COMPANY RESEARCH AND ANALYSIS REPORT

UNIRITA Inc.

3800

TSE JASDAQ

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Index

Summary

Started a new management system from April 2017 and is aiming to realize customers' digital reforms as a co-creation partner

As well as developing, selling and servicing package software for the operation of core operating systems for a broad range of industries, primarily finance and manufacturing, UNIRITA Inc. <3800> (hereafter, also "the Company") focuses on providing solutions based on data utilization services. In April 2015, BSP Incorporated merged with its consolidated subsidiary, Beacon Information Technology Inc. (Beacon IT), and changed its name to UNIRITA Inc. The goal of this merger was to improve the Company's organization quickly by absorbing the data management capabilities of Beacon IT, a growth area, and combining the management resources of that company and BSP, allowing UNIRITA to respond rapidly to a changing business environment to move ahead with business structure reform. Through creating synergies between BSP's core business (in the field of contributing to improvement in client productivity via promoting the automation of systems operation and other measures to increase efficiency) and Beacon IT's business (in the field of contributing directly to enhanced corporate client value via data utilization) the merged entity can enter a new growth stage.

Since FY3/16, the Company has been advancing the second 3-year medium-term management plan. Citing three core policies of "Reinforcing product development and service capabilities as a software maker," "Boosting IT skills needed to resolve client management issues," and "Creating a new corporate culture," it has been working to build a structure for growth in the future by significantly shifting management resources to growth areas (the replacement of IT technologies).

However, in the FY3/17 results, both sales and profits declined, with net sales down 3.6% YoY to ¥6,941mn and operating income falling 5.0% to ¥1,455mn, and the results were also below the Company forecasts. While demand is great in the new and growth businesses under focus, the launches of these markets have been at a more moderate pace than anticipated. On the one hand, the strengthened partner policy has led to an increase in sales of proprietary products, while on the other hand there were unexpected declines, including for service provider-type technical-support services.

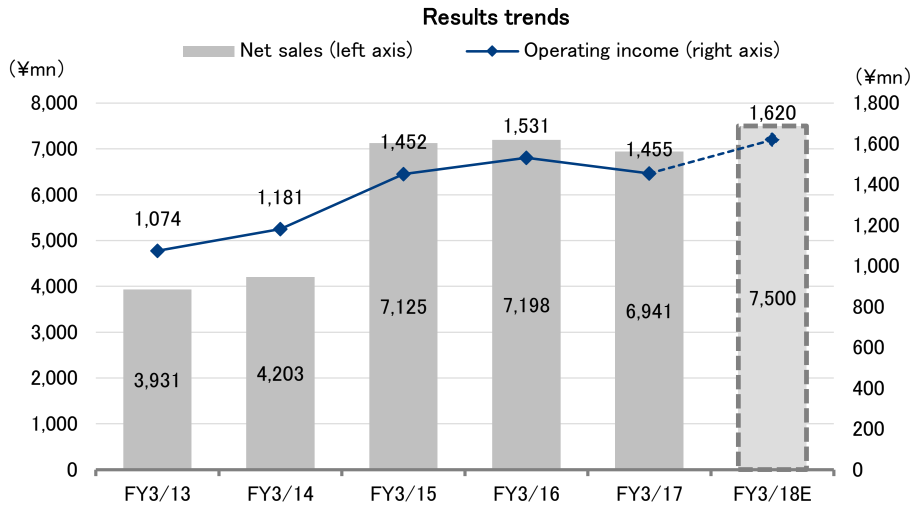
The Company's forecasts for FY3/18, which is the final year of the medium-term management plan, are for higher sales and profits, with net sales to increase 8.0% YoY to ¥7,500mn and operating income to rise 11.3% to ¥1,620mn. But these forecasts mean that the plan's numerical targets will not be achieved. The reasons for this are that, in addition to the fact that the previous fiscal year's results were lower than expected, the Company has not been able to realize the M&A that were incorporated into the targets.

In April 2017, the Company changed its management structure in conjunction with the changes to its representative directors as a generational transfer of leadership to accelerate the reforms to its business structure. In the new system on the axis of the UNIRITA Smart Formation Service, from upstream (consulting) through to the construction of foundations, the implementation of functions, and operations and analysis, it has established the direction for support from the Group as a whole toward the smooth realization of customers' digital reforms. Also, its policy is to strengthen its ability to provide solutions (including directly solving problems and creating new businesses) that are not limited to simply sales of its proprietary products through collaborations with partner companies that have strengths within specific industries and with alliance partners that complement its IT resources.

At FISCO, our evaluation is that even though the outlook is that the Company will not achieve the numerical targets in the second medium-term management plan, the management integration has achieved the major result of establishing a system that can support both "offense" and "defense." In addition, at the current time, from the steady start made by UNITRAND, Inc., its subsidiary that provides solutions for mobile equipment utilizing IoT technologies, and that the collaboration model with partner companies and alliance partners has taken a concrete form, we can evaluate the direction the Company is taking as being rational. We shall be following the progress it makes in terms of what kinds of solutions it will create and in what forms to accelerate growth in the future, based on the new system.

Key Points

- Sales and profits were below the Company forecasts in FY3/17, including due to the decline in service provider-type technical-support services
- The forecast is for higher sales and profits in FY3/18, although the targets in the second medium-term management plan will not be achieved
- Started a new management system in April 2017 to accelerate the reforms of the business structure
- Aiming for the Group as a whole to be a co-creation partner to realize customers' digital reforms



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

Company profile

Established a structure that can support both offensive and defensive aspects of customers' businesses

1. Business overview

UNIRITA focuses on developing, selling and servicing package software (herein "products") for controlling the operation of core operating systems for a diverse range of industries, including the financial and manufacturing industries. In addition to also applying its proprietary know-how to offer peripheral services such as operational consulting and human resource development, the Company also provides administrative outsourcing services. From FY3/16, the Company is focusing on providing data utilization solutions.

