November 12, 2021

Summary of Consolidated Financial Results for the First Half Ended September 2021 [Japan GAAP]

Name of Company:	Startia Holdings, Inc.
Stock Code:	3393
Stock Exchange Listing:	Tokyo Stock Exchange
URL:	https://www.startiaholdings.com/
Representative	
Title:	Representative Director and President & Group CEO
Name:	Hideyuki Hongo
Contact Person	
Title:	Director, Group Operating Officer
Name:	Takao Uematsu
Tel:	+81-(0)3-5339-2109
Date of filing quarterly report (tentative):	November 12, 2021
Date of commencement of dividend payment (tentative):	December 13, 2021
Supplementary materials for quarterly financial report:	Yes
Information meeting for quarterly financial report:	Yes (for securities analysts, institutional investors and media representatives)

(Yen in millions, rounded down)

1. Consolidated financial results for the first half ended September 30, 2021 (April 1, 2021 – September 30, 2021)

(1) Results of operations (cumulative) (Percentage figures represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit (loss) attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First half ended Sept. 2021	6,991	17.0	127	-	271	749.0	394	-
First half ended Sept. 2020	5,976	(4.2)	9	(96.9)	31	(90.5)	(15)	-

Notes: Comprehensive income

First half ended September 30, 2021: 267 million yen (yoy 342.6%)

First half ended September 30, 2020: 60 million yen (yoy (60.8)%)

	Profit per share	Diluted profit per share
	Yen	Yen
First half ended Sept. 2021	39.87	-
First half ended Sept. 2020	(1.57)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2021	8,814	4,791	54.4
As of March 31, 2021	8,790	4,577	52.1

Reference: Shareholders' equity

As of September 30, 2021: 4,791million yen

As of March 31, 2021: 4,577 million yen

2. Dividends

	Annual dividends				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2021	-	3.00	-	7.00	10.00
Fiscal year ending March 2022	-	4.00			
Fiscal year ending March 2022 (forecast)			-	7.00	11.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2022 (April 1, 2021 – March 31, 2022)

(Percentage figures represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	14,750	10.7	150	591.9	300	326.8	405	-	40.93

Note: Revisions to the most recently announced sales and earnings forecasts: None

* Notes

(1) Changes in significant subsidiaries during the first half ended September 30, 2021 (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None

Newly included: Excluded:

(2) Use of accounting methods that are specific to the preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatements

(a) Changes in accounting policies accompanying revisions in accounting standards and other regulations: Yes

(b) Changes other than in (a): None

(c) Changes in accounting estimates: None

(d) Restatements: None

(4) Number of issued shares (common shares)

(a) Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2021: 10,240,400 shares As of March 31, 2021: 10,240,400 shares

(b) Number of treasury shares at the end of the period

As of September 30, 2021: 328,919 shares As of March 31, 2021: 355,582 shares

(c) Average number of shares during the period (quarterly consolidated cumulative period)

Period ended September 30, 2021: 9,894,918 shares Period ended September 30, 2020: 9,844,939 shares

(Note) The number of treasury shares at the end of the period includes the Company’s shares held by the trust account regarding the stock benefit trust (BBT・J-ESOP) and those held by the trust regarding the stock benefit trust (employee stockholding association purchase-type) (328,800 shares for the first half ended September 2021 and 355,500 shares for the fiscal year ended March 2021). In addition, the number of the Company’s shares held by the trust account regarding the stock benefit trust (BBT・J-ESOP) and those held by the trust account regarding the stock benefit trust (employee stockholding association purchase-type) was included in the number of treasury shares, which was to be deducted from the calculation of the average number of shares during the period (345,383 shares for the first half ended September 2021 and 395,407 shares for the first half ended September 2020).

* This quarterly earnings report is not subject to the audit by certified public accountants or auditing firms

* Explanation of the proper use of these earnings forecasts and other matters

(Note on forward-looking statements)

The forward-looking statements shown in this report are based on information currently available and certain assumptions that the Company regards as reasonable. The Company cautions that these statements do not guarantee future achievements. Actual results of operations may differ significantly from forward-looking statements for a number of reasons. Please refer to “1. Qualitative information regarding earnings for the first half of the fiscal year (3) Explanation of consolidated earnings forecasts and other forward-looking statements” on page 9 for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof.

