Startia Holdings / 3393

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Business overview

- Company profile: Startia Holdings (Startia HD) supplies digital marketing and IT infrastructure solutions to small and medium-sized enterprises (SMEs) as its core business. In its Digital Marketing segment, the company offers tools that support revenue growth at SMEs. Its mainstay product in this segment is the digital marketing tool suite Cloud CIRCUS provided as a Software as a Service (SaaS). In its IT Infrastructure segment, the company provides office-equipment management services and builds enterprise systems that improve management efficiency (reduce costs) for SMEs. In FY03/21, Startia HD reported revenue of JPY13.3bn (+4.3% YoY), operating profit of JPY22mn (-97.0% YoY), and an OPM of 0.2% (versus 5.7% in FY03/20).
- Segments: Digital Marketing segment (FY03/21: revenue of JPY2.6bn, 19.4% of total revenue, operating loss of JPY122mn), IT Infrastructure (revenue of JPY10.6bn, 79.9% of total revenue, operating profit of JPY286mn), Corporate Venture Capital (CVC; revenue of JPY58mn, 0.4% of total revenue, operating profit of JPY45mn), and Overseas (revenue of JPY43mn, 0.3% of total revenue, operating loss of JPY52mn). As of FY03/21, the IT Infrastructure segment generated the lion's share of revenue and profit. However, the current medium-term management plan (spanning from FY03/21 to FY03/25) calls for FY03/25 operating profit of JPY1.7bn in the Digital Marketing segment, exceeding the JPY1.6bn target for the IT Infrastructure segment.
- Digital Marketing: In this segment, the company provides consulting services and digital marketing tools (SaaS) that support the marketing activities of SMEs. Its goal is to create business models that help expand customer revenue. The company offers around 10 types of digital marketing tools under its unified "Cloud CIRCUS" brand. One example is the marketing automation (MA) tool BowNow, which automates processes to cultivate prospective customers. Based on customer adoption, BowNow commanded a domestic market share of 17% as of May 2021, making it the second largest service of its kind in Japan (source: DataSign Web Services Survey Report).
- Investment: From April 2020, Startia HD moved from a packaged software (outright) sales approach to a monthly subscription model for all its tools in the Digital Marketing segment. It has been investing in development and advertising to gain new customers, and looks to recoup its investment by continuing to build up monthly recurring revenue (MRR). In the five years starting from FY03/21, it expects revenue in the Digital Marketing segment to increase at a CAGR of 20% or more. It regards the three years from FY03/21 to FY03/23 as a period of investment, and sees operating losses persisting through FY03/22.
- Subscription-based revenue structure: In FY03/21, revenue in the Digital Marketing segment comprised recurring revenue (62.3% of segment revenue) from monthly subscription fees for digital marketing tools and one-time revenue (37.7%) from initial fees and consulting fees. As of March 2021, subscription MRR was JPY137mn, and monthly average revenue per user (ARPU) was JPY40,000. Shared Research estimates Startia HD offers services to some 3,500 companies. Based on contract licenses, the monthly churn rate is roughly 1% (average annual churn rate of about 11% across all tools). Assuming this remains unchanged going forward, we estimate the company will lose a total of about JPY1.4bn in revenue between FY03/21 to FY03/25 from service cancellations. Over the same period, Startia HD plans to secure about JPY5.4bn in revenue by cross-selling to existing customers and capturing new customers.
- IT Infrastructure: This is the original business that was launched when the company was established in 1996. In this segment, Startia HD sells, installs, and maintains information and communication equipment such as multifunction peripherals (MFPs) and unified threat management solutions (UTM: hardware that integrates numerous cybersecurity features into one device), network equipment, and office telephones. In FY03/21, revenue in the IT Infrastructure segment broke down into one-time revenue (58.8% of segment revenue) from system development and the supply of office equipment, and recurring revenue (41.2%) from the management and maintenance of office equipment, cloud storage services, and robotic process automation (RPA) tools for office work (offered under a SaaS model). Shared Research estimates that recurring-revenue customers totaled 17,723 in FY03/21, and monthly ARPU was about JPY20,000 (annual recurring revenue [ARR] of JPY4.4bn / 17,723 companies / 12 months).
- Services tailored to SMEs: Startia HD provides IT infrastructure services to SMEs with workforces of 10–1,000 employees. It says it had transactions with about 25,000 companies in FY03/21. It has accumulated data on the cost structures of SMEs, and on their capacity to allocate human resources to IT operations, which differs from major companies. In the Digital Marketing segment, Startia HD concentrates on supplying digital marketing tools with user-friendly designs to SMEs that have limited

human and capital resources. The company also offers a range of free services with streamlined features to facilitate adoption among cash-strapped SMEs, and thus increases its market share.

Earnings trends

- In FY03/21, the company reported revenue of JPY13.3bn (+4.3% YoY, 102.5% of full-year forecast), an operating loss of JPY22mn (-97.0% YoY, versus loss of JPY200mn in FY03/20), recurring profit of JPY70mn (-90.9% YoY, versus loss of JPY200mn in FY03/20), and a net loss attributable to owners of the parent of JPY131mn (versus profit of JPY220mn in FY03/20, forecast called for loss of JPY372mn). Revenue rose in the Digital Marketing segment (+14.3% YoY) and the IT Infrastructure segment (+2.4% YoY). Operating profit fell YoY due to rising costs driven by higher development and advertising expenses, a jump in electricity wholesale prices (procurement costs), costs to roll out new branches, and growth in hiring across the company.
- In FY03/22, Startia HD forecasts revenue of JPY15.0bn (+10.7% YoY), operating profit of JPY150mn (+591.9% YoY), recurring profit of JPY150mn (+113.4% YoY), and a net income attributable to owners of the parent of JPY140mn (versus loss of JPY131mn in FY03/21). It expects growth in subscription revenue in the Digital Marketing business and in recurring and one-time revenue in the IT Infrastructure segment to offset a decline in revenue due to the exit from the Overseas segment. It also sees growth in operating profit absorbing increases in personnel and advertising expenses.
- The company is pushing ahead with its medium-term management plan that spans from FY03/21 to FY03/25. The plan targets revenue growth at a CAGR of 20% or more, ROE of 10% or more, and a market cap of JPY50.0bn. It calls for FY03/25 revenue of JPY31.0bn and operating profit of JPY3.3bn. In the Digital Marketing segment, the company moved to a subscription model in FY03/21, and looks for recurring revenue of JPY4.8bn in FY03/25 (versus JPY1.7bn in FY03/21). It plans to invest heavily in development and advertising through FY03/23. It therefore expects FY03/23 OPM to drop to 5.4%, below the 5.7% recorded in FY03/20, the year before the medium-term plan was launched. It sees investment winding down by FY03/25, and forecasts FY03/25 OPM of 10.6% and operating profit of JPY3.3bn (versus JPY733mn in FY03/20).

Strengths and weaknesses

Shared Research thinks the company has the following strengths:

- Startia HD has been providing office equipment and IT services to SMEs since its founding in 1996. It therefore has accumulated experience and “tacit knowledge” regarding their cost structures, staff compositions, and IT literacy that are leveraged in its business operations.
- The company provides two types of services that confer distinct benefits to customers and underpin long-term relationships: digital marketing services that contribute to revenue growth and IT infrastructure services that help reduce costs.
- Although the company sells its digital marketing tools (mainly its MA tool) to SMEs, which have comparatively weaker finances, its churn rate for such tools has remained in line with the sector average.

We think its weaknesses are as follows.

- Startia HD lags larger competitors in terms of consulting rates and efficiency because its sales strategy relies heavily on labor-intensive customer consultations in which its representatives explain the benefits the customer stands to derive from adopting its services.
- The IT Infrastructure segment to a large extent relies on labor-intensive operations, and revenue expansion therefore hinges on increases in personnel to maintain and support network infrastructure equipment at customers’ offices.
- Because the customer companies in the IT Infrastructure and Digital Marketing segments are in different growth stages, it will take time to generate synergies such as revenue growth by sharing customers among segments.

Key financial data

Income statement (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.	FY03/22 Est.
Revenue	**5,084**	**6,640**	**8,168**	**8,682**	**10,171**	**10,282**	**11,059**	**11,907**	**12,779**	**13,325**	**14,750**
YoY	27.1%	30.6%	23.0%	6.3%	17.1%	1.1%	7.5%	7.7%	7.3%	4.3%	10.7%
Gross profit	**2,779**	**3,488**	**4,245**	**4,357**	**4,610**	**4,537**	**4,914**	**5,325**	**5,716**	**5,816**	
YoY	23.1%	25.5%	21.7%	2.6%	5.8%	-1.6%	8.3%	8.4%	7.3%	1.8%	
Gross profit margin	54.7%	52.5%	52.0%	50.2%	45.3%	44.1%	44.4%	44.7%	44.7%	43.7%	
Operating profit	**459**	**656**	**830**	**747**	**504**	**265**	**359**	**518**	**733**	**22**	**150**
YoY	68.0%	42.9%	26.5%	-10.0%	-32.6%	-47.3%	35.1%	44.4%	41.6%	-97.0%	591.9%
Operating profit margin	9.0%	9.9%	10.2%	8.6%	5.0%	2.6%	3.2%	4.3%	5.7%	0.2%	1.0%
Recurring profit	**476**	**656**	**856**	**878**	**545**	**286**	**377**	**574**	**771**	**70**	**150**
YoY	71.1%	37.7%	30.6%	2.6%	-38.0%	-47.6%	31.9%	52.3%	34.5%	-90.9%	113.4%
Recurring profit margin	9.4%	9.9%	10.5%	10.1%	5.4%	2.8%	3.4%	4.8%	6.0%	0.5%	1.0%
Net income	**279**	**391**	**432**	**593**	**253**	**6**	**614**	**323**	**220**	**-131**	**140**
YoY	115.2%	40.4%	10.5%	37.2%	-57.3%	-97.7%	-	-47.3%	-32.0%	-	-
Net margin	5.5%	5.9%	5.3%	6.8%	2.5%	0.1%	5.5%	2.7%	1.7%	-	0.9%
Per-share data (split-adjusted; JPY)											
Shares issued (year-end; '000)	9,912	10,024	10,128	10,240	10,240	10,240	10,240	10,240	10,240	10,240	
Treasury shares ('000)	-	-	-	44	44	139	139	475	409	356	
EPS	112.5	157.2	171.0	58.1	24.8	0.6	60.7	32.2	22.5	-13.3	14.2
EPS (fully diluted)	110.8	154.5	167.0	56.4	24.4	0.0	0.0	0.0	0.0	0.0	
Dividend per share	11.2	15.7	30.0	20.0	13.0	9.0	12.0	9.0	9.0	10.0	11.0
Book value per share	1,070	1,211	1,379	390	401	393	478	474	478	463	
Balance sheet (JPYmn)											
Cash and cash equivalents	2,055	2,069	2,247	2,335	2,638	2,221	3,719	3,293	3,415	3,245	
Total current assets	**3,092**	**3,397**	**4,052**	**4,057**	**4,700**	**4,499**	**5,928**	**6,120**	**6,187**	**6,470**	
Tangible fixed assets	109	100	106	151	173	108	100	117	113	138	
Investments and other assets	309	450	507	643	729	757	1,321	1,482	1,249	1,345	
Intangible fixed assets	258	328	503	812	928	531	399	499	360	838	
Total assets	**3,778**	**4,279**	**5,168**	**5,662**	**6,529**	**5,895**	**7,747**	**8,218**	**7,910**	**8,790**	
Short-term debt	141	-	-	-	333	346	400	467	600	856	
Total current liabilities	**1,126**	**1,243**	**1,662**	**1,685**	**1,879**	**1,712**	**2,388**	**2,743**	**2,644**	**3,076**	
Long-term debt	-	-	-	-	560	200	467	751	512	1,032	
Total fixed liabilities	**1**	**1**	**12**	**-**	**562**	**212**	**494**	**845**	**564**	**1,137**	
Total liabilities	**1,127**	**1,243**	**1,674**	**1,685**	**2,440**	**1,924**	**2,882**	**3,588**	**3,209**	**4,213**	
Shareholders' equity	2,651	3,036	3,492	3,975	4,084	3,970	4,831	4,628	4,702	4,577	
Total net assets	**2,651**	**3,036**	**3,494**	**3,978**	**4,089**	**3,971**	**4,865**	**4,630**	**4,702**	**4,577**	
Total liabilities and net assets	**3,778**	**4,279**	**5,168**	**5,662**	**6,529**	**5,895**	**7,747**	**8,218**	**7,910**	**8,790**	
Total interest-bearing debt	141	-	-	-	893	547	867	1,218	1,113	1,888	
Cash flow statement (JPYmn)											
Cash flows from operating activities	461	566	638	769	367	155	847	194	526	-190	
Cash flows from investing activities	-240	-592	-286	-596	-763	-166	401	-537	-231	-703	
Cash flows from financing activities	-186	-146	-25	-82	706	-403	276	-74	-163	722	
Financial ratios											
ROA (RP-based)	13.2%	16.3%	18.1%	16.2%	8.9%	4.6%	5.5%	7.2%	9.6%	0.8%	
ROE	11.0%	13.8%	13.2%	15.9%	6.3%	0.1%	13.9%	6.8%	4.7%	-2.8%	
Equity ratio	70.2%	70.9%	67.6%	70.2%	62.6%	67.4%	62.4%	56.3%	59.4%	52.1%	
Total asset turnover	140.9%	164.8%	172.9%	160.3%	166.9%	165.5%	162.1%	149.2%	158.5%	159.6%	
Net margin	5.5%	5.9%	5.3%	6.8%	2.5%	0.1%	5.5%	2.7%	1.7%	-1.0%	

Source: Shared Research based on company data

By segment: Revenue

Segments (JPYmn)	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.
Total revenue	**5,084**	**6,640**	**8,168**	**8,682**	**10,171**	**10,282**	**11,059**	**11,907**	**12,779**	**13,325**
YoY	27.1%	30.6%	23.0%	6.3%	17.1%	1.1%	7.5%	7.7%	7.3%	4.3%
Digital Marketing							1,829	2,055	2,258	2,581
YoY							-	12.4%	9.9%	14.3%
% of total revenue							16.5%	17.3%	17.7%	19.4%
IT Infrastructure							9,096	9,709	10,395	10,642
YoY							-	6.7%	7.1%	2.4%
% of total revenue							82.3%	81.5%	81.3%	79.9%
CVC							1	-	0	58
YoY							-	-	-	-
% of total revenue							0.0%	0.0%	0.0%	0.4%
Overseas							133	141	121	43
YoY							-	6.7%	-14.2%	-64.1%
% of total revenue							1.2%	1.2%	0.9%	0.3%
Other							-	2	4	-
YoY							-	-	158.3%	-
% of total revenue							0.0%	0.0%	0.0%	0.0%
Adjustments							-	-	-	1
[Previous segments 1]										
Digital Marketing					1,838	1,803	1,836			
YoY					-	-1.9%	1.8%			
% of total revenue					18.1%	17.5%	16.6%			
IT Infrastructure					8,333	8,480	9,222			
YoY					-	1.8%	8.7%			
% of total revenue					81.9%	82.5%	83.4%			
Other					-	-	1			
YoY					-	-	-			
% of total revenue					0.0%	0.0%	0.0%			
[Previous segments 2]										
Web Solutions	1,074	1,482	1,944	2,041	1,838					
YoY	141.8%	38.0%	31.2%	5.0%	-10.0%					
% of total revenue	21.1%	22.3%	23.8%	23.5%	18.1%					
Network Solutions	1,425	1,844	2,160	2,433	2,549					
YoY	35.9%	29.4%	17.2%	12.6%	4.8%					
% of total revenue	28.0%	27.8%	26.4%	28.0%	25.1%					
Business Solutions	2,585	3,314	4,063	4,208	5,784					
YoY	38.9%	28.2%	22.6%	3.6%	37.4%					
% of total revenue	50.9%	49.9%	49.7%	48.5%	56.9%					
Other	-	-	-	-	-					
YoY	-	-	-	-	-					
% of total revenue	0.0%	0.0%	0.0%	0.0%	0.0%					

Source: Shared Research based on company data

By segment: Operating profit

Segments (JPYmn)	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.
Operating profit	**459**	**656**	**830**	**747**	**504**	**265**	**359**	**518**	**733**	**22**
YoY	68.0%	42.9%	26.5%	-10.0%	-32.6%	-47.3%	35.1%	44.4%	41.6%	-97.0%
Operating profit margin	9.0%	9.9%	10.2%	8.6%	5.0%	2.6%	3.2%	4.3%	5.7%	0.2%
Digital Marketing							127	155	138	-122
YoY							-	21.7%	-11.1%	-
OPM							7.0%	7.5%	6.1%	-4.7%
% of total							24.3%	45.5%	20.0%	-77.4%
IT Infrastructure							428	227	599	286
YoY							-	-46.9%	163.4%	-52.3%
OPM							4.7%	2.3%	5.8%	2.7%
% of total							81.6%	66.8%	87.0%	182.0%
CVC							-45	-30	-52	45
YoY							-	-	-	-
OPM							-	-	-	-
% of total							-8.6%	-9.0%	-7.5%	28.6%
Overseas							14	-12	3	-52
YoY							-	-	-	-
OPM							-	-	-	-
% of total							2.7%	-3.4%	0.4%	-33.2%
Other							0	-5	-15	0
YoY							-	-	-	-
OPM							-	-	-	-
% of total							0.0%	-1.3%	-2.1%	0.0%
Adjustments							-166	182	59	-135
[Previous segments 1]										
Digital Marketing					13	-2	101			
YoY					-	-	-			
OPM					0.7%	-0.1%	5.5%			
% of total					2.5%	-0.9%	28.0%			
IT Infrastructure					558	308	305			
YoY					-	-44.7%	-1.0%			
OPM					6.7%	3.6%	3.3%			
% of total					110.8%	113.2%	84.5%			
Other					-67	-34	-45			
YoY					-	-	-			
OPM					-	-	-			
% of total					-13.3%	-12.4%	-12.6%			
Adjustments					-	-7	-3			
[Previous segments 2]										
Web Solutions	221	166	323	359	13					
YoY	61.7%	-25.1%	95.2%	11.2%	-96.5%					
OPM	20.6%	11.2%	16.6%	17.6%	0.7%					
% of total	44.8%	23.7%	36.7%	45.2%	2.2%					
Network Solutions	180	363	302	203	184					
YoY	-	101.6%	-16.8%	-32.8%	-9.3%					
OPM	12.6%	19.7%	14.0%	8.3%	7.2%					
% of total	36.5%	52.0%	34.3%	25.5%	31.6%					
Business Solutions	92	170	255	233	453					
YoY	38.6%	84.4%	50.2%	-8.5%	94.4%					
OPM	3.6%	5.1%	6.3%	5.5%	7.8%					
% of total	18.7%	24.3%	29.0%	29.3%	77.7%					
Other	-	-	-	-	-67					
YoY	-	-	-	-	-					
OPM	-	-	-	-	-					
% of total	-	-	-	-	-					
Adjustments	-34	-42	-49	-48	-79					

Source: Shared Research based on company data

Digital Marketing segment: ARR, revenue broken down by recurring and one-time revenue, etc.

(JPYmn)	FY03/20 Act.	FY03/21 Act.
ARR (12x of MRR at end-March)	1,270	1,650
YoY	-	29.9%
Revenue	2,258	2,581
YoY	9.9%	14.3%
Recurring revenue	1,394	1,608
YoY	-	15.4%
% of total	61.7%	62.3%
One-time revenue	863	972
YoY	-	12.6%
% of total	38.2%	37.7%
Segment profit	138	-122
YoY	-11.1%	-
Profit margin	6.1%	-4.7%
Headquarter expenses, etc.	253	195
Segment profit before deduction of expenses	391	73
YoY	-	-81.2%
Profit margin	17.3%	2.8%

Source: Shared Research based on company data

IT Infrastructure segment: revenue per sales representative, revenue broken down by recurring and one-time revenue, etc.

(JPYmn)	FY03/20 Act.	FY03/21 Act.
Revenue per sales staff	55.3	54.8
YoY	-0.9%	-0.9%
Revenue	10,395	10,642
YoY	7.1%	2.4%
Recurring revenue	4,064	4,382
YoY	-	7.8%
% of total	39.1%	41.2%
One-time revenue	6,331	6,259
YoY	-	-1.1%
% of total	60.9%	58.8%
Segment profit	599	286
YoY	163.4%	-52.3%
Profit margin	5.8%	2.7%
Headquarter expenses, etc.	805	664
Segment profit before deduction of expenses	1,404	950
YoY	-	-32.3%
Profit margin	13.5%	8.9%

Source: Shared Research based on company data

Recent updates

Highlights

On September 6, 2021, Shared Research initiated coverage of Startia Holdings, Inc.