Products for mainframe computers, chiefly for financial institutions and large corporations, have been a stable, highly profitable, source of income since the Company's establishment. The Company achieved steady results growth by contributing to automation and enhanced efficiency in IT systems operation, including job management and report management.

However, to prepare for growth in the medium- to long-term in light of rapid changes in its operating environment, such as the shift to open architecture systems, downsizing, the proliferation of cloud computing, and the use of big data, the Company initiated reforms to its business structure. It plans to accelerate growth by developing its business domain in areas that directly contribute to raising its customers' corporate value (e.g. market expansion and enhanced competitiveness). Faster growth will also be targeted for traditional business areas that contribute to automating and increasing the efficiency of IT systems operations (increased productivity etc.) in other ways.

As part of its business structure reforms, in April 2015, BSP merged with its consolidated subsidiary, Beacon IT, and changed its name to UNIRITA. The goals of this merger were to promote the establishment of an operating structure that combined BSP's forte of systems operation and Beacon IT's forte of data utilization to realize synergies that would help it respond to changes in its operating environment. In April 2017, the Company changed its management structure in conjunction with the changes to its representative directors as a generational transfer of leadership to accelerate the reforms to its business structure.

The Company's businesses had been divided into the four segments set out below up to the previous fiscal year. Looking at the composition of sales by segment we see it is comprised of four core sectors: the Data Utilization Business, the Systems Operations Business, the Mainframe Business and Other Businesses. However, currently almost all operating income is derived from its Mainframe Business.

(1) Data Utilization Business
This business consists of the Product Division and the Solutions Division. This is a business acquired through the consolidation of Beacon IT (January 2014), and is poised to become a core segment going forward.

(a) The Product Division develops, sells and supports software for data utilization, including for increasing data processing speeds and strengthening security functions. Further, it also engages in proposing solutions utilizing big data and IoT as new and growth business fields.

(b) In the Solutions Division, consolidated subsidiary Data Research Institute offers consulting and other services relating to data utilization.

(2) Systems Operations Business

This business consists of the Product Division, Solutions Division, and Outsourcing Division.

(a) The Product Division handles open architecture products to manage the operation of core operating systems. As well as developing, selling and supporting proprietary software in the three areas of operations automation, reporting, and IT service management (ITSM), it handles some software products made by other companies. Royalties from product usage rights (license fees) and maintenance service fees, that are a fixed ratio of the product cost, form the sources of income. The Company is also concentrating on its Be.Cloud cloud service for which demand is growing.

(b) The Solutions Division provides solutions services (including systems development consulting and human resource development) in the IT service area, offers a membership-based "Sys-Doc" service (which provides expert advice on IT systems operation via periodic client visits), and extends solutions services (including corporate value analysis, organizational reform and human resource development) using the ASMO method for structuring operational units that contribute to management.

(c) The Outsourcing Division is a new stock business, covering everything from mainframe operations to cloud utilization, leveraging the know-how of the Company's veteran technical staff. Specifically, it provides services such as proposing ways to improve IT systems operation, systems development and migration, and the structuring of service desks, either on the premises of customers or remotely.

(3) Mainframe Business

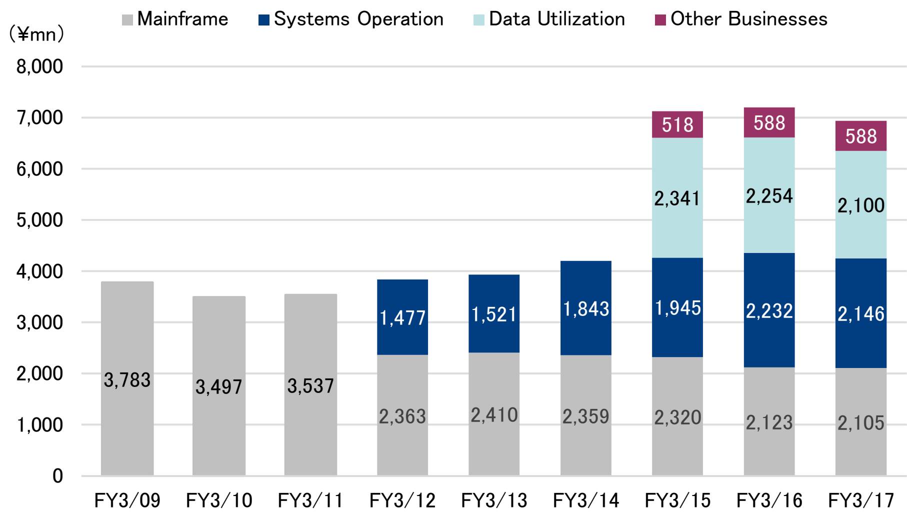
This business, part of the broader business of managing the operation of core operating systems, handles proprietary products for mainframe computers primarily for financial institutions and large corporations. The Company receives a maintenance service fee from mainframe product users, calculated as a fixed ratio of the product cost. This has been the Company's flagship business since its establishment and is a stable source of income.

(4) Other Businesses

These are businesses acquired through the consolidation of the Beacon IT group. They comprise the businesses of the Beacon IT group other than the Data Utilization Business, including BCP* (business continuity plan) development, administration and maintenance support, as well as a SaaS product for HR outsourcing attendance management. These other businesses are conducted by consolidated group subsidiaries, including Bitis, Inc. and Aspex Inc. Also, in May 2016, the Company established a new subsidiary, UNITRAND, Inc., in order to undertake development of IoT format businesses in earnest, using its newly launched bus operations revitalization and support service (including bus route search and bus location tracking search services) to provide an entree.

* A business continuity plan (BCP) is a plan to continue key businesses after emergencies, such as natural disasters and scandals, or to minimize losses from the discontinuation of these businesses.

Sales by Segment



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

As of March 31, 2017, more than 900 companies had installed the Company's products. Most of these were large corporations. The range of customer industries was wide, but the manufacturing, retail and distribution, and finance and insurance industries accounted for high percentages of total aggregate sales.