1. Qualitative information regarding earnings for the first half of the fiscal year

(1) Explanation of results of operations

In the first half of the fiscal year ending March 2022, the Japanese economy remained in a very severe environment as personal consumption and corporate earnings kept worsening due to the continuing standstill and contraction of economic activities since the Declaration of a State of Emergency and semi-emergency measures were applied to several regions amid the resurgence of the spread of COVID-19. On the other hand, due to the progress of COVID-19 vaccinations, expectations of an economic recovery have increased on the resumption of social and economic activities.

In this business environment, there is the urgent need for management reforms using IT in the industries to which the Startia Group belongs, due to the introduction of teleworking and the progress of environmental arrangements for a digital shift to cope with COVID-19. While demand for IT-related investments increased in areas like digital transformation (DX), a cautious stance on such investments continues to be seen amid the unclear environment.

The Startia Group is promoting its businesses to achieve the targets of the “Medium-Term Management Plan, ‘NEXT’S 2025” announced on May 15, 2020, a five-year medium-term management plan from the fiscal year ended March 2021 to the fiscal year ending March 2025.

Particularly, in the Digital Marketing business, the Group has launched initiatives to make a big turn in the fiscal year ended March 2021 to a SaaS type business model as a subscription model. By lowering the hurdle for customers who could not pay for our conventional flow type services with high unit prices, we have been striving to increase the number of customers and ARR, or annual recurring revenue.

In the IT Infrastructure business, the Group has been establishing solid relationships with the customer base of small and medium-size enterprises, or SMEs, and supported them to improve their productivity consistently by proposing and providing solutions to those customers. In a bid to lead their operations in a better direction, the Group uses IT technologies that cover core and indispensable facilities at offices and support for office work.

In the first half of the fiscal year under review, while we were affected by the self-restraint on economic activities due to the effects of COVID-19, customers began some business activities to cope with the situation amid the pandemic and the era after it. In the Digital Marketing business, orders for the SaaS tool group, Cloud CIRCUS, remained firm, accumulating monthly recurring revenue, or MRR. In the IT Infrastructure business, while business activities of some customers stood still or shrank due to the effects of COVID-19, sales and segment profit increased substantially from the same period of the previous fiscal year. In addition, we separated the cloud storage business. In a bid to organize it into a joint venture company with Chatwork Co., Ltd. (“Chatwork”), we established Chatwork Storage Technologies Co., Ltd. (“CST”) and transferred part of CST shares to Chatwork. On July 1, CST became Startia’s affiliate accounted for by the equity method. By establishing the JV company, we will cooperate with Chatwork Co.’s business chat service, Chatwork, and find more customers that each of the integrated services could not reach separately. Moreover, by implementing collaboration through the two groups’ knowledge on marketing and sales ability, the Startia Group aims to broaden values of products and services it provides to customers, such as “RoboTANGO,” an RPA (Robotic Process Automation) tool for small and medium-sized enterprises, contribute to solving their problems, and become an infrastructure that supports their working environment.

In the first half of the fiscal year, ordinary income increased substantially on equity gains of affiliated companies, since our equity-method affiliates performed well, as well as the reporting of distribution from an investment partnership as our investment target. In addition, we reported 416 million yen in gain on the sale of an affiliate's shares in July in line with the establishment of the aforementioned JV company and 148 million yen in gain on the sale of part of investment securities in August, resulting in a sharp increase in extraordinary profit.

As a result, sales in the first half of the fiscal year under review totaled 6,991,223 thousand yen (up 17.0% from a year before), operating profit of 127,538 thousand yen (operating profit of 9,919 thousand yen a year before), ordinary profit of 271,549 thousand yen (up 749.0% from a year before), and net profit attributable to shareholders of the parent of 394,482 thousand yen (net loss attributable to shareholders of the parent of 15,462 thousand yen a year before).

Business segment results were as follows.
In the current fiscal year under review, we reclassified the Overseas segment into the Others segment as we transferred all shares in our Chinese subsidiary, Startia Shanghai Inc., to other parties. In the year-on-year comparison below, we used the relevant figures in the same quarter of the previous year under the new segmentation.

(Digital Marketing)
In the Digital Marketing business, the Group provides "Cloud CIRCUS*," a group of SaaS tools that help solve issues in five areas to increase the number of customers: transmission of information, attracting customers, enhancing experienced value of customers, fostering potential customers and turning them into actual customers, and preventing cancellations of contracts and increasing repeated customers. Cloud Circus is an easy-to-use tool that everyone can start and use quickly even if he/she engages in digital marketing for the first time ever. We also provide freemium plans for the service. On top of Cloud Circus, we support marketing consulting and operations by customers based on our expertise for the management of advertising and establishment of websites. By providing comprehensive support for the evolution of marketing power, together with the tools, we respond to the potential need for shifting to digitalization and provide multiple services to a single customer.