On August 25, 2021, the company announced it had posted extraordinary gains and revised its 1H and full-year earnings forecasts for FY03/22.

Extraordinary gains

On the same day at its board of director's meeting, the company resolved to sell some of its investment securities. The company will be booking JPY148mn gain on the sale of investment securities in 1H FY03/22.

Details of forecast revisions

Following the recording of extraordinary gains, the company revised its 1H and full-year earnings forecasts for FY03/22 as below. The previous forecasts were announced on June 22, 2021.

1H FY03/22

- Revenue: JPY7.1bn (no change)
- Operating loss: JPY200mn (no change)
- Recurring loss: JPY200mn (no change)
- Net loss: JPY40mn (net loss of JPY130mn in the previous forecast)
- Net loss per share: JPY4.06 (net loss per share of JPY13.19 in the previous forecast)

* Net loss reflects net loss attributable to owners of the parent.

Full-year FY03/22

- Revenue: JPY14.8bn (no change)
- Operating profit: JPY150mn (no change)
- Recurring profit: JPY150mn (no change)
- Net income: JPY140mn (net income of JPY50mn in the previous forecast)
- EPS: JPY14.20 (previously JPY5.07)

On August 13, 2021, the company announced earnings results for Q1 FY03/22; see the results section for details.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative (JPYmn)	FY03/20				FY03/21				FY03/2	FY03/22	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Revenue	2,874	6,240	9,240	12,779	2,759	5,976	9,293	13,325	3,433	48.2%	7,117
YoY	3.3%	8.9%	7.1%	7.3%	-4.0%	-4.2%	0.6%	4.3%	24.5%		19.1%
Gross profit	1,232	2,770	4,072	5,716	1,161	2,652	4,145	5,816	1,506		
YoY	2.7%	7.2%	5.4%	7.3%	-5.8%	-4.3%	1.8%	1.8%	29.7%		
Gross profit margin	42.9%	44.4%	44.1%	44.7%	42.1%	44.4%	44.6%	43.7%	43.9%		
SG&A expenses	1,235	2,450	3,716	4,983	1,305	2,642	4,133	5,795	1,545		
YoY	6.3%	7.0%	6.6%	3.6%	5.6%	7.8%	11.2%	16.3%	18.4%		
SG&A ratio	43.0%	39.3%	40.2%	39.0%	47.3%	44.2%	44.5%	43.5%	45.0%		
Operating profit	-3	320	356	733	-144	10	13	22	-40	-	-200
YoY	-	8.6%	-6.0%	41.6%	-	-96.9%	-96.4%	-97.0%	-		-
Operating profit margin	-	5.1%	3.8%	5.7%	-	0.2%	0.1%	0.2%	-		-
Recurring profit	-12	336	383	771	-133	32	41	70	11	-	-200
YoY	-	1.5%	-7.7%	34.5%	-	-90.5%	-89.3%	-90.9%	-		-
Recurring profit margin	-	5.4%	4.1%	6.0%	-	0.5%	0.4%	0.5%	0.3%		-
Net income	-31	180	193	220	-100	-15	-63	-131	-35	-	-40
YoY	-	-21.1%	-26.9%	-32.0%	-	-	-	-	-		-
Net margin	-	2.9%	2.1%	1.7%	-	-	-	-	-		-
Quarterly (JPYmn)	**FY03/20**				**FY03/21**				**FY03/2**	**FY03/22**	
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**% of FY**	**FY Est.**
Revenue	2,874	3,366	3,000	3,538	2,759	3,217	3,317	4,032	3,433	23.3%	14,750
YoY	3.3%	14.2%	3.7%	7.8%	-4.0%	-4.4%	10.6%	13.9%	24.5%		10.7%
Gross profit	1,232	1,538	1,302	1,644	1,161	1,491	1,494	1,671	1,506		
YoY	2.7%	11.0%	1.8%	12.5%	-5.8%	-3.1%	14.7%	1.6%	29.7%		
Gross profit margin	42.9%	45.7%	43.4%	46.5%	42.1%	46.3%	45.0%	41.4%	43.9%		
SG&A expenses	1,235	1,215	1,266	1,266	1,305	1,337	1,491	1,662	1,545		
YoY	6.3%	7.7%	6.0%	-4.2%	5.6%	10.1%	17.7%	31.2%	18.4%		
SG&A ratio	43.0%	36.1%	42.2%	35.8%	47.3%	41.6%	44.9%	41.2%	45.0%		
Operating profit	-3	323	35	377	-144	154	3	9	-40	-	150
YoY	-	25.4%	-57.7%	170.9%	-	-52.4%	-91.7%	-97.7%	-		591.9%
Operating profit margin	-	9.6%	1.2%	10.7%	-	4.8%	0.1%	0.2%	-		1.0%
Recurring profit	-12	348	47	388	-133	165	9	29	11	7.3%	150
YoY	-	23.7%	-44.0%	145.2%	-	-52.7%	-81.1%	-92.4%	-		113.4%
Recurring profit margin	-	10.3%	1.6%	11.0%	-	5.1%	0.3%	0.7%	0.3%		1.0%
Net income	-31	211	13	26	-100	85	-48	-67	-35	-	140
YoY	-	27.0%	-63.3%	-54.9%	-	-59.9%	-	-	-		-
Net margin	-	6.3%	0.4%	0.7%	-	2.6%	-	-	-		0.9%

Source: Shared Research based on company data
Notes: Figures may differ from company materials due to differences in rounding methods.

By segment

By segment (cumulative)	FY03/20				FY03/21				FY03/22	FY03/22	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Total revenue	2,874	6,240	9,240	12,779	2,759	5,976	9,293	13,325	3,433	23.3%	14,750
YoY	3.3%	8.9%	7.1%	7.3%	-4.0%	-4.2%	0.6%	4.3%	24.5%		33.4%
Digital Marketing	466	1,006	1,541	2,258	521	1,131	1,778	2,581	596		
YoY	-3.5%	4.0%	3.9%	9.9%	11.8%	12.4%	15.4%	14.3%	14.4%		
% of total revenue	16.2%	16.1%	16.7%	17.7%	18.9%	18.9%	19.1%	19.4%	17.3%		
IT Infrastructure	2,357	5,156	7,596	10,395	2,224	4,820	7,478	10,642	2,837		
YoY	3.7%	9.7%	8.0%	7.1%	-5.6%	-6.5%	-1.5%	2.4%	27.6%		
% of total revenue	82.0%	82.6%	82.2%	81.3%	80.6%	80.7%	80.5%	79.9%	82.6%		
CVC	-	-	0	0	-	-	0	58	0		
YoY	-	-	-	-	-	-	7.1%	21402.2%	-		
% of total revenue	-	-	-	-	-	-	0.0%	0.4%	0.0%		
Overseas	49	74	100	121	14	24	36	43	-		
YoY	87.2%	18.2%	-7.3%	-14.2%	-72.2%	-67.1%	-64.4%	-64.1%	-		
% of total revenue	1.7%	1.2%	1.1%	0.9%	0.5%	0.4%	0.4%	0.3%	0.0%		
Other	2	3	4	4	-	-	-	-	-		
Adjustments	-	-	-	-	0	0	1	1	0		
Operating profit	-3	320	356	733	-144	10	13	22	-40	-	150
YoY	-	8.6%	-6.0%	41.6%	-	-96.9%	-96.4%	-97.0%	-		-
Operating profit margin	-0.1%	5.1%	3.8%	5.7%	-5.2%	0.2%	0.1%	0.2%	-1.2%		1.0%
Digital Marketing	-51	-13	-4	138	11	41	-69	-122	-88		
YoY	-	-	-	-11.1%	-	-	-	-	-		
OPM	-	-	-	-	2.1%	3.6%	-	-	-		
IT Infrastructure	-1	291	302	599	-155	-14	167	286	73		
YoY	-	93.7%	134.0%	163.4%	-	-	-44.9%	-52.3%	-		
OPM	0.0%	5.6%	4.0%	5.8%	-	-	2.2%	2.7%	2.6%		
CVC	-0	-0	-0	-52	-0	-12	-12	45	0		
YoY	-	-	-	-	-	-	-	-	-		
OPM	-	-	-	-	-	-	-	-	-		
Overseas	20	9	8	3	-11	-21	-32	-52	-		
YoY	-	-	-	-	-	-	-	-	-		
OPM	-	-	-	-	-	-	-	-	-		
Other	-7	-14	-15	-15	-11	-	-	-	-0		
Company-wide, eliminations	36	47	65	59	12	17	-41	-135	-25		

By segment (quarterly)	FY03/20				FY03/21				FY03/22
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total revenue	2,874	3,366	3,000	3,538	2,759	3,217	3,317	4,032	3,433
YoY	3.3%	14.2%	3.7%	7.8%	-4.0%	-4.4%	10.6%	13.9%	24.5%
Digital Marketing	466	540	534	717	521	611	647	803	596
YoY	-3.5%	11.6%	3.8%	25.2%	11.8%	13.0%	21.0%	11.9%	14.4%
% of total revenue	16.2%	16.1%	17.8%	20.3%	18.9%	19.0%	19.5%	19.9%	17.3%
IT Infrastructure	2,357	2,799	2,439	2,800	2,224	2,596	2,658	3,163	2,837
YoY	3.7%	15.3%	4.6%	4.6%	-5.6%	-7.3%	9.0%	13.0%	27.6%
% of total revenue	82.0%	83.2%	81.3%	79.1%	80.6%	80.7%	80.1%	78.5%	82.6%
CVC	-	-	0	-	-	-	0	58	0
YoY	-	-	-	-	-	-	7.1%	-	-
% of total revenue	-	-	0.0%	-	-	-	0.0%	1.4%	0.0%
Overseas	49	25	26	21	14	11	11	8	-
YoY	87.2%	-30.8%	-42.7%	-36.4%	-72.2%	-57.4%	-56.5%	-63.0%	-
% of total revenue	1.7%	0.8%	0.9%	0.6%	0.5%	0.3%	0.3%	0.2%	0.0%
Other	2	1	0	0	-	-	-	-	-
Operating profit	-3	323	35	377	-144	154	3	9	-40
YoY	-	25.4%	-57.7%	170.9%	-	-52.4%	-91.7%	-97.7%	-
Operating profit margin	-0.1%	9.6%	1.2%	10.7%	-5.2%	4.8%	0.1%	0.2%	-1.2%
Digital Marketing	-51	38	10	141	11	30	-110	-52	-88
YoY	-	-6.3%	-74.3%	127.0%	-	-20.0%	-	-	-
OPM	-	7.0%	1.8%	19.7%	2.1%	4.9%	-	-	-
IT Infrastructure	-1	292	11	297	-155	141	180	119	73
YoY	-	94.3%	-	202.1%	-	-51.7%	-	-59.8%	-
OPM	-	10.4%	0.5%	10.6%	-	5.4%	6.8%	3.8%	2.6%
CVC	-0	-0	0	-51	-0	-12	0	57	0
YoY	-	-	-	-	-	-	105.3%	-	-
OPM	63.2%	-	7.1%	-	-	-	13.5%	99.6%	20.7%
Overseas	20	-11	-2	-5	-11	-10	-11	-20	-
YoY	-	-	-	-	-	-	-	-	-
OPM	41.6%	-	-	-	-	-	-	-	-
Other	-7	-7	-1	0	-11	11	-	-	-0
Company-wide, eliminations	36	11	17	-5	12	5	-57	-95	-25

Source: Shared Research based on company data
Notes: Figures may differ from company materials due to differences in rounding methods.

Q1 FY03/22 results (out August 13, 2021)

Summary

- Revenue: JPY3.4bn (+24.5% YoY, 48.2% of 1H FY03/21 target; 46.2% in Q1 FY03/21 versus 1H results)
- Operating loss: JPY40mn (loss of JPY144mn in Q1 FY03/21, versus 1H forecast of loss of JPY200mn)
- Recurring profit: JPY11mn (loss of JPY133mn in Q1 FY03/21, versus 1H forecast of loss of JPY200mn)
- Net loss: JPY35mn (net loss of JPY100mn in Q1 FY03/21, versus 1H forecast of loss of JPY300mn)
- No changes to 1H and full-year FY03/22 forecasts

* Net loss reflects net loss attributable to owners of the parent.

Highlights

Revenue expanded 14.4% YoY in the core Digital Marketing segment and 27.6% YoY in the IT Infrastructure segment.

- In the Digital Marketing segment, the company transitioned to a subscription-based business model from FY03/21, offering its products as Software as a Service (SaaS) applications. As a result, it was able to capture new customers who were previously unable to purchase its higher-priced, one-time-revenue services.

Operating loss was JPY40mn. The Digital Marketing segment recorded an operating loss of JPY88mn while the IT Infrastructure segment recorded an operating profit of JPY73mn.

Results by segment

Digital Marketing

- Revenue: JPY596mn (+14.4% YoY), comprising recurring revenue of JPY452mn (+24.5% YoY) and one-time revenue of JPY143mn (-8.3% YoY)
- Operating loss: JPY88mn (versus profit of JPY11mn in FY03/21)

Key performance indicators (KPIs; June 2021)

- MRR: JPY147mn (+37.4% YoY)
- ARR: JPY1.8bn
- Cross-sell MRR (monthly recurring revenue from customers that purchase multiple services): JPY77mn (+57.1% YoY)
- Companies under paid contract (Shared Research estimate): over 3,500 (3,147 in Q1 FY03/21, +11.2% YoY)
- Companies under cross-sell contract (customers that purchase multiple services): 787 (+23.9% YoY)
- ARPU for paid contracts (monthly revenue per company): JPY42,000 (+23.5% YoY)
- Among paid contracts, cross-sell ARPU (revenue per customer that purchases multiple services): JPY99,000 (+26.9% YoY)
- Number of paid contract licenses: 4,949 (+13.2% YoY)

At end Q1 FY03/22, MRR stood at JPY147mn (+37.4% YoY). Startia HD also discloses ARR (calculated as MRR for June multiplied by 12 months), which came to JPY1.8bn.

New order acquisitions increased (number of companies under paid contract as estimated by Shared Research up 11.2% YoY) and cross-selling to existing customers expanded (cross-sell MRR up 23.9% YoY).

Shared Research estimates that the number of customers under cross-sell contracts in Q1 FY03/22 reached 787, accounting for 22.5% of the number of customers under paid contracts (3,500 according to our estimate), marking a jump from 20.2% YoY. Startia HD is working to increase the number of cross-sell contracts among existing customers. Shared Research understands these efforts make existing customers more dependent on the company's services in their marketing activities, which ultimately reduces service cancellations.

KPIs in the Digital Marketing segment

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
MRR	2020			104	109	108	107	110	111	116	119	122	124
(JPYmn)	2021	131	133	137	142	145	147						
Cross-sell MRR	2020			46	48	49	49	50	52	54	57	59	61
(JPYmn)	2021	66	66	70	72	75	77						
Companies subscribing to	2020			604	626	629	635	644	655	666	682	700	713
two or more products	2021	733	732	747	761	776	787						
Paid contract licenses	2020			4,388	4,424	4,370	4,372	4,386	4,380	4,450	4,506	4,554	4,622
	2021	4,719	4,737	4,775	4,873	4,927	4,949						
ARPU	2020			33,000	34,000	34,000	34,000	35,000	35,000	36,000	37,000	37,000	37,000
(JPY)	2021	39,000	39,000	40,000	41,000	41,000	42,000						
Cross-sell ARPU	2020			76,000	77,000	78,000	78,000	78,000	80,000	82,000	84,000	85,000	86,000
(JPY)	2021	90,000	91,000	94,000	95,000	96,000	99,000						
Companies under paid contract, based on Shared Research	2020			3,152	3,206	3,176	3,147	3,143	3,171	3,222	3,216	3,297	3,351
estimate	2021	3,359	3,410	3,425	3,463	3,537	3,500						

Note: ARPU = MRR / Number of companies under contract at month-end. The number of companies under contract at month-end in the table above are estimates by Shared Research (calculating by dividing MRR by ARPU)
Source: Shared Research based on company data

IT Infrastructure

- Revenue: JPY2.8bn (+27.6% YoY), comprising recurring revenue of JPY1.2bn (+28.0% YoY) and one-time revenue of JPY1.6bn (-29.2% YoY)
- Operating profit: JPY73mn (loss of JPY155mn in Q1 FY03/21)
- Revenue per sales representative: JPY14.2mn (JPY11.8mn in Q1 FY03/21)

Revenue rose 27.6% YoY in Q1 on the back of stronger cooperation between sales, the Wakayama call center, and the customer success department.
By revenue type, recurring revenue was up 28.0% YoY, and one-time revenue was up 29.2% YoY.

- One-time business: Mainly includes sales of information and communication equipment such as multifunction peripherals (MFPs), unified threat management (UTM) solutions, network equipment, and office telephones; installation work; development of information and communication systems for customer companies (system integration); deployment of and support for automation of office work (robotic process automation [RPA]).
- Recurring-revenue business: Mainly includes maintenance and operation of customers' information and communication systems, MFP leasing and maintenance services, cloud storage services, and operation of an electronic signature SaaS.

Operating profit rose JPY228mn YoY to JPY73mn due to decrease in personnel expenses as some of the employees retired.

Number of companies under contract in recurring-revenue businesses

		FY03/20				FY03/21				FY03/22
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Companies under contract in		16,920	17,009	17,124	17,202	17,313	17,360	17,577	17,723	17,862
recurring-revenue businesses	YoY	3.8%	4.0%	3.4%	2.7%	2.3%	2.1%	2.6%	3.0%	3.2%
Companies with contracts for		7,342	7,427	7,565	7,722	7,916	8,011	8,269	8,425	8,500
multiple products and services	YoY	7.1%	6.4%	6.1%	7.1%	7.8%	7.9%	9.3%	9.1%	7.4%
among above	% of total	43.4%	43.7%	44.2%	44.9%	45.7%	46.1%	47.0%	47.5%	47.6%

Source: Shared Research based on company data

CVC

- Revenue: JPY0.3mn (zero in Q1 FY03/21)
- Operating profit: JPY0.07mn (versus loss of JPY0.2mn in Q1 FY03/21)

In Q1 FY03/22, the company did not make any new investments.

Overseas

▷ Revenue: zero (JPY14mn in Q1 FY03/21)

▷ Operating profit: zero (versus loss of JPY11mn in Q1 FY03/21)

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

Full-year company forecasts (revised on August 25, 2021)

	FY03/21			FY03/22			YoY		
(JPYmn)	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.	1H Est.	2H Est.	FY Est.
Revenue	**5,976**	**7,349**	**13,325**	**7,117**	**7,633**	**14,750**	19.1%	3.9%	10.7%
Cost of revenue	3,324	4,184	7,508						
Gross profit	**2,652**	**3,164**	**5,816**						
Gross profit margin	44.4%	43.1%	43.7%						
SG&A expenses	2,642	3,153	5,795						
SG&A ratio	44.2%	42.9%	43.5%						
Operating profit	**10**	**12**	**22**	**-200**	**350**	**150**	-	2876.4%	591.9%
Operating profit margin	0.2%	0.2%	0.2%	-	4.6%	1.0%			
Recurring profit	**32**	**38**	**70**	**-200**	**350**	**150**	-	813.5%	113.4%
Recurring profit margin	0.5%	0.5%	0.5%	-	4.6%	1.0%			
Net profit	**-15**	**-115**	**-131**	**-40**	**180**	**140**	-	-	-
Net margin	-0.3%	-1.6%	-1.0%	-	2.4%	0.9%			

Note: 2H FY03/22 forecasts are estimates by Shared Research calculated by subtracting 1H forecasts from full-year forecasts
Source: Shared Research based on company data.

Details of forecast revisions

Following the recording of extraordinary gains, the company revised its 1H and full-year earnings forecasts for FY03/22 as the following. The previous forecasts were announced on June 22, 2021.

1H FY03/22

- ▷ Revenue: JPY7.1bn (no change)
- ▷ Operating loss: JPY200mn (no change)
- ▷ Recurring loss: JPY200mn (no change)
- ▷ Net loss: JPY40mn (net loss of JPY130mn in the previous forecast)
- ▷ Net loss per share: JPY4.06 (net loss per share of JPY13.19 in the previous forecast)

* Net loss reflects net loss attributable to owners of the parent.

