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August 9, 2024

Summary of Consolidated Financial Results for the First Quarter Ended June 2024 [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 & CEO
 Name: Hideyuki Hongo
 Contact Person
 Title: Director
 Name: Takao Uematsu
 Tel: +81-(0)3-5339-2109
 Date of commencement of dividend payment (tentative): -
 Supplementary materials for quarterly financial report: Yes
 Information meeting for quarterly financial report: None

(Yen in millions, rounded down)

1. Consolidated financial results for the first three months ended June 30, 2024 (April 1, 2024 – June 30, 2024)

(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	%
Three months ended June 2024	5,258	6.6	533	(16.0)	589	(9.3)	489	12.2
Three months ended June 2023	4,934	6.5	634	229.4	649	155.4	436	166.9

Notes: Comprehensive income

First three months ended June 30, 2024: 459 million yen (yoy 2.2%)

First three months ended June 30, 2023: 449 million yen (yoy 353.1%)

	Profit per share	Diluted profit per share
	Yen	Yen
Three months ended June 2024	52.10	-
Three months ended June 2023	46.77	-

Note: Diluted profit per share is not shown because there are no latent shares.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2024	13,867	7,075	50.8
As of March 31, 2024	14,689	6,818	46.2

Reference: Shareholders' equity

As of June 30, 2024: 7,041 million yen

As of March 31, 2024: 6,786million 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 2024	0.00	21.00	0.00	48.00	69.00
Fiscal year ending March 2025	0.00				
Fiscal year ending March 2025 (forecast)		46.00	0.00	51.00	97.00

Note 1 Revisions to the most recently announced dividend forecast: None

2 Breakdown of the year-end dividend for the fiscal year ended March 2024

Ordinary dividend: 37.00 yen

Commemorative dividend: 11.00 yen

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2025 (April 1, 2024 – March 31, 2025)

(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
First half	10,520	6.2	1,200	(7.0)	1,200	(8.4)	792	(6.9)	84.53
Full year	21,200	8.3	2,500	9.5	2,500	10.9	1,650	6.7	176.10

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

* Notes

- (1) Significant changes in the scope of consolidation during the period: 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 June 30, 2024: 10,240,400 shares As of March 31, 2024: 10,240,400 shares
 - (b) Number of treasury shares at the end of the period
As of June 30, 2024: 625,830 shares As of March 31, 2024: 870,770 shares
 - (c) Average number of shares during the period (quarterly consolidated cumulative period)
Period ended June 30, 2024: 9,402,729 shares Period ended June 30, 2023: 9,336,734 shares
- (Note) 1. The number of treasury shares at the end of the period includes the Company's shares held by the trust accounts regarding the Stock Benefit Trusts (BBT and BBT-RS, J-ESOP and J-ESOP-RS) : 447,360 shares for the first quarter of the current year ending March 31, 2025 and 692,660 shares for the fiscal year ended March 31, 2024.
2. As for the average number of shares during the period, the Company's shares held by the trust accounts regarding the Stock Benefit Trusts (BBT and BBT-RS, J-ESOP and J-ESOP-RS) : 659,341 shares for the first quarter of the current year ending March 31, 2025 and 325,600 shares for the first quarter of the fiscal year ended March 31, 2024 were included in the number of treasury shares, which were to be deducted from the calculation of the average number of shares during the period.

* Review of the consolidated quarterly financial statements by certified public accountants or an audit firm attached: None

* 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. Overview of results of operations (3) Explanation of consolidated earnings forecasts and other forward-looking statements" on page 4 for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof.

1. Overview of results of operations

(1) Overview of results of operations in the first quarter of the fiscal year

During the first quarter of the fiscal year ending March 2025, the Japanese economy continued to move toward normalization of economic activities, as evidenced by the expansion of inbound demand due to the increase in the number of foreign visitors to Japan. On the other hand, the future of economic activities in Japan remains uncertain due to concerns about the impact on the domestic economy of volatile foreign exchange risks and the geopolitical risks such as the prolonged Ukraine crisis and the conflict in the Middle East.