In terms of sales channels, the Company mainly employs direct sales in its core business. However, partner (sales agent) initiatives* also enjoy a prominent position in its Data Utilization Business, where there are multiple product categories and competition is fierce, and also in new and growth business fields.

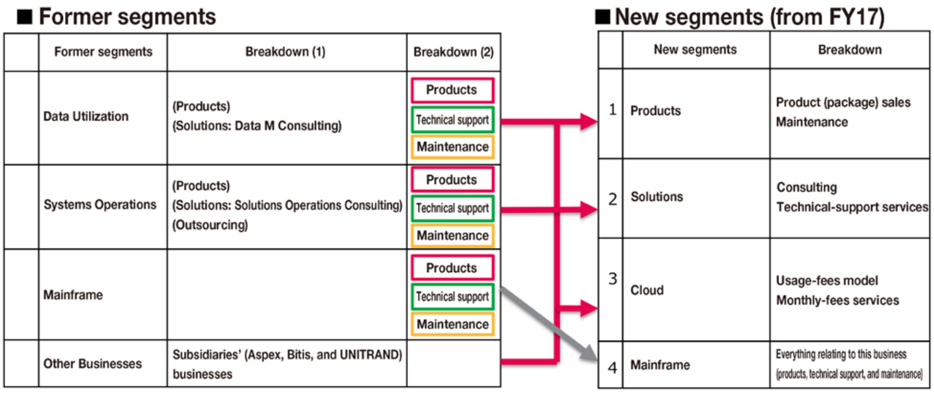
* As of the end of March 2017, it had 88 partner companies (up 15 on the end of the previous fiscal year).

As of March 31, 2017, the Company had the following six consolidated subsidiaries. BSP Solutions Incorporated runs an IT service consulting business, which is now part of the Systems Operations Business. BSP (Shanghai) Inc. is the base for sales in China. Aspex Inc. handles SaaS products for human resources outsourcing attendance management. Bitis, Inc., offers BCP development, administration and maintenance support. Data Research Institute is a data management consulting business. UNITRAND, Inc. offers solution services for IoT-based mobile equipment. Moreover, the Company established UNIRITA PLUS Inc., a wholly owned subsidiary, in April 2017 to strengthen sales channels to customers in western Japan and boost sales of its products while collaborating with partners.

2. Changing to new segments

The Company has changed to new reportable segments. This is because on progressing the reforms to the business structure, problems came to light with the previous segments, including that businesses with different profit structures, like products and solutions (consulting) were in the same segment, and that the cloud-services business was not being reflected accurately. There are four new segments; Products (product sales and maintenance), Solutions (consulting and technical-support services), Cloud (usage-fees model and monthly-fees services), and Mainframe (everything relating to this business).

Review of the reportable segments



Source: From the Company's results briefing materials

Mainframe Business has been a source of stable profit since foundation
Supporting active investment in the new and growth businesses

3. Corporate characteristics

UNIRITA's corporate philosophy is "Using IT flexibly, we aim to contribute to the development of society and the creation of a better future."

UNIRITA has the following three distinguishing traits.

(1) An independent developer of proprietary software

A strength of UNIRITA's products in its flagship Systems Operations and Mainframe Businesses is that they enable smooth system operation regardless of the scale of a computer, its manufacturer or other such factors. Competing manufacturer-affiliated products do not allow the replacement of the hardware component with other maker's products, which is clearly a hindrance to a customer's flexible system development. Also, as the Company's value proposition in its core businesses is the aggregate of how much the Company can contribute to the automation or improved efficiency of an IT system's operation, the track record and know-how the Company has accumulated by focusing is this area are reflected in the precision and superior performance of its goods and services and in the precision of its proposals. Amidst a readily observable trend (by other vendors) to rely on agents to install systems, the fact that UNIRITA provides its products directly, chiefly to financial institutions and large corporations, and that its products are often adopted as replacements during system updates is arguably proof of this. The Company has been hired to operate the SysAdmin's Group, the largest network of system managers in Japan, boasting more than 15,000 members and 162 endorsing companies. This demonstrates that UNIRITA is the driving force in this field. (As of March 2017)

(2) Stable income from the Mainframe Business income source being invested in new growth areas

As well as having astoundingly high segment profit margin levels in the order of 77.3% (FY3/17 actual results), the Mainframe Business segment provides a stable income source that has supported the Company's growth. We believe this profitability is made possible not only by customer confidence in the Company's products and services, but also by high customer switching costs (costs arising from systems replacement). Sales in the Mainframe Business have been shrinking because of external factors, such as the development of open-architecture systems, but it is expected that it will for the time being play the role of a cash cow, enabling the income from the business to be diverted into investments in new growth areas, such as cloud computing services and data utilization, which we feel is a significant advantage for the Company.

(3) Achieving a structure that can support both offense and defense aspects of customers' businesses

The current business structure reforms will not only contribute to the automation of and enhanced efficiency of IT systems operation, but will also allow the Company to expand into the business of assisting customers to reallocate management resources, such as HR and budgeting, to create more corporate value. By realizing structures that can support both the offense and defense aspects of customer businesses, the Company will be able to offer comprehensive proposals to improve IT investment performance at its customers and solidify its superiority in the software industry.

Business trends

Sales and profits were below the Company forecasts in FY3/17, including due to the decline in technical-support services

1. Summary of the FY3/17 results

In the FY3/17 consolidated results, net sales decreased 3.6% YoY to ¥6,941mn, operating income fell 5.0% to ¥1,455mn, ordinary income declined 4.9% to ¥1,555mn, and profit attributable to owners of the parent decreased 26.7% ¥1,056mn, for declines in sales and profits. The results were also below the Company forecasts.

The main factors behind the decline in sales were that Data Utilization and Systems Operation trended lower than anticipated. Product sales slumped from the slower-than-expected launches of the new and growth businesses under focus and the transition to cloud. In addition, as a reaction to the increase in the weight of proprietary products sales in 1H, service provider-type technical-support services fell greatly. Also, Other Businesses conducted by the subsidiaries, which had been steadily growing up to FY3/16, remained basically unchanged YoY as a whole. Conversely, while Mainframe continues to contract, the extent of the sales-decrease rate was less than expected.