Full-year FY03/22

- ▷ Revenue: JPY14.8bn (no change)
- ▷ Operating profit: JPY150mn (no change)
- ▷ Recurring profit: JPY150mn (no change)
- ▷ Net income: JPY140mn (net income of JPY50mn in the previous forecast)

EPS: JPY14.20 (previously JPY5.07)

Previous revisions

On June 22, 2021, the company revised its 1H and full-year forecasts for FY03/22 as follows. The company had left the revised forecasts unchanged when it announced its Q1 FY03/22 results on August 13, 2021. The followings are the details of the forecasts before the announcement. Shared Research plans to update the details after interviews with the company.

1H FY03/22 forecasts (initial forecasts were announced on May 14, 2021)

- ▷ Revenue: JPY7.1bn (previously JPY7.2bn)
- ▷ Operating loss: JPY200mn (no change)
- ▷ Recurring loss: JPY200mn (no change)
- ▷ Net loss: JPY130mn (net loss of JPY300mn in the previous forecast)

* Net loss reflects net loss attributable to owners of the parent.

Full-year FY03/22 forecasts (initial forecasts were announced on May 14, 2021)

- Revenue: JPY14.8bn (previously JPY15.0bn)
- Operating profit: JPY150mn (no change)
- Recurring profit: JPY150mn (no change)
- Net income: JPY50mn (net loss of JPY120mn in the previous forecast)

* Net income reflects net income attributable to owners of the parent.

Reason for revision

The company revised down its full-year revenue forecast by JPY250mn after transferring the cloud storage business of its subsidiary Startia Raise, Inc. to an equity-method affiliate (of which the group holds 49% of voting rights). It says it is currently examining operating profit and recurring profit and has left the forecasts unchanged.

Net profit reflected gain on sale of subsidiary shares of JPY415mn (booked as extraordinary gain in 1H FY03/22) and expected increase in income taxes of JPY245mn.

Full-year company forecasts at the beginning of FY03/22 (May 14, 2021)

On May 14, 2021, the company announced the following full-year forecasts for FY03/22.

- Revenue: JPY15.0bn (+12.6% YoY, +JPY1.7bn YoY)
- Operating profit: JPY150mn (+591.9% YoY, +JPY128mn YoY)
- Recurring profit: JPY150mn (+113.4% YoY, +JPY80mn YoY)
- Net loss: JPY120mn (versus loss of JPY131mn in FY03/21, loss contraction of JPY11mn from FY03/21)

* Net loss reflects net loss attributable to owners of the parent.

Analysis of factors driving YoY changes in revenue forecast

The company looks for a JPY1.7bn YoY increase in revenue, breaking down as follows.

- Growth in subscription services in the Digital Marketing segment: Positive impact of JPY480mn
- Expansion of recurring revenue in IT Infrastructure segment: Positive impact of JPY1.0bn
- Increase in one-time revenue in IT Infrastructure segment: Positive impact of JPY700mn
- Change in how advertising revenue is recorded in Digital Marketing segment due to adoption of new revenue recognition standard: Negative impact of JPY310mn
- Withdrawal from Overseas segment, and other: Negative impact of JPY194mn

Analysis of factors driving YoY changes in operating profit forecast

The company forecasts a JPY128mn YoY increase in operating profit, breaking down as follows.

- Expansion in gross profit driven by higher revenue: Positive impact of JPY1.0bn
- Growth in personnel expenses: Negative impact of JPY250mn
- Increase in advertising expenses: Negative impact of JPY250mn
- Higher system expenses: Negative impact of JPY100mn
- Uptrend in other expenses: Negative impact of JPY271mn

FY03/22 is the second year of the current medium-term management plan (FY03/21–FY03/25). The company plans to invest mainly in the Digital Marketing segment to improve its profitability. It will spend on advertising to increase the brand recognition for Cloud CIRCUS and attract new customers (survey of usage intent, cultivation of new customers). It will book system expenses to broaden its service lineup for Cloud CIRCUS, and concentrate on strengthening integration with external solutions. In addition, it will record personnel expenses to increase its workforce.

Medium-term management plan “NEXT’S 2025” (announced on May 15, 2020)

Overview

The company unveiled its medium-term management plan “NEXT’S 2025” on May 15, 2020. The five-year plan kicked off in FY03/21, and contains revenue targets for FY03/25 as well as qualitative targets.

- ▷ The plan assumes the impact of the COVID-19 pandemic will subside from around September 2020.

Digital Marketing segment to generate the bulk of operating profit by FY03/25

In the final year of the medium-term plan (FY03/25), the company forecasts operating profit of JPY1.7bn in the Digital Marketing segment and JPY1.6bn in the IT Infrastructure segment.

- ▷ In FY03/20, the year in which the company formulated the medium-term plan, operating profit came to JPY137mn in the Digital Marketing segment and JPY598mn in the IT Infrastructure segment.

Shift to new business model

The medium-term plan calls for a shift in business model to accelerate growth in the Digital Marketing segment.

- ▷ The company has decided to abandon outright sales of software in the Digital Marketing segment in favor of a subscription model for all its services.
- ▷ It has positioned the Digital Marketing segment as a growth business, and forecasts temporary operating losses in the segment as a result of investments in development and advertising. It has defined Software as a Service (SaaS) revenue (annual recurring revenue [ARR]), the number of accounts, the number of companies under cross-sell contract, and ARPU as KPIs. It expects ARR to grow at a CAGR of 24.3%.
- ▷ The company has positioned the IT Infrastructure segment as a stable cash generation business. It has defined the number of companies under contract in recurring-revenue businesses, the number of companies under cross-sell contract, and the revenue per sales representative as KPIs. It expects revenue to expand at a CAGR of 20.0%.

Quantitative (numerical) targets

The medium-term plan calls for the following three companywide quantitative targets.

- ▷ Revenue CAGR of 20% or above: To be achieved by concentrating on SaaS operations in the Digital Marketing segment.
- ▷ ROE of 10% or above: To be realized by streamlining internal operations (digital transformation) and by creating a highly productive organization.
- ▷ Market cap of JPY50.0bn or above: To be attained by enhancing corporate value through achievement of the two targets above.

Companywide earnings targets

Startia HD forecasts companywide revenue of JPY31.0bn in FY03/25, implying growth at a CAGR of 24.3% from the JPY13.0bn recorded in FY03/21, the first year of the medium-term plan.

The company looks for operating profit of JPY3.3bn in FY03/25, and targets an increase in OPM from 5.7% in FY03/20 (the year before the plan went into effect) to 10.6% in FY03/25 (the last year of the plan). In FY03/21 and FY03/22, it forecasts temporary operating losses due to upfront spending on development and advertising (see details below) in the Digital Marketing segment.

- ▷ In FY03/21, the first year of the plan, the company posted an operating loss of JPY122mn in the Digital Marketing segment.

Medium-term management plan: Companywide targets

(JPYmn)	FY03/21 Est.	FY03/22 Est.	FY03/23 Est.	FY03/24 Est.	FY03/25 Est.	CAGR
Revenue	13,000	16,850	20,560	25,190	31,000	
YoY	1.7%	29.6%	22.0%	22.5%	23.1%	24.3%
Operating profit	-200	300	1,100	1,900	3,300	
YoY	-	-	266.7%	72.7%	73.7%	-
OPM	-1.5%	1.8%	5.4%	7.5%	10.6%	

Note: Targets are as of May 15, 2020. CAGR is calculated based on FY03/21 figures.
Source: Shared Research based on company data.

Digital Marketing

In the Digital Marketing segment, Startia HD withdrew from software package (outright) sales in FY03/20, and started providing all its digital marketing tools as subscription-based SaaS applications.

Earnings targets

The company forecast FY03/25 revenue of JPY8.1bn, with subscription-based ARR of JPY4.8bn (59.3% of total revenue). This implies ARR growth at a CAGR of 36.8% from the FY03/21 forecast (estimate by Shared Research).

Medium-term management plan: Digital Marketing segment

(JPYmn)	FY03/21 Est.	FY03/22 Est.	FY03/23 Est.	FY03/24 Est.	FY03/25 Est.	CAGR
Revenue	2,100	3,000	4,400	6,000	8,100	
YoY	-7.0%	42.9%	46.7%	36.4%	35.0%	40.1%
Operating profit	-500	-380	200	700	1,700	
YoY	-	-24.0%	-152.6%	250.0%	142.9%	-
Saas						
Revenue	1,950	2,900	4,050	5,400	7,000	
YoY	-	48.7%	39.7%	33.3%	29.6%	37.6%
% of total	92.9%	107.8%	92.0%	90.0%	86.4%	
SaaS (subscription)	1,370	1,870	2,660	3,630	4,800	
YoY	7.9%	36.5%	42.2%	36.5%	32.2%	36.8%
% of total	65.2%	69.5%	60.5%	60.5%	59.3%	
SaaS (non-subscription)	580	1,030	1,390	1,770	2,200	
YoY	-	77.6%	35.0%	27.3%	24.3%	39.6%
% of total	27.6%	38.3%	31.6%	29.5%	27.2%	
Operating profit	-450	-330	130	600	1,400	
YoY	-	-	-	361.5%	133.3%	-
OPM	-23.1%	-11.4%	3.2%	11.1%	20.0%	
New businesses, other						
Revenue	150	100	350	600	1,100	
YoY	-	-33.3%	250.0%	71.4%	83.3%	64.6%
% of total	7.1%	3.7%	8.0%	10.0%	13.6%	
Operating profit	-50	-50	70	100	300	
YoY	-	-	-	42.9%	200.0%	-
OPM	-33.3%	-50.0%	20.0%	16.7%	27.3%	

Note: Targets are as of May 15, 2020. ARR is obtained by multiplying monthly recurring revenue (MRR) for March by 12 months. The annual churn rate is estimated to be 11%. Based on the aforementioned assumptions, the cancellation amount is calculated as 11% of the ARR for the previous fiscal year.
Source: Shared Research based on company data

From FY03/21 to FY03/23, Startia HD plans to record a total of JPY4.4bn in development and advertising costs to fuel business growth. Factoring in the upfront spending, the company as of May 2020 forecast operating losses of JPY500mn in FY03/21 and JPY350mn in FY03/22. It expects the development and advertising expenditures to contribute to new customer acquisition, and intends to recoup the investments by continuing to build up MRR.

MRR and churn rate

The company will strive to continually increase MRR in a bid to expand subscription-based ARR. It can achieve MRR growth by ensuring new recurring revenue exceeds the monthly cancellation value. To this end, the company will concentrate on acquiring new customers to bring in new recurring revenue, and on upselling or cross-selling to existing customers.

Startia HD does not disclose the average churn rate for its entire service lineup, but Shared Research understands the company has factored in a monthly churn rate of around 1% based on contract licenses (= Number of cancellations / Number of contract licenses at end of previous month) into its forecasts.

▷ The company discloses contract renewal rates for two services on its website. Its BowNow and Blue Monkey services (discussed below) currently have contract renewal rates of 98.4% and 99.6%, respectively (these percentages reflect the ratio of contracts that were renewed by the end of the current month from among the contract licenses in effect at the end of the previous month. The company does not disclose the applicable months).

Medium-term management plan: Subscription-based earnings structure of Digital Marketing segment

(Million yen)	FY03/21 Est.	FY03/22 Est.	FY03/23 Est.	FY03/24 Est.	FY03/25 Est.	CAGR
Subscription model revenue						
Annual recurring revenue (ARR)	1,370	1,870	2,660	3,630	4,800	
YoY		36.5%	42.2%	36.5%	32.2%	36.8%
(Shared Research estimates)						
Churn rate	144	156	212	302	412	-
(assuming monthly churn rate of 1%)						
ARR after contract cancellations	1,126	1,214	1,658	2,358	3,218	-
ARR from new contracts	244	656	1,002	1,272	1,582	-
Investments	1,200	1,580	1,650			
Advertising expenses	500	670	1,000			
Development expenses	700	910	650			

Note: Targets are as of May 15, 2020.
Source: Shared Research based on company data

Qualitative targets and business policy

Significance of change in business model

From FY03/21, Startia HD abandoned outright sales of software in the Digital Marketing segment in favor of a subscription model for all its services. The company says the shift in business model was necessary because SMEs—its target customers—struggled to purchase higher-priced packaged software, resulting in growing requests from customer companies for subscription services with low monthly fees. Another objective was to efficiently manage personnel and development costs (management resources). In the past, the company had to divide its management resources between one-time revenue businesses and recurring-revenue (subscription) businesses.

▷ The company expects its earnings to sharply decline in FY03/21 and FY03/22 as it shifts its management resources away from one-time businesses and channels them into recurring revenue businesses. In FY03/20, it booked a JPY154mn impairment loss mainly for packaged software.

Provides comprehensive tool suite Cloud CIRCUS (strengthens product and competitiveness)

Cloud CIRCUS is the brand name of the SaaS tool suite developed and provided by Startia HD. The company aims to raise its name recognition by actively advertising its SaaS tools under a unified brand. It explains that a consolidated brand also facilitates proposals for upselling or cross-selling to customer companies.

▷ By FY03/25, the company aims to become the Japanese market leader for subscription-based digital marketing services (in terms of adoption).

Acquisition of new customers

Startia HD has not disclosed a quantitative target for its number of customers by FY03/25, but it aims to capture the top share of the domestic market for subscription-based digital marketing services, and plans to expand its customer base accordingly.

▷ The company has announced ARPU currently stands at JPY40,000, calculated by dividing MRR of JPY137mn in March 2021 by the number of companies under contract at end-March (number of companies under paid contract). Calculating back, Shared Research estimates the company has roughly 3,500 companies under paid contract.

- ARPU rose 21.2% YoY in FY03/21. Assuming it continues to expand at the same pace, Shared Research estimates ARPU will reach roughly JPY86,000 in FY03/25. The company forecasts ARR of JPY4.8bn in FY03/25. Calculating back using our ARPU assumption, we estimate the number of customers under paid contract will be roughly 4,600.

The company will actively engage in promotional activities from FY03/21 to FY03/23 to raise the brand recognition of Cloud CIRCUS.

- For example, the company aired TV commercials featuring a popular celebrity in November–December 2020, January–February 2021, and June–July 2021 (as of July 2021).
- It says the brand recognition for Cloud CIRCUS is already improving. The degree of brand recognition for Cloud CIRCUS (9.9% as of February 2021) exceeded that of some competing services (for details, see the Business overview section).

Action plans tailored to customer categories

Startia HD targets three types of customers: B2B companies, B2C companies, and partner companies. B2B companies account for about 60% of its SaaS revenue. The company has distributed its internal sales resources across these customer categories and set up separate divisions to cater to their needs. By customer category, it pursues the following business strategies.

- B2B companies: Reduce churn rate and increase cross-selling through investment in human capital (strengthening salesforce) and marketing (advertising).
- B2C companies: Develop products used by consumers (example among current offerings: augmented reality [AG] services) and establish corresponding sales organizations.
- Partner companies (agents that sell the company's services, printing companies that use the company's e-book creation software, etc.): Transition customers that use current offerings such as e-book creation software or other packaged software to subscriptions, while also bringing in new partners.

Non-subscription operations (one-time revenue)

The medium-term plan calls for FY03/25 revenue of JPY8.1bn. After excluding JPY4.8bn in recurring revenue from subscriptions, Shared Research understands the company targets JPY3.3bn in one-time revenue, mainly from consulting services. In 2025, we estimate recurring revenue will account for 59.3% of total revenue, and one-time revenue for 40.7%.

One-time income from consulting work generally expands in tandem with growth in recurring revenue driven by an increase in subscriptions. This is because the company provides consulting services to customer companies that adopt its digital marketing tools. Unlike other SaaS providers, the company does not expect its recurring revenue to reach 80–90% of its total revenue (see the Business overview section for details).

IT Infrastructure

Earnings targets

In FY03/25, the company targets revenue of JPY22.7bn, operating profit of JPY1.6bn, and an OPM of 7.0%. It expects the share of IT Infrastructure revenue to decline from 84.2% in FY03/21 to 73.2% in FY03/25, but looks for revenue to grow at a CAGR of 20.0%. By FY03/25, the company expects revenue to more than double from FY03/21, and sees operating profit rising at a CAGR of 49.5%, increasing 5x from FY03/21.

Productivity as the main KPI

In the IT Infrastructure segment, the company aims to increase cross-selling in a bid to reduce expenses of customer companies by combining multiple services. It will focus on strengthening business relationships with customers through cross-selling (and stemming cancellations), rather than expanding ARPU. However, the cross-selling it is planning in this segment is different than the cross-selling envisioned for the Digital Marketing segment.

Startia HD has set revenue per sales representative—rather than ARPU—as the KPI for the IT Infrastructure segment. As medium-term objectives for the segment, the company will drive up revenue by expanding its operating area and growing its business scale through M&A deals, and increase the productivity of its sales representatives.

Medium-term management plan: IT Infrastructure segment

(JPYmn)	FY03/21 Est.	FY03/22 Est.	FY03/23 Est.	FY03/24 Est.	FY03/25 Est.	CAGR
Revenue	10,940	12,400	16,000	19,000	22,700	
YoY	5.2%	13.3%	29.0%	18.8%	19.5%	20.0%
% of total	84.2%	82.7%	77.8%	75.4%	73.2%	
Operating profit	320	575	900	1,100	1,600	
YoY	-46.6%	79.7%	56.5%	22.2%	45.5%	49.5%
OPM	2.9%	4.6%	5.6%	5.8%	7.0%	
Revenue per sales staff (JPYmn)	43.8	47.7	49.1	50.3	51.9	
YoY		8.9%	2.9%	2.4%	3.2%	4.3%

Note: Targets are as of May 15, 2020.
Source: Shared Research based on company data

Qualitative targets and business policy

Expansion of operating area and product lineup to fuel revenue growth

Through FY03/25, Startia HD plans to expand its operating area (i.e., number of customers) and its product lineup. In particular, it will conduct the following measures.

- ▷ Expand operating area: Sendai branch (launched in April 2020), Kumamoto branch (launched in April 2021), Sapporo branch (to be launched within the period covered by the medium-term plan).
- ▷ Step up acquisition of new customers through M&A: Grow customer base through M&A with established business operators.
- ▷ Broaden service lineup: Launched electricity retail business in May 2020.
- ▷ Expand telework products: Cloud storage solution “Secure SAMBA,” Robotic Process Automation (RPA) tools, etc.
- ▷ Increase cross-sell products for existing customers: Expand products and services for SMEs, and capture cross-selling opportunities (overlaps partially with preceding measure).
- ▷ Consider horizontal expansion of products in Digital Marketing segment.

Action plan

In light of the above, Startia HD has formulated an action plan that comprises the following four items.

- ▷ Measures to acquire new customers: Startia HD aims to enhance and expand products, and reinforce activities to bring in new customers. For example, it launched the electricity retail business “BiziSUKE Denki” in May 2020.
- ▷ Develop in-house IT infrastructure: The company has adopted Salesforce as their customer relationship management system (CRM). In April 2020, it consolidated the various CRMs for its product divisions into Salesforce.
- ▷ Measures to improve productivity: Startia HD aims to reform its sales processes, develop organization that contributes to customer success, and conduct outbound sales by expanding its Wakayama call center.
- ▷ Measures to further enhance organizational strengths: The company will reform recruiting and training methods, introduce new personnel systems, adopt a sales incentive plan, and conduct other initiatives.

Business

Summary

Startia HD provides digital marketing and IT infrastructure solutions to SMEs as its core business. In its Digital Marketing segment, it supplies tools that support revenue growth at SMEs. Its mainstay product in this segment is the digital marketing tool suite Cloud CIRCUS offered as a Software as a Service (SaaS). In its IT Infrastructure segment, the company provides office-equipment management services and builds enterprise systems that improve management efficiency (reduce costs) for SMEs.

In FY03/21, the company reported revenue of JPY13.3bn (+4.3% YoY), operating profit of JPY22mn (-97.0% YoY), and an OPM of 0.2% (versus 5.7% in FY03/20). In FY03/21, it recorded product development and advertising expenses in the Digital Marketing segment in line with its medium-term management plan. It expects such investments to weigh on profit through FY03/23.

Overview of segments

Digital Marketing: FY03/21 revenue of JPY2.6bn, 19.4% of total revenue, operating loss of JPY122mn

In this segment, Startia HD sells digital marketing tools (SaaS) that support revenue expansion at SMEs, offers corresponding consulting services on website production and strategies to attract customers, and undertakes system development. Shared Research estimates it provides services to some 3,500 customers. From FY03/21, the company stopped selling packaged software and fully transitioned to a subscription-based business model.

IT Infrastructure: FY03/21 revenue of JPY10.6bn, 79.9% of total revenue, operating profit of JPY286mn

In this segment, the company procures, sells, maintains, and leases equipment such as multifunction peripherals (MFPs), office telephones, and IT equipment for SMEs, and undertakes network integration (building telephone and network infrastructure) for such customers. It has about 25,000 customers, and aims to provide a one-stop service by consolidating their monthly outlays (e.g., telephone, copier leasing, and internet connection expenses) into a single invoice.