In this business environment, the IT Infrastructure business in our Group has attracted a wide range of interest from environmental improvement for the digital shift of business operations to the area of digital transformation (DX), resulting in a continued increase in demand for improvements in the office network infrastructure environment, including response to cybersecurity. In addition, BUSINESS SERVICE CO., LTD., which became a consolidated subsidiary of the Company in October 2023, and FUJIFILM BI Nara Corp., which is a joint venture established with FUJIFILM Business Innovation Japan Corp. ("FUJIFILM Business Innovation Japan") and started operation on April 1, 2024, showed a strong start-up. All of these led to the establishment of a more stable customer base and revenue base through both organic growth and M&A-led growth.

In the Digital Marketing business, the Company continued to provide "Cloud CIRCUS," a digital marketing tool, which helps customer companies to "increase and nurture their customers," as a subscription model (recurring billing type). We focused not only on direct sales, but also on developing customer referrals and partner sales to expand sales channels. In particular, in the first quarter of the fiscal year under review, the segment has become profitable as a single segment as planned, thanks to a customer base and structure established in the previous fiscal year, which allows us to grow business without large investments in development and advertising.

As a result, sales in the first quarter of the current fiscal year totaled 5,258,801 thousand yen (up 6.6% from a year before), operating profit of 533,259 thousand yen (down 16.0 % from a year before), ordinary profit of 589,161 thousand yen (down 9.3 % from a year before), and net profit attributable to shareholders of the parent of 489,916 thousand yen (up 12.2 % from a year before).

Business segment results were as follows.

(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 customers and turning potential customers into actual customers, and increasing repeated customers and preventing cancellations of contracts. 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 provide marketing consulting and operational support 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 quarter of the fiscal year, one-time revenues struggled as web production orders remained weak. On the other hand, "Fullstar," a customer success management tool (CSM tool) in the "Cloud CIRCUS" subscription model digital marketing tool group, won the "Leader" award for the first time. It is the highest award in the

Customer Success Tool category (in the small and medium-size enterprise (SME) division) of the "ITreview Grid Award 2024 Spring." The marketing automation tool "BowNow" was also awarded "High Performer" in the MA category of the same award, and was highly evaluated for its excellent user satisfaction.

In addition, for Fullstar, we have concluded a distributor agreement with adish Co., Ltd. (Head Office: Shinagawa-ku, Tokyo; CEO: Hiroki Edo; Securities code: 7093), a customer success solutions provider specializing in the digital economy while strengthening our support for introduction to more companies.

Furthermore, an AI-type chatbot "IZANAI powered by OpenAI" ("IZANAI-OpenAI") was developed and launched. Leveraging OpenAI's technology to achieve highly natural language processing, we contributed to improving the operational efficiency and productivity of SMEs. The addition of new services in each of the above tools, continuous strengthening of sales channels, brand enhancement, and the effect of the price increase implemented at the end of the previous fiscal year resulted in strong stock sales from subscription models.

Consequently, segment sales in the first quarter of the current fiscal year totaled 894,405 thousand yen (up 6.3% from a year before) , and the segment profit (operating profit) of 114,294 thousand yen (up 251.9% from a year before).

(IT Infrastructure)

In the IT infrastructure business, one-time sales fared well in the first quarter of the fiscal year driven by a strong sales of network-related equipment, reflecting growing needs for cyber security measures among SMEs, as well as healthy sales of business phones for replacements and other products. In addition, BUSINESS SERVICE CO., LTD. became a consolidated subsidiary of the Company in October 2023, and FUJIFILM BI Nara Corp. started operations in April 2024, both of which allowed us to further increase sales. On the other hand, segment income decreased yoy due to a decline in electricity stock revenues resulting from further cancellations in electricity retailing business, up to the previous fiscal year, normalized demand in the current fiscal year after sales boom at some partners in the previous first quarter, and the impact of higher personnel expenses due to the hiring of 59 new graduates in the IT infrastructure business in April 2024. Still, the segment income exceeded the internal plan as the decline in segment income had been factored into the plan.

Consequently, segment sales totaled 4,363,618 thousand yen (up 6.6% from a year before) and the segment profit (operating profit) of 381,588 thousand yen (down 31.2% from a year before).