In the first half of the fiscal year, Startia Lab, Inc., which engaged in the Digital Marketing business, merged with its wholly-owned subsidiary, Mtame, Inc., on July 1, 2021, establishing a structure for the effective use of management resources and the strengthening of capabilities to deal with the changing market environment and diversifying customer needs. The company changed its name to Cloud CIRCUS, Inc., the same name as our SaaS tool group Cloud CIRCUS, to seek broader perception of the service brand. In September, the company held a free-of-charge online conference, "Marketing CIRCUS DAY Autumn 2021," with a main theme of Digital marketing available for Japanese companies to generate achievements. By running a campaign to commemorate the change in company name, Cloud CIRCUS managed to receive a lot of inquiries and enjoy a large number of downloads of the free version, leading to an increase in cross selling of Cloud CIRCUS or new order placements for the tools. As a result, sales of subscription models performed well. Advertising expenses in the second quarter decreased considerably as we delayed the launch of TV commercials from September to October (no change in our full-year plan for advertising expenses) and human resource-related expenses, such as personnel and recruiting expenses, shrank as our mid-career recruitment did not progress as planned.

* Cloud CIRCUS

Area of Issue	Tool to Be Provided	Service
Transmission of information	ActiBooK	E-book production software, video sharing
	BlueMonkey	WebCMS & generating owned media
	AppGoose	Operation of applications
	Plusdb	Establishing databases
	creca	Producing landing pages for smartphones
Consulting for attracting customers and running advertisements	—	Consulting for marketing and for running ads
Experience	COCOAR	AR production software
	LESSAR	AR production software for web browsers
Enhancing experienced value of customers	IZANAI	Chatbot
Fostering potential customers and turning them into actual customers	BowNow	Marketing automation
Acquisition of repeaters & prevention of cancellations	Fullstar	Customer success management

As a result, segment sales in the first half of the fiscal year under review totaled 1,236,868 thousand yen (up 9.3% from a year before) and the segment loss (operating loss) of 154,937 thousand yen (the segment profit (operating profit) of 40,828 thousand yen a year before).

(IT Infrastructure)

In the IT Infrastructure segment, the Group is in charge of the sale, construction or maintenance of information and communication equipment such as MFPs (multi-function printers), UTM (Unified Threat Management) equipment, network equipment and business phones. It also provides consistent SI services from installing servers to system operation and maintenance as well as maintenance of equipment. It also provides customers with the consulting service, helping them to choose and introduce optimum tools fitted for their issues from several RPA (Robotic Process Automation) products, such as “Robo-Pat” and “RoboTANGO,” and assist them in using the introduced tools until they are accustomed to them. Moreover, while telework has been promoted due to the workstyle reforms and the spread of COVID-19, we provide an electronic signature tool that conducts all the process from the signatures and seals of contracting parties, to delivery, storage, and others on a cloud basis.

Since IT equipment and services have risen in capabilities and fallen in prices in recent years, SMEs, the targets of the IT Infrastructure segment, are in a management environment ready for increasing their sales and productivity by using such equipment and services.

However, a majority of SMEs face a challenge of failing to introduce and use IT equipment and services sufficiently as they cannot afford to establish IT departments or appoint IT-dedicated employees due to lack of human resources. In a bid to cope with such challenge, we have a mission of assisting the sound growth and survival of customers. We propose, sell and provide support for optimal IT equipment and services and related office environments from the standpoint of customers.

In the first half of the fiscal year, the Declaration of a State of Emergency and semi-emergency measures were applied to several regions amid the resurgence of the spread of COVID-19, the future situation remained unforeseeable and there were the effects of business contraction at some customers and a shortfall of inventories at manufacturers of business phones and others due to the shortage of semiconductors. However, sales and segment profit increased year on year sharply due to the use of the in-house information infrastructure and the strengthened linkage between the Wakayama Contact Center and the customer success department to seek potential demand from customers and improve productivity. In addition, advertising expenses declined due to cost reduction in attracting customers on the web and human resources-related expenses decreased substantially due to the failure of filling up the vacant posts after retirements.