Therefore, the three main factors behind the results falling below the Company forecasts were 1) the decline in technical-support services, 2) the slow starts to the new and growth businesses, and 3) the shift in the sales forms alongside the transition to cloud (the shift from sales type to usage-fees type)*. Particularly with regards to 1), although the aim was to recover sales in 2H, its contribution to the fiscal year's results was limited.

* With the shift from a one-time payment sales approach (single payment of the product price) to recurring payments of product usage fees, sales value at the time a contract is concluded falls to about one-fifth the previous amount. However, usage fees provide a steady revenue in the future and strengthen the profit base by creating a profit structure in which profits accumulate gradually as the number of contracts increases.

In terms of profits also, in addition to the decline in profits due to the lower sales, the upfront investment, including for a subsidiary that has made a smooth start (UNITRAND), put downward pressure on profits and caused operating income to decline. The operating margin also fell slightly, to 21.0% (21.3% in the previous fiscal year). Further, the main reason behind the increase in the extent of the decline in profit attributable to owners of the parent was from the effects of a temporary reduction in the tax burden recorded in the previous fiscal year (due to the succession of the loss carried-forward from the previous term, following the merger).

On the balance sheet, total assets increased by 8.9% from the end of FY3/16 to ¥13,624mn at the end of FY3/17, and equity grew by 6.8% to ¥10,700mn, due to accumulation of internal reserves. Thus, the equity ratio remained high at 78.5% at the end of FY3/17 (80.1% at the end of FY3/16).

Results by business are as set out below.

(1) Data Utilization

Net sales decreased 6.8% YoY to ¥2,100m and operating income declined 10.8% to ¥93mn, for lower sales and profits. Within these amounts, “product sales” increased 6.5% to ¥344mn, “technical-support services” decreased 18.1% to ¥774mn, and “maintenance services” fell 0.4% to ¥981mn, so the decline from “technical-support services” was particularly large. In “product sales,” sales of proprietary ETL products targeting data utilization and data linkage needs were strong, while solutions creation (collaboration model)* through collaborations with partners (sales agencies) also contributed to the results. However, sales of proprietary BI products for data analysis and for making visible the results of analyses slowed through 2H from the effects of the proposals being limited to single products only. The shift in the sales form alongside the transition to the cloud was also a factor suppressing the growth in “product sales.” For the products of other companies, both “product sales” and “technical-support services” contracted due to strategic replacements of products, but profitability increased. However, as previously described, the major fall in “technical-support services” was because the weight of proprietary-product sales was increased in 1H as a measure to strengthen profitability, and while measures were taken to strengthen sales at partners, the lack of sales activities for the “technical-support services” that accompany “product sales” resulted in the decline. On entering 2H, the Company aimed to recover these sales by reallocating the time spent on activities by engineers to “technical-support services.” But its contribution to this fiscal period’s results remained limited, due to factors including the time required by customers to secure budgets and that the receipt and inspections occurred across the fiscal periods.

* A corporate e-learning and knowledge system jointly planned with Golden Magic Co., Ltd. (described below).

(2) Systems Operations

Net sales decreased 3.9% YoY to ¥2,146mn and the operating loss was ¥308mn (compared to a loss of ¥283mn in the previous fiscal year), meaning the extent of the loss increased. Within these amounts, “product sales” decreased 4.2% to ¥474mn, “technical-support services” fell 15.9% to ¥909mn, and “maintenance services” increased 16.2% to ¥762mn. So the same as in Data Utilization, “technical-support services” declined significantly in this segment also. In “product sales,” the automating operations field performed strongly in 1H but slumped in 2H, while the reporting field trended sluggishly as a whole from what seems to be a lull in large-scale migration projects (transitions from Mainframe) and also due to the shift to cloud-based services. Conversely, in the IT services management field and the BPM field, the number of projects connecting upstream consulting to “product sales” is increasing, and the Group as a whole can be seen as coming to provide integrated solutions (support to smoothly realize customer’s digital reforms). Also, the increase in “maintenance fees” was from the shift to cloud-based services.

Net sales from the new and growth businesses that are included in both Data Utilization and Systems Operations grew to ¥827mn (up 9.1% YoY), but did not reach their full fiscal year target of ¥1,010mn. The main reason for this was that although potential demand in these advanced IT areas is huge and the responses to be proposals have been good, the general situation is that there have not yet been many examples of proposals being utilized, as in many cases it takes time for customers to decide on their introduction, and also they tend to start small by narrowing down the corresponding area and the amount.

(3) Mainframe

Sales declined by 0.8% YoY in FY3/17 to ¥2,105mn, but segment profit increased by 0.1% to ¥1,628mn. Sales continued to contract accompanying the adoption of open systems and downsizing by companies, but the sales decline was within the range of the Company expectations. In fact, the decline was smaller than projected, reflecting the business's proposals of solutions for these changes in the external environment and its success in winning contracts to upgrade computer systems for existing customers.

(4) Other Businesses by subsidiaries

Results increased steadily up to FY3/16, but in this fiscal year, net sales were basically unchanged YoY at ¥588mn, while segment income decreased 50.0% to ¥42mn. The increase in the extent of the decline in profits was particularly due to the upfront investment in UNITRAND. However, the number of completed contracts with and inquiries from bus operators has been increasing, and achieving profitability is in sight for the current fiscal year (FY3/18). Conversely, in BCP services that involve proposing corporate disaster countermeasures, while results for existing customers were good, there remains an issue to be addressed for developing new customers through collaborations with partners. Also, sales were steady for the SaaS attendance management service, mainly from existing customers, based on the expansion in demand in the personnel outsourcing market.

