

# UNIRITA Inc.

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## Summary

**In the FY3/19 results, although sales increased, profits declined, mainly due to the upfront investment with an eye to the future. In FY3/20, sales and profits are forecast to increase even while the active investment continues.**

### 1. Company profile

UNIRITA <3800> (hereafter, also “the Company”) develops, sells, and provides support for package software for the operation of IT systems, as well as solutions that utilize data. In April 2015, it merged with its consolidated subsidiary Beacon Information Technology Inc., (hereafter, “Beacon IT”) and changed its name from BSP Incorporated, to UNIRITA Inc. By integrating its management resources with those of Beacon IT, which was strong in the growth field of data utilization, the Company has been advancing structural reforms to respond to environmental changes. The role of IT is changing from “defensive” (such as to improve operational efficiency and reduce costs) to “offensive” (a means to realize business competitive advantages). In this situation, it is utilizing its strengths in the areas of “systems operations” and “data utilization” and working to strengthen its provision of solutions that directly solve the operational problems that companies are tackling in their digital reforms.

### 2. Summary of the FY3/19 results

In the FY3/19 results, sales increased but profits decreased, with net sales rising 33.5% year-on-year (YoY) to ¥9,422mn and operating income declining 31.8% to ¥919mn. In sales, the Systems Integration Business, which was newly added following the consolidation of Mugen Corp., contributed for the full fiscal year, while sales also grew in all businesses except the Mainframe Business. In particular, sales in the Cloud Business, which the Company is focusing on, grew significantly, while in the Product Business as well, sales were strong of its own existing products in the fields of systems operations automation and data utilization. Conversely, the reasons why profits decreased significantly were that it conducted upfront investment with an eye to the future, such as for developing services and training human resources to meet market needs, and for R&D expenses in the mobile-related business (IoT type solutions for bus companies), and also due to an increase in outsourcing costs in technical support services and a rise in personnel costs following the introduction of a new personnel system (including raising base salaries). Therefore, although profits decreased, it is necessary to understand that this was due to the increase in upfront investment that will lead to growth in the future. In particular, the Company was able to achieve a certain level of results toward building a foundation for the future, including actively investing toward solving societal problems (the regeneration of the regions, reforms to ways of work, and the revitalization of primary industries) through the utilization of IT, including for M&A and capital and business alliances.

### 3. FY3/20 results forecasts

For the FY3/20 results, the Company is forecasting higher sales and profits, with net sales to increase 6.1% YoY to ¥10,000mn and operating income to rise 8.8% to ¥1,000mn. The outlook is for sales to steadily grow in each of the mainstay Cloud Business and Product Business, and in the Solutions Business. In profits also, it expects to secure an increase in profits from the higher sales, even while continuing to actively invest. However, the operating margin is set to improve only slightly to 10.0% (9.8% in the previous fiscal year) due to the delay in improving earnings in the Cloud Business, which is a growth field, and the increase in management costs.