(CVC)

In the CVC business, there were no new investments.

Consequently, the segment reported no sales and the segment loss (operating loss) of 249 thousand yen (same amount as in the same period in the previous fiscal year) in the first quarter of the fiscal year.

(2) Overview of financial position in the first quarter of the fiscal year

Total assets were 13,867,769 thousand yen at the end of the first quarter, 821,734 thousand yen less than at the end of the previous fiscal year. This was attributable primarily to the decreases of 343,022 thousand yen in cash and deposits, 206,775 thousand yen in other current assets, 157,939 thousand yen in inventories, despite the increase of 22,852 thousand yen in property, plant and equipment.

Liabilities were 6,792,763 thousand yen at the end of the first quarter, 1,078,251 thousand yen less than at the end of the previous fiscal year. This was attributable primarily to the decreases of 313,970 thousand yen in income taxes payable, 280,028 thousand yen in long-term borrowings, 185,638 thousand yen in accounts payable-other, 189,406 thousand yen in accounts payable-trade, and 154,774 thousand yen in provision for bonuses, despite the increase of 274,191 thousand yen in other current liabilities.

Net assets were 7,075,005 thousand yen at the end of the first quarter, 256,516 thousand yen more than at the end of the previous fiscal year. This was attributable primarily to net profit attributable to shareholders of the parent of 489,916 thousand yen and the decrease of 280,288 thousand yen in treasury shares, albeit the decrease of 32,331 thousand yen in valuation difference on available-for-sale securities and dividend payment of 482,98 thousand yen.

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

In the fiscal year ending March 2025, the Startia Group will see the final year of the “Medium-Term Management Plan, ‘NEXT’S 2025’” (hereafter, the Medium-Term Management Plan), on which we announced the revision first in the "Notice of Revision to the Medium-Term Management Plan ‘NEXT'S 2025,’" released on May 12, 2023, and again in the "(Correction) Partial Correction to the (Revised) Medium-Term Management Plan ‘NEXT'S 2025,’" released on May 23, 2023.

Since the fiscal year ended March 2021, we have shifted our business model to a subscription model in the Digital Marketing business, in which the revenue earned at one time from customers is small but accumulates continuously as stock, and have concentrated our management resources by making large investments in development and advertising. As a result, we were able to make the segment profitable in the fiscal year ended March 2024. We will continue to promote further profit growth by expanding sales of the Cloud CIRCUS tools through direct sales and partner development, and by promoting the use of multiple tools through cross-selling.

In the IT Infrastructure business, we have completed a total of four M&A transactions (including business transfers) during the period from the fiscal year ended March 2021 to the fiscal year ended March 2024, which contributes to the expansion of our customer base and increases in sales and profits. We will continue to achieve further business growth through organic growth as well as by expanding our customer base through M&A and promoting alliances.

We are focusing on the cross-selling of products and services, chiefly involving sales that generate steady revenue streams, which is a key strength of the Startia Group. At the same time, we aim to improve productivity and use our position as a comprehensive IT services organization for evolving to a more advanced business operation. By taking these actions, we are committed to the continuation of significant medium to long-term growth of earnings.

For the year ending March 2025, we forecast consolidated net sales of 21,200 million yen (up 8.3% from the previous fiscal year), consolidated operating profit of 2,500 million yen (up 9.5% from the previous fiscal year), consolidated ordinary profit of 2,500 million yen (up 10.9% from the previous fiscal year) and profit attributable to owners of parent of 1,650 million yen (up 6.7% from the previous fiscal year).

(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.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheets

(thousand yen)