CVC: FY03/21 revenue of JPY58mn, 0.4% of total revenue, operating profit of JPY45mn

In this segment, Startia HD invests in IT startups to pursue collaborations and generate synergies with its core operations.

Overseas: FY03/21 revenue of JPY43mn, 0.3% of total revenue, operating loss of JPY52mn

In this segment, the company sells digital marketing tools to local companies in Southeast Asia.

In the 10 years through FY03/20 (the year before the current medium-term plan kicked off), the IT Infrastructure segment (which was split into the Network Solutions segment and the Business Solutions segment up to FY03/16) generated over 70% of total revenue. Shared Research understands this segment has historically been the source of cash inflow for the company.

Revenue and operating profit in IT Infrastructure and Digital Marketing segments

(JPYmn)	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.
Revenue											
Digital Marketing	444	1,074	1,482	1,944	2,041	1,838	1,803	1,829	2,055	2,258	2,581
% of total	11.1%	21.1%	22.3%	23.8%	23.5%	18.1%	17.5%	16.5%	17.3%	17.7%	19.4%
IT Infrastructure	2,909	4,010	5,158	6,224	6,641	8,333	8,480	9,096	9,709	10,395	10,642
% of total	72.7%	78.9%	77.7%	76.2%	76.5%	81.9%	82.5%	82.3%	81.5%	81.3%	79.9%
Operating profit											
Digital Marketing	137	221	166	323	359	13	-2	127	155	138	-122
% of total	65.9%	44.8%	23.7%	36.7%	45.2%	2.2%	-0.9%	24.3%	45.5%	20.0%	-77.4%
IT Infrastructure	71	272	532	556	436	637	308	428	227	599	286
% of total	34.1%	55.2%	76.3%	63.3%	54.8%	109.3%	113.2%	81.6%	66.8%	87.0%	182.0%
Cash flow statement											
Simple FCF	190	615	717	837	701	584	596	781	742	897	-211

Source: Shared Research based on company data
Simple free cash flow (FCF) = Pre-tax profit + Depreciation and amortization - Capital investment - Changes in working capital

Digital Marketing (FY03/21: 19.4% of revenue)

Business overview

In this segment, Startia HD develops and sells various Software as a Service (SaaS) applications that help customer companies grow their revenue. In addition, it provides a range of consulting services to support the adoption and operation of digital marketing tools.

- Digital Marketing refers to marketing activities—mechanisms to expand revenue—conducted over the Internet via corporate websites and social media (as opposed to conventional methods).
- With "analog" (conventional) marketing methods, companies are often unable to objectively gauge the purchasing appetite of store visitors. Digital marketing, on the other hand, captures data on the behavior of customers who visit a company's website (online store). This allows companies to quantify and assess the potential for customer conversion, and undertake effective advertising activities.

The company develops a total of about 10 types of digital marketing tools under the Cloud CIRCUS brand. From April 2020, it switched to a subscription-based business model, transitioning the products it was still selling as packaged software to cloud (SaaS) solutions.

It also provides paid consulting services to help customers clarify and set objectives (identify prospective customers, set up sales negotiations), and support the establishment of a customer organization to operate digital marketing tools.

Business model

Revenue composition

Revenue in the Digital Marketing segment comprises recurring revenue from monthly subscriptions, and one-time revenue from initial fees and paid consulting fees. In FY03/21, recurring revenue made up 62.3% of segment revenue.

In the five years through FY03/25 covered by the current medium-term management plan, the company will focus on expanding its recurring revenue in the segment, targeting a CAGR of 30%. This will concurrently drive up its one-time revenue, which tends to increase in tandem with growth in recurring revenue.

Revenue from subscriptions (recurring revenue)

Startia HD sells all its in-house developed digital marketing tools as SaaS applications under a monthly subscription model. It calculates monthly recurring revenue (MRR) using the formula below.

MRR = Monthly subscription revenue from existing customers under paid contract - Monthly cancellation value + Monthly subscription revenue from new customers under paid contract

To expand MRR, the company will strive to reduce contract cancellations, increase revenue from existing customers at a pace that exceeds the cancellation value (increase ARPU through cross-selling and upselling), and bring in new paying customers. In March 2021, the KPIs for the segment were as follows.

- MRR was JPY137mn (+31.7% YoY). Monthly revenue per customer (ARPU) was JPY40,000 (+21.2% YoY). Startia HD does not disclose the number of companies under contract, but Shared Research estimates that figure at roughly 3,500 (based on back calculation: MRR / ARPU).
- Monthly ARPU for cross-sell contracts was JPY94,000 (+23.7% YoY), and 747 customers companies had contracts for two or more products.
- About 2,700 customers had contracts for one product, and their monthly ARPU was about JPY25,000 (+9% YoY; calculated by Shared Research based on the data above).

- The average monthly churn rate across the company's services was about 1%. However, the rate increased in FY03/21 as the company suffered impact from business closures among its customers due to the COVID-19 pandemic.

Provision of free versions

Startia HD offers free versions for eight of its 10 SaaS tools. These freemium products target SMEs with small marketing budgets, and are intended to bring in new customers and ultimately move them to paid services. By offering free products, the company establishes a connection with customers it can subsequently approach with proposals that are tailored to their needs. Customers who are successful in expanding their revenue by using these free tools are more likely to switch to paid products (upselling) or concurrently purchase other products (cross-selling).

Shared Research understands that, as a rule of thumb, some 5% of customers using freemium software eventually switch to paid software. However, this conversion from free to paid products appears to be higher at Startia HD.

One-time revenue

In FY03/21, one-time revenue made up 37.7% of segment revenue. Such revenue is generated from face-to-face ("analog") services such as website development (a necessary step that precedes the use of digital marketing tools) and consulting regarding suitable marketing methods.

Fees are determined separately for each project. In addition to initial fees for digital marketing tools, Startia HD charges several hundred thousand yen (in some cases up to JPY500,000) in consulting fees ahead of confirmed adoption of its SaaS applications.

Profit and cost structures

In FY03/21, the Digital Marketing segment posted total revenue (one-time plus recurring revenue) of JPY2.6bn (+14.3% YoY) and an operating loss of JPY121mn. It booked a total of JPY1.1bn in temporary expenses, breaking down into JPY470mn in advertising expenses (under SG&A expenses) and JPY660mn in development expenses (under manufacturing expenses). Factoring out these temporary expenses, total SG&A expenses and manufacturing expenses came to JPY1.6bn, accounting for 60.9% of revenue.

From FY03/21 to FY03/23, the company plans to record a total of JPY2.1bn in advertising expenses and a total of JPY2.2bn in development expenses (these reflect the actual expenses booked in FY03/21 and budgeted expenses for FY03/22 and FY03/23), and therefore sees operating profit languishing during this period (for details, see the Medium-term management plan section).

The company has been investing in development and advertising to acquire new customers, and plans to recoup these investments by continuing to build up MRR. In FY03/25, the final year of the current medium-term plan, the company targets an OPM of 21.0%.

- In the period from FY03/18 to FY03/20, when the company was still selling packaged software outright, the company recorded a segment OPM of 7.0% in FY03/18, 7.5% in FY03/19, and 6.1% in FY03/20.

Overview of services

What are digital marketing tools?

Definition

Digital marketing tools are software solutions (SaaS tools) that provide functions to support marketing activities (in areas such as customer acquisition, continued business transactions, and prevention of service cancellations). Below are some examples.

- Marketing automation tool (MA tool): A tool that sends automated sales emails to prospective customers who visit a company website, automatically identifies customer attributes (for example, extracting data such as company names and addresses from IP addresses), and records historical activity.
- Content Management System (CMS): A software used to create a website, which is required for digital marketing.

- In addition to the above, business card creation tools, Customer Relationship Management (CRM) tools, and Sales Force Automation (SFA) tools.

Cloud CIRCUS

Cloud CIRCUS is a brand under which Startia HD has consolidated its SaaS tools that help customer companies expand their own customer bases through support in five areas: (1) deliver information, (2) attract customers, (3) improve customer experience and value, (4) cultivate prospective customers and convert them into actual customers, and (5) prevent cancellations and increase repeat rate (under development).

As of June 2021, Startia HD provided 10 types of applications (including the MA and CMS tools discussed above) as digital marketing tools. It developed some of these in-house and acquired others through M&A deals. In November 2020, the company consolidated all tools under the Cloud CIRCUS brand, and worked to expand sales by airing TV commercials and through other initiatives. Cloud CIRCUS supports customer companies in the following five areas.

Deliver information

The purpose of delivering information is to raise awareness of a company's presence and its services. Startia HD provides five types of services that help achieve this. Below are some examples.

- The e-book creation software ActiBook was the company's first digital tool, launched in 2006. It was initially sold outright as a packaged software. The company says the software was adopted by a majority of publishers and printing companies in Japan. The software has been downloaded more than 2.5mn times, and adopted by over 2,400 companies (as of March 2021). The company also provides a free version.
- E-books are often used to produce product manuals. They offer many benefits over PDF documents from both a creator and reader perspective, including features that prevent duplication and the ability to be browsed online without having to be downloaded.
- The CMS Blue Monkey allows users to produce website content without programming knowledge. An effective website is an indispensable tool to deliver information and design marketing that caters to the needs of customers. As of March 2021, over 1,700 companies had adopted the software, which ranked third by market share among paid domestic CMS's.

Improve customer experience (CX)

Customer experience is the overall impression a customer gains across all points of contact with a service, starting from showing interest in a service to buying and using it. Services that are experienced as interesting, fun, or moving lead to higher customer satisfaction, and can therefore help expand the customer base.

- Startia HD provides augmented reality (AR) applications as marketing tools that help improve the customer experience. AR is a technology that superimposes digital contents such as 3D data and video on or adds information to a real-life environment observed through smartphones or smart glasses. For example, AR technology is used in the mobile game Pokémon GO and the video-sharing platform TikTok.
- The company provides the AR application creation tool COCOAR and the web AR creation tool LESSAR. COCOAR was launched in 2012, and has been downloaded over 2.8mn times and adopted by over 2,400 companies.

Cultivate prospective customers and convert them into actual customers

This area involves actively approaching prospective customers (cultivating leads), increasing their purchasing appetite, and ensuring leads are not missed or neglected. The goal is to lock in prospective customers as actual customers.

- In this process, marketing automation (MA) tools are used to automatically centralize the management of information on prospective customers, classify customers, and identify those with high purchasing appetite (promising leads). Promising leads are entrusted to the sales division and converted into actual customers through negotiations and other sales activities.

- Startia HD's MA tool BowNow was released in January 2016, and has since been adopted by a total of over 6,000 companies. As of March 2021, it had captured a roughly 20% share of the Japanese market for MA tools (in terms of adoption), ranking it in second place behind Salesforce, which is operated by a US-based company.

Prevent cancellations and increase repeat transactions (customer success management)

Customer success management (CSM) is an important marketing field that developed out of the recognition that retaining paying customers and preventing service cancellations is essential to earnings expansion particularly in SaaS businesses such as the ones operated by the company.

- In April 2021, Startia HD released Fullstar, a CSM application that allows companies to centrally monitor usage data for their services (such as number of days since their customers last logged in) through a visual user interface. This can help them make decisions on whether to invest in activities to prevent service cancellation (in case of lower-than-expected usage) or upsell or cross-sell (in case of higher-than-expected usage) without having to exhaust their limited resources.

Attract customers and manage advertising

Startia HD identifies suitable SaaS tools for customers through consulting. For example, if it determines that a customer company needs to revamp its corporate website to effectively attract customers, it will recommend its Blue Monkey CMS tool.

Cloud Services: 10 types of tools

Marketing challenges	Tool	Services provided	Free version available
Deliver information	ActiBook	e-book creation software, video sharing	✔
	Blue Monkey	Web CMS and creation of owned media	
	AppGoose	App operation	✔
	Plusdb	Database creation	
	creca	Creation of mobile (smartphone) landing pages	✔
Consulting regarding customer attraction and management of advertising	N/A	Marketing and advertising consulting	N/A
Improve customer experience and value	COCOAR	AR creation software	✔
	LESSAR	AR creation software for web browsers	✔
	IZANAI	Chatbot	✔
Cultivate prospective customers and convert them in actual customers	BowNow	Marketing automation	✔
Increase repeat transactions, prevent cancellations	Fullstar	Customer success management	✔

Source: Shared Research based on company data

Comparison with competing products

The largest difference between Cloud CIRCUS and rival services is that the former includes free versions of tools. If we compare the company's MA tool BowNow, which has captured a 20% market share, with the nine other offerings in the top 10 tools for this category, we find that only the fourth-ranked HubSpot has a free version (see table below).

- Pardot, the market share leader, does not require initial fees, but its monthly subscription fee starts from JPY150,000 (JPY1.8mn per year). Third-ranked Marketo has a monthly subscription fee starting from JPY200,000 (JPY2.4mn per year).

Top 10 MA tools in Japan by market share

Ranking	Provider	Service	Share	Pricing (free version, minimum fees)
1	salesforce.com Co., Ltd.	Pardot	19.7%	Initial fees: JPY0, monthly subscription fees: from JPY150,000
2	Startia Holdings, Inc.	BowNow	16.7%	Initial fees: JPY0, monthly subscription fees: from JPY0
3	Adobe KK	Marketo	9.2%	Initial fees: (only disclosed upon inquiry), monthly subscription fees: from JPY200,000
4	HubSpot Japan KK	HubSpot	8.9%	Initial fees: JPY0, monthly subscription fees: from JPY0
5	Innovation Inc. (Note)	ListFinder	7.0%	Initial fees: JPY100,000, monthly subscription fees: from JPY39,800
6	SATORI Inc.	SATORI	5.7%	Initial fees: JPY300,000, monthly subscription fees: from JPY148,800
7	Kairos Marketing Inc.	Kairos3	3.9%	Initial fees: JPY10,000, monthly subscription fees: from JPY15,000
8	Oracle Corporation Japan	Oracle Eloqua	3.1%	Initial fees: JPY10,000, monthly subscription fees: from JPY6,000
9	dataX Inc. (formerly from SCRATCH)	B-dash	2.3%	Not disclosed
10	Cocolive Inc.	KASIKA	1.9%	Initial fees: (only disclosed upon inquiry), monthly subscription fees: from JPY300,000
	Other		21.5%	
	Total		100.0%	

Note: As of May 2021.
Source: Shared Research based on DataSign Report

Startia HD provides paid and free versions of BowNow, with the latter intended to create opportunities for upselling. The paid versions are priced at JPY5,000/month (Entry Plan), JPY20,000/month (Light Plan), and JPY30,000/month (Standard Plan). These rates are more affordable than those of rival services.

- The pricing structure for HubSpot, a competing service that is also available in a free version, is JPY6,000/month (Starter Plan), JPY106,800/month (Professional Plan), and JPY384,000/month (Enterprise Plan). In other words, HubSpot is more expensive than BowNow across the board.

BowNow achieves low price by only including features necessary for SMEs

To keep prices low, Startia HD has stripped down its MA tool to essential features. BowNow omits features such as lead scoring and scenario configuration, which are standard features on competing services.

- Lead scoring: The assignment of a score to specific actions of prospective customers (leads). For example, a company can configure how many points are assigned for user actions such as clicking on a price list, product specifications, or inquiry links on their corporate website. Sales activities can then be actively targeted at leads with high scores, which have a greater probability of being converted into actual customers. Companies can independently configure how the points are allocated.
- Scenario configuration: Scenarios refer to preconfigured responses to lead actions. They allow companies to program an MA tool in a way that automatically triggers a response (such as transmitting an email or updating browsed content) when a user fulfills a specific condition (such as clicking a price list). Companies can independently decide which scenarios to create.

Startia HD explains it omitted lead scoring and scenario configuration from BowNow because it found that customers did not take full advantage of these features via a survey ("October 2020 Marketing Automation Awareness Survey") conducted by the former Mtame Inc., a member of the Startia HD group. According to the company, both features require complex configurations which are difficult to utilize to their full potential for SMEs that have limited human resources.

The company prices its MA tool below competing offerings because it looks to expand adoption among SMEs (companies with 30 to 1,000 employees). It says it has managed to determine the maximum budgets SMEs can allocate to marketing.

Startia HD has dealt with SMEs since its founding in 1996, and Shared Research understands it has accumulated more than a quarter of a century of experience, "tacit knowledge," and insights regarding SMEs. The company says its pricing structure for BowNow is set at a level that SMEs can afford without taking on an excessive cost burden.

Consulting

Startia HD says SMEs often do not formulate a marketing strategy before adopting an MA tool. In addition to supplying an MA tool, the company also provides paid consulting services in areas such as the following.

- ▷ Clarify customer companies' purpose in adopting MA tools (determine which of Startia HD's digital marketing tools are required)
- ▷ Set clear goals to be targeted after adoption (identify prospective customers, conclude negotiations, etc.)
- ▷ Establish a customer-side organization to operate the digital marketing tools (identify tech-savvy employees, etc.)

According to the company, some customers approach it with the intention of adopting its MA tool BowNow, but upon analysis of their conditions (through consulting services), it becomes clear that building a website to attract customers is the key priority. In such cases, the company initially provides its CMS Blue Monkey—rather than its MA tool—to the customer.

Startia HD records consulting revenue as one-time revenue. It says growth in revenue from digital marketing tools tends to be accompanied by an increase in one-time revenue.

IT Infrastructure (FY03/21: 79.9% of total revenue)

Business model

Overview

In this segment, Startia HD provides office-equipment management services and builds enterprise systems that increase management efficiencies (reduce costs) for SMEs. It can procure all kinds of office equipment ranging from office telephones, copiers, and PCs to telephone/Internet infrastructure and communication equipment for on-site local area networks (LAN).

The company says the majority of SMEs cannot adopt IT equipment or services, or fully take advantage of these, because they either do not have sufficient personnel to establish IT departments or appoint internal IT managers, or struggle to secure such human resources. Startia HD provides value to its customers by addressing these issues.

Revenue

The following equipment and services account for over 90% of segment revenue.

- Multifunction peripherals (MFPs; around 35% of revenue in FY03/21)
- Network services (unified threat management [UTM]: adoption of cloud services, network security measures, etc.: nearly 30%)
- Establishment of Internet infrastructure, procurement of related IT equipment (just above 15%)
- Establishment of telephone infrastructure, procurement of office telephones (just above 10%)

One-time and recurring revenue

In FY03/21, one-time revenue came to JPY6.3bn and recurring revenue to JPY4.4bn, respectively accounting for 58.8% and 41.2% of segment revenue. One-time revenue businesses encompass the supply (outright sales) of office equipment such as telephones, copiers, and PCs, establishment of internal communication infrastructure (on-site LAN), and supply of consumables. The company sells roughly 80% of these directly, and 20% through agents.

Recurring revenue is generated from the following services.

- Leasing of multi-function peripherals (MFPs) and other office equipment, and repair and maintenance of such equipment
- Maintenance, operation, and management of robotic process automation (RPA) solutions adopted by customer companies
- Management of networks for customer companies (eliminating the need for such companies to hire network administrators)
- Electricity retail business (launched in July 2020)
- Contracted development of corporate websites for SMEs so that they can utilize the Cloud CIRCUS suite of digital marketing tools offered by group member Cloud CIRCUS Inc., which operates the Digital Marketing segment

Customers and average spend per customer

Startia HD mainly targets SMEs with 10 to 1,000 employees. Some 682,000 such companies operate in Japan (estimate by Shared Research based on data published by the Ministry of Internal Affairs and Communications [MIC]). The company supplies services to about 25,000 customers, translating into a market penetration rate of 3.7%. It has indicated its core customer base consists of micro, small, and medium-sized companies with 10 to 50 employees (of which some 558,000 operate in Japan).

At end-March 2021, the IT Infrastructure segment generated recurring revenue from 17,723 customers (companies under recurring revenue contract). Shared Research estimates the monthly ARPU per company at around JPY20,000 (recurring revenue of JPY4.4bn / 17,723 companies / 12 months).

- Among recurring-revenue customer companies, those that use multiple products or services of the company (companies under cross-sell contract) numbered 8,425, accounting for 47.5% of the total.

Productivity the main KPI

- ▷ Startia HD intends to expand cross-selling in the IT Infrastructure segment. It believes it can help cut expenses at its customer companies by offering them multiple services. It is not fixated on increasing ARPU, but rather aims to strengthen relationships with customers through cross-selling and, by extension, prevent service cancellations. In other words, the intent behind cross-selling in this segment is different from that in the Digital Marketing segment.
- ▷ The company aims to utilize cross-selling to offer one-stop services (by providing multiple services by itself) that consolidate the office outlays of customer companies into a single invoice, and it is highlighting this as a key benefit.