Summary of the FY3/17 results

(¥mn)

	FY3/16 results		FY3/17 results		Change		FY3/17 revised forecast		Result/ forecast
		% of sales		% of sales		% change		% of sales	
Net sales	7,198		6,941		-257	-3.6%	7,500		92.5%
Data Utilization	2,254	31.3%	2,100	30.3%	-154	-6.8%	-	-	
Systems Operations	2,232	31.0%	2,146	30.9%	-86	-3.9%	-	-	
Mainframe	2,123	29.5%	2,105	30.3%	-18	-0.8%	-	-	
Other Businesses	588	8.2%	588	8.5%	0	0.1%	-	-	
Cost of sales	1,810	25.1%	1,830	26.4%	20	1.1%	-	-	
SG&A expenses	3,856	53.6%	3,654	52.6%	-202	-5.2%	-	-	
Operating income	1,531	21.3%	1,455	21.0%	-76	-5.0%	1,780	23.7%	81.7%
Data Utilization	104	4.6%	93	4.4%	-11	-10.8%	-	-	
Systems Operations	-283	-	-308	-	-25	-	-	-	
Mainframe	1,626	76.6%	1,628	77.3%	2	0.1%	-	-	
Other Businesses	84	14.3%	42	7.1%	-42	-50.0%	-	-	
Ordinary income	1,635	22.7%	1,555	22.4%	-80	-4.9%	1,860	24.8%	83.6%
Profit attributable to owners of the parent	1,442	20.0%	1,056	15.2%	-386	-26.7%	1,275	17.0%	82.8%

	FY3/16 results		FY3/17 results		Change	% change
Data Utilization						
Products	323		344		21	31.6%
Technical support	945		774		-171	-16.2%
Maintenance fees	985		981		-4	3.0%
Systems Operations						
Products	495		474		-21	12.2%
Technical support	1,080		909		-171	-13.0%
Maintenance fees	656		762		106	18.2%
Mainframe						
Products	451		511		60	27.3%
Technical support	65		57		-8	33.2%
Maintenance fees	1,607		1,536		-71	-4.4%

	At end of March 2016	At end of March 2017	Change	
				% change
Total assets	12,511	13,624	1,113	8.9%
Shareholders' equity	10,019	10,700	681	6.8%
Shareholders' equity ratio	80.1%	78.5%	1.6pt	-

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

2. Main accomplishments

(1) Large investment in UNITRAND

The Company established new subsidiary UNITRAND in May 2016 to provide solutions services for IoT-based mobile equipment, and invested heavily in it, as described previously. Part of this investment was to shift technicians from the Company to UNITRAND. While continuing to offer bus location search systems (route searches, searches of information on operational locations, etc.), the subsidiary is developing systems that can monitor the arrival and departure of bus passengers in real time and is building up a line of solutions services for rural secondary transportation operators, such as local buses. The subsidiary has received an order from a bus company in Hokkaido, and the number of inquiries from bus companies in other areas of Japan is increasing. As these are new services not provided before, the Company seems to be first pursuing a strategy with a sense of speed (to obtain the first-mover advantage). It is also looking to deploy them overseas (in Asia) in the future.

(2) Strengthened products and sales at LIVE UNIVERSE (an e-learning and knowledge system for companies)

In March 2016, UNIRITA began providing the LIVE UNIVERSE e-learning and knowledge system for companies. This system was planned jointly with Golden Magic Co., Ltd.*, which directly operates 94 restaurants, including those in the Kyushu Netchuya chain. Through this business tie with Golden Magic, UNIRITA is developing services for the restaurant industry and other service industries. Using the LIVE UNIVERSE system, restaurant employees can browse information on cooking methods and recipes anytime and anyplace for independent study. Similarly, employees of companies in other service industries can access video presentations of best-practice conversation skills and customer approach skills. Furthermore, the LIVE UNIVERSE system allows communication about the progress of different initiatives between workers and supervisors through the Internet by adding comments and a “Like” function. Timely feedback from these parties enables the efficient transmission of knowhow and improvement of skills. Using this system, users can complete trainings in the order prescribed by the system and thereby advance to more challenging work. As trainees can view their growth progress, they are motivated to improve. UNIRITA intends to conclude similar win-win agreements with other companies with the aim of increasing public recognition of its products and expanding its sales channels. The Company’s policy is to work on creating similar arrangements going forward.

* Golden Magic Co., Ltd. is a wholly-owned subsidiary of Diamond Dining Co. Ltd. <3073>, which is listed on the First Section of the Tokyo Stock Exchange.

(3) Capital and business alliance with I-NET CORP.

The Company and I-NET are collaborating on and have entered into a technical alliance to provide the middleware products for automating systems operations and for data linkage previously developed by the Company within the corporate cloud services provided by I-NET. The aim of the capital and business alliance* is to utilize the strengths of both companies in order to quickly and strategically respond to the rapidly expanding corporate cloud market, particularly to customers’ needs for digital reforms in their businesses.

* The Company acquired some of I-NET’s common shares (100,000 shares equivalent to a voting-rights ratio of 0.6%) through off-floor trading, while I-NET acquired some of the Company’s common shares (100,000 shares equivalent to a voting-rights ratio of 1.2%) using the same method.

Business outlook

The outlook is for higher sales and profits in FY3/18, although for the targets in the second medium-term management plan to not be achieved

The Company's results forecasts for FY3/18, which is the final year of the medium-term management plan, are for higher sales and profits, with net sales to increase 8.0% YoY to ¥7,500mn, operating income to rise 11.3% to ¥1,620mn, ordinary income to grow 9.3% to ¥1,700mn, and profit attributable to owners of the parent to increase 10.7% ¥1,170mn. But these forecasts mean the initial targets in the plan (net sales of ¥10,000mn and ordinary income of ¥2,400mn) will not be achieved.

As previously explained, the Company has changed to new segments from this fiscal year, and it is targeting increases in net sales in every segment except for Mainframe. Products are forecast to grow from the strengthening of sales capabilities in the existing product areas (automation, ETL, and reporting), while a major improvement is also expected in Solutions from the recovery in sales of technical-support services that slumped in the previous fiscal year and from the strengthening of consulting in upstream processes. In addition, a high growth rate is forecast for Cloud from the expansion in demand.