Summary

4. Growth strategy

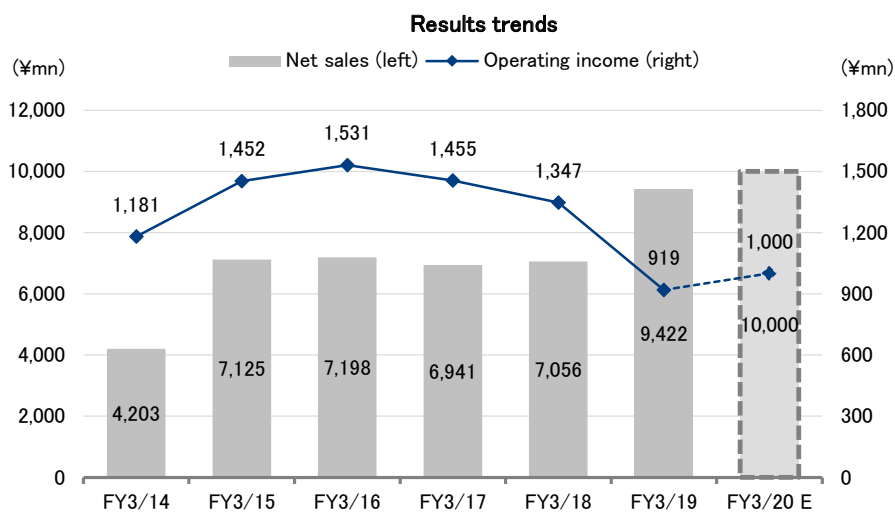
Since FY3/19, the Company has been progressing its three-year medium-term management plan. The plan's targets for FY3/21, which is its final fiscal year, are net sales of ¥11 bn (for a three-year average annual growth rate of 15.9%), operating income of ¥1.25bn (operating margin of 11.4%), and ROE of 7.6%. The plan is to develop all businesses except the Mainframe Business, which is experiencing a shrinking market. The Company has positioned the Cloud Business, in which demand is increasing, as a growth field, and the main elements of its strategy are to strengthen Cloud solutions and carry out new initiatives for the industry SaaS business (HR-related, mobile device-related, and agricultural-related).

Although profits are currently trending at a low level due to the impact of the upfront investment, in a situation in which the market environment is changing rapidly, including the progress of the digital transformation\*, at FISCO we evaluate as rational its strategy of focusing on building a foundation with an eye to the future, including through continuing to actively invest and replacing the product mix. To look at this in another way, the biggest issue is how to develop businesses to be the next-generation earnings pillars, so we shall be focusing on the businesses with significant potential for which is aiming to acquire the first mover advantage, including the progress made in the Company's own industry SaaS businesses.

\* The concept that the spread of IT will change people's lives for the better in every aspect.

Key Points

- Results in FY3/19 showed a significant increase in sales, but a decrease in profits. Profits were kept down by active investment into new businesses and growth fields, in addition to some products falling short of sales targets
- But it was able to achieve a certain level of results toward building a foundation for the future, such as by actively investing toward solving societal problems through the utilization of IT, including for M&A and capital and business alliances.
- The outlook for the FY3/20 results is for higher sales and profits even while the active investment continues.
- The Company has a policy to accelerate growth through initiatives in the SaaS business (HR-related, mobile device-related, and agricultural-related) that specialize in certain industries, such as services which revolve around cloud solutions that address customers' digital transformation needs



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

We encourage readers to review our complete legal statement on "Disclaimer" page.

## ■ Company profile

### Strong in the areas of systems operations and data utilization. An independent developer of proprietary software.

#### 1. Business overview

The Company develops, sells, and provides support for package software for the operation of IT systems for a broad range of industries, primarily finance and manufacturing, as well as solutions that utilize data.

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 in the past 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\*. In addition to fields that contribute to automatizing and optimization in IT systems operations (productivity improvement), 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). The Company is also progressing with creating a business structure that addresses customers' digital transformation needs, on both the sides of "offense" and "defense."

\* 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.

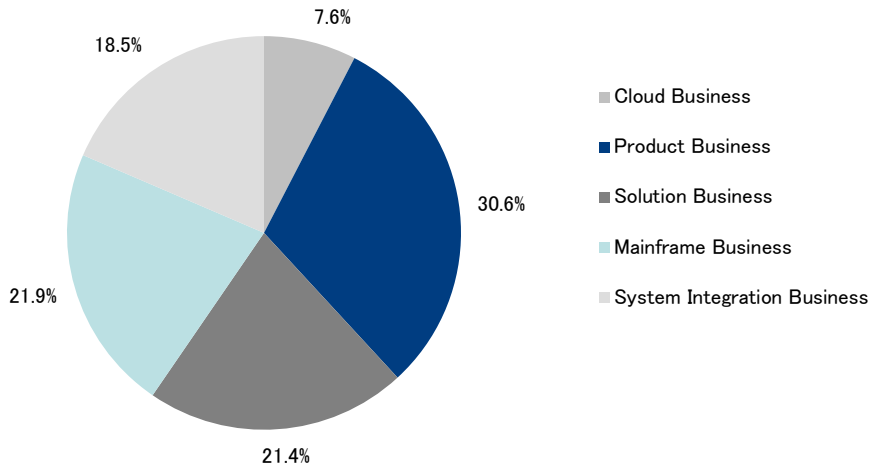
In addition, the Company promotes its new medium-term management plan from FY3/19. It is further progressing with initiatives it has carried out thus far, and adopting a course of action that emphasizes offering more specific solutions that directly solve customers' problems or create new business, such as offering cloud services with higher levels of business expertise and promoting collaborative models with partner companies.