The company has set revenue per sales representative—instead of ARPU—as the main KPI for the IT Infrastructure segment. Over the medium term, it will aim to drive up revenue by expanding its operating area and increasing its business scale through M&A deals, while also improving the productivity of its sales representatives.

Operating area defined as customer locations reachable within 1.5 hours from Startia HD branches

The company defines its operating area as the area its sales representatives can reach within 1.5 hours when dispatched from its branches. It complements its procurement and remote support services for office equipment with face-to-face services, which it believes plays an important role in bolstering relationships with SMEs and mitigating service cancellation risk.

Services

Establishing office IT infrastructure

In this segment, Startia HD provides 14 categories of services. Its service lineup essentially contains all the components necessary to build a basic office IT infrastructure (see table below). The company aims to be a one-stop shop for services that cover all the IT infrastructure needs of its customers' offices.

- ▷ The company also undertakes website development projects in the IT Infrastructure segment. These projects are for customers that do not use the tools in the Cloud CIRCUS suite operated by the Digital Marketing segment. Website development orders accepted in this segment are outsourced to external partners.

Overview of core services in IT Infrastructure segment

Service categories	Description of services
Copiers/MFPs	One-stop contracted services ranging from installation of copiers/MFPs, lease arrangement, repair, support, and maintenance
Office telephones	One-stop contracted services ranging from selection of equipment to installation and subsequent maintenance
Network building and maintenance	Creation of high-security remote work environments and inter-branch communication; 24-hour, year-round maintenance
Electric power (service name: BiziSUKE Denki)	Reduction of electricity charges (retail electricity business, launched July 2020)
Fiber-optic lines, Internet provider services	Reduction of line fees, integrated support and invoicing, no installation or changes in configuration required before usage
Website creation and promotion	Website-related services ranging from website creation to advertising and analysis
Cloud building and maintenance	Deployment of cloud services such as Amazon Web Services (AWS) and Microsoft 365, and development of online systems
Office design	Consulting services to improve office environment and business efficiency
Office relocation	One-stop service covering all aspects of relocations ranging from property search to building of network environment
Flat-rate printing (printing system)	Leasing of laser printers to companies, enabling unlimited printing for a flat rate
Security cameras	Provision of cloud-connected cameras to prevent crime at offices and stores, or monitor conditions at nursing care facilities
Commercial air conditioning systems	Strategies to reduce electricity charges by using the latest commercial air conditioning systems
LED lighting	Enables up to 75% reduction in electricity charges over fluorescent lights, with zero initial fees

Total support service (service name: BiziSUKE)	Comprehensive plan that bundles 25 types of support services across five areas. It includes bank transfer services, office supply discount mail order service, and on-site PC maintenance.

Source: Shared Research based on company data

The IT Infrastructure segment is the original business of the company. After it was launched, Startia HD operated as a sales agent for manufacturers, procuring office and network equipment hardware. Because it lagged competitors such as Otsuka Corporation (TSE1: 4768) in business scale, the company from 2006 also launched recurring-revenue businesses such as copy counter devices and network maintenance contracts. It aimed to grow its earnings through upsell and cross-sell services, supplementing outright sales, which are unlikely to support enduring relationships with customers, with recurring-revenue businesses, which are conducive to long-term relationships with customers.

Cost reduction services

In October 2017, the company launched the BiziSUKE suite of products that consolidates 25 support services across five areas. It includes a money transfer service, an office supply discount mail order service, and an on-site PC repair service. The standard plan for BiziSUKE costs JPY5,800/month (JPY3,900 for companies that already do business with the company). As of September 2020, a total of 3,242 companies had adopted the BiziSUKE suite.

Below, we provide an example of the costs savings facilitated by one of the services in the BiziSUKE suite.

- ▷ Bank transfer service “Rakutasu Furikomi BiziSUKE plan:” This service allows customers to make transfer payments for various costs including procurement, general expenses, and personnel expenses at a flat administration fee of JPY285 per payment. The regular fee for bank transfers between two branches of the same bank is JPY330 per payment for amounts under JPY30,000, and JPY550 per payment for amounts of JPY30,000 or higher. By taking advantage of this service, customers can enjoy cost savings of up to 65%.

Example of cost savings facilitated by bank transfer service Rakutasu Furikomi BiziSUKE plan

Regular bank transfers		Fee (JPY)	Number of transfers	Total fee (JPY)
Between branches of same bank	Under JPY30,000	330	1	330
	JPY30,000 or above	550	3	1,650
Transfers to other bank	Under JPY30,000	660	4	2,640
	JPY30,000 or above	880	32	28,160
		Total	40	32,780

Rakutasu Furikomi BiziSUKE plan		Fee (JPY)	Number of transfers	Total fee (JPY)
Between branches of same bank	Under JPY30,000	**285**	1	285
	JPY30,000 or above	**285**	3	855
Transfers to other bank	Under JPY30,000	**285**	4	1,140
	JPY30,000 or above	**285**	32	9,120
		Total	40	**11,400**
		Cost reduction		**-65.2%**

Source: Shared Research based on company data

Competitors

Startia HD says it competes with five major companies in the IT infrastructure field, including Otsuka Corporation (TSE1: 4768) and Forval Corporation (TSE1: 8275; see details in table below). It has the lowest IT infrastructure revenue among these rivals (JPY10.6bn in FY03/21). Its revenue is roughly one-seventieth of that of Otsuka Corporation.

In terms of earnings structure, recurring revenue accounted for 41.2% of the company’s IT Infrastructure revenue in FY03/21, which is relatively high compared to its rivals.

- ▷ Otsuka Corporation generated 39.3% of its revenue from recurring revenue in FY12/20, Forval Corporation 9.4% in FY12/20, and No.1 Co., Ltd. (JASDAQ: 3562) 20.6% in FY02/21. These companies all lagged Startia HD in terms of the share of recurring revenue generated from IT infrastructure operations.
- ▷ FT Group Co., Ltd. (TSE1: 2763) had a higher share of recurring revenue than Startia HD in FY03/21, at 53.8%.

Competitive landscape in the IT Infrastructure segment

Company	Stock exchange	Revenue	Recurring revenue	One-time revenue	Operating profit	Financial year
Startia Holdings Inc.	TSE1	10,642	4,382	6,260	286	FY03/21
IT Infrastructure segment	3393	100.0%	41.2%	58.8%	2.7%	
Otsuka Corporation	TSE1	750,492	295,300	455,192	49,810	FY12/20
(Non-consolidated)	4768	100.0%	39.3%	60.7%	6.6%	
Forval Corporation	TSE1	49,788	4,676	45,112	2,616	FY03/21
(Consolidated)	8275	100.0%	9.4%	90.6%	5.3%	
FTGroup Co., Ltd.	TSE1	41,329	22,235	19,094	5,483	FY03/21
(Consolidated)	2763	100.0%	53.8%	46.2%	13.3%	
Uchida Esco Co., Ltd.	TSE1	17,249	1,100	16,149	1,712	FY07/20
(Consolidated)	4699	100.0%	6.4%	93.6%	9.9%	
No.1 Co., Ltd.	JASDAQ	11,838	2,434	9,404	615	FY02/21
(Consolidated)	3562	100.0%	20.6%	79.4%	5.2%	

Uchida Esco Co., Ltd. does not disclose recurring revenue data. The figures in the table reflects revenue for its solution services business.
Source: Shared Research based on the data of each company

Market and value chain

Customer base: small and medium-sized enterprises (same for all segments)

Startia HD targets small and medium-sized enterprises (SMEs) with 30 to 1,000 employees in its Digital Marketing segment and those with 10 to 1,000 employees in its IT Infrastructure segment. Japan is home to some 213,000 SMEs in the former category (about 5.5% of the total number of companies) and 682,000 in the latter (17.7%).

▷ The core customer base in the IT Infrastructure segment consists of SMEs with 10 to 50 employees (of which some 558,000 operate in Japan [14.5%]).

Breakdown of companies by workforce size

No. of companies by employment size	No. of companies	% of total
1–9	3,166,210	82.1%
1–4	2,499,805	64.8%
5–9	666,405	17.3%
10–99	623,596	16.2%
10–19	350,239	9.1%
20–29	118,271	3.1%
30–49	89,614	2.3%
50–99	65,472	1.7%
100–999	58,355	1.5%
100–299	44,117	1.1%
300–999	14,238	0.4%
1,000 or moe	4,465	0.1%
1,000–1,999	2,454	0.1%
2,000–4,999	1,375	0.0%
5,000 or more	636	0.0%
	3,856,457	100.0%

Source: Shared Research based on "2016 Economic Census for Business Activity" by MIC

The potential customer base of Startia HD, which comprises companies with 10–30 to 1,000 companies, corresponds to companies with capital of JPY10mn–1bn, of which 938,156 operate in Japan (33.3% of the total number of companies).

▷ Companies with lower capital evidently have lower SG&A expenses. In FY2019 (FY03/20), companies with an average of 13 employees had an SG&A budget of JPY78mn per company.

Profit/loss and workforce by capital size (FY2019)

	Population		Average per company			
			Revenue	SG&A expenses		Employees
(Capital size)	Companies	(% of total)	(JPYmn)	(JPYmn)	(% of total)	(Incl. Directors)
Under JPY10mn	1,891,206	66.7%	68	30	44.3%	6
JPY10 to under 20mn	654,540	23.1%	253	78	30.7%	13
JPY20 to under 50mn	194,974	6.9%	837	189	22.6%	36
JPY50 to under 100mn	63,320	2.2%	2,692	538	20.0%	90
JPY100 to under 1.0bn	25,322	0.9%	11,469	1,786	15.6%	268
JPY1.0bn or more	5,014	0.2%	112,529	18,283	16.2%	1,519
Total size	2,834,376	100.0%	523	111	21.3%	16

Note: Excludes finance and insurance.
Source: Shared Research based on Financial Statements Statistics of Corporations by Industry by the Ministry of Finance (MOF)

Marketing automation tool market

Adoption rate of marketing automation tools

As of January 2021, the adoption rate for marketing automation (MA) tools was 1.2% among all Japanese companies, and 11.3% among listed Japanese companies (based on survey of 3,824 companies) (source: "1H 2021 Survey on Use of MA Tools at 580,000 Domestic Companies"* by Nexal, Inc.).

* The survey was conducted in January 2021. It used a proprietary program to crawl through the source code of 576,946 corporate websites to scan for 17 major categories of MA tools used in Japan and abroad (including Startia HD's BowNow).

Adoption rates for MA tools

Time of survey	May 2017	Jul 2018	Jan 2019	Jul 2019	Jan 2020	Jul 2020	Jan 2021
Domestic companies	0.5%	0.8%	0.8%	0.9%	0.9%	1.1%	1.2%
Listed companies among above	4.3%	6.4%	7.7%	8.2%	8.9%	10.4%	11.3%

Source: Shared Research based on materials from Nexal, Inc.

Adoption of MA tools (as of January 2021)

Adoption by capital size

When looking at the adoption of MA tools at companies by capital, we observe that companies with capital of JPY10mn–1bn make up 71.2% of the companies that have adopted MA tools. The adoption rate rises as capital increases. For example, 9.4% of the companies with capital of JPY5.0bn or higher have adopted MA tools, whereas the rate is 0.9% for companies with capital above JPY10mn but below JPY30mn.

Adoption by workforce size

Analyzing the adoption of MA tools in terms of workforce size, we find that companies with under 300 employees account for 59.6% of the companies that have adopted MA tools. There also appears to be a correlation between the workforce size and adoption, with larger workforces driving higher adoption.

Distribution of companies that have adopted MA tools and adoption rates: by company attributes

Capital	Share of total distribution of MA tools	MA tool adoption rate
Under JPY10mn	7.8%	0.4%
JPY10mn–under JPY30mn	24.8%	0.9%
JPY30mn–under JPY100mn	26.1%	2.3%
JPY100mn–under JPY1.0bn	20.3%	6.6%
JPY1.0bn–under JPY5.0bn	4.8%	7.8%
JPY5.0bn or above	3.4%	9.4%
Not known or disclosed	12.8%	-
Total	100.0%	1.2%

Workforce	Share of total distribution of MA tools	MA tool adoption rate
Under 20 employees	15.9%	0.5%
20–49 employees	14.9%	1.4%
50–99 employees	11.8%	2.3%
100–299 employees	17.0%	3.9%
300–999 employees	9.5%	5.6%
1,000 or more employees	6.4%	9.4%
Not known or disclosed	24.6%	-
Total	100.0%	1.2%

Source: Shared Research based on materials from Nexal Inc.

Top market share among SMEs (as of January 2021)

Among SMEs with less than 20 employees that use MA tools, Startia HD's BowNow solution has a leading market share of 31.2%, and is followed by Salesforce.com's Pardot, at 20.6%. The top three tools in this customer segment have a total market share of 66.8%.

Among SMEs with 100 to under 300 employees, the company's BowNow tool has the second-largest market share of 20.6%, behind Salesforce.com's Pardot at 25.2%. The top three tools in this customer segment have a combined market share of 55.9%. In other words, the concentration of market share in the leading tools is lower than among SMEs with less than 20 employees.

Among SMEs with 1,000 or more employees, BowNow has a market share of 7.2%, putting it in fifth position. We understand the adoption of BowNow increases as SMEs get smaller (according to a survey by company size).

MA tool share by company size

Most popular MA tools at companies with under 20 employees

Ranking	Provider	Service	Market share
1	Mtame Inc. (Startia Holdings, Inc.)	BowNow	31.2%
2	salesforce.com Co., Ltd.	Pardot	20.6%
3	HubSpot Japan KK	HubSpot	15.0%
4	Kairos Marketing Inc.	Kairos3	8.3%
5	SATORI Inc.	SATORI	5.8%
	Other		19.1%
	Total		100.0%

Most popular MA tools at companies with 100–299 employees

Ranking	Provider	Service	Market share
1	salesforce.com Co., Ltd.	Pardot	25.2%
2	Mtame Inc. (Startia Holdings, Inc.)	BowNow	20.6%
3	Adobe KK	Marketo	10.1%
3	Innovation & Co. KK (Note)	ListFinder	10.1%
5	SATORI Inc.	SATORI	8.3%
	Other		25.7%
	Total		100.0%

Most popular MA tools at companies with 1,000 or more employees

Ranking	Provider	Service	Market share
1	salesforce.com Co., Ltd.	Pardot	24.3%
2	Adobe KK	Marketo	16.9%
3	Innovation & Co. KK (Note)	ListFinder	11.3%
4	SATORI Inc.	SATORI	8.1%
5	Mtame Inc. (Startia Holdings, Inc.)	BowNow	7.2%
	Other		32.2%
	Total		100.0%

Source: Shared Research based on a survey conducted by Nexal Inc.

Comparison of churn rates for MA tools (as of January 2021)

Based on a survey conducted by Nexal Inc., Shared Research estimates the monthly churn rate for Startia HD's BowNow tool from February 2020 to January 2021 was 2.0%, compared with 1.9% for Pardot (Salesforce.com), 2.4% for HubSpot (HubSpot Japan), and 2.3% for Marketo (Adobe). We estimate the simple average churn rate for the top 10 Japanese companies by market share is 2.2%.

Startia HD's churn rate is therefore in line or slightly below the average for its peers.

▷ Through interviews with the company, Shared Research learned that the monthly churn rate for BowNow (cancelled licenses in any month as a percentage of the number of licenses in effect at the end of the preceding month) was about 1%.

Cancellations by brand (between January 2020 and January 2021)

Ranking	Provider	Service	Monthly churn rate
1	salesforce.com Co., Ltd.	Pardot	1.9%
2	Mtame Inc. (Startia Holdings, Inc.)	BowNow	2.0%
3	HubSpot Japan KK	HubSpot	2.4%
4	Adobe KK	Marketo	2.3%
5	Innovation & Co. KK (Note)	ListFinder	1.9%
6	SATORI Inc.	SATORI	3.3%
7	Kairos Marketing Inc.	Kairos3	2.1%
8	Synergy Marketing, Inc.	SynergyMarketing	2.2%
9	Markerise, Inc.	MRC	1.3%
10	Oracle Corporation Japan	Oracle Eloqua	2.9%
		Simple average	2.2%

Source: Shared Research based on a survey conducted by Nexal Inc.

General trends in churn rates for MA tools

According to the company, MA tools tend to have a higher churn rate than robotic process automation (RPA) tools, which support companies' backbone operations.

A comparison of various Software as a Service (SaaS) applications (enterprise systems) and the MA tools in the list above shows that many SaaS solutions have lower churn rates than all MA tools. Examples of such SaaS applications are HENNGE (monthly churn rate of 0.16%) and Chatwork (0.30%).

Churn rates for various SaaS business (cases)

Listed SaaS providers	Monthly churn rate	Churn rate calculation period, other
HENNGE	0.16%	Average for 12 months through end-FY09/20
Chatwork	0.30%	Average for 12 months through end-FY03/21
Smaregi	0.66%	Average for 12 months through end-FY04/21
Sansan	0.67%	Average for 12 months through end-Q3 FY05/21
kaonavi	0.71%	Average for 12 months through end-FY03/21
Money Forward	1.00%	Average for three months from December 2020 to February 2021
AI Inside	1.14%	Average for 12 months through end-FY03/21: Monthly churn calculated based on revenue
Freee	1.60%	Average for 12 months through end-FY06/20
MA tools	2.20%	February 2020 to January 2021: Average for top 10 companies by market share

Source: Shared Research based on materials of each company and survey conducted by Nexal Inc.

Comparison with other listed SaaS companies

In FY03/21, Startia HD's total revenue broke down into 62.3% recurring revenue and 37.7% one-time revenue. Compared with other listed SaaS companies, these shares were low and high, respectively.

For example, Sansan, Inc. generated 90.9% of its total revenue from recurring revenue and 9.1% of one-time revenue in FY05/20. The corresponding rates for Info Mart Corporation were 95.0% and 5.0% in FY12/20.

Comparison with SaaS companies: Recurring revenue share of total revenue

Company	Stock exchange	ARR	Revenue	Recurring revenue	One-time revenue	Operating profit	Financial year
Startia Holdings, Inc.	TSE1	1,650	2,580	1,608	972	-121	FY03/21
(Digital Marketing segment)	3393		100.0%	62.3%	37.7%	-4.7%	
Sansan, Inc.	TSE1	13,412	12,284	11,169	1,115	4,794	FY05/20
(Sansan business)	4443		100.0%	90.9%	9.1%	39.0%	
Info Mart Corporation	TSE1	9,464	8,777	(Not disclosed)	(Not disclosed)	1,471	FY12/20
(Companywide operations)	2492		100.0%	95.0%	5.0%	16.8%	
Money Forward, Inc.	TSE1	8,252	11,318	7,387	3,931	-2,805	FY11/20
	3994		100.0%	65.3%	34.7%	-24.8%	
AI inside Inc.	TSE Mothers	4,812	4,597	4,031	565	2,360	FY03/21
(Companywide operations)	4488		100.0%	87.7%	12.3%	51.3%	
kaonavi, inc.	TSE Mothers	3,561	3,402	2,991	411	-11	FY03/21
	4435		100.0%	87.9%	12.1%	-0.3%	

Source: Shared Research based on materials from each company

Subsidiaries and affiliates

Consolidated subsidiaries

Company	Founded	% of voting rights held	Business description
Digital Marketing segment			
Cloud CIRCUS, Inc. (from July 1, 2021)	2021	100.00%	New company established through the merger of Startia Lab, Inc. and Mtame Inc.
Startia Lab, Inc. (until June 30, 2021)	2009	100.00%	Design, production, operation, and maintenance of websites (as well as related consulting services); design, development, sales, and maintenance of web applications centered on e-book creation software ActiBook
Mtame Inc. (until June 30, 2021)	2017	100.00%	Design, production, operation, and maintenance of websites (as well as related consulting services)
IT Infrastructure segment			
Startia, Inc.	1996	100.00%	System integration and security measures; sales, design, installation, and maintenance of communication systems and equipment; sales, design, installation, and maintenance of office equipment
BCMEDIA Co., Ltd.	1979	100.00%	Made a subsidiary in 2017. Sales, support, and maintenance of office equipment
NOS Ltd.	1995	100.00%	Made a subsidiary in 2017. Sales, support, and maintenance of office equipment
StartiaRaise, Inc.	2017	100.00%	Cloud storage and robotic process automation (RPA) services
C-design KK	2020	100.00%	Operation of the business support platform cocrea; sales, design, installation, and maintenance of communication systems; outsourced services related to shared offices; strategic alliance support services
CVC segment, Overseas segment, other			
Startiawill, Inc.	2017	100.00%	Contracted work and consulting services related to employment of people with disabilities for the Startia group
Startia Asia Pte. Ltd.	2017	100.00%	Headquartered in Singapore. Management of Asian operations and investment business (CVC segment)

Equity-method affiliates

Companies	Founded	% of voting rights held	Business description
IT Infrastructure segment			
MAC Office KK	1990	30.48%	Consulting services related to office property selection; office interior design and facility installation services
Urban Plan Inc.	2011	34.23%	Office layout creation for office relocations or renovations; industrial design creation; interior construction; sales of office furniture

Source: Shared Research based on company data

Strengths and weaknesses

Strengths

Startia HD has been providing office equipment and IT services to small and medium-sized enterprises (SMEs) since its founding in 1996. It therefore has accumulated experience and "tacit knowledge" regarding SME operations—in areas such as cost structure, staff composition, and IT literacy—and is able to take advantage of these in its businesses.