In terms of profits, the forecast is for a significant increase in operating income from the effects of the higher sales and from UNITRAND, in which upfront costs have already been invested, becoming profitable. The operating margin is also expected to improve to 21.6% (21.0% in the previous fiscal year).

At FISCO, we think that, even though the outlook is that the Company will not achieve the numerical targets in the second medium-term management plan, it will be able to achieve its results forecasts, mainly for the following reasons; 1) the "team sales system" from the collaboration between sales and technical support will finally get on track, 2) its strengthened ability to propose solutions from the collaborations with its partners and alliance partners, 3) the progress that has been made in providing one-stop solutions by the Group as a whole, and 4) the contribution to the Company's results of UNITRAND, which has made a steady start.

Forecast for FY3/18

(¥mn)

	FY3/17 results		FY3/18 forecast		Change	
		% of sales		% of sales		% of change YoY
Net sales	6,941		7,500		559	8.0%
Products	2,629	37.9%	2,832	37.8%	203	7.7%
Solutions	1,747	25.2%	2,100	28.0%	353	20.2%
Cloud	458	6.6%	600	8.0%	142	31.0%
Mainframe	2,105	30.3%	1,968	26.2%	-137	-6.5%
Operating income	1,455	21.0%	1,620	21.6%	165	11.3%
Ordinary income	1,555	22.4%	1,700	22.7%	65	9.3%
Profit attributable to owners of parent	1,056	15.2%	1,170	15.6%	114	10.7%

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

Growth strategy

Started a new management system to accelerate the reforms of the business structure; Aiming to realize customers' digital reforms as a co-creation partner

1. Progress made in the second medium-term management plan (review)

The Company has been implementing its second 3-year medium-term management plan since FY3/16. As more companies are requiring their IT departments to contribute to enhanced corporate value, UNIRITA has been restructuring its operations in line with the three core policies of "reinforcing product development and service capabilities as a software maker," "boosting IT skills needed to resolve client management issues," and "creating a new corporate culture." The plan envisions a continued decline in sales in the Mainframe Business, but envisions the Company's driving force will come through strong sales of product (and associated services) in the businesses of Data Utilization, an offensive area, and Systems Operations, a defensive area. In particular, it aims to concentrate on the development of new and growth businesses.

Following the management integration with Beacon IT in April 2015, the Company can be said to have achieved significant results in acquiring both the defensive area (Systems Operations) that it was engaged in up to the time, and also the offensive area (Data Utilization). It can also be evaluated as having achieved a certain level of results for proprietary-product sales through strengthening its policies for partners, and for its subsidiaries strategy, in which it is aiming for growth in the future by pursuing expertise and mobility to replace IT technologies.

But as previously mentioned, the outlook is that the Company will not achieve the medium-term plan's numerical targets (net sales of ¥10,000mn and ordinary income of ¥2,400mn) based on the results forecasts for the plan's final year of FY3/18. The reasons cited for this are mainly as follows. 1) In existing products, the decline in sales in technical support services that accompany products sales, and the slump (the lull) in reporting-related, large-scale migration projects; 2) even in the IT area where growth is expected, the competition with new entrants and the smaller-than-expected starts to customers' IT investment has meant that, even though there is demand, this area is not contributing to results as expected, and 3) the M&A to supplement the new IT resources and that were incorporated into the plan's targets could not be realized.

2. The future direction

The Company changed its management structure in conjunction with the changes to its representative directors as a generational transfer of leadership to accelerate the reforms to its business structure. In the new system, on the axis of the UNIRITA Smart Formation Service, it is taking the direction of supporting the smooth realization of digital reforms at its customers. Particularly in the context of an increase in the number of competing players due to the acceleration of cloud usage and changes to the relationships with customers (specifically, on the one hand, the trend toward in-house manufacturing in the IT field that is the source of its competitiveness, but on the other hand, in the highly versatile IT field that includes Systems Operations, the movement toward outsourcing and shifting the IT budget from the information systems division to the business division), in order to realize customers' digital reforms, the Company has established a policy of providing support from the Group as a whole, from upstream (consulting) through to constructing foundations, implementing functions, and conducting operations and analysis. Also, the Company is aiming to be a co-creation partner to realize customers' digital reforms by combining the software development technologies of the companies in the Group, its expertise in systems operations, and its digital platform technologies in order to make effective use of its customers' business expertise and accumulated data. Moreover, its policy is to continue to utilize its liquidity, of an abundance of cash on hand, to actively conduct M&A (include to supplement new IT resources).

3. The management policy and priority measures in the current fiscal period

(1) Integrating and enhancing the sales force to expand the customer base

In addition to integrating the sales and technical-support functions, the Company will newly establish an IT solutions sales head office and strengthen its ability to propose solutions to customers. It will also establish approaches tailored to each customer group (the phase toward the realization of digital reforms) and create a sales structure to provide proposals.

(2) Strengthening the ability to provide solutions through alliances

The Company is developing its ability to create solutions through collaborating with partner companies that have strengths in their respective industries (collaboration model), such as for the previously mentioned LIVE UNIVERSE (a corporate e-learning and knowledge system). It also intends to utilize its capital and business alliance with I-NET to bolster its ability to respond to the cloud market.

(3) Developing and providing products and services that create new value

For its existing products that have become difficult to differentiate, the Company will promote the creation of solutions that sequentially implement AI (artificial intelligence) to provide new added value. It also intends to strengthen cloud services to respond to the digital business, including by newly establishing a digital services head office. In addition, it is progressing the development of a solutions model (applications) to directly solve customers' problems, as seen with LIVE UNIVERSE and Passenger Sensor (UNITRAND).

(4) Leveraging Group synergies

The Company will promote the creation of an eco-system through collaborations between Group companies, including linking the approach for the IT upstream process by the consulting subsidiaries to product sales, covering the post-process with customer services, or combining AI functions and a cloud platform for its subsidiaries' IoT services. In particular, from the viewpoint of strengthening the Group's capabilities by sharing the functions between the Company and its subsidiaries, it has created a strategy of utilizing the Company's development (and financial) capabilities to create the products that are planned by the subsidiaries, which possess high levels of expertise and mobility for their markets, and thereby increase business speed at its subsidiaries.