The Company has five business segments\*; the Cloud Business, the Product Business, the Solutions Business, the Mainframe Business, and the Systems Integration Business. The percentage of sales provided by the Mainframe Business, which has been main business since its establishment, has been declining due to the growth of the other businesses. However, the percentage provided by the Cloud Business, which is a growth field, has grown significantly, although it is still only small scale.

\* The Systems Integration Business was newly added from FY3/19 following the consolidation of Mugen Corp., which the Company acquired in February 2018.

Company profile

Percentages of total net sales by business (FY3/19 results)



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

An overview of each business is provided below.

**(1) Cloud Business**

In areas such as data utilization, systems operations, work management, and back-office operations, the UNIRITA Group provides products and services as Cloud services (usage-fees type). The main products it is focusing on for development are LMIS\*1, an ITSM (IT services management) tool; Scoop×Digital Workforce\*2, a security function that meets needs for workstyle reforms; and Digisheet\*3, which is a SaaS-type attendance management service for the personnel outsourcing industry. In addition, recently the Company released the communication specialized-type PaaS Smart Communication Platform\*4, and it is the first vendor of this platform in Japan. It has also begun providing UNIRITA Cloud services to provide a wide range of support, from server operations management through to security measures and responses to failures, on the I-NET Cloud-based platform through a collaboration with I-NET CORP <9600>\*5, which manages Cloud-based data centers.

\*1 "LMIS" is a cloud-based service that provides a framework for the appropriate management of IT services as a whole, centered on a service desk function.

\*2 "infoScoop×Digital Workforce" is a cloud-based service that has single sign-on and ID management functions, which contributes to improving operation efficiency and strengthens security.

\*3 Provided by the subsidiary, Aspex Inc.

\*4 When a company is advancing digital reforms, and when a cloud integrator is developing cloud-based services, it is a platform on which the user can select and quickly deploy the necessary functions from the systems infrastructure provided by the Company and the micro services (video, SNS, etc.)

\*5 Concluded a capital and business partnership in May 2017

Company profile

**(2) Product Business**

The Company sells products focused on the open packaged software it develops in-house. In the data utilization area, it provides software products and services to link, analyze, and utilize huge amounts of data that are generated atypically and in real time. Also, in the systems operations area, it provides the products and services necessary to operate core operations systems accurately and efficiently. The sources of revenue are the royalties from product usage rights (license fees) and maintenance service fees, which are a fixed ratio of the product cost. Its main products include the job management tool “A-AUTO” (automation area)\*1 and the data coordination and integration tool “Waha! Transformer” (ETL area)\*2. It is also developing products and services in other areas, including BPM\*3, IoT solutions for bus operators by a subsidiary\*4, and products to respond to BCP\*5.

\*1 “A-AUTO” is a batch processing job management tool that manages the jobs on systems that are operating on different platforms in an integrated manner and that realizes automatic implementation controls.

\*2 “Waha! Transformer” is an ETL tool produced in Japan that uses non-programming to convert the data in various formats used for operations into the necessary format.