The company has supplied products and services to SMEs for over a quarter of a century, and it can draw on this long-term experience to accurately predict the budgets SMEs can allocate toward digital marketing tools. The company operates the marketing automation (MA) tool BowNow, which is also available in a freemium version. BowNow has the second-largest market share among MA tools in Japan, and leads the market among SMEs with less than 20 employees.

Startia HD offers digital marketing services that support revenue growth and IT infrastructure services that help reduce costs. The combination of these services, and the distinct benefits they confer, facilitate long-term relationships with customers.

The company provides tools that contribute to customers' revenue growth in its Digital Marketing segment, and a lineup of services that help customers reduce costs in its IT Infrastructure segment. It can therefore cater to the needs of a wide range of companies regardless of whether they pursue offensive or defensive strategies. Shared Research understands that this mix of products and services contributes to long-term relationships with customers. Few companies concurrently sell marketing tools and offer services to reduce costs.

Startia HD sells its digital marketing tools (mainly its MA tool) to SMEs, which have comparatively weaker finances. However, its churn rate for such tools has remained in line with the sector average.

The company supplies digital marketing tools to SMEs. Shared Research estimates the monthly churn rate for the company's MA tool at 2% (based on "1H 2021 Survey on Use of MA Tools at 580,000 Domestic Companies" by Nexal, Inc.), on par with the 2.2% sector average. Despite primarily concluding contracts with SMEs, which have weaker financial bases than major companies, Startia HD has maintained the churn rate for its MA tool in line with the sector average. Its pricing structure is affordable to SMEs that have limited capital and human resources. The company provides a streamlined MA tool that omits unnecessary functions, and Shared Research understands this strategy has contributed to contract renewals.

Weaknesses

Startia HD lags larger competitors in terms of consulting rates and efficiency because its sales strategy relies heavily on labor-intensive customer consultations in which its representatives explain the benefits the customer stands to derive from adopting its services.

The company's MA tool has captured the leading market share among SMEs with less than 20 employees, and the second-largest market share overall. The brand recognition for its cloud services is growing in part thanks to TV commercials. When customers with little marketing expertise adopt its marketing tools, Startia HD provides consulting services to share expertise and strategies to reap the maximum benefit of such tools. These value-added services have proved instrumental in promoting the adoption of Startia HD's cloud services, but they are entirely dependent on manpower. As a result, recurring revenue in the Digital Marketing segment only made up 62.3% of total revenue in FY03/21 (one-time revenue 37.7%), which was lower than at other Software as a Service (SaaS) providers. For example, rival Sansan, Inc. (TSE1: 4443) generates 90.9% of its total revenue from recurring revenue.

The IT Infrastructure segment to a large extent relies on labor-intensive operations, and earnings expansion therefore hinges on increasing personnel to maintain office network infrastructure, and maintain and support office equipment at customers.

Startia HD has operated the IT Infrastructure segment since its founding, accumulating a quarter of a century of experience in this field. It has built long-term relationships with some 25,000 SMEs. It has geographically positioned its branches in such a way as to ensure its sales representatives can visit customer offices within 1.5 hours, and this has been a key factor in winning over customers. On the flipside, this approach has increased labor-intensive tasks in the IT Infrastructure segment, which has held OPM down to 2.3–5.8% (3.9% average for recent four years for which comparable segment data is available).

Because the customers in the IT Infrastructure and Digital Marketing segments are in different growth stages, it will take time to generate revenue growth and other synergies by sharing customer among segments

Startia HD supplies products and services to SMEs, but it has not sufficiently generated synergies from sharing customers and from cross-selling between business fields in its IT Infrastructure and Digital Marketing segments. By FY03/25, it aims to become the market leader in subscription-based digital marketing services in Japan. The company specializes in services for SMEs, and Shared Research thinks it needs to utilize the customer base of roughly 25,000 SMEs in its IT Infrastructure segment to expand its market share.

Historical performance and financial statements

Income statement

Income statement (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.
Revenue	**5,084**	**6,640**	**8,168**	**8,682**	**10,171**	**10,282**	**11,059**	**11,907**	**12,779**	**13,325**
YoY	27.1%	30.6%	23.0%	6.3%	17.1%	1.1%	7.5%	7.7%	7.3%	4.3%
Cost of revenue	2,305	3,153	3,923	4,326	5,561	5,746	6,144	6,582	7,063	7,508
Gross profit	**2,779**	**3,488**	**4,245**	**4,357**	**4,610**	**4,537**	**4,914**	**5,325**	**5,716**	**5,816**
Gross profit margin	54.7%	52.5%	52.0%	50.2%	45.3%	44.1%	44.4%	44.7%	44.7%	43.7%
SG&A expenses	2,320	2,831	3,415	3,610	4,106	4,271	4,556	4,808	4,983	5,795
SG&A ratio	45.6%	42.6%	41.8%	41.6%	40.4%	41.5%	41.2%	40.4%	39.0%	43.5%
Operating profit	**459**	**656**	**830**	**747**	**504**	**265**	**359**	**518**	**733**	**22**
YoY	68.0%	42.9%	26.5%	-10.0%	-32.6%	-47.3%	35.1%	44.4%	41.6%	-97.0%
Operating profit margin	9.0%	9.9%	10.2%	8.6%	5.0%	2.6%	3.2%	4.3%	5.7%	0.2%
Non-operating income	24	16	35	134	71	38	34	73	53	59
Dividend income	0	1	0	1	1	4	5	7	9	10
Equity in earnings of affiliates	6	-	17			16	22	30	24	1
Other	1	1	2	10	7	1	0	32	11	48
Non-operating expenses	8	17	9	2	30	17	16	17	14	11
Interest expenses	3	1	-	-	23	3	1	2	3	4
Other	-	11	-	0	25	11	13	15	9	7
Recurring profit	**476**	**656**	**856**	**878**	**545**	**286**	**377**	**574**	**771**	**70**
YoY	71.1%	37.7%	30.6%	2.6%	-38.0%	-47.6%	31.9%	52.3%	34.5%	-90.9%
Recurring profit margin	9.4%	9.9%	10.5%	10.1%	5.4%	2.8%	3.4%	4.8%	6.0%	0.5%
Extraordinary gains	10	-	8	78	40	185	404	55	43	12
Gain on sale of investment securities	-	-	8	53	-	29	399	34	43	12
Gain on sales of shares of subsidiaries and associates	-	-	-	-	-	20	-	21	1	-
Gain on change in equity	6	-	-	-	-	101	-	-	-	-
Gain on sale of businesses	3	-	-	-	40	34	4	-	-	-
Gain on reversal of share acquisition right	-	-	-	-	-	1	1	-	-	-
Gain on sale of fixed assets	1	-	-	-	-	-	-	-	-	-
Surrender value of insurance policies	-	-	-	26	-	-	-	-	-	-
Extraordinary losses	5	-	80	0	74	288	15	30	155	20
Loss on valuation of investment securities	2	-	78	0	47	1	-	30	1	15
Loss on sales of investment securities	-	-	2	-	-	-	9	-	-	-
Loss on sales of shares of subsidiaries and associates	-	-	-	-	21	3	-	-	-	-
Loss on retirement of fixed assets	3	-	-	-	6	-	-	-	-	-
Loss on sale of fixed assets	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	284	-	-	154	-
Other	-	-	-	-	-	-	5	-	-	6
Income taxes	202	264	352	364	261	174	169	289	441	193
Implied tax rate	42.0%	40.3%	44.9%	38.1%	51.2%	95.5%	22.1%	48.3%	66.9%	310.3%
Net income attributable to non-controlling interests	-	-	-	-	-4	2	-17	-14	-2	-
Net income attributable to owners of the parent	279	391	432	593	253	6	614	323	220	-131
YoY	115.2%	40.4%	10.5%	37.2%	-57.3%	-97.7%	-	-47.3%	-32.0%	-
Net margin	5.5%	5.9%	5.3%	6.8%	2.5%	0.1%	5.5%	2.7%	1.7%	-

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

- ▷ Over the last 10 years, OPM reached a high of 10.2% in FY03/14 and low of 0.2% in FY03/21, when profit margins languished due to heavy investment in advertising (SG&A expenses) and development (cost of revenue).
- ▷ Operating profit declined YoY for three consecutive years from FY03/15 to FY03/17 mainly due to cost increases accompanying an expansion in personnel and branches (FY03/15) and sluggish earnings attributable to weak sales as the company changed its targets for web applications (FY03/16 and FY03/17).
- ▷ From FY03/21, Startia HD abandoned the sales of packaged software in favor of a subscription-based business model. Because it does not anticipate cash flows from software assets during the remaining amortization period, the company booked an impairment charge of JPY153mn (of which, JPY151mn for software) in FY03/20.

SG&A expenses

SG&A expenses (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.
SG&A expenses	2,320	2,831	3,415	3,610	4,106	4,271	4,556	4,808	4,983	5,795
Salaries and bonuses	978	1,133	1,367	1,523	1,754	1,786	1,775	1,751	1,863	2,067
Provision for bonuses	73	100	138	110	109	141	187	339	145	165
Provision for bonuses of directors							28	29	-	12
Provision for share-based remuneration								-	15	39
Provision for share-based remuneration for directors								-	8	5
Provision of allowance for doubtful accounts	18	17	13	5	21	12	18	12	22	60
Advertising expenses									279	601
Retirement benefit expenses							56	57	59	62
Amortization of goodwill							53	52	55	28

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cost of revenue breakdown (for Startia Inc., non-consolidated basis, prior to move to holding company structure)

Cost of sales statement (JPYmn)	FY03/12 Parent	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent	FY03/19 Parent	FY03/20 Parent	FY03/21 Parent
Cost of sales	2,052	2,720	3,288	3,660	4,779	4,837	5,234			
Material costs (inventories at year-end)	1,204	1,594	1,913	2,092	2,931	3,252	3,615			
Labor costs	284	399	488	600	722	616	579	Undisclosed after adopting a holding company system		
Outsoursing expenses	206	292	354	345	397	398	359			
Expenses	357	435	533	623	729	571	680			
Server costs	88	115	141	150	156	49	4			
Incentive costs	47	46	81	86	88	150	323			
Depreciation	46	40	21	20	36	25	29			
Other	357	435	290	367	449	346	323			

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Balance sheet

Balance sheet (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.
ASSETS										
Cash and deposits	2,055	2,069	2,247	2,335	2,638	2,221	3,719	3,293	3,415	3,245
Notes and accounts receivable	838	1,033	1,439	1,319	1,597	1,772	1,685	1,919	2,079	2,331
Operational investment securities				-	34	189	186	187	132	121
Inventories	26	35	32	77	66	89	104	106	203	169
Raw materials and supplies	26	35	32	77	66	89	104	106	203	169
Deferred tax assets	71	95	102	112	103	82				
Other	143	218	285	272	332	224	307	720	483	742
Other	143	218	285	272	332	224	307	720	483	742
Allowance for doubtful assets	-40	-53	-54	-58	-70	-79	-72	-105	-125	-138
Total current assets	**3,092**	**3,397**	**4,052**	**4,057**	**4,700**	**4,499**	**5,928**	**6,120**	**6,187**	**6,470**
Buildings and structures	30	37	38	62	53	48	44	63	65	93
Vehicle transport equipment	14	14	-	1	4	14	10	7	5	2
Tools, furniture, and fixutures	65	49	67	88	115	46	45	46	43	43
Land	0	0	0	0	-					
Other	-	-	-	-	-	0	0	0	0	0
Total tangible fixed assets	**109**	**100**	**106**	**151**	**173**	**108**	**100**	**117**	**113**	**138**
Goodwill	54	43	31	170	160	165	112	119	66	38
Software	200	281	468	637	767	365	285	379	294	791
Other	4	4	4	4	1	1	1	1	1	8
Total intangible assets	**258**	**328**	**503**	**812**	**928**	**531**	**399**	**499**	**360**	**838**
Investment securities	139	221	232	279	403	470	928	908	785	864
Deferred tax assets	5	7	-	71	44	15	112	233	147	154
Other	164	222	275	293	281	272	281	341	317	327
Allowance for doubtful assets										
Investments and other assets	**309**	**450**	**507**	**643**	**729**	**757**	**1,321**	**1,482**	**1,249**	**1,345**
Total fixed assets	**676**	**878**	**1,116**	**1,605**	**1,829**	**1,396**	**1,819**	**2,098**	**1,723**	**2,321**
Deferred assets	**10**	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stock delivery expenses	10	5	-							
Total assets	**3,778**	**4,279**	**5,168**	**5,662**	**6,529**	**5,895**	**7,747**	**8,218**	**7,910**	**8,790**
LIABILITIES										
Notes and accounts payable	354	453	618	565	641	682	766	810	763	902
Short-term debt	141	-	-	-	333	346	400	467	600	856
Deposits										
Provision for bonuses	96	132	152	163	171	192	184	277	194	219
Other	535	658	891	957	734	492	1,038	1,189	1,087	1,099
Total current liabilities	**1,126**	**1,243**	**1,662**	**1,685**	**1,879**	**1,712**	**2,388**	**2,743**	**2,644**	**3,076**
Long-term debt	-	-	-	-	560	200	467	751	512	1,032
Other	1	1	12	-	2	11	27	94	52	105
Total fixed liabilities	**1**	**1**	**12**	**-**	**562**	**212**	**494**	**845**	**564**	**1,137**
Total liabilities	**1,127**	**1,243**	**1,674**	**1,685**	**2,440**	**1,924**	**2,882**	**3,588**	**3,209**	**4,213**
NET ASSETS										
Capital stock	778	789	796	824	824	824	824	824	824	824
Capital surplus	919	930	937	965	965	927	927	936	903	903
Retained earnings	962	1,325	1,717	2,209	2,344	2,269	2,791	2,975	3,107	2,880
Treasury stock	-0	-0	-0	-38	-38	-87	-87	-304	-227	-189
Accumulated other comprehensive income	-7	-9	42	15	-12	38	375	197	94	158
Share subscription rights		-	1	2	2	1	-			
Non-controlling interests					2		35	2		
Total net assets	**2,651**	**3,036**	**3,494**	**3,978**	**4,089**	**3,971**	**4,865**	**4,630**	**4,702**	**4,577**
Working capital	509	615	853	831	1,023	1,180	1,022	1,215	1,519	1,598
Total interest-bearing debt	141	-	-	-	893	547	867	1,218	1,113	1,888
Net debt	-1,914	-2,069	-2,247	-2,335	-1,745	-1,675	-2,852	-2,075	-2,302	-1,357

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

▷ The balance of cash and deposits over the last 10 years averaged 3.4 months of revenue (2.9 months in FY03/21).

▷ The accounts receivable turnover period over the last 10 years averaged 55.9 days (60.4 days in FY03/21).

Cash flow statement

Cash flow statement (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.
Cash flows from operating activities (1)	461	566	638	769	**367**	**155**	**847**	**194**	**526**	**-190**
Pre-tax profit	481	656	784	957	511	182	766	599	660	62
Depreciation	187	209	240	323	418	431	221	226	204	189
Amortization of goodwill									55	28
Impairment losses	-	-	-	-	-	284	-	-	154	-
Change in working capital	-148	-106	-237	40	-166	-199	158	-191	-303	-206
Decrease (increase) in trade receivables	-206	-195	-406	142	-255	-207	88	-232	-159	-253
Decrease (increase) in inventories	-5	-10	3	-38	20	-20	-14	-3	-98	35
Increase (decrease) in trade payables	62	99	165	-63	70	29	85	44	-47	13
Other	-58	-192	-149	-551	-397	-442	-299	-440	-245	-392
Cash flows from investing activities (2)	-240	-592	-286	-596	-763	-166	401	-537	-231	-703
Purchase of tangible/intangible fixed assets	-201	-254	-425	-538	-511	-216	-48	-273	-271	-667
Proceeds from sale of tangible/intangible fixed assets	5	-	19	-	-	-	-	-	-	-
Purchase of investment securities	-	-99	-19	-58	-191	-6	-31	-271	-2	-1
Proceeds from sale of investment securities	-	-	61	72	17	84	448	36	49	12
Other	-43	-238	77	-72	-78	-28	32	-28	-8	-43
Free cash flow (1+2)	221	-25	352	173	-396	-10	1,248	-343	294	-893
Cash flows from financing activities	-186	-146	-25	-82	706	-403	276	-74	-163	722
Net increase in short-term borrowings									-	-
Net increase in long-term borrowings	-152	-141	-	-	824	-349	320	352	-106	776
Proceeds from long-term borrowings	-	-	-	-	1,022	-	700	821	400	1,550
Repayment of long-term borrowings	-152	-141	-	-	-198	-349	-380	-469	-506	-774
Purchase of treasury shares	-	-0	-0	-38	-0	-49	-0	-321	-171	-0
Dividends paid	-25	-28	-39	-101	-117	-82	-91	-122	-90	-92
Proceeds from disposal of treasury shares	-	-	-	-	-	-	-	17	210	41
Proceeds from exercise of employee share options	0	23	13	57	-	-	-	-	-	-
Proceeds from issuance of shares	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of share acquisition rights	-	-	1	1	-	-	-	-	-	-
Proceeds from share issuance to non-controlling shareh	-	-	-	-	-	120	51	4	-	-
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	-	-	-	-	-43	-	-	-3	-
Other	-10	-	-	-	-1	-1	-4	-4	-3	-3
Depreciation and amortization (A)	187	209	240	323	418	431	221	226	204	189
Capital expenditures (B)	-201	-254	-425	-538	-511	-216	-48	-273	-271	-667
Change in working capital (C)	-148	-106	-237	40	-166	-199	158	-191	-303	-206
Simple FCF (NI + A + B - C)	615	717	837	701	584	596	781	742	897	-211
Effect of exchange rate change on cash and cash equivalent	-	-	-0	49	-25	-7	-5	-9	-10	8
Increase (decrease) in cash and cash equivalents	35	-171	327	139	285	-420	1,519	-425	122	-163
Cash and cash equivalents (beginning of year)	2,005	2,040	1,869	2,196	2,335	2,638	2,221	3,719	3,293	3,415
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-	-	-	-	-	-	-	-	-	-6
Cash and cash equivalents (year-end)	2,040	1,869	2,196	2,335	2,638	2,221	3,719	3,293	3,415	3,245

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

- From FY03/12 to FY03/21, Startia HD consistently recorded operating cash inflows. In FY03/21, it moved to a subscription-based business model that generates smaller amounts of revenue from customers. The absence of high upfront software revenue and the booking of development costs produced an operating cash outflow.
- Except for FY03/18, the company has consistently recorded cash outflows from investing activities over the last 10 years. In FY03/18, it recorded a JPY488mn cash inflow from investing activities thanks to the sale of investment securities.
- In FY03/21, it recorded a cash inflow from financing activities that mainly reflected JPY1.6bn in proceeds from long-term borrowings. It secured capital to fund heavy investment in development and advertising from FY03/21 to FY03/23.

Historical performance

FY03/21 results (out May 14, 2021)

Summary

- Revenue: JPY13.3bn (+4.3% YoY, 102.5% of FY03/21 target)
- Operating profit: JPY22mn (-97.0% YoY, versus forecast of loss of JPY200mn)
- Recurring profit: JPY70mn (-90.9% YoY, versus forecast of loss of JPY200mn)
- Net loss: JPY131mn (versus net income of JPY220mn in FY03/20, versus forecast of loss of JPY372mn)

* Net loss reflects net loss attributable to owners of the parent.

Results Highlights

Revenue

Revenue expanded 14.3% YoY in the mainstay Digital Marketing segment and 2.4% YoY in the IT Infrastructure segment. Total revenue amounted to 102.5% of the company's initial forecast.