At FISCO, we are focusing on the direction that the Company is taking to further evolve the reforms to its business structure that it has implemented so far (including constructing a business structure that integrates offense and defense and replacing IT skills in the new and growth businesses), and placing greater emphasis on the provision of solutions (directly solving problems and creating new businesses). In other words, in addition to selling stand-alone products (package sales), we expect that the Company will be able to increase its appeal and competitive advantages for customers (especially those with a budget) and also expand the possibilities in terms of development potential and development capabilities for businesses by utilizing the collaborations between all of the Group companies, and from joining with customers, partner companies, and alliance partners, to create new value. Particularly in the case of the Company, while on the one hand it has a rich customer base (points of contact) that it has accumulated in Systems Operations up to the present time, it has also established a system to provide a wide range of products (services) from both the aspects of offense and defense, including from its subsidiaries that have high levels of expertise and mobility, and we think there is great potential to combine these aspects to create a variety of solutions. Therefore, we shall be following the progress it makes in terms of what kinds of solutions it will create and in what forms to accelerate growth in the future, based on the new system.

Corporate history and business performance

Completed the management integration with Beacon IT in April 2015 and made a new start as UNIRITA

1. Corporate history

The Company was established as Three B, Inc. in 1982 in Tokyo's Chuo Ward as a subsidiary of Business Consultant, Inc., a provider of programs for HR and organizational development. Business Consultant was the origin for Software AG of Far East, which changed its name to Beacon IT in August 1996. Software AG of Far East had been selling A-Auto software for automating the scheduling of complicated computer systems jobs and enhancing the efficiency of IT systems administration in Japan, with Three B, Inc. being set up to sell this software in the U.S.

Subsequently, in 1987, Three B, Inc. changed its name to BSP. The turning point for BSP was when it took over the systems management operations of Software AG of Far East in 1993 and commenced full-scale operations as a specialist in systems administration package software. After that it steadily strengthened its operational platform, while benefiting from increased investment in IT systems in Japan, and built a track record chiefly in software for core mainframe systems, mainly for financial institutions and large corporations.

In 2001, the Company established BSP Solutions Inc. and commenced full-scale consulting solutions operations. In 2006, it listed its shares on the JASDAQ Securities Exchange, currently TSE JASDAQ.

In 2008, the Company expanded into China by establishing BSP Shanghai. In 2013, based on the "operationless" concept, it commenced the Be.Cloud cloud service and administrative BPO Operations Service.

By consolidating Beacon IT in January 2014, BSP, as well as incorporating growth areas such as data utilization, began reforming its business structure.

In May 2014, BSP entered into a business alliance with Software AG, Inc. for handling products in the big data and business process management areas, thereby paving the way for operational expansion into the big data field.

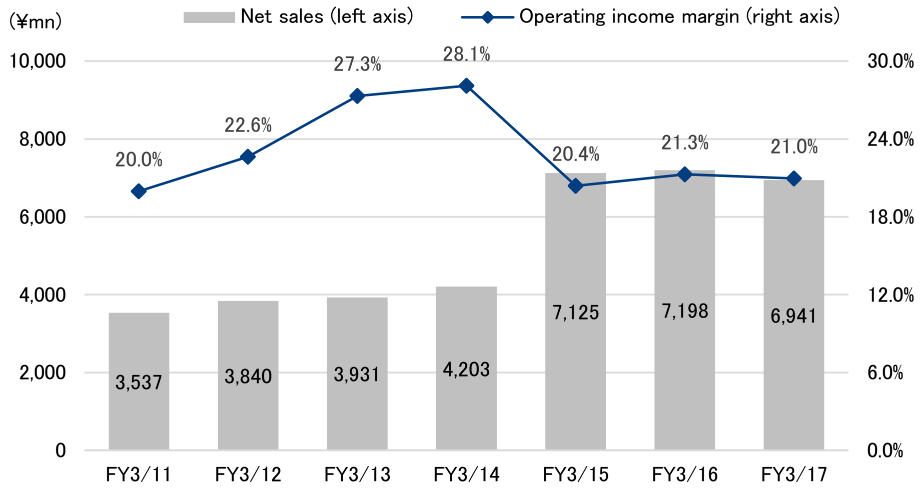
With the merger of Beacon IT in April 2015, the Company changed its name to UNIRITA Inc. The new company name embodies the concept of aspiring to contribute to the development of customers and society with “unique ideas” to create corporate value and an “altruistic” spirit (“rita” being the Japanese word for altruism).

2. Past business performance

Looking at the Company’s results trends, while net sales declined YoY from FY3/09 to FY3/10 due to the impact of the economic recession resulting from factors such as the collapse of Lehman Brothers, from FY3/12 onward, amidst a shift to open architecture systems, there has been continued underlying growth in sales, led by sales growth in the Product Division, which is now part of the Systems Operations Business. Also, as a result of the consolidation of Beacon IT in FY3/15, the Company’s operational scope expanded significantly.

From a profitability perspective, despite there still being a high degree of reliance on the Mainframe Business for income, the Company’s operating income margin trended upward with improving profitability in the Product Division and reached 28.1% in FY3/14. However, this margin has declined since FY3/15 due to upfront expenditure in line with its structural business reforms and other factors. Notwithstanding, the Company has maintained it at levels exceeding 20%.