As a result, segment sales in the first half of the fiscal year under review totaled 5,753,892 thousand yen (up 19.4% from a year before) and the segment profit (operating profit) of 343,510 thousand yen (the segment loss (operating loss) of 13,748 thousand yen a year before).

(CVC)
The CVC business conducted no fresh investment during the year.

The segment sales in the first half of the fiscal year under review totaled 314 thousand yen (no sales a year before) and the segment loss (operating loss) of 184 thousand yen (the segment loss (operating loss) of 12,380 thousand yen a year before).

(2) Explanation of financial condition

1) Assets, liabilities and net assets

(Assets)

Total assets were 8,814,088 thousand yen at the end of the first half, 23,824 thousand yen more than at the end of the previous fiscal year. This was attributable primarily to the increase of 180,190 thousand yen in inventories, 104,067 thousand yen in software, 32,217 thousand yen in non-current assets and the decrease of 105,097 thousand yen in notes and accounts receivable - trade and contract assets, 66,266 thousand yen in others, 65,352 thousand yen in cash and deposits, 46,323 thousand yen in operational investment securities, 7,855 thousand yen in goodwill.

(Liabilities)

Liabilities were 4,022,256 thousand yen at the end of the first half, 190,747 thousand yen less than at the end of the previous fiscal year. This was attributable primarily to the decrease of 325,332 thousand yen in long-term borrowings, 147,332 thousand yen in current portion of long-term borrowings, 74,480 thousand yen in others, 43,461 thousand yen in accounts payable-trade, 42,068 thousand yen in deferred tax liabilities, and the increase of 414,559 thousand yen in income taxes payable, 26,045 thousand yen in provision for bonuses

(Net assets)

Net assets were 4,791,832 thousand yen at the end of the first half, 214,571 thousand yen more than at the end of the previous fiscal year. This was attributable primarily to the net profit attributable to shareholders of the parent of 394,482 thousand yen, the decrease of 18,257 thousand yen in treasury shares, and the decrease of 126,485 thousand yen in valuation difference on available-for-sale securities, dividend payment of 71,682 thousand yen.

2) Cash flows

The balance of cash and cash equivalents at the end of the first half decreased 65,352 thousand yen from the end of the previous fiscal year to 3,179,882 thousand yen.
The state of cash flows per segment associated with the first half of the fiscal year under review is as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 202,112 thousand yen compared with 95,566 thousand yen provided in the same period of the previous year. Major sources of cash were profit before income taxes of 836,301 thousand yen, income taxes refund of 68,344 thousand yen and interest and dividend income received of 10,807 thousand yen. The primary use of cash was 36,598 thousand yen for income taxes paid.

(Cash flows from investing activities)

Net cash provided in investing activities was 239,738 thousand yen compared with 262,035 thousand yen used in the same period of the previous year. Major sources of cash were proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation of 453,900 thousand yen, proceeds from sales of investment securities of 160,431 thousand yen, proceeds from distributions from investment partnerships of 43,172 thousand yen. The primary uses of cash were 363,093 thousand yen for acquiring non-current assets and 53,900 thousand yen for payments for investments in capital of subsidiaries and associates

(Cash flows from financing activities)

Net cash used in financing activities was 508,346 thousand yen compared with 29,834 thousand yen used in the same period of the previous year. Major source of cash was 37,222 thousand yen generated from proceeds from disposal of treasury shares. The primary uses of cash were 472,664 thousand yen for repayment of long-term borrowings and 71,682 thousand yen for dividends paid.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

The Group is promoting its businesses to achieve the targets of the five-year medium-term management plan from the fiscal year ended March 2021 to the fiscal year ending March 2025.

The containment of COVID-19 is yet to be seen, and the future of the economy remains in an unclear situation.

Under this business environment, as we announced in the press release on November 9, 2021, "Notice of Revisions to Consolidated Earnings Forecasts for the Second Quarter of the Fiscal Year Ending March 2022 and for the Full Year," operating profit in the accumulated second quarter increased sharply. Ordinary profit also rose substantially, reflecting a rise in non-operating profit, as a result of investment gain on the equity method as affiliates, which are accounted for by the equity method, fared well as well as the reporting of distribution from an investment partnership as our investment target. Furthermore, extraordinary profit also increased considerably as we reported 416 million yen in gain on the sale of an affiliate's shares in July in line with the establishment of the joint venture company and 148 million yen in gain on the sale of part of investment securities in August.

In response to these, full-year ordinary profit and profit attributable to owners of parent are expected to increase substantially and we have revised our consolidated earnings forecasts for the fiscal year ending March 2022.