\*3 An abbreviation of Business Process Management. It involves ascertaining and analyzing the sequence of operations in a company as a whole, and using an information system to continuously manage, improve, and optimize.

\*4 Solutions for bus operators utilizing IoT technologies. In addition to bus location search systems (bus route searches and bus location tracking searches), it is also developing system to count the number of bus passengers in real time. This business is conducted by consolidated subsidiary UNITRAND Inc.

\*5 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. This business is conducted by consolidated subsidiary Bitis, Inc.

**(3) Solutions Business**

In order to expand the Cloud Business and Product Business, the Company is taking responsibility for the processes before and after these two businesses, and it provides consulting for systems operations and data management to support customers’ digital reforms. It provides customers with high-value-added solutions through supporting their introductions of the Company Group’s products and services and other technical support. In other words, the markets are approached from the Solutions Business (consulting), which leads to the sales of products and services in both these businesses. Then after that, integrated services are provided from the Solutions Business (such as technical support and outsourcing). Therefore, it is necessary to be aware of their relationship that means these two businesses mutually affect each other.

**(4) Main frame Business**

In this business, the Company sells and provides supports for its own software products for mainframes for the operations and management of core operations systems, mainly for financial institutions, life and non-life insurance companies, and major manufacturing industry companies. It has been its mainstay business since its foundation and is a stable source of revenue. Despite the shrinkage of the entire market as the field matures, the Company is working to develop new demand, including by starting to provide new functions\* that user companies are highly interested in.

\* The Company has started to provide software with added systems operations simulation functions for mainframe users that utilize the expertise and skills it has accumulated up to the present time.

**(5) Systems Integration Business**

This segment was newly added in FY3/19 following the consolidation of Mugen, which the Company acquired in February 2018. It builds corporate information systems, such as for customer management, e-commerce, content management, and IT infrastructure, mainly for customers in the information and communications industry, distribution retailing industry, and manufacturing industry. In terms of its business characteristics, its profit margin is low compared to the level of the Company as a whole, but it plays an important role in the Group’s ecosystem that provides one-stop proposals from the upstream of customers’ system lifecycles.

#### Company profile

As of March 31, 2019, more than 1,200 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, previously the Company provides its products and services mainly through direct sales, but recently it has been working to strengthen its ability to provide solutions through collaborations (promotion of a collaboration model) with its partner companies (sales agencies). The number of partner companies has exceeded 100.

The Company had the following eight consolidated subsidiaries. BSP Solutions Incorporated runs a systems operations consulting 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 IT solution services for mobile equipment. UNIRITA PLUS Inc. offers sales channels to customers in western Japan and boosts sales of its products while collaborating with partners. Mugen Corp. operates a system integration business and develops and sells its own package software.

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

### 2. 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 distinguished 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 in 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 16,500 members and 200 endorsing companies. This demonstrates that UNIRITA is the driving force in this field. Also, the customer base of more than 1,200 companies has great potential in terms of providing them with solutions in the future to address their various business problems.



## Company profile

**(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 52.3% (FY3/19 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 play the role of a cash cow for the time being by receiving survivor benefits, and enabling the income from the business to be diverted into investments in new growth areas such as cloud business and product business, 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 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

### In FY3/19, sales significantly increased, but profits decreased. The upfront investment for growth in the future is keeping down profits.

In the FY3/19 results, sales increased but profits decreased, with net sales rising 33.5% YoY to ¥9,422mn, operating income falling 31.8% to ¥919mn, ordinary income declining 29.2% to ¥1,029mn, and profit attributable to owners of parent decreasing 35.3% to ¥624mn. Compared to the initial forecasts, net sales are increased as it was planned, operating profits and ordinary income are slightly increased the forecasted figures.

In sales, the Systems Integration Business, which was newly added following the consolidation of Mugen Corp., contributed an additional amount (of about ¥1.75bn) for the full fiscal year, while sales also grew in all businesses except the Mainframe Business. In particular, sales in the Cloud Business, which the Company is focusing on, grew significantly, while in the Product Business as well, sales were strong of its own existing products in the fields of systems operations automation and data utilization.