- In the Digital Marketing segment, the company transitioned to a subscription-based business model from FY03/21, offering its products as Software as a Service (SaaS) applications. As a result, it was able to capture new customers who were previously unable to purchase its higher-priced, one-time revenue services.
- In the IT Infrastructure segment, full-year revenue increased YoY as a decline in 1H fueled by a cautious stance on IT investment among customers due to the COVID-19 pandemic was offset by a recovery in 2H.

In the CVC segment, revenue rose JPY58mn YoY as the company sold all of its shares in one of its investees.

Operating profit

Operating profit fell 97.0% YoY. The decline was mainly attributable to growth in expenses such as a rise in manufacturing costs accompanying investment in development and growth in advertising spending in the Digital Marketing segment, an increase in electricity wholesale prices (purchasing costs) in the IT Infrastructure segment, expenses to roll out new branches, and a jump in companywide hiring costs. However, operating profit surpassed the company's initial forecast (loss of JPY200mn) by JPY222mn and finished in the black.

- Factors driving upside versus initial forecast: Lower-than-expected spending on advertising (positive impact of JPY98mn versus forecast), booking of profit in CVC segment (JPY58mn), and lower-than-anticipated personnel and other expenses (JPY66mn)

Extraordinary gains/losses

- Extraordinary gains: JPY12mn gain on the sale on investment securities.
- Extraordinary losses: JPY15mn loss on the valuation of investment securities and JPY6mn loss on the sale of shares in a subsidiary (sold all shares in subsidiary Startia Shanghai Inc., and removed that company from its scope of consolidation).

Results by segment

Digital Marketing

- Revenue: JPY2.6bn (+14.3% YoY), comprising recurring revenue of JPY1.6bn (+15.4% YoY) and one-time revenue of JPY972mn (+12.6% YoY)
- Operating loss: JPY122mn (versus profit of JPY138mn in FY03/20)
- Year-end monthly recurring revenue (MRR; as of March 2021): JPY137mn
- Annual recurring revenue (ARR; MRR x 12 months): JPY1.7bn

Overview

Revenue expanded JPY323mn YoY aided by sales growth for subscription tools (SaaS; +JPY214mn YoY) and an increase in one-time revenue from consulting and contracted development services (+JPY50mn YoY).

Recurring revenue climbed 15.4% YoY. The company transitioned to a subscription-based business model from FY03/21, and started offering its products as Software as a Service (SaaS) applications. Consequently, it was able to bring in new customers who were previously unable to purchase its higher-priced, one-time revenue services.

One-time revenue rose 12.6% YoY on growth in sales of Cloud CIRCUS and in contracted orders. In addition to a subscription-based MA tool, Startia HD offers consulting services in areas such as advertising, website development, and operational support, tailoring these to the needs of its customer companies. Revenue from such operations are recorded under one-time revenue.

Operating profit declined JPY318mn YoY as increases in advertising costs (JPY322mn negative impact YoY) and personnel costs (JPY81mn negative impact YoY) outweighed a reduction in other expenses (JPY85mn positive impact YoY).

Startia HD actively invested to expand sales of its MA tool suite Cloud CIRCUS. For example, it aired TV commercials in Q3 and Q4, and engaged in promotional activities such as conferences, both new initiatives for the group.

Key performance indicators (KPIs; March 2021)

- MRR: JPY137mn (+31.7% YoY)
- Cross-sell MRR (monthly recurring revenue from customers that purchase multiple services): JPY70mn (+52.2% YoY)
- Companies under paid contract (Shared Research estimate): over 3,400 (+8.7% YoY)
- Companies under cross-sell contract (customers that purchase multiple services): 747 (+23.7% YoY)
- ARPU for paid contracts (monthly revenue per company): JPY40,000 (+21.2% YoY)
- Among paid contracts, cross-sell ARPU (revenue per customer that purchases multiple services): JPY94,000 (+23.7% YoY)
- Number of paid contract licenses: 4,775 (+8.8% YoY)

At end-FY03/21, MRR stood at JPY137mn (+31.7% YoY). Startia HD also discloses ARR (calculated as MRR for March multiplied by 12 months), which came to JPY1.7bn, surpassing its initial forecast of JPY1.4bn.

New order acquisitions increased (number of customers up 8.7% YoY) and cross-selling to existing customs expanded (cross-sell MRR up 52.2% YoY).

In FY03/21, the number of customers under cross-sell contracts (customers subscribing to two or more products) reached 747 (+23.7% YoY). Shared Research estimates such customers accounted for 21.8% of the number of customers under paid contract, marking a jump from 19.7% in FY03/20. Startia HD is working to increase the number of cross-sell paid contracts among existing customers. Shared Research understands these efforts make existing customers more dependent on the company's services in their marketing activities, and therefore ultimately reduces service cancellations.

Acceleration in service adoption

Startia HD says the pace of its customer acquisitions, including customers using its free services, is accelerating. Whereas it took nine months (from August 2019 to May 2020) to increase the number of customers for its BowNow MA tool from 3,000 to 4,000, that number rose from 4,000 to 5,000 in seven months (June to December 2020), and from 5,000 to 6,000 in three months (from January to March 2021).

The company attributes the accelerated pace of adoption to the promotion of digital technologies and the spread of remote work driven by the COVID-19 pandemic. It says demand is growing for MA tools that automate and improve the efficiency of marketing activities to cultivate new customers. In addition, while MA tools have hitherto been perceived as requiring heavy investment and advanced knowledge to operate, Startia HD provides a free version of BowNow that can be fully operated without expert knowledge. In other words, BowNow is easier to adopt than competing MA offerings from both cost and operational perspective.

First foray overseas

In January 2021, the former Startia Lab, Inc. (currently Cloud CIRCUS, Inc., a subsidiary of Startia HD) started offering BowNow to local companies in Vietnam through a business alliance with Vitalify Asia Co., Ltd., a Vietnamese company that handles offshore operations. The launch of BowNow in Vietnam was the company's first overseas initiative.

KPIs in Digital Marketing segment

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
MRR	2020			104	109	108	107	110	111	116	119	122	124
(JPYmn)	2021	131	133	137	142	145	147						
Cross-sell MRR	2020			46	48	49	49	50	52	54	57	59	61
(JPYmn)	2021	66	66	70	72	75	77						
Companies subscribing to	2020			604	626	629	635	644	655	666	682	700	713
two or more products	2021	733	732	747	761	776	787						
Paid contract licenses	2020			4,388	4,424	4,370	4,372	4,386	4,380	4,450	4,506	4,554	4,622
	2021	4,719	4,737	4,775	4,873	4,927	4,949						
ARPU	2020			33,000	34,000	34,000	34,000	35,000	35,000	36,000	37,000	37,000	37,000
(JPY)	2021	39,000	39,000	40,000	41,000	41,000	42,000						
Cross-sell ARPU	2020			76,000	77,000	78,000	78,000	78,000	80,000	82,000	84,000	85,000	86,000
(JPY)	2021	90,000	91,000	94,000	95,000	96,000	99,000						
Companies under paid contract, based on Shared Research	2020			3,152	3,206	3,176	3,147	3,143	3,171	3,222	3,216	3,297	3,351
estimate	2021	3,359	3,410	3,425	3,463	3,537	3,500						

Note: ARPU = MRR / Number of companies under contract at month-end. The number of companies under contract at month-end in the table above are estimates by Shared Research (calculating by dividing MRR by ARPU)
Source: Shared Research based on company data

IT Infrastructure

- Revenue: JPY10.6bn (+2.4% YoY), comprising recurring revenue of JPY4.4bn (+7.8% YoY) and one-time revenue of JPY6.3bn (-1.1% YoY)
- Operating profit: JPY286mn (-52.3% YoY)
- Revenue per sales representative: JPY54.8mn (-0.9% YoY)

Overview

Revenue declined YoY in Q1 and Q2 (-6.5% YoY in 1H) as the COVID-19 pandemic forced customer companies to scale back their activities and operations. From Q3, signs of a recovery in customer operations gradually emerged, and three-month revenue rose 9.0% YoY in Q3 and 13.0% YoY in Q4.

By revenue type, recurring revenue was up 7.8% YoY, while one-time revenue fell 1.1% YoY over the full year, failing to offset the 1H decline.

- One-time business: Mainly includes sales of information and communication equipment such as multifunction peripherals (MFPs), unified threat management (UTM) solutions, network equipment, and office telephones; installation work; development of information and communication systems for customer companies (system integration); deployment of and support for automation of office work (robotic process automation [RPA]).
- Recurring-revenue business: Mainly includes maintenance and operation of customers' information and communication systems, MFP leasing and maintenance services, cloud storage services, and operation of an electronic signature SaaS.

Operating profit fell JPY313mn YoY due to increases in electricity purchase prices in the electricity retail business "BiziSUKE Denki" (negative impact of JPY167mn YoY), personnel expenses (JPY246mn negative impact YoY), and system and other costs (JPY141mn negative impact YoY).

- Electricity wholesale prices: From late December 2020 to January 2021, unseasonably cold weather tightened the electricity supply across the country, driving up wholesale electricity prices on the Japan Electric Power Exchange (JEPX). This prompted a surge in market-linked prices for electricity retailers such as Startia HD, driving up procurement costs.

The company took measures to normalize its procurement prices through bilateral contracts with power generators.

Number of companies under contract in recurring-revenue businesses

		FY03/20				FY03/21			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Companies under contract in recurring-revenue businesses		16,920	17,009	17,124	17,202	17,313	17,360	17,577	17,723
	YoY	3.8%	4.0%	3.4%	2.7%	2.3%	2.1%	2.6%	3.0%
Companies with contracts for multiple products and services among above		7,342	7,427	7,565	7,722	7,916	8,011	8,269	8,425
	YoY	7.1%	6.4%	6.1%	7.1%	7.8%	7.9%	9.3%	9.1%
	% of total	43.4%	43.7%	44.2%	44.9%	45.7%	46.1%	47.0%	47.5%

Source: Shared Research based on company data

CVC

- Revenue: JPY58mn (versus JPY0.3mn in FY03/20)
- Operating profit: JPY45mn (versus loss of JPY52mn in FY03/20)

In Q4 FY03/21, the company sold all its shares in one of its investees (CLEAR Inc., unlisted). In FY03/21, it did not make new investments.

Overseas

- Revenue: JPY43mn (-64.1% YoY)
- Operating loss: JPY52mn (versus profit of JPY3mn in FY03/20)

In Q4 FY03/21, Startia HD transferred all shares in Startia Shanghai Inc., a company it previously operated in China, to local employees. As a result, it recorded a JPY6mn loss on the sale of shares in an affiliated company as an extraordinary loss.

China enacted its Cybersecurity Law in June 2017, and subsequently proceeded to tighten regulations governing networks, which eroded the reliability of the networks offered by Startia Shanghai. For example, networks would get shut down without prior warning. Meanwhile, earnings in the China business continued to languish as pandemic-induced restrictions on travel to China drove a sharp decline in the number of tourists or businessmen traveling to the country.

Cumulative Q3 FY03/21 (out February 12, 2021)

Summary

- Revenue: JPY9.3bn (+0.6% YoY, 71.5% of FY03/21 target)
- Operating profit: JPY13mn (-96.4% YoY, FY03/21 forecast for loss of JPY200mn)
- Recurring profit: JPY41mn (-89.3% YoY, FY03/21 forecast for loss of JPY200mn)
- Net loss: JPY63mn (versus net income of JPY193mn in cumulative Q3 FY03/20, FY03/21 forecast for loss of JPY372mn)

* Net loss reflects net loss attributable to owners of the parent.

Results highlights

Revenue

In cumulative Q3 FY03/21, overall revenue grew 0.6% YoY, reflecting an increase in the Digital Marketing segment (+15.4% YoY) and a decline in the IT Infrastructure segment (-1.5% YoY).

- In the Digital Marketing segment, the company transitioned to a subscription-based business model from FY03/21, offering its products as Software as a Service (SaaS) applications. As a result, it was able to capture new customers who were previously unable to purchase its higher-priced, one-time revenue services.
- In the IT Infrastructure segment, revenue declined YoY in 1H as customers took a cautious stance on IT investment due to the COVID-19 pandemic. Revenue rose 9.0% YoY in Q3 FY03/21 (three months), marking the first YoY growth in three quarters, but remained in a downtrend in cumulative Q3 FY03/21.

Operating profit

Operating profit fell 96.4% YoY. The company posted an operating loss of JPY69mn in cumulative Q3 FY03/21 on growth in expenses such as an increase in manufacturing costs accompanying investment in development, and an increase in advertising spending. Operating profit in the IT Infrastructure segment fell 44.9% YoY due to higher costs such as an increase in electricity wholesale prices (rise in purchasing prices) from December 2020 and the rollout of new branches.

Extraordinary gains/losses

- Extraordinary gain: JPY12mn gain on the sale of investment securities
- Extraordinary loss: JPY13mn loss on the valuation of investment securities

Results by segment

Digital Marketing

- Revenue: JPY1.8bn (+15.4% YoY)
- Operating loss: JPY69mn (versus JPY4mn operating loss in cumulative Q3 FY03/20)

Recurring revenue remained strong thanks to demand for digital services by companies preparing for a post-COVID world, cross-selling for Cloud CIRCUS, and growth in new orders. In January 2021, Startia HD acquired the LAMPCHAT chatbot business from Brocante Inc. The total number of BowNow customers surpassed 5,000 as the company launched features such as multi-language support and sales force automation (SFA) in an effort to strengthen sales of the software.

IT Infrastructure

- Revenue: JPY7.5bn (-1.5% YoY)
- Operating profit: JPY167mn (-44.9% YoY)

From July 2020, Startia HD launched a digital signature tool that enables customers to sign, seal, accept and deliver, and store digital contracts in the cloud. It says adoption of digital contracts in Japan is accelerating in part due to a positive attitude toward digitalization promoted by the government. Workstyle reforms and the pandemic have driven an increase in telework among its customer companies, and Startia HD believes this is fostering widespread recognition that paper and seal-dependent processes hamper the smooth execution of business operations.

CVC

- ▷ Revenue: JPY0.3mn (versus JPY0.3mn in cumulative Q3 FY03/20)
- ▷ Operating loss: JPY12mn (versus loss of JPY0.5mn in cumulative Q3 FY03/20)

In cumulative Q3 FY03/21, the company focused on stepping up monitoring and supporting management of existing investees. It did not make new investments.

Overseas

- ▷ Revenue: JPY36mn (-64.4% YoY)
- ▷ Operating loss: JPY32mn (versus profit of JPY8mn in cumulative Q3 FY03/20)

In cumulative Q3 FY03/21, travel between Japan and China became difficult as the pandemic led to travel bans and restrictions for Japanese businessmen (traveling as a result of a transfer or for business trips) and tourists. Consequently, Japanese companies operating in China had to scale back their activities or withdraw from the market, which had a severe impact on the segment.

1H FY03/21 results (out November 13, 2020)

Summary

- ▷ Revenue: JPY6.0bn (-4.2% YoY, 46.0% of FY03/21 target)
- ▷ Operating profit: JPY10mn (-96.9% YoY, FY03/21 forecast for loss of JPY200mn)
- ▷ Recurring profit: JPY32mn (-90.5%YoY, FY03/21 forecast for loss of JPY200mn)
- ▷ Net loss: JPY15mn (versus net income of JPY180mn in 1H FY03/20, FY03/21 forecast for loss of JPY372mn)

* Net loss reflects net loss attributable to owners of the parent.

Results highlights

Revenue

In 1H FY03/21, overall revenue fell 4.2% YoY, reflecting an increase in the Digital Marketing segment (+12.4% YoY) and a decline in the IT Infrastructure segment (-6.5% YoY).

- ▷ In the Digital Marketing segment, the company transitioned to a subscription-based business model from FY03/21, offering its products as Software as a Service (SaaS) applications. As a result, it was able to capture new customers who were previously unable to purchase its higher-priced, one-time revenue services.
- ▷ In the IT Infrastructure segment, customers took a cautious stance on IT investment due to the COVID-19 pandemic.

Operating profit

Operating profit fell 96.9% YoY. In the Digital Marketing segment, Startia HD posted an operating profit (versus loss in 1H FY03/20) despite growth in manufacturing costs accompanying investment in development and an increase in advertising spending. In the IT Infrastructure segment, profit was weighed down by the YoY drop in revenue and higher expenses attributable to the launch of new branches.

Extraordinary gains/losses

- Extraordinary loss: JPY13mn loss on the valuation of investment securities

By segment

Digital Marketing

- Revenue: JPY1.1bn (+12.4% YoY)
- Operating profit: JPY41mn (operating loss of JPY13mn in 1H FY03/20)

Some customers cancelled their subscription for Cloud CIRCUS due to the impact of the pandemic. However, the company provided new consulting services on how to attract customers via social media to customers that operate consumer-oriented businesses and have adopted its COCOAR or LESSAR solutions. Recurring revenue remained strong thanks to demand for digital services by companies preparing for a post-COVID world, cross-selling for Cloud CIRCUS, and growth in new orders.

IT Infrastructure

- Revenue: JPY4.8bn (-6.5% YoY)
- Operating loss: JPY14mn (versus profit of JPY291mn in 1H FY03/20)

Recurring revenue fell on lower revenue from counter rates as the growth in telework depressed the usage of multifunction peripherals (MFPs). However, despite the impact of the pandemic, IT equipment sales are gradually bouncing back after it peaked out. In addition, Startia HD managed to steadily sign up existing customers for its retail electricity business BiziSUKE Denki, which was launched in May.

CVC

- Revenue: JPY583mn (versus JPY0.3mn in 1H FY03/20)
- Operating profit: JPY12mn (versus loss of JPY0.5mn in 1H FY03/20)

In 1H FY03/21, the company focused on stepping up monitoring and supporting management of existing investees. It did not make new investments.

Overseas

- Revenue: JPY24mn (-67.1% YoY)
- Operating loss: JPY21mn (versus profit of JPY9mn in 1H FY03/20)

In 1H FY03/21, travel between Japan and China became difficult as the pandemic led to travel bans and restrictions for Japanese businessmen (traveling as a result of a transfer or for business trips) and tourists. Consequently, corporate economic activity slumped or contracted, and this had a severe impact on the segment.

Q1 FY03/21 (out August 7, 2020)

Summary

- Revenue: JPY2.8bn (-4.0% YoY, 21.2% of FY03/21 target)
- Operating loss: JPY114mn (versus JPY3mn loss in Q1 FY03/20, FY03/21 forecast for loss of JPY200mn)
- Recurring profit: JPY32mn (-90.5% YoY, FY03/21 forecast for loss of JPY200mn)
- Net loss: JPY15mn (versus net loss of JPY31mn in Q1 FY03/21, FY03/21 forecast for loss of JPY372mn)

* Net loss reflects net loss attributable to owners of the parent.

Results highlights

Revenue

In Q1 FY03/21, overall revenue fell 4.0% YoY, reflecting an increase in the Digital Marketing segment (+11.8% YoY) and a decline in the IT Infrastructure segment (-5.6% YoY).

- ▷ In the Digital Marketing segment, the company transitioned to a subscription-based business model from FY03/21, offering its products as Software as a Service (SaaS) applications. As a result, it was able to capture new customers who were previously unable to purchase its higher-priced, one-time revenue services.
- ▷ In the IT Infrastructure segment, customers took a cautious stance on IT investment due to the COVID-19 pandemic.

Operating loss

In Q1 FY03/21, the company posted an operating loss of JPY114mn (versus loss of JPY3mn in Q1 FY03/20). It recorded an operating profit in the Digital Marketing segment, but an operating loss in the IT Infrastructure segment, where the pandemic delayed installation work and reduced opportunities to visit customers.

Extraordinary gains/losses

Extraordinary loss: JPY10mn loss on the valuation of investment securities

By segment

Digital Marketing

- ▷ Revenue: JPY521mn (+11.8% YoY)
- ▷ Operating profit: JPY11mn (versus loss of JPY51mn in Q1 FY03/20)

Recurring revenue remained strong despite a temporary dip in orders attributable to the impact of the pandemic. The company moved its suite of one-time revenue tools—sold as packaged software through FY03/20—to subscriptions, and benefited from demand for digital services from companies preparing for a post-COVID world.

IT Infrastructure

- ▷ Revenue: JPY2.2bn (-5.6% YoY)
- ▷ Operating loss: JPY155mn (versus loss of JPY1mn in Q1 FY03/20)

The business environment surrounding the IT Infrastructure segment rapidly deteriorated due to the impact of the pandemic, and the resulting delays in installation work and reduction in opportunities to visit customers weighed down earnings. Meanwhile, the company launched its environment-related service BiziSUKE Denki in May. In addition, amid a rapid expansion in telework-related demand due to the pandemic, the company conducted sales promotion for its affordable Secure SAMBA cloud storage service, which can be made available to customers virtually instantaneously at a low price, and worked to improve recurring revenue.