As we announced in the press release on September 30, 2021, "Notice of Business Acquisition by Consolidated Subsidiary," our subsidiary Startia Lead, Inc. (Main office: Tokyo, representative: Mitsuru Kasai) acquired the IT infrastructure business operated by Sharp Document 21yoshida (Main office: Miyagi Prefecture, "SD21") and YOSHIDA STORE (Main office: Fukushima Prefecture, "YOSHIDA STORE"), both of which had been under the civil rehabilitation procedures, as of November 1, 2021. SD21 received approval of the business transfer from Sendai District Court on October 29, 2021 and YOSHIDA STORE obtained the business transfer approval from Aizu-Wakamatsu Branch of Fukushima District Court on October 21, 2021. With this transfer, the Startia Group will be able to operate the IT Infrastructure business nationwide, so sales and the customer base are expected to expand and management is expected to become more efficient. At present, we are scrutinizing the impact of the business transfer on our consolidated financial results. We are ready to announce as soon as there are matters to be disclosed.

Consequently, for the fiscal year ending March 2022, we forecast net sales of 14,750 million yen, up 10.7% from the previous year, operating profit of 150 million yen, up 591.9%, ordinary profit of 300 million yen, up 326.8%, and profit attributable to owners of parent of 405 million yen, in a turnaround from loss of 130 million yen in the previous fiscal year.

If the situation changes significantly due to the external environment, such as COVID-19, we will promptly provide the information.

(Note) Forward-looking statements described in the text, including the annual earnings forecast, do not guarantee future performance and they include risks and uncertainties because there are various factors such as unforeseeable changes in the economic situation. There is a possibility that the quantitative targets for the target year may be changed due to the further worsening of the environment resulting from the spread of COVID-19 or other factors.

Please refer to "Supplementary material for the business results in the first half of the fiscal year ending March 2022," announced today on November 12.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheets

(thousand yen)

	As of March 31, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	3,245,235	3,179,882
Notes and accounts receivable-trade	2,331,454	−
Notes and accounts receivable - trade and contract assets	−	2,226,357
Inventories	168,500	348,690
Operational investment securities	120,606	121,924
Other	742,071	675,805
Allowance for doubtful accounts	(138,326)	(146,108)
Total current assets	6,469,542	6,406,552
Non-current assets		
Property, plant and equipment	137,890	170,107
Intangible assets		
Software	791,433	895,501
Goodwill	37,968	30,113
Other	8,113	7,838
Total intangible assets	837,515	933,453
Investments and other assets		
Investment securities	863,932	817,609
Deferred tax assets	154,378	162,342
Guarantee deposits	221,066	221,746
Other	105,937	102,276
Total investments and other assets	1,345,315	1,303,975
Total non-current assets	2,320,721	2,407,536
Total assets	8,790,264	8,814,088
Liabilities		
Current liabilities		
Accounts payable-trade	901,626	858,165
Current portion of long-term borrowings	855,970	708,638
Income taxes payable	44,463	459,022
Provision for bonuses	218,987	245,032
Provision for bonuses for directors (and other officers)	11,748	−
Provision for share awards	20,215	20,215
Other	1,022,738	948,257
Total current liabilities	3,075,748	3,239,331
Non-current liabilities		
Long-term borrowings	1,032,404	707,072
Provision for share awards for directors (and other officers)	12,382	16,097
Provision for share awards	36,804	46,159
Deferred tax liabilities	55,163	13,095
Other	500	500
Total non-current liabilities	1,137,254	782,924
Total liabilities	4,213,003	4,022,256
Net assets		
Shareholders' equity		
Share capital	824,315	824,315

(thousand yen)

	As of March 31, 2021	As of September 30, 2021
Capital surplus	903,459	903,459
Retained earnings	2,879,596	3,202,396
Treasury shares	(188,503)	(170,245)
Total shareholders' equity	4,418,868	4,759,925
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	158,392	31,906
Total accumulated other comprehensive income	158,392	31,906
Total net assets	4,577,261	4,791,832
Total liabilities and net assets	8,790,264	8,814,088

(2) Quarterly consolidated statement of income and comprehensive income

Quarterly consolidated statement of income

For the first half (April 1 – September 30)

(thousand yen)