Conversely, the reasons why profits decreased significantly were that the Company conducted upfront investment with an eye to the future, such as developing services and training human resources to meet market needs, and for R&D expenses in the mobile-related business (IoT type solutions for bus companies), and also due to an increase in outsourcing costs in technical support services and a rise in personnel costs following the introduction of a new personnel system (including raising base salaries).

For the Company's financial condition, although "Investment securities" increased due to the M&A, total assets were basically unchanged YoY at ¥15,419mn. Shareholders' equity grew 2.3% to ¥11,698mn due to the accumulation of internal reserves, and the equity ratio improved slightly to 75.9% (74.1% at the end of the previous fiscal year).

## Business trends

## Summary of the FY3/19 results

	FY3/18		FY3/19		Change		(¥mn)			
	Results	% of sales	Results	% of sales	% Change	FY3/19		Vs plan		
						Revised forecast	% of sales	Achievement rate		
Net sales	7,056		9,422	100.0%	2,366	33.5%	9,400		22	100.2%
Cloud Business	513	7.3%	715	7.6%	202	39.3%	770	8.2%	-55	92.9%
Product Business	2,562	36.3%	2,878	30.6%	316	12.4%	2,810	29.9%	68	102.4%
Solutions Business	1,748	24.8%	2,018	21.4%	270	15.3%	2,030	21.6%	-12	99.4%
Mainframe Business	2,231	31.6%	2,063	21.9%	-168	-7.6%	2,020	21.5%	43	102.1%
Systems Integration Business	-	-	1,746	18.5%	1,746	-	1,770	18.8%	-24	98.6%
Cost of sales	2,032	28.8%	4,020	42.7%	1,988	97.8%	-	-	-	-
SG&A expenses	3,676	52.1%	4,482	47.6%	806	21.9%	-	-	-	-
Operating income	1,347	19.1%	919	9.8%	-428	-31.8%	850	9.0%	69	108.1%
Cloud Business	-83	-	-153	-	-70	-	-	-	-	-
Product Business	302	11.8%	294	10.2%	-8	-2.7%	-	-	-	-
Solutions Business	219	12.6%	104	5.2%	-115	-52.5%	-	-	-	-
Mainframe Business	1,178	52.8%	1,079	52.3%	-99	-8.4%	-	-	-	-
Systems Integration Business	-	-	44	2.5%	44	-	-	-	-	-
Adjustment	-270	-	-449	-	-179	-	-	-	-	-
Ordinary income	1,454	20.6%	1,029	10.9%	-425	-29.2%	950	10.1%	79	108.3%
Profit attributable to owners of parent	965	13.7%	624	6.6%	-341	-35.3%	630	6.7%	-6	99.0%

	At end of March 2018	At end of March 2019	Change	
				% change
Total assets	15,437	15,419	-18	-0.1%
Shareholders' equity	11,432	11,698	266	2.3%
Shareholders' equity ratio	74.1%	75.9%	1.8pt	-

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

Results by business are as set out below.

### (1) Cloud Business

Net sales increased 39.3% YoY to ¥715mn and the operating loss was ¥153mn (compared to a loss of ¥83mn in the previous fiscal year), so although sales increased greatly, the extent of the loss also increased. Sales grew steadily of the main products, of LMIS (IT management service) and DigiSheet (SaaS-type attendance management service), while the increase in sales of Mugen's Raku-Raku Boss series (budgeting management solutions) also contributed. In particular, in addition to improved name awareness, LMIS was able to capture demand from improving the operational efficiency of service desks\* through proposals in collaboration with partner companies and systems operations consultants, and from the success of its measures, such as for digital marketing. For DigiSheet, the trend to reforming work styles is proving to be advantageous, and the Company succeeded in meeting the needs of the construction industry, as well as of the temporary staffing industry. But the reason for the major decrease in profits (and expansion of the extent of loss) was the investment to develop services, including relating to infoScoop×Digital Workforce and Raku-Raku BOSS. In particular, the Company is positioning infoScoop×Digital Workforce as an IT platform that links "digitization" and "security, and it intends to strengthen solution sales in the future by combining products in different fields, including for portal, single sign-on, and ID management.

