generation income source in the Company's IT business field.

The growth strategy for the Business Applications segment sees changes in society, including work style reforms and telework, as a tailwind to expand demand for the Company's services.

The Company currently operates cloud storage and RPA-related businesses in this segment. It expects the cloud storage market to be worth about ¥75bn in 2019 and projects market value for RPA-related tools and solutions at about ¥90bn. Both areas face tough competitive conditions because of strong interest. The Company aims to bolster its position in these markets through provision of deployment assistance consulting and other services with high added value that leverages its over 20,000 smaller and mid-sized corporate customers. It also intends to aggressively invest in creation of new functions and services as vertical and horizontal tools that support these efforts.

Startia Shanghai's Global Gateway likely to drive growth for the time being

5. Growth strategies in Overseas and CVC segments

The Company established Startia Asia as part of the transition to a holding company organization and assigned the Overseas and CVC segments to it. Startia Asia serves as an intermediate holding company, and individual entities it oversees implement growth strategies for their businesses.

Startia Asia has three subsidiaries, and we expect Shanghai Startia to drive growth for the time being. Shanghai Startia operates Global Gateway (GG) service, a high-speed line service between Japan and China. Its customers are Japanese companies and individuals located in China. It obtains lines through an alliance with a major Chinese carrier and delivers high-speed Internet service to customers that is up to 10 times* faster than ordinary services. It also started SIM sales in China via an alliance with a Chinese carrier in 1H FY3/19. Shanghai Startia aims to promote collaboration among these services, including cloud construction and management assistance.

* It confirmed improvement from 0.4Mbps to 5.0Mbps at a customer office.

Shanghai Find IT Intelligence Technology was established in June 2017 through investments of 40% by Startia Lab, 20% by XI'AN STARTIASOFT, and 10% each by four Shanghai printing companies. While the business still incurs losses and is struggling to expand sales due to business practice and local employee management issues, the Chinese market recognizes COCOAR's robust product features.

Startia Asia is likely to occupy a central role in CVC business as well, particularly because of the greater ease of gathering information related to venture investments in Singapore, where it operates. The Company's CVC business is not limited to Japan, and its strategy aims to obtain business seeds by building a presence in Southeast Asia with rapid economic growth. As mentioned earlier, Startia Asia decided to invest in OSAM Cloud Innovator in 1H FY3/19 and we expect to see additional investment deals.

Outlook

Raised FY3/19 forecast in light of progress through 1H. Projects higher sales and profits (YoY)

FY3/19 forecast

The Company, taking 1H FY3/19 results into account, raised FY3/19 forecast to ¥12,160mn in net sales (up 10.0% YoY), ¥400mn in operating income (up 11.7% YoY), ¥437mn in ordinary income (up 16.2% YoY), and ¥270mn net income attributable to parent shareholders (down 56.0% YoY). These revisions change its outlook from anticipating profit decline initially to higher sales and profits.

Net income attributable to parent shareholders rose substantially in FY3/18 due to profit from selling investment securities and decline in tax burden associated with booking deferred tax assets and is likely to nominally drop on the return to normal in FY3/19.

Overview of FY3/19 forecast

(¥mn)

	FY3/18	FY3/19		
	Full year	Initial forecast	Revised forecast	YoY
Net sales	11,058	12,160	12,160	10.0%
Operating income	358	325	400	11.7%
Operating margin	3.2%	2.7%	3.3%	-
Ordinary income	376	325	437	16.2%
Profit attributable to owners of parent	613	178	270	-56.0%

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

Sales are likely to sustain the same trend seen in 1H FY3/19. We expect continued growth in COCOAR and CMS Blue Monkey sales under the Digital Marketing segment. In particular, CMS Blue Monkey should benefit from ongoing strong demand for SSL/TLS compliance. We also think the Company should deliver steady growth in the IT Infrastructure segment during 2H FY3/19, despite non-recurrence of one-time major orders from 1H, thanks to build-up of products with recurring income and ongoing strong security-related demand for network equipment.

In profits, meanwhile, the Company only lifted the FY3/19 operating income estimate by ¥75mn from ¥325mn to ¥400mn even though 1H beat forecast by ¥248mn. This means that it lowered the 2H operating income target by ¥174mn from ¥279mn in the period-start outlook to ¥105mn.

The Company attributed the revision to increasing personnel costs to bolster employment and boosting R&D expenses at Startia Lab as preparation for longer-term business expansion. It appears to have already added personnel through mid-career hiring. After curbing advertising and promotional costs more than expected in 1H, the Company factored in outlays at an ordinary level in 2H. We cannot conclude that updated forecast is overly conservative at this point in light of these items and hence will be monitoring trends.

Condensed income statements and key performance indicators

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	
					1H	Full year (E)
Net sales	8,682	10,171	10,282	11,058	5,731	12,160
YoY	6.3%	17.1%	1.1%	7.5%	6.7%	10.0%
Gross profit	4,356	4,609	4,536	4,914	2,585	-
YoY	2.6%	5.8%	-1.6%	8.3%	8.3%	-
Gross margin	50.2%	45.3%	44.1%	44.4%	45.1%	-
SG&A expenses	3,609	4,106	4,271	4,555	2,290	-
YoY	5.7%	13.8%	4.0%	6.7%	5.8%	-
Ratio of SG&A expenses to sales	41.6%	40.4%	41.5%	41.2%	40.0%	-
Operating income	747	503	265	358	294	400
YoY	-10.0%	-32.6%	-47.3%	35.1%	33.0%	11.7%
Operating margin	8.6%	5.0%	2.6%	3.2%	5.1%	3.3%
Ordinary income	878	544	285	376	330	437
YoY	2.6%	-38.0%	-47.6%	31.9%	40.6%	16.2%
Profit attributable to owners of parent	592	253	5	613	228	270
YoY	37.2%	-57.3%	-97.7%	-	8.6%	-56.0%
Adjusted EPS (¥)	58.09	24.82	0.58	60.74	22.48	26.37
Adjusted DPS (¥)	10.00	9.00	9.00	12.00	3.00	9.00
Adjusted BPS (¥)	389.9	400.57	393.04	478.21	-	-

