

Summary of Consolidated Financial Results for the First Three Quarters Ended December 2022 [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
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Date of filing quarterly report (tentative):	February 10, 2023
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 nine months ended December 31, 2022 (April 1, 2022 – December 31, 2022)

(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	%
Nine months ended Dec. 2022	14,736	35.5	1,212	-	1,329	967.7	957	142.3
Nine months ended Dec. 2021	10,875	17.0	(40)	-	124	204.1	395	-

Notes: Comprehensive income

Nine months ended December 31, 2022: 777 million yen (yoy 26.5%)

Nine months ended December 31, 2021: 614 million yen (yoy - %)

	Profit per share	Diluted profit per share
	Yen	Yen
Nine months ended Dec. 2022	108.17	-
Nine months ended Dec. 2021	40.08	-

Note: Diluted profit per share is not shown because there are no latent shares with a dilutive effect

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2022	11,250	5,428	48.2
As of March 31, 2022	11,378	4,233	37.1

Reference: Shareholders' equity

As of December 31, 2022: 5,424 million yen

As of March 31, 2022: 4,226 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 2022	-	4.00	-	10.00	14.00
Fiscal year ending March 2023	-	5.00	-		
Fiscal year ending March 2023 (forecast)				7.00	12.00

Notes:

- Revisions to the most recently announced dividend forecast: None
- Breakdown of the year-end dividend for the fiscal year ended March 2022
Ordinary dividend: 7.00 yen Commemorative dividend: 3.00 yen

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(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	19,800	23.7	1,510	337.9	1,600	188.9	1,000	4.3	112.93

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

* Notes

- (1) Changes in significant subsidiaries during the first three quarters ended December 31, 2022 (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None
Newly included: N.A. Excluded: N.A.
- (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: None
 - (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 December 31, 2022: 10,240,400 shares As of March 31, 2022: 10,240,400 shares
 - (b) Number of treasury shares at the end of the period
As of December 31, 2022: 903,666 shares As of March 31, 2022: 1,511,719 shares
 - (c) Average number of shares during the period (quarterly consolidated cumulative period)
Period ended December 31, 2022: 8,854,853 shares Period ended December 31, 2021: 9,862,221 shares

- (Note) 1. 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) (325,600 shares for the third quarter of the current year and 326,600 shares for the fiscal year ended March 2022).
2. As for the average number of shares during the period, for the third quarter of the current year, the Company's shares held by the trust account regarding the stock benefit trust (BBT•J-ESOP), totaling 325,897 shares, 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. For the third quarter ended December 2021, 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), totaling 339,291 shares, 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.

* 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 various reasons. Please refer to "1. Qualitative information regarding earnings for the first three quarters of the fiscal year (3) Explanation of consolidated earnings forecasts and other forward-looking statements" on page 6 for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof.

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

(1) Explanation of results of operations

In the first three quarters of the fiscal year under review, the Japanese economy showed signs of recovery in economic activities due to the relaxation of movement restrictions related to new coronavirus infections (COVID-19). However, the outlook for economic activities remained uncertain due to concerns about the effects of the tapering of monetary easing in the United States and other developed countries, and soaring prices of energy resources due to the situation in Ukraine and other factors, and higher procurement prices due to inflation.

In this business environment, there is an urgent need for management reforms using IT in the industries to which the Startia Group belongs, due to increased interest in cyber security, the improvement of the office network infrastructure environment, and the development of business operations for a digital shift. While demand for IT-related investments increased in areas like digital transformation (DX), a cautious stance on such investments continued to be seen amid the unclear business environment.

In the Digital Marketing business, the Company provides "Cloud CIRCUS," a digital marketing tool, which helps customer companies to "increase and nurture their customers," as a subscription model (recurring billing type), working to increase the number of customer acquisitions and ARR (annual recurring revenue). In December 2022, we raised the price of the SaaS tool's main plan, in order to further enhance the product functions of the digital marketing tools and improve the service quality.

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 three quarters of the fiscal year under review, customers began some business activities to cope with the situation amid the COVID-19 pandemic and in the era after it, and both the Digital Marketing business and the IT Infrastructure business increased sales from the same period of the previous year. Particularly, in the IT Infrastructure business, sales of MFPs (multi-function printers) and network-related equipment, both main products in the segment, kept performing favorably following the second quarter, leading to a significant increase in consolidated operating profit in the first three quarters of the fiscal year under review.