\* In light of companies' shift to business process outsourcing (BPO) for help desk operations, it is essential to have a mechanism to manage continuous improvements, such as monitoring on items that visualize the quality of that service. The Company's subsidiary BSP Solutions Inc. is a pioneer in creating consulting services in line with this mechanism, with a superior system that enables the company to offer proposals that combine consulting and products and tie-in to larger scale projects.

## Business trends

**(2) Product Business**

Sales increased but profits decreased, with net sales rising 12.4% YoY to ¥2,878mn, and operating income declining 2.7% to ¥294mn. In sales, products for the shift to operations solutions, mainly the Company's own products, were successful, and sales of ETL and report creation products were strong. In addition, sales were steady of automation products in systems operations, including due to an order for a large-scale project in the 2H. Conversely, profits declined, as the impact of the lack of sales of automation products in the 1H remained, and also due to other factors, including the lack of sales of products in the mobile devices-related business (IoT-type solutions for bus companies) and the increase in R&D expenses in the same business. Therefore, while overall the Company's own existing products performed strongly, results were slightly dragged down by the performance of the mobile devices-related business, which is still at the upfront-investment stage.

**(3) Solutions Business**

Sales increased but profits decreased, with net sales rising 15.3% YoY to ¥2,018mn and operating income falling 52.5% to ¥104mn. In sales, the Company succeeded in linking the Cloud Business and the Product Business, and sales grew both for consulting, which is a pre-process for the growth of each of these businesses, and technical support services, which is a post-process. Also, combination proposals that use data-utilization consulting and other proposals contributed to the growth in consulting and technical support services. Conversely, profits declined significantly, which was due to three major overlapping reasons; the remaining effects of the temporarily worsening profitability for some of the systems construction projects, that outsourcing costs increased alongside the growth in technical support services, and that the Company invested in training technical support services personnel with an eye to the future.

**(4) Mainframe Business**

Sales and profits decreased, with net sales falling 7.6% YoY to ¥2,063mn and operating income declining 8.4% to ¥1,079mn. A sluggish period occurred for customer demand for device upgrades and there were no large-scale orders, which had contributed to results in FY3/19, and this invited the rebound declines in sales and profits. However, overall it seems that demand is trending stably.

**(5) Systems Integration Business**

Net sales were ¥1,746mn and operating income was ¥44mn in the Systems Integration Business that was newly added with Mugen's consolidation. Based on the favorable ordering environment, orders for systems development projects grew. But in profits, in accordance with the Engineer Development Plan for the Group, outsourcing costs increased due to a temporary shortage of in-house development engineers following the assignment of some engineers to UNIRITA itself.

## ■ Main activities

### Actively invested in solving societal problems through the utilization of IT, including for M&A and capital and business alliances

Based on its medium-term management plan, the Company is working on the following key policies: (1) Cloud First, (2) Providing Group ecosystem solutions, and (3) Developing new businesses. In FY3/19, it actively invested in solving societal problems (in particular, the regeneration of the regions, reforms to ways or working, and the revitalization of the primary industries) through the utilization of IT, mainly by concluding M&A and capital and business alliances (a total of approximately ¥400mn), developing solutions with various partner companies, and training human resources to learn new skills. The main results it achieved are as follows.