Note: Conducted a 2-for-1 stock split on October 1, 2015
Source: Prepared by FISCO from the Company's financial results

Condensed balance sheet

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	1H FY3/19
Current assets	4,057	4,700	4,498	5,927	5,334
Cash and deposits	2,335	2,638	2,221	3,718	3,117
Notes and accounts receivable	1,319	1,597	1,772	1,684	1,605
Non-current assets	1,604	1,828	1,396	1,819	1,810
Tangible non-current assets	150	172	108	99	133
Intangible non-current assets	811	927	531	398	400
Investments and other long-term assets	642	728	756	1,320	1,276
Total assets	5,662	6,529	5,894	7,747	7,145
Current liabilities	1,684	1,878	1,712	2,388	1,775
Trade accounts payable	565	640	681	766	669
Short-term borrowings, etc	-	333	346	400	233
Non-current liabilities	-	561	211	493	428
Long-term borrowings	-	559	200	466	350
Shareholders' equity	3,960	4,095	3,932	4,455	4,670
Capital stock	824	824	824	824	824
Additional paid-in capital	965	965	926	926	935
Retained earnings	2,208	2,344	2,268	2,791	2,910
Treasury stock	-38	-38	-87	-87	-0
Accumulated other comprehensive income	15	-11	37	375	242
Subscription rights to new shares	2	2	-	-	-
Net assets	3,977	4,088	3,970	4,865	4,941
Total liabilities and net assets	5,662	6,529	5,894	7,747	7,145

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

Statement of cash flows

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	1H FY3/19
Cash flow from operating activities	768	366	155	869	-108
Cash flow from investing activities	-595	-762	-165	378	-113
Cash flow from financing activities	-82	705	-403	276	-372
Changes in cash and cash equivalents due to currency exchange fluctuations	48	-24	-6	-5	-6
Absolute change YoY in cash and cash equivalents	139	284	-420	1,518	-601
Balance of cash and cash equivalents at start of fiscal year	2,195	2,335	2,620	2,199	3,718
Balance of cash and cash equivalents at end of fiscal year	2,335	2,620	2,199	3,718	3,117

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

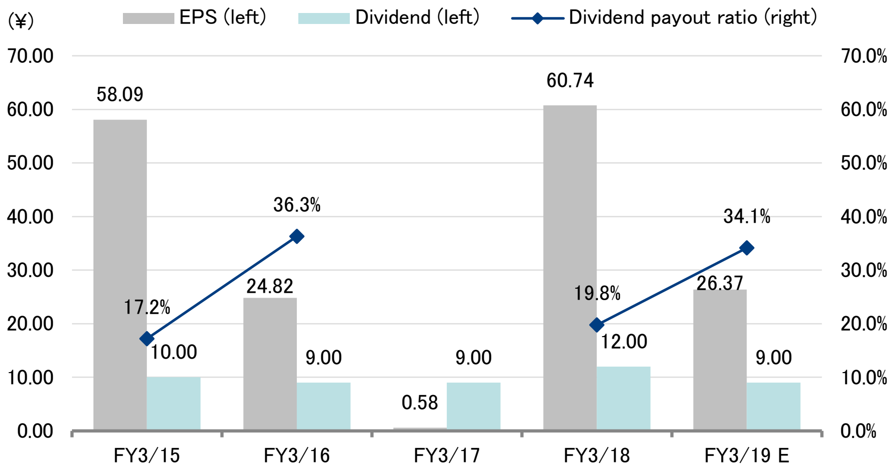
Shareholder returns

Disclosed a ¥9 ordinary dividend target for FY3/19

The Company values its individual shareholders and actively returns profits to them. Dividends are fundamental to that approach, and its basic policy is to determine the dividend while maintaining a balance with supplementing internal reserves to invest in growth for the future. In the past, the Company adopted a rule of a dividend payout ratio of 10% as a guideline, but from FY3/15, it raised the dividend payout ratio target for the ordinary dividend from 10% to 15%.

For FY3/19, the Company removed the ¥3 anniversary dividend from FY3/18 and disclosed a dividend target of ¥9 (¥3 interim, ¥6 period-end), on par with FY3/16 and FY3/17. This level puts the dividend payout ratio at 34.1% based on an estimated ¥26.37 in net income per share. While the ratio exceeds the Company's ordinary dividend standard, we think the stance of emphasis on a stable dividend and confidence in future earnings growth supported this decision on the dividend target.

Trends in EPS, dividend, and dividend payout ratio



Note: Conducted a 2-for-1 stock split on October 1, 2015
Source: Prepared by FISCO from the Company's materials

Information security

Has acquired several third-party certifications that it utilizes as the guidelines for establishing and strengthening the in-house structure

The Company provides its SME customers with advisory and consulting services, as well as products, on information security. Therefore, the Company itself is naturally strongly aware of the importance of information security and conducts measures for it. Specifically, it has acquired ISMS certification, which is an information security management system (ISO/IEC 27001), and PMS certification, which is a personal information protection and management system (JIS Q 15001). By acquiring these third-party certifications, the Company is supporting compliance with laws and regulations, the mitigation of risks, continuous improvements, and the strengthening of brands within the Company's Group. In addition, it is working to improve the trust in which it is held by stakeholders inside and outside of the Company.

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FISCO Ltd.