	As of March 31, 2024	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	7,366,570	7,023,548
Notes and accounts receivable - trade and contract assets	2,964,108	2,954,379
Operational investment securities	143,662	152,254
Inventories	367,073	209,133
Other	913,239	706,463
Allowance for doubtful accounts	(194,399)	(197,069)
Total current assets	11,560,254	10,848,710
Non-current assets		
Property, plant and equipment	232,325	255,177
Intangible assets		
Goodwill	463,594	445,555
Software	1,001,073	983,430
Other	5,433	5,245
Total intangible assets	1,470,101	1,434,231
Investments and other assets		
Investment securities	388,374	373,427
Deferred tax assets	613,913	530,753
Guarantee deposits	305,196	301,596
Other	119,337	123,871
Total investments and other assets	1,426,821	1,329,648
Total non-current assets	3,129,248	3,019,058
Total assets	14,689,503	13,867,769
Liabilities		
Current liabilities		
Accounts payable-trade	1,393,625	1,204,218
Short-term borrowings	1,100,000	1,100,000
Current portion of long-term borrowings	1,336,784	1,282,618
Accounts payable-other	679,906	494,267
Accrued expenses	303,733	325,894
Income taxes payable	329,135	15,164
Accrued consumption taxes	290,377	231,942
Advances received	125,844	162,036
Provision for bonuses	321,930	167,156
Provision for share awards	140,630	—
Provision for share awards for directors (and other officers)	36,130	8,746
Other	77,392	351,583
Total current liabilities	6,135,490	5,343,629
Non-current liabilities		
Long-term borrowings	1,715,922	1,435,894
Deferred tax liabilities	17,639	11,468
Other	1,962	1,771
Total non-current liabilities	1,735,524	1,449,134
Total liabilities	7,871,015	6,792,763
Net assets		

(thousand yen)

	As of March 31, 2024	As of June 30, 2024
Shareholders' equity		
Share capital	824,315	824,315
Capital surplus	1,162,614	1,162,614
Retained earnings	5,676,306	5,683,232
Treasury shares	(1,019,593)	(739,304)
Total shareholders' equity	6,643,643	6,930,858
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	142,864	110,533
Total accumulated other comprehensive income	142,864	110,533
Non-controlling interests	31,980	33,613
Total net assets	6,818,488	7,075,005
Total liabilities and net assets	14,689,503	13,867,769

(2) Quarterly consolidated statement of income and comprehensive income
Quarterly consolidated statement of income
For the first quarter (April 1 – June 30)

(thousand yen)

	April 1, 2023 –June 30, 2023	April 1, 2024 –June 30, 2024
Net sales	4,934,684	5,258,801
Cost of sales	2,628,864	2,937,982
Gross profit	2,305,819	2,320,818
Selling, general and administrative expenses	1,670,840	1,787,559
Operating profit	634,979	533,259
Non-operating income		
Dividend income	2,463	186
Foreign exchange gains	14,401	12,780
Share of profit of entities accounted for using equity method	1,311	43,005
Other	1,443	9,190
Total non-operating income	19,619	65,163
Non-operating expenses		
Interest expenses	3,725	5,028
Non-recoverable consumption tax	1,284	2,455
Other	63	1,776
Total non-operating expenses	5,074	9,260
Ordinary profit	649,525	589,161
Extraordinary income		
Gain on sale of investment securities	—	2,654
Total extraordinary income	—	2,654
Profit before income taxes	649,525	591,816
Income taxes-current	102,548	5,655
Income taxes-deferred	110,289	94,611
Total income taxes	212,838	100,267
Profit (loss)	436,686	491,549
Profit (loss) attributable to non-controlling interests	—	1,633
Profit (loss) attributable to owners of parent	436,686	489,916

Quarterly consolidated statement of comprehensive income
For the first quarter (April 1 – June 30)

(thousand yen)

	April 1, 2023 – June 30, 2023	April 1, 2024 – June 30, 2024
Profit (loss)	436,686	491,549
Other comprehensive income		
Valuation difference on available-for-sale securities	12,478	(32,331)
Total other comprehensive income	12,478	(32,331)
Comprehensive income	449,164	459,218
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	449,164	457,584
Comprehensive income attributable to non-controlling interests	—	1,633

(3) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

No items to report

(Notes to significant changes in shareholders' equity)

In the first quarter of the current fiscal year, 245,300 shares were transferred from the "Stock Benefit Trusts (BBT and BBT-RS, J-ESOP and J-ESOP-RS)" to the eligible employees.

As a result, treasury shares decreased 280,288 thousand yen in the first quarter of the fiscal year.

(Changes in accounting policies)

The "Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, October 28, 2022, hereinafter, the "revised Accounting Standard 2022") and other related regulations have been applied from the beginning of the first quarter of the current fiscal year.