	April 1, 2020 – Sept 30, 2020	April 1, 2021 – Sept 30, 2021
Net sales	5,976,137	6,991,223
Cost of sales	3,324,312	3,827,365
Gross profit	2,651,824	3,163,858
Selling, general and administrative expenses	2,641,905	3,036,319
Operating profit (loss)	9,919	127,538
Non-operating income		
Dividend income	9,707	12,241
Share of profit of entities accounted for using equity method	2,925	50,132
Gain on investments in investment partnerships	2,621	54,615
Subsidy income	—	22,116
Other	9,534	11,703
Total non-operating income	24,788	150,809
Non-operating expenses		
Interest expenses	2,197	3,357
Loss on investments in investment partnerships	—	3,123
Other	526	317
Total non-operating expenses	2,723	6,797
Ordinary profit (loss)	31,984	271,549
Extraordinary income		
Gain on sales of investment securities	—	148,199
Gain on sale of shares of subsidiaries and associates	—	416,552
Total extraordinary income	—	564,751
Extraordinary losses		
Loss on valuation of investment securities	13,229	—
Total extraordinary losses	13,229	—
Profit (loss) before income taxes	18,754	836,301
Income taxes-current	50,687	450,544
Income taxes-deferred	(16,470)	(8,724)
Total income taxes	34,216	441,819
Profit (loss)	(15,462)	394,482
Profit (loss) attributable to owners of parent	(15,462)	394,482

Quarterly consolidated statement of comprehensive income

For the first half (April 1 – September 30)

(thousand yen)

	April 1, 2020 – Sept 30, 2020	April 1, 2021 – Sept 30, 2021
Profit (loss)	(15,462)	394,482
Other comprehensive income		
Valuation difference on available-for-sale securities	77,761	(126,485)
Foreign currency translation adjustment	(1,743)	−
Total other comprehensive income	76,018	(126,485)
Comprehensive income	60,556	267,996
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	60,556	267,996

(3) Quarterly consolidated statement of cash flows

(thousand yen)

	April 1, 2020 – Sept 30, 2020	April 1, 2021 – Sept 30, 2021
Cash flows from operating activities		
Profit (loss) before income taxes	18,754	836,301
Depreciation	76,090	117,527
Amortization of goodwill	15,295	9,845
Increase (decrease) in allowance for doubtful accounts	21,868	7,781
Increase (decrease) in provision for bonuses for directors (and other officers)	–	(11,748)
Increase (decrease) in provision for bonuses	48,274	26,045
Increase (decrease) in provision for share awards for directors (and other officers)	1,284	3,715
Increase (decrease) in provision for share awards	8,872	9,355
Interest and dividend income	(9,806)	(12,288)
Interest expenses	2,197	3,357
Share of loss (profit) of entities accounted for using equity method	(2,925)	(50,132)
Loss (gain) on sales of investment securities	–	(148,199)
Loss (gain) on valuation of investment securities	13,229	–
Loss (gain) on sale of shares of subsidiaries and associates	–	(416,552)
Decrease (increase) in trade receivables	220,199	105,097
Decrease (increase) in inventories	50,307	(180,190)
Decrease (increase) in investment securities for sale	11,880	–
Increase (decrease) in trade payables	(103,424)	(43,461)
Increase (decrease) in accounts payable-other	(22,742)	36,220
Increase (decrease) in accrued consumption taxes	(42,244)	(44,367)
Other	72,590	(107,866)
Subtotal	379,702	140,441
Interest and dividend income received	10,690	10,807
Interest expenses paid	(2,140)	(2,999)
Income taxes paid	(293,048)	(36,598)
Income taxes refund	362	68,344
Subsidies received	–	22,116
Net cash provided by (used in) operating activities	95,566	202,112
Cash flows from investing activities		
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	–	453,900
Payments for investments in capital of subsidiaries and associates	–	(53,900)
Purchase of non-current assets	(258,125)	(363,093)
Payments for acquisition of businesses	–	(1,990)
Proceeds from sales of investment securities	–	160,431
Purchase of investment securities	(770)	(852)
Payments for guarantee deposits	(3,622)	(6,552)
Proceeds from collection of guarantee deposits	80	–
Proceeds from distributions from investment partnerships	4,118	43,172
Proceeds from return of investments in investment partnerships	–	12,814
Other	(3,713)	(4,191)
Net cash provided by (used in) investing activities	(262,035)	239,738
Cash flows from financing activities		
Proceeds from long-term borrowings	400,000	–
Repayments of long-term borrowings	(385,846)	(472,664)

(thousand yen)