#### (1) Cloud first

With the themes of promoting the shift to Cloud for existing products, strengthening the competitiveness of the ITSM business, and reforming ways of working, the Company focused on measures including designing new SaaS products and enhancing the collaboration model with I-NET CORP. As a result of these efforts, as previously mentioned, results grew firmly in the growth fields in which customer needs are expanding, including for LMIS and DigiSheet. On the other hand, it would seem that promoting the shift to Cloud for existing products is lagging slightly behind schedule. But the Company can be said to have achieved a certain level of results in terms of building the foundation on which to grow its business in the future, including developing UNIRITA Cloud services through the collaboration with I-NET, strengthening infoScoop×Digital Workforce as an IT infrastructure to support reforms to ways of working, and training human resources to respond to developments of new services and technologies. In addition, on November 5, 2018, the Company's subsidiary Aspex Inc., acquired all of the shares of Business Application Co., Ltd., and made it a wholly-owned subsidiary. Business Application develops, sells, maintains, and provides support services for an operations management system for the human resources service industry. Along with integrating the technological capabilities and knowledge cultivated at Business Application, the Company is aiming to link consulting and cloud services to address a broader range of customer needs than ever before.

Main activities

**(2) Providing Group ecosystem solutions**

With this policy, the Group has exerted effort towards initiatives which promoted collaboration within the Group to handle digital transformation needs, proposed solutions for business expansion with partner companies, and optimized personnel deployment to strengthen the Group's technological competitiveness. Particularly in Group collaboration, the Company had successful proposals that combine the Company's products with a subsidiary's consulting business, such as systems operation consulting and ITSM, or consulting that utilizes data and BPM. It can be said that the successful pattern which has taken shape in terms of utilizing the Group's own strengths paves the way for great progress in the future. For solutions development with partner companies, although the Company was late in boosting the service lineup, it was able to achieve certain results\*1 in terms of development of solutions tied to RPA, in which the market is expanding. As for optimizing personnel deployment, the Company is also aiming to strengthen Group-wide technological capabilities by utilizing Mugen engineers' expertise within the Group\*2. In FY3/19, the Company was still undergoing the process to cultivate and strengthen its human resources; although one-time costs for personnel deployment were a cause for a loss in profits, the situation is expected to improve as operations proceed with actions such as reduction of outsourcing costs and others.

\*1 A measure from Arise Innovation, Inc., that provides AIRead, which uses AI to recognize characters, such as in documents, and to convert them to data, in order to improve the efficiency of data input, and TOYOTSU SYSCOM CORPORATION, a member of the Toyota Tsusho <8015> Group that conducts an ICT business. The former utilizes the Company's ETL tools to realize the automation of data checks read by AI. The latter provides support for the UNIRITA Group's BSP solutions through services management consulting for when TOYOTSU SYSCOM implements RPA.

\*2 The Company assigned 30 engineers from Mugen to areas such as the Cloud Business, Solutions Business, and Product Business; along with strengthening the Company's technological development capabilities, each engineer will take package technology they have absorbed in the businesses back to Mugen to utilize in that company's product development in the near future.

**(3) Developing new businesses**

For new businesses, the Company is focusing on entering-into "agriculture x IT," developing the mobile devices-related business and enhancing the lineup of services, and strengthening the HR (general affairs and human resources) related services. For "agriculture x IT," it is participating in a joint project with the Ministry of Economy, Trade and Industry and Fukushima Prefecture. In this project, it is developing solutions that enable even a small number of people to achieve large-scale operations through building a data platform that uses AI for fruit tree agriculture and the development of agricultural robot solutions\*1. Also, for the mobile devices-related business, the subsidiary UNITRAND, Inc., has invested in a tech-development company that provides interactive services that utilize AI. Through this investment, it has built a system for service development that responds to technological innovation and expands upon various services, such as interactive response services that use AI. It has also installed an AI reception service\*2 at the Obihiro Station Bus Terminal in Hokkaido, which started operating in July 2018, while in April 2019, this service started operating in the Shinkibus Sannomiya Bus Terminal in Kobe, the first of its kind in West Japan. The Company also invested in a new company that is developing positioning data and indoor mapping technologies essential to IoT services for mobile devices. The