CVC

- ▷ Revenue: No revenue booked (not booked in Q1 FY03/20)
- ▷ Operating loss： JPY0.2mn (versus loss of JPY0.2mn in Q1 FY03/20)

In Q1 FY03/21, the company focused on stepping up monitoring and supporting management of existing investees. It did not make new investments.

Overseas

- ▷ Revenue: JPY14mn (-72.2% YoY)

- Operating loss: JPY11mn (versus profit of JPY20mn in Q1 FY03/20)

The segment was affected by a worsening business environment as the spread of the pandemic emanating from Wuhan, China sharply reduced the number of businessmen and tourists traveling between China and Japan, and forced private-sector companies to scale back their activities.

FY03/20 results (out May 15, 2020)

Summary

- Revenue: JPY12.8bn (+7.3% YoY, 99.7% of FY03/20 target)
- Operating loss: JPY733mn (+41.6% YoY, 144.8% of FY03/20 target)
- Recurring profit: JPY771mn (+34.5% YoY, 153.0% of FY03/20 target)
- Net income: JPY220mn (-32.0% YoY, 75.8% of FY03/20 target)

* Net income reflects net income attributable to owners of the parent.

Results highlights

Revenue

In FY03/20, revenue increased 7.3% YoY, reflecting increases in the Digital Marketing segment (+9.9% YoY) and in the IT Infrastructure segment (+7.1% YoY).

- In the Digital Marketing segment (revenue up 9.9% YoY), Startia HD optimized customer-held information through IT services, and provided support to increase their profit. It expanded sales of Cloud CIRCUS, a suite of digital marketing tools positioned as a new pillar of its group operations, in an effort to support automated sales promotion at customers.
- In the IT Infrastructure segment (revenue up 7.1% YoY), the company worked to strengthen its business relationships with its customer base (over 20,000 SMEs), and achieved organic growth. It supplied IT and technology solutions to address customer challenges (ranging from indispensable infrastructure for customer offices to office support services), and also undertook initiatives to advance customer operations in a favorable direction through IT technology.

In FY03/20, the Japanese economy was affected by a sluggish global economy prompted by trade friction between the US and China, and by a slump in domestic consumption in the wake of the consumption tax hike in October 2019. These factors depressed business sentiment in many industries. In addition, the global spread of the COVID-19 pandemic eroded economic activity in Japan and overseas, producing an extremely murky outlook.

According to Startia HD, some capital investment in the target sectors of the group was pushed back due to sluggish IT-related demand. On the whole, however, Startia HD believes the market continues to expand rapidly thanks to investment in automation and labor-saving technologies amid worker shortages, and to heightened interest in cloud-first and digital-transformation (DX) strategies.

Cost of revenue, SG&A expenses, and operating profit

In FY03/20, cost of revenue increased 7.3% YoY. As in FY03/19, the IT Infrastructure segment benefited from strong demand for IT security products such as unified threat management (UTM) solutions, and from agency operations for power producer and suppliers (PPS). SG&A expenses rose 3.6% YoY on increases in expenses to roll out new branches and system-related expenses to optimize sales functions in the IT Infrastructure segment.

Operating profit rose 41.6% YoY as higher cost of revenue and SG&A expenses were outweighed by revenue growth mainly in the IT Infrastructure segment.

Extraordinary gains/losses

- The company recorded JPY43mn in extraordinary gains, breaking down into a JPY0.8mn gain on the sale of shares in affiliated companies from the sale of a portion of shares held in equity-method affiliate Startiasoft Inc., and a JPY42mn valuation gain on investment securities from the sale of a portion of investment securities held by the company. Startiasoft Inc. was excluded from the scope of equity-method applicable companies.
- The company recorded JPY155mn in extraordinary losses, including JPY154m in impairment losses. In the Digital Marketing segment, the company started channeling its management resources into a subscription-based business model from FY03/21. It wrote down the entire book value of its software intangible assets for the one-time revenue businesses it had previously engaged in, because it did not anticipate cash flow from such assets during the remaining amortization period.

By segment

Digital Marketing

- Revenue: JPY2.3bn (+9.9% YoY)
- Operating profit: JPY138mn (-11.1% YoY)

In advanced technology fields such as e-books, augmented reality (AR), and marketing automation (MA), contracted work such as performance-based consulting, business process outsourcing (BPO) operations, and development for major companies were all robust. The company formulated twin strategies for one-time revenue (outright sales of packaged software) and recurring revenue (subscriptions), and operated the segment accordingly. Subscription revenue was firm, but one-time revenue struggled as the high prices of products in one-time revenue businesses proved a barrier to adoption for customers. The company was also forced to divide its management resources across one-time and subscription-based operations.

IT Infrastructure

- Revenue: JPY10.4bn (+7.1% YoY)
- Operating profit: JPY599mn (+163.4% YoY)

IT security solutions (such as UTM), agency operations for PPS, and sales of multifunction peripherals (MFPs) were all strong. UTM products and agency operations for PPS registered robust direct sales. The number of MFP units sold increased YoY aided by growth in direct sales and wholesale sales to retailers of office automation equipment (a strategic focus for the company). Recurring revenue also increased considerably supported in particular by robotic process automation (RPA) products.

CVC

- Revenue: JPY0.3mn (no revenue recorded in FY03/19)
- Operating loss: JPY52mn (versus operating loss of JPY30mn in FY03/19)

In FY03/20, the company focused on stepping up monitoring and supporting management of existing investees, but it did not make new investments.

Overseas

- Revenue: JPY121mn (-14.2% YoY)
- Operating loss: JPY3mn (versus loss of JPY12mn in FY03/19)

The business environment sharply deteriorated as the number of businessmen and tourists traveling between China and Japan dropped precipitously and private-sector companies scaled back their activities due to the spread of the pandemic emanating from Wuhan, China. China is a market with great promise within the global market, and Startia HD is making preparations in the

Overseas segment to capture opportunities in China, further expand its operations, allocate management resources as needed, and provide services that enhance added value in new and existing businesses.

Other information

History

Decade from founding to listing on TSE Mothers market (1996–)

Startia HD was founded by Hideyuki Hongo (current representative director and president) in February 1996 under the name Telecom Net Ltd. (unlisted).

It originally procured and sold office equipment and information and communication equipment to small and medium-sized enterprises (SMEs) and built system infrastructure for the offices of such customers, generating one-time revenue from such operations. Another company operating in this field at the time was Otsuka Corporation (TSE1: 4768).

After it was established, the company's mainstay products were office telephones and copiers. In the 2000s, companies started supplying each employee with a router-connected PC, ushering in the age of interconnected office equipment. For example, regular copiers were replaced with multifunction peripherals (MFPs). In response, the company pivoted its operations to MFPs, unified threat management solutions (UTM), routers, the creation of virtual private networks (VPNs) and local area networks (LAN), and network infrastructure. Through 2005, it further expanded into server leasing and hosting services. The company explains it enjoyed high demand for outsourced services because SMEs—its core customers—had limited human resources with expertise in handling IT equipment.

In 2005, the company had a workforce of 98 employees, and generated revenue of roughly JPY2.0bn and operating profit of about JPY270mn. It changed its company name to Startia Inc. in 2004, and listed on the TSE Mothers market in December 2005.

First turning point: Shift to recurring-revenue business (2006–)

Moving into 2006, the company's shares fell sharply in the wake of bankruptcies of major IT companies. Given its business scale, President Hongo believed it would be difficult to compete (on an equal footing) for market share with larger companies such as Otsuka Corporation. He therefore decided to restructure the company's business model by shifting from one-time revenue to recurring-revenue operations.

The company subsequently started recording recurring monthly revenue for office equipment (previously sold outright) leased on multi-year contracts, and also providing repair, operational, and maintenance support. Under its new business structure, the company aimed to stabilize its revenue and achieve steady growth by building long-term relationships with existing customers.

The company anticipated that copier demand would falter as companies moved to paperless offices, but it judged that paper documents would not entirely disappear from the corporate world. Instead, it believed that by continuing to provide copiers (MFPs), it would be able to capture profit as one of the few remaining players in this field, and ultimately reap benefits in the form of stable growth.

Second turning point: Development and sales of e-book creation software (2006–)

In April 2005, the company started selling an e-book creation software. In June 2006, it branded the software "Digital Link ActiBook" (a precursor to ActiBook, its present mainstay product). The software was developed in-house by the company but incorporated technology from a US-based e-book software developer. The company sold the software as a standalone product mainly to printing and publishing companies, generating one-time revenue.

The company set out to develop the new software because it realized it would have limited room for growth if it continued to rely solely on sales of office equipment to SMEs. It did not have the capital resources to compete on price with major companies such as Otsuka Corporation. It embarked on the development of the e-book creation software as it anticipated online services would gain traction. Under the new business structure, it supplied office equipment to SMEs and developed software for printing and publishing companies.

According to the company, ActiBook was adopted by the majority of printing and publishing companies in Japan. However, it sold the product outright (one-time revenue model) as a packaged software. As a result, one-time revenue stopped rising once adoption had reached a certain level, ultimately exposing limitations on growth for the business. The company explains that one-time revenue operations were not conducive to building long-term business relationships with customers, and that increasing revenue from existing customers proved difficult.

Expansion of app operations and advance into digital marketing field (2012–)
In 2012, the company launched ActiBook AR COCOAR, an augmented reality (AR) content creation service.

It had set its sights on AR software moving into the 2010s, when the technology—exclusively developed overseas at the time—was only used by a few business operators in a limited range of events. The company recognized AR as a prospective growth market with few participants, and decided to venture into the market.

By the time Startia HD entered the market, AR creation tools were already available in Japan. However, the main products were developed overseas, and their prices were prohibitively expensive for SMEs. By streamlining functions, the company was able to develop an affordable AR software, setting itself apart from rival products developed overseas.

Rationale for entering digital marketing field: commercializing tools used internally by companies
As of June 16, 2021, the company offered 10 types of digital marketing tools in categories such as website creation and management tools, e-book creation tools, and marketing automation (AM) tools (software that automates the identification of and transmission of messages to prospective customers; discussed in further detail below).

The first tool it released was the e-book creation software in 2006. It initially developed and sold the software not as a marketing-oriented solution but rather as a software to digitalize paper documents in the printing and publishing industries.

However, the company eventually realized that e-book creation software came to be used to produce product catalogs and other documents, and that AR creation tools* had a stronger impact than paper-based and other conventional methods of delivering information. While continuing to develop applications, it changed its focus to strengthening features that support corporate marketing.

The company noticed that its operational management tools developed for internal use contributed to its earnings growth. Encouraged by this experience, it started developing dedicated marketing software that eventually became its marketing automation (MA) tools. From around the mid-2010s, all the tools it released were geared toward supporting the marketing activities of its customers.

Transition to holdings company structure in April 2018
In tandem with the move to a holdings company structure, the company changed its name from Startia Inc. to Startia Holdings Inc., and transferred the IT Infrastructure segment (then named the MFP, Office Telephone, and Network segment) to the newly established Startia Inc. (for details, see the Subsidiaries and affiliates section).

Digital marketing segment positioned as growth driver of the company (2020–)
In its medium-term management plan NEXT'S 2025, which started in FY03/21, Startia HD indicated its intention to operate the Digital Marketing segment as its growth driver, and the IT Infrastructure segment (its original business) as its cash cow.
To this end, it stopped selling packaged software outright in the Digital Marketing segment, moving all services to a subscription model.

News and topics

Corporate governance and top management

Corporate governance

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Board
Controlling shareholder and parent company	None
Directors and Audit & Supervisory Board members	
Number of directors under Articles of Incorporation	10
Number of directors	6
Directors' terms under Articles of Incorporation	1
Chairman of the Board of Directors	President
Number of outside directors	3
Number of independent outside directors	3
Number of members of Audit & Supervisory Board under Articles of Incorporation	4
Number of members of Audit & Supervisory Board	3
Number of outside members of Audit & Supervisory Board	2
Number of independent outside members of Audit & Supervisory Board	2
Other	
Participation in electronic voting platform	None
Providing convocation notice in English	Yes
Implementation of measures regarding director incentives	Performance-based compensation
Eligible for stock option	-
Disclosure of individual director's compensation	None
Policy on determining amount of compensation and calculation methodology	In place
Corporate takeover defenses	None

Source: Shared Research based on company data

Top management

Startia Holdings, Inc.: Hideyuki Hongo, Representative Director and President, Group CEO (born May 1, 1966)

Oct 1986	Joined Kita Nihon Maruhachi Mawata KK
Aug 1992	Joined Shigai Denwa Sabisu KK
Sep 1993	Joined Zeneraru Tsushin Kogyo KK
Jul 1994	Joined Japan Digital Communications Co., Ltd.
Feb 1996	Established Telecom Net KK (precursor of Startia HD), representative director and president
Oct 1996	Reorganized Telecom Net KK into ND Telecom KK (precursor of Startia HD), representative director and president
Apr 2006	Startia Renaji Inc., director
Apr 2007	Startia Renaji Inc., CEO
Apr 2009	Startia Lab, Inc., director
Mar 2013	Startia Shanghai, Inc., executive director
Feb 2017	Horma Service Co., Ltd., director
	Gendai Agency Inc., director
Feb 2017	Y&P Holdings Pte. Ltd., director
Mar 2018	General Incorporated Foundation Hoshikawa (currently Public Interest Incorporated Foundation Hoshikawa), representative director
Sep 2018	General Incorporated Association Kumamoto Creation Entrepreneur Network, representative director
May 2019	Startia Group, CEO (current position)
Jun 2021	Startiawill, director (current position)

Source: Shared Research based on company data

Cloud CIRCUS, Inc.: Kenichi Kitamura, Representative Director and CEO (born September 23, 1977)

Jun 2001	Joined ND Telecom KK
Apr 2008	ND Telecom KK, executive officer, manager of internet media content business
Apr 2009	Startia Lab, Inc., representative director and president (current position)
Apr 2010	Startia Lab, Inc., manager of web solution business
Apr 2012	Startia Lab, Inc., managing executive officer
Jan 2019	AsiaQuest KK, director
Jan 2019	Startia group, managing executive officer (in charge of Digital Marketing segment)
Jun 2020	Startia group, director (current position); Startia Lab Inc., CEO (current position)

Source: Shared Research based on company data

Dividend policy

As its basic policy on shareholder returns, Startia HD announced it will progressively increase its dividend by JPY1 in each fiscal year from FY03/21 to FY03/23. It plans to pay a dividend per share of JPY10 in FY03/21, JPY11 in FY03/22, and JPY12 in FY03/23.

In its medium-term management plan (announced on May 15, 2020), the company announced a 30% payout ratio. It projects a dividend per share of JPY28 in FY03/24 and JPY50 in FY03/25.

Startia HD conducts share buybacks as needed.

Major shareholders (as of end-March 2021)

Top shareholders	Shares held (1,000 shares)	Shareholding ratio
Hideyuki Hongo	4,135	40.38%
Hikari Tsushin, Inc.	687	6.62%
Akira Saiga	500	4.88%
JPMBL RE NOMURA INTERNATIONAL PLC 1 COLL EQUITY	495	4.83%
Custody Bank of Japan, Ltd. (Trust Account E)	356	3.47%
Startia Holdings Employee Shareholding Association	335	3.27%
Masakatsu Furukawa	273	2.66%
Satoru Gennai	246	2.41%
The Master Trust Bank of Japan, Ltd. (Trust Account)	220	2.15%
Keisuke Hikiji	156	1.52%
Total	7,401	72.19%

Source: Shared Research based on company data

Employees

(Employees)	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
(Consolidated)					
Digital Marketing segment	127	113	128	136	151
(Number of temporary employees)	25	21	46	53	60
IT Infrastructure segment	354	341	411	443	487
(Number of temporary employees)	4	5	8	21	34
CVC segment	-	-	1	-	-
(Number of temporary employees)	-	-	-	-	-
Overseas segment	-	-	3	6	-
(Number of temporary employees)	-	-	-	-	-
Other	1	-	-	-	-
(Number of temporary employees)	-	-	-	-	-
Corporate (shared services)	120	135	61	52	52
(Number of temporary employees)	-	1	1	1	5
Total	602	589	623	637	690
(Number of temporary employees)	29	27	55	75	99
Number of employees	451	436	51	42	41
Average age (years)	33.1	33.4	40.6	39.9	41.0
Average years of service	5 yrs, 1 mth	5 yrs, 7 mths	5 yrs, 11 mths	6 yrs, 4 mths	6 yrs, 3 mths
Average salary (JPY1,000)	5,001	4,895	6.128	6.964	7.278

Source: Shared Research based on company data

- ▷ The CVC segment does not have dedicated personnel, but is operated by employees engaged in companywide operations.
- ▷ In the Overseas segment, the company sold all its shares in Startia Shanghai Inc., and removed the company from its scope of consolidation. As a result, the employees of Startia Shanghai have been removed from the consolidated workforce.

Profile

Company Name	Head Office
Startia Holdings, Inc.	19F Shinjuku Monolith Bldg., 2-3-1 Nishi Shinjuku, Shinjuku-ku, Tokyo
Phone	**Listed On**
+81-3-6388-0415	Tokyo Stock Exchange 1st Section (3393)
Established	**Exchange Listing**
February 1996	December 2005 (Tokyo Stock Exchange Mothers)
Website	**Fiscal Year-End**
https://www.startiaholdings.com/company.html	March
IR Contact	**IR Web**
https://www.startiaholdings.com/inquiry/contact.html	https://www.startiaholdings.com/ir.html

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ANEST IWATA Corporation
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Anicom Holdings, Inc.
Anritsu Corporation
Apaman Co., Ltd.
ARATA CORPORATION
Artspark Holdings Inc.
AS ONE CORPORATION
Ateam Inc.
Aucfan Co., Ltd.
AVANT CORPORATION
Axell Corporation
Azbil Corporation
AZoom, Co., Ltd.
Base Co., Ltd
BEENOS Inc.
Bell-Park Co., Ltd.
Benefit One Inc.
B-lot Co.,Ltd.
Broadleaf Co., Ltd.
CanBas Co., Ltd.
Canon Marketing Japan Inc.
Career Design Center Co., Ltd.
Carna Biosciences, Inc.
CARTA HOLDINGS, INC
CERES INC.
Chiyoda Co., Ltd.
Chori Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
COTA CO.,LTD.
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.
Daiki Axis Co.,Ltd.
Daiseki Co., Ltd.
Daiwabo Holdings Co.,Ltd.
Demae-Can CO., LTD.
DIC Corporation
Digital Arts Inc.
Digital Garage Inc.
Doshisha Corporation
Dream Incubator Inc.
Earth Corporation
Edion Corporation
Elecom Co., Ltd.
en Japan Inc.
Estore Corporation.
euglena Co., Ltd.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
First Brothers Co., Ltd.
FreeBit Co., Ltd.
Gamecard-Joyco Holdings, Inc.
GameWith, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
GiG Works Inc.
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HENNGE K.K.
Hoosiers Holdings
Hosokawa Micron Corporation
Hope, Inc.
HOUSEDO Co., Ltd.
H2O Retailing Corporation
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Holdings CO., Ltd.
Itochu Enex Co., Ltd.
ItoKuro Inc.
JAFCO Co.,Ltd.
JMDC Inc.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co., LTD.
KANEMATSU CORPORATION
kaonavi, inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
KLab Inc.
Kondotec Inc.
Kringle Pharma, Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
Locondo, Inc.
LUCKLAND CO., LTD.
Marumae Co., Ltd.
MATSUI SECURITIES CO., LTD.
Media Do Co., Ltd.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Holdings Co., Ltd.
Metaps Inc.
Micronics Japan Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
Mortgage Service Japan Limited.
MRT Inc.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
NEC Networks & System Integration Corporation
Net Marketing Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
NIHON CHOUZAI Co.,Ltd.
Nihon Denkei Co., Ltd.
Nippon Commercial Development Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
Nisso Corporation
NS TOOL CO., LTD.
OLBA HEALTHCARE HOLDINGS,Inc.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
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ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
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PCA CORPORATION
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Premium Water Holdings
P3, inc.
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RYOHIN KEIKAKU CO., LTD.
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SymBio Pharmaceuticals Limited
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Take and Give Needs Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
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The Hokkoku Bank,Ltd.
TKC Corporation
TKP Corporation
Tsuzuki Denki Co., Ltd.
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TOKAI Holdings Corporation
Tokyu Construction Co., Ltd.
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd.
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
V-cube,Inc.
World Holdings Co., Ltd.
WOW WORLD Inc.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
ZAPPALLAS, INC.

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