	April 1, 2020 – Sept 30, 2020	April 1, 2021 – Sept 30, 2021
Purchase of treasury shares	―	(73)
Cash dividends paid	(61,442)	(71,682)
Proceeds from disposal of treasury shares	18,859	37,222
Other	(1,406)	(1,148)
Net cash provided by (used in) financing activities	(29,834)	(508,346)
Effect of exchange rate change on cash and cash equivalents	2,683	1,142
Net increase (decrease) in cash and cash equivalents	(193,620)	(65,352)
Cash and cash equivalents at beginning of period	3,414,998	3,245,235
Cash and cash equivalents at end of period	3,221,378	3,179,882

(4) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

No items to report

(Notes to significant changes in shareholders' equity)

No items to report

(Change in accounting policy)

(Application of Accounting Standard for Revenue Recognition, etc.)

Effective from the beginning of the first quarter of the current fiscal year, Startia Holdings has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, the "Standard for Revenue Recognition"), etc. It recognizes revenue when the control of promised goods or services has transferred to a customer and it recognizes as revenue the amount expected to be received upon exchange of the goods or services.

The major impact on the consolidated balance sheet for the first half by applying the Standard for Revenue Recognition is as follows.

In providing goods or services, when Startia Holdings judges that its consolidated subsidiary acts as agent, it recognizes as revenue the amount expected to be received upon exchange of the goods or services provided from other parties minus the amount paid to the other parties.

Regarding software and others produced by a consolidated subsidiary by receiving orders, except for contracts with very short periods until meeting the performance obligations, we changed from the method that recognizes revenue at the time of acceptance inspection to the one that recognizes revenue over a certain period based on an estimated progress rate for the fulfillment of the performance obligations. The method of estimating the progress rate for the fulfillment of the performance obligations is based on the ratio of the actual cost to the estimated total cost (input method).

In applying the Standard for Revenue Recognition, we follow the transitional treatment as provided in the Provision of Article 84 of the Standard for Revenue Recognition. However, there was no impact from retained earnings on the balance at the beginning of the current fiscal year.

As a result, in the first half, net sales decreased by 315,028 thousand yen and cost of sales decreased by 315,028 thousand yen.

According to the transitional treatment as provided in Article 89-2 of the Standard for Revenue Recognition, we did not reclassify the figures in the previous fiscal year under the new presentation method. Moreover, according to the transitional treatment as provided in Article 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), we did not show information of disaggregated revenue that was generated from contracts with customers in the first half of the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement)

Effective from the first quarter of the current fiscal year, Startia Holdings has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, the "Accounting Standard for Fair Value

Measurement"), etc. According to the transitional treatment as provided in Article 19 of the Accounting Standard for Fair Value Measurement and Article 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), we apply the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement, etc., going forward. There is no impact of the application of the accounting standard, etc. on the consolidated quarterly balance sheet.

(Segment information, etc.)
[Segment information]

I. For the first half ended September 30, 2020 (April 1, 2020 – September 30, 2020)

1. Sales and profit (loss) for reportable segment

(thousand yen)

	Reportable segments				Other (see note 1)
	Digital Marketing	IT Infrastructure	CVC	Subtotal	
Net sales					
Sales to external customers	1,131,268	4,820,461	−	5,951,729	24,332
Inter-segment sales and transfers	3,398	8,330	−	11,729	−
Total	1,134,666	4,828,792	−	5,963,458	24,332
Segment profit (loss)	40,828	(13,748)	(12,380)	14,699	(21,364)

	Total	Adjustment (see note 2)	Amount on statement of income (see note 3)
Net sales			
Sales to external customers	5,976,061	76	5,976,137
Inter-segment sales and transfers	11,729	(11,729)	−
Total	5,987,790	(11,652)	5,976,137
Segment profit (loss)	(6,664)	16,584	9,919

Notes:

1. The “Other” is a business segment that is not included in the reportable segments.
2. The adjustment amount for the inter-segment sales and transfers consists of eliminated inter-segment transactions. The adjusted amount for segment profit (loss) includes company-wide profit (loss) and the elimination of inter-segment transactions.
3. The total segment profit (loss) matches the operating profit (loss) on the quarterly consolidated statement of income.