As a result, sales in the first three quarters of the fiscal year under review totaled 14,736,782 thousand yen (up 35.5% from a year before), operating profit of 1,212,074 thousand yen (operating loss of 40,668 thousand yen a year before), ordinary profit of 1,329,041 thousand yen (up 967.7% from a year before), and net profit attributable to shareholders of the parent of 957,828 thousand yen (up 142.3% 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 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 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 three quarters of the fiscal year under review, we developed a virtual try-on experience using the "hand recognition function" of LESSAR and a function that enables the horticulture industry to simulate flower pots and layouts before purchasing flower seedlings, thereby expanding the use of AR for purchasing and creating a foothold for its introduction in various industries. In the NFT field, we launched "fancity," an NFT marketplace specializing in the animation field, as a joint venture with TV TOKYO MEDIANET, INC. Moreover, we launched "Metabadge," a planning, production, and consulting service for NFT community services. In addition, as we concluded a customer referral agency agreement with OTSUKA CORPORATION, which enabled us to further expand BowNow sales.

In December 2022, we raised the price of the main plan in the SaaS tool by a flat 20% for the purpose of strengthening the service development and customer support systems and enhancing security for safe and secured use.

* Cloud CIRCUS

Area of Issue	Tools to Be Provided	Services
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 Enhancing experienced value of customers	COCOAR	AR production software
	LESSAR	AR production software for web browsers
	CrowdBooth	Online exhibition system
	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 three quarters of the fiscal year under review totaled 2,267,831 thousand yen (up 16.5% from a year before) and the segment loss (operating loss) of 186,363 thousand yen (the segment loss (operating loss) of 271,036 thousand yen a year before).

(IT Infrastructure)

In the IT Infrastructure segment, the Group is engaged in 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. In addition, it provides “RoboTANGO,” an original RPA (Robotic Process Automation) solution tool to automate back-office operations, as well as AI-OCR and an electronic signature tool.

In the first three quarters of the fiscal year under review, in addition to promoting the expansion of the customer base through mergers and acquisitions, the accumulation of customer and asset information through a customer and sales management system has enabled the visualization of information, which has allowed us to conduct cross-selling of products and services, and their replacement at the appropriate time. Furthermore, the systematic development of the customer approach mechanism through marketing has enabled the development of a customer follow-up system not only by the sales staff, but also by the Wakayama Contact Center and Customer Success (CS). We have established the structure composed of the organization and system, in which not only the sales staff, but also the Wakayama Contact Center and Customer Success (CS) can handle the series of processes from an approach, negotiation/proposal, order receipt, to delivery, resulting in an improvement in the sales turnover rate, and the contribution of Startia Lead, Inc., which was newly included in the scope of consolidation from November 2021, helped the Company to significantly surpass its past earnings results. In particular, in MFPs, sales and profits increased significantly due to strong sales through direct sales and steady sales of network equipment, mainly UTM (Unified Threat Management) equipment, an information security product.

As a result, segment sales in the first three quarters of the fiscal year under review totaled 12,468,423 thousand yen (up 39.7% from a year before) and the segment profit (operating profit) of 1,339,997 thousand yen (up 291.7% from a year before).

(CVC)

The CVC business conducted no fresh investment during the year.

Consequently, the segment reported no sales and the segment loss (operating loss) of 750 thousand yen compared with the segment profit (operating profit) of 5,637 thousand yen in the same period in the previous year.

(2) Explanation of financial condition

Total assets were 11,250,571 thousand yen at the end of the third quarter, 128,101 thousand yen less than at the end of the previous fiscal year. This was attributable primarily to the decrease of 608,180 thousand yen in investment securities, 346,231 thousand yen in notes and accounts receivable - trade and contract assets, 213,127 thousand yen in other assets and the increase of 742,596 thousand yen in cash and deposits, 206,385 thousand yen in software, 83,413 thousand yen in inventories.

Liabilities were 5,822,168 thousand yen at the end of the third quarter, 1,323,385 thousand yen less than at the end of the previous fiscal year. This was attributable primarily to the decrease of 647,000 thousand yen in short-term borrowings, 350,613 thousand yen in income taxes payable, 167,955 thousand yen in accounts payable-trade, 142,602 thousand yen in long-term borrowings, 128,402 thousand yen in provision for bonuses and the increase of 151,586 thousand yen in other liabilities.

Net assets were 5,428,403 thousand yen at the end of the third quarter, 1,195,283 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 957,828 thousand yen, disposal of treasury shares of 666,447 thousand yen, and dividend payment of 135,829 thousand yen, the decrease of 180,234 thousand yen in valuation difference on available-for-sale securities, the decrease of 112,929 thousand yen in retained earnings due to decrease in number of companies accounted for by equity method.

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

In the current fiscal year ending March 2023, while we are striving to achieve further growth, the external business environment remains severe and the outlook for economic activities remains uncertain, due to the combination of the still unclear situation of COVID-19, the tapering of monetary easing policy in the U.S. and other developed countries, soaring oil prices, the supply shortages of semiconductors and other products, inflation, and the strained situation in Ukraine.