With respect to the revision regarding the classification of income taxes (taxation on other comprehensive income), the transitional treatment stipulated in the proviso of paragraph 20-3 of the revised Accounting Standard 2022 and in the proviso of paragraph 65-2 (2) of the "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022, hereinafter, the "revised Guidance 2022") were applied. This change in accounting policy has no impact on the quarterly consolidated financial statements.

In addition, for the revised accounting treatment for preparation of consolidated financial statements in the case where gain/loss on sales of subsidiaries' shares, etc. arising from a transaction between consolidated companies is deferred for the tax purpose, the Company has applied the revised Guidance 2022 since the beginning of this first quarter. The change in accounting policy has been applied retrospectively, and the quarterly consolidated financial statements and the full-year consolidated financial statements for the previous fiscal year have been prepared on a retrospective basis. The change in accounting policy has no impact on the quarterly consolidated financial statements and the full-year consolidated financial statements for the previous fiscal year.

(Segment information, etc.)
[Segment information]

I. For the first quarter ended June 30, 2023 (April 1, 2023 – June 30, 2023)

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

	Reportable segments				
	Digital Marketing	IT Infrastructure	CVC	Subtotal	Other Businesses (note 1)
Net sales					
Goods that are transferred at a point in time	212,056	2,379,650	—	2,591,706	—
Goods that are transferred over a certain period of time	629,667	1,713,286	—	2,342,954	—
Revenue that is generated from contracts with customers	841,724	4,092,937	—	4,934,661	—
Sales to external customers	841,724	4,092,937	—	4,934,661	—
Inter-segment sales and transfers	2,652	14,420	—	17,073	—
Total	844,377	4,107,357	—	4,951,734	—
Segment profit (loss)	32,481	554,546	(249)	586,778	(1,045)

	Total	Adjustment (note 2)	Amount on statement of income (note 3)
Net sales			
Goods that are transferred at a point in time	2,591,706	22	2,591,729
Goods that are transferred over a certain period of time	2,342,954	—	2,342,954
Revenue that is generated from contracts with customers	4,934,661	22	4,934,684
Sales to external customers	4,934,661	22	4,934,684
Inter-segment sales and transfers	17,073	(17,073)	—
Total	4,951,734	(17,050)	4,934,684
Segment profit (loss)	585,732	49,246	634,979

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 quarter ended June 30, 2024 (April 1, 2024– June 30, 2024)

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

	Reportable segments				
	Digital Marketing	IT Infrastructure	CVC	Subtotal	Other Businesses (note 1)
Net sales					
Goods that are transferred at a point in time	167,159	2,600,181	—	2,767,340	—
Goods that are transferred over a certain period of time	727,245	1,763,437	—	2,490,683	—
Revenue that is generated from contracts with customers	894,405	4,363,618	—	5,258,024	—
Sales to external customers	894,405	4,363,618	—	5,258,024	—
Inter-segment sales and transfers	2,811	22,308	—	25,119	—
Total	897,216	4,385,927	—	5,283,143	—
Segment profit (loss)	114,294	381,588	(249)	495,632	(635)

	Total	Adjustment (note 2)	Amount on statement of income (note 3)
Net sales			
Goods that are transferred at a point in time	2,767,340	777	2,768,118
Goods that are transferred over a certain period of time	2,490,683	—	2,490,683
Revenue that is generated from contracts with customers	5,258,024	777	5,258,801
Sales to external customers	5,258,024	777	5,258,801
Inter-segment sales and transfers	25,119	(25,119)	—
Total	5,283,143	(24,342)	5,258,801
Segment profit (loss)	494,997	38,262	533,259

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.

(Notes to Statements of Cash Flows)

Quarterly consolidated statements of cash flows for the first quarter of the current fiscal year have not been prepared. Depreciation (including amortization related to intangible assets excluding goodwill) and amortization of goodwill for the first quarter of the fiscal year are as follows.

	(thousand yen)	
	April 1, 2023 –June 30, 2023	April 1, 2024 –June 30, 2024
Depreciation	81,400	102,494
Amortization of goodwill	13,894	18,039