II. For the first half ended September 30, 2021 (April 1, 2021 – September 30, 2021)

1. Information on amounts of sales and profit or loss by reportable segment and on disaggregated revenue

(thousand yen)

	Reportable segments				Other (see note 1)
	Digital Marketing	IT Infrastructure	CVC	Subtotal	
Net sales					
Goods that are transferred at a point in time	302,593	3,243,225	314	3,546,134	－
Goods that are transferred over a certain period of time	934,275	2,510,667	－	3,444,942	－
Revenue that is generated from contracts with customers	1,236,868	5,753,892	314	6,991,076	－
Sales to external customers	1,236,868	5,753,892	314	6,991,076	－
Inter-segment sales and transfers	8,736	13,375	－	22,111	－
Total	1,245,604	5,767,268	314	7,013,188	－
Segment profit (loss)	(154,937)	343,510	(184)	188,388	(938)

	Total	Adjustment (see note 2)	Amount on statement of income (see note 3)
Net sales			
Goods that are transferred at a point in time	3,546,134	147	3,546,281
Goods that are transferred over a certain period of time	3,444,942	－	3,444,942
Revenue that is generated from contracts with customers	6,991,076	147	6,991,223
Sales to external customers	6,991,076	147	6,991,223
Inter-segment sales and transfers	22,111	(22,111)	－
Total	7,013,188	(21,964)	6,991,223
Segment profit (loss)	187,449	(59,911)	127,538

Notes:

1. The “Other” is a business segment that is not included in the reportable segments.
2. The adjustment amount for the inter-segment sales and transfers consists of eliminated inter-segment transactions. The adjusted amount for segment profit (loss) includes company-wide profit (loss) and the elimination of inter-segment transactions.
3. The total segment profit (loss) matches the operating profit (loss) on the quarterly consolidated statement of income.

2. Matters Regarding Changes in Reportable Segments, etc.
(Application of Accounting Standard for Revenue Recognition, etc.)
As described in the Change in accounting policy, effective from the beginning of the first quarter of the current fiscal year, we have applied the Accounting Standard for Revenue Recognition, etc. In line with the change in the method of accounting treatment for revenue recognition, we changed the method for measuring profit or loss in our business segments as well.

Due to the change, in the first half of the current fiscal year, sales in the Digital Marketing segment decreased by 164,980 thousand yen and those in the IT Infrastructure segment decreased by 150,048 thousand yen.

(Change in classification method for reportable segments)
Regarding the Overseas segment, which had been reported as an independent reportable segment until the previous fiscal year, we changed the classification to Others from the first quarter of the current fiscal year since we transferred all shares of Startia Shanghai Inc., which had been a consolidated subsidiary.

The segment information for the first half of the previous fiscal year is based on the reclassified segmentation.

(Significant subsequent events)

(Business transfer)

At a Board of Directors meeting held on September 30, 2021, Startia Holdings resolved to conclude an agreement on the transfer of the IT infrastructure business, which had been operated by Sharp Document 21yoshida (Main office: Miyagi Prefecture, "SD21") and YOSHIDA STORE (Main office: Fukushima Prefecture, "YOSHIDA STORE"), to its wholly-owned subsidiary, Startia Lead, Inc.

As YOSHIDA STORE obtained approval of the business transfer from Aizu-Wakamatsu Branch of Fukushima District Court on October 21, 2021 and SD21 received the business transfer approval from Sendai District Court on October 29, 2021, the conditions for the business transfer were fulfilled and it was conducted as of November 1, 2021.

1. Overview of business transfer

(1) Names and business of acquired companies

Names of acquired companies
YOSHIDA STORE and Sharp Document 21yoshida

Business
IT infrastructure business (sale, rental, and maintenance of MFPs, business phones, network equipment, et cetera, and provision of Internet lines and cloud services)

(2) Main reason for business transfer
By acquiring their IT infrastructure business, the Startia Group's IT Infrastructure business will expand its sales and customers, and operate its business nationwide. Moreover, its costs, including those for purchasing, are expected to decrease and rebates are expected to increase. In addition, cross selling in the Digital Marketing business is also expected. Therefore, we determined that the business transfer will contribute to enhancing the Group's enterprise value.

(3) Date of business transfer
November 1, 2021

(4) Legal form of business transfer
Business transfer in consideration for cash

2. Breakdown of acquisition cost of acquired companies and consideration by type

Consideration for acquisition	Cash and deposits	527 million yen
Acquisition cost	527 million yen	

3. Amount of goodwill to be generated, cause of generation, method and period for amortization
Not yet determined.

4. Amounts of assets undertaken and liabilities assumed as of transfer date and breakdown thereof
Only the assets related to the transferred business were acquired and liabilities were not undertaken.