This is especially true in the Group's business environment, where the impact of COVID-19 has not yet subsided, and the effects of soaring electricity transaction prices, shortages in the supply of semiconductors and other products, and inflation continue to be felt. We have been revising our Medium-Term Management Plan announced on May 15, 2020, including business strategies once again as a solid plan, since we recognize that the impact of COVID-19 has significantly exceeded the scale of the impact assumed when the plan was formulated. At that time, we assumed that the pandemic would be contained by around September 2020. The Company plans to revise its Medium-Term Management Plan for the two-year period of the fiscal year ending March 2024 and that ending March 2025. The timing of the announcement has not yet been determined, but we will announce the revised plan as soon as it is finalized.

Going forward, in addition to continuing already successful measures, that is expanding our customer base and securing stable earnings in the IT Infrastructure business, we will focus on the "Cloud CIRCUS", digital marketing tool in the Digital Marketing business, and further deepen the strategies of the "NEXT'S 2025" Medium-Term Management Plan. By doing so, we will promote further productivity improvement while developing DX in our businesses and services.

With regard to the consolidated earnings forecast for the fiscal year ending March 31, 2023, the Company announced revisions to its full-year consolidated earnings forecast on September 30, 2022 and October 28, 2022, respectively, and again upwardly revised its full-year consolidated earnings forecast on February 10, 2023. We now forecast consolidated net sales of 19,800 million yen (up 23.7% from the previous fiscal year), consolidated operating profit of 1,510 million yen (up 337.9% from the previous fiscal year), consolidated ordinary profit of 1,600 million yen (up 188.9% from the previous fiscal year), and net income attributable to owners of parent of 1,000 million yen (up 4.3% 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. The Medium-Term Management Plan for the five-year period from the fiscal year ended March 2021 to that ending March 2025 is based on the assumption that the impact of COVID-19 will be contained by around September 2020. Thus we plan to review the Medium-Term Management Plan for the fiscal year ending March 2024 and that ending March 2025.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheets

(thousand yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	3,055,293	3,797,889
Notes and accounts receivable - trade and contract assets	3,365,623	3,019,391
Inventories	585,240	668,654
Operational investment securities	108,852	118,022
Other	802,644	589,516
Allowance for doubtful accounts	(152,067)	(160,619)
Total current assets	7,765,587	8,032,855
Non-current assets		
Property, plant and equipment	232,949	236,757
Intangible assets		
Software	1,131,615	1,338,001
Goodwill	450,705	405,463
Other	7,513	7,484
Total intangible assets	1,589,834	1,750,949
Investments and other assets		
Investment securities	1,003,209	395,028
Deferred tax assets	379,909	406,925
Guarantee deposits	258,983	292,139
Other	148,198	135,913
Total investments and other assets	1,790,301	1,230,008
Total non-current assets	3,613,085	3,217,716
Total assets	11,378,673	11,250,571
Liabilities		
Current liabilities		
Accounts payable-trade	1,502,986	1,335,031
Short-term borrowings	1,847,000	1,200,000
Current portion of long-term borrowings	866,532	820,177
Income taxes payable	596,618	246,004
Provision for bonuses	289,887	161,485
Other	1,123,444	1,275,030
Total current liabilities	6,226,469	5,037,729
Non-current liabilities		
Long-term borrowings	815,872	673,270
Provision for share awards	58,713	79,067
Provision for share awards for directors (and other officers)	20,013	25,393
Deferred tax liabilities	20,934	3,793
Other	3,551	2,916
Total non-current liabilities	919,084	784,439
Total liabilities	7,145,553	5,822,168
Net assets		
Shareholders' equity		
Share capital	824,315	824,315
Capital surplus	903,459	905,814
Retained earnings	3,725,483	4,434,553

(thousand yen)

	As of March 31, 2022	As of December 31, 2022
Treasury shares	(1,468,600)	(802,152)
Total shareholders' equity	3,984,658	5,362,531
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	242,331	62,096
Total accumulated other comprehensive income	242,331	62,096
Share acquisition rights	6,130	3,774
Total net assets	4,233,119	5,428,403
Total liabilities and net assets	11,378,673	11,250,571

(2) Quarterly consolidated statement of income and comprehensive income
Quarterly consolidated statement of income
For the first three quarters (April 1 – December 31)

(thousand yen)