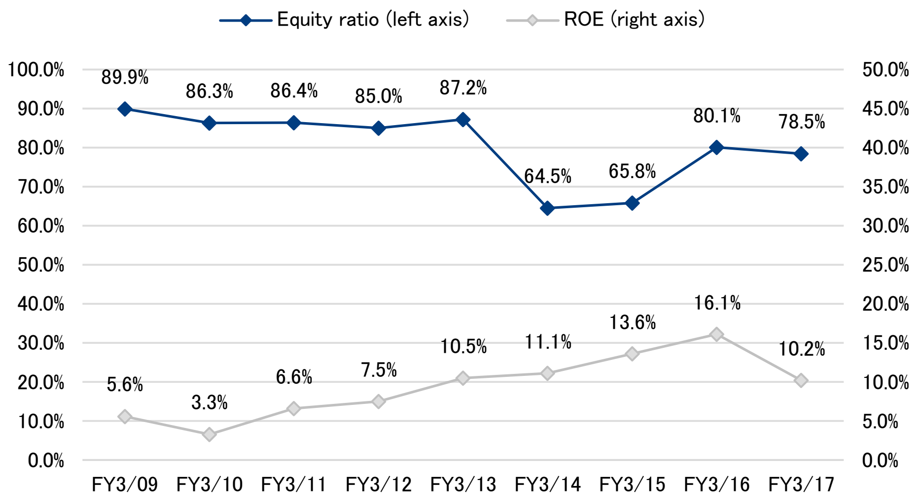
Net sales and Operating income margin



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

From a financial perspective, the Company arguably has an extremely conservative financial strategy. While the Company’s shareholders’ equity ratio, which represents the stability of the fiscal platform, suffered a one-off decline in FY3/14 as a result of the consolidation of Beacon IT, in FY3/16, in line with its merger with Beacon IT (and parent equity adjustment), the ratio rose to 80.1%. Further, the current ratio also, which represents its ability to meet short-term payments, reflecting an ample balance of cash and deposits, is trending at high levels, being 429.8% at March 31, 2017. However, we may view the strength of its financial platform as underpinning the Company’s growth, at times when it is necessary to invest in future growth fields. ROE, a measure of capital efficiency, moves in lock step with the Company’s profit margins, and has been above 10%.*

Equity Ratio and ROE trends



Note: ROE was high in FY3/16 due to a special factor (the effects of a temporary reduction in the tax burden).
Source: Prepared by FISCO from the Company's financial results

Industry environment

In the IT field, which directly connects to the value of this business, needs for the shift to in-house production can also be seen

According to a survey by International Data Corporation Japan, Japan's software market grew 4.0% YoY in 2015 to about ¥2,617.4bn, with strong performance underpinned by high growth in SaaS and PaaS, and higher demand in big data and analytics. Within that, the Company's core system management software market also performed well, expanding 4.9% YoY to about ¥309.5bn. Amidst progressive environmental changes, with as well as the market environment shifting away from a conventional mainframe focus toward open architecture systems, an increased use of cloud and other technologies, rising demand for virtual systems environment surveillance, as well as for streamlining configuration management and for automating and optimizing operational processes are driving market growth.

The main developers of software in Japan are vendors affiliated with large Japanese computer makers, such as Hitachi, Ltd. <6501>, FUJITSU LIMITED <6702>, and NEC Corporation <6701>, and vendors affiliated with foreign computer makers, such as IBM Corporation and Hewlett Packard Company. However, UNIRITA holds a large share of the Japanese market for software for mainframe computers and remains positioned to receive survivor benefits. Furthermore, there is no other listed software vendor specializing in IT systems operation in Japan. That is, there is no other listed company producing its own package software.

There is an increasing trend for users to invest in IT areas that contribute directly to their business expansion. Thus, they are acquiring digital technologies, such as big data utilization, artificial intelligence (AI), and IoT. They are also building business models based on the perspectives of their customers in order to create new corporate value.

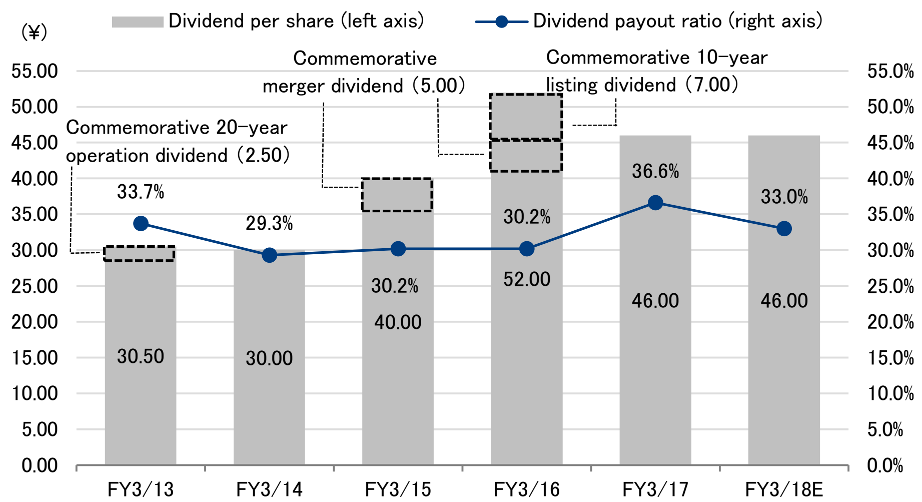
Shareholder returns

The forecast annual dividend in FY3/18 is again ¥46 (interim dividend ¥23, year-end dividend ¥23)

The Company's policy toward shareholder returns is to maintain a consolidated dividend payout ratio of 30%. The Company plans to pay an annual dividend of ¥46 in FY3/17 (interim dividend ¥23, year-end dividend ¥23), which is the same as the initial forecast (dividend payout ratio, 36.6%). This is less than the total annual dividend of ¥52 in FY3/16, which included a commemorative dividend of ¥12, but on an ordinary-dividend basis, it is an increase of ¥6 YoY. Also, the forecast for the current fiscal year (FY3/18) is for the same amount, of an annual dividend of ¥46 (interim dividend of ¥23 and year-end dividend of ¥23, for a forecast dividend payout ratio of 33.0%). Given the Company's profitability and growth, FISCO sees an increase in dividends in line with profit growth over the medium term.

Further, the Company has deployed a shareholder incentive scheme to increase the number of individual shareholders and enhance liquidity. Under this scheme, all shareholders as of March 31 each year will be presented with JCB gift cards corresponding to the number of shares they hold.

Dividend per share and Dividend Payout Ratio



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

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