	April 1, 2021 – December 31, 2021	April 1, 2022 – December 31, 2022
Net sales	10,875,848	14,736,782
Cost of sales	6,170,099	8,645,992
Gross profit	4,705,749	6,090,790
Selling, general and administrative expenses	4,746,417	4,878,715
Operating profit (loss)	(40,668)	1,212,074
Non-operating income		
Dividend income	12,341	8,122
Foreign exchange gains	4,057	14,771
Share of profit of entities accounted for using equity method	52,581	26,461
Gain on investments in investment partnerships	55,105	12,485
Subsidy income	31,646	13,395
Gain on forgiveness of consumption taxes	—	44,149
Other	15,242	7,824
Total non-operating income	170,975	127,209
Non-operating expenses		
Interest expenses	5,229	9,314
Loss on investments in investment partnerships	—	201
Other	600	726
Total non-operating expenses	5,830	10,242
Ordinary profit (loss)	124,476	1,329,041
Extraordinary income		
Gain on sales of investment securities	343,539	115,201
Gain on sale of shares of subsidiaries and associates	416,552	52,759
Total extraordinary income	760,091	167,960
Profit (loss) before income taxes	884,567	1,497,002
Income taxes-current	473,722	500,507
Income taxes-deferred	15,525	38,666
Total income taxes	489,248	539,174
Profit (loss)	395,319	957,828
Profit (loss) attributable to owners of parent	395,319	957,828

Quarterly consolidated statement of comprehensive income
For the first three quarters (April 1 – December 31)

(thousand yen)

	April 1, 2021 – December 31, 2021	April 1, 2022 – December 31, 2022
Profit (loss)	395,319	957,828
Other comprehensive income		
Valuation difference on available-for-sale securities	219,352	(180,234)
Total other comprehensive income	219,352	(180,234)
Comprehensive income	614,672	777,594
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	614,672	777,594

(3) Notes to quarterly consolidated financial statements

(Notes to ongoing concern assumptions)

No items to report

(Notes to significant changes in shareholders' equity)

A portion of the sixth series of stock acquisition rights (with a clause to revise the exercise price) issued on January 12, 2022 was exercised, resulting in the disposal of treasury shares. This led to an increase in capital surplus of 2,355 thousand yen and a decrease in treasury stock of 665,988 thousand yen. As a result of these and other factors, capital surplus amounted to 905,814 thousand yen and treasury stock amounted to 802,152 thousand yen (903,666 shares) at the end of the third quarter of the current fiscal year.

(Segment information, etc.)

[Segment information]

I. For the first three quarters ended December 31, 2021 (April 1, 2021 – December 31, 2021)

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 (see note 1)
Net sales					
Goods that are transferred at a point in time	506,560	4,951,437	6,387	5,464,385	—
Goods that are transferred over a certain period of time	1,440,492	3,970,771	—	5,411,264	—
Revenue that is generated from contracts with customers	1,947,053	8,922,209	6,387	10,875,649	—
Sales to external customers	1,947,053	8,922,209	6,387	10,875,649	—
Inter-segment sales and transfers	10,190	19,621	—	29,812	—
Total	1,957,243	8,941,831	6,387	10,905,461	—
Segment profit (loss)	(271,036)	342,087	5,637	76,687	(1,446)

	Total	Adjustment (see note 2)	Amount on statement of income (see note 3)
Net sales			
Goods that are transferred at a point in time	5,464,385	199	5,464,584
Goods that are transferred over a certain period of time	5,411,264	—	5,411,264
Revenue that is generated from contracts with customers	10,875,649	199	10,875,848
Sales to external customers	10,875,649	199	10,875,848
Inter-segment sales and transfers	29,812	(29,812)	—
Total	10,905,461	(29,612)	10,875,848
Segment profit (loss)	75,240	(115,909)	(40,668)

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 three quarters ended December 31, 2022 (April 1, 2022 – December 31, 2022)

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 (see note 1)
Net sales					
Goods that are transferred at a point in time	573,185	6,507,105	—	7,080,290	—
Goods that are transferred over a certain period of time	1,694,645	5,961,317	—	7,655,963	—
Revenue that is generated from contracts with customers	2,267,831	12,468,423	—	14,736,254	—
Sales to external customers	2,267,831	12,468,423	—	14,736,254	—
Inter-segment sales and transfers	6,622	32,986	—	39,608	—
Total	2,274,453	12,501,409	—	14,775,862	—
Segment profit (loss)	(186,363)	1,339,997	(750)	1,152,884	(3,627)

	Total	Adjustment (see note 2)	Amount on statement of income (see note 3)
Net sales			
Goods that are transferred at a point in time	7,080,290	528	7,080,818
Goods that are transferred over a certain period of time	7,655,963	—	7,655,963
Revenue that is generated from contracts with customers	14,736,254	528	14,736,782
Sales to external customers	14,736,254	528	14,736,782
Inter-segment sales and transfers	39,608	(39,608)	—
Total	14,775,862	(39,080)	14,736,782
Segment profit (loss)	1,149,256	62,817	1,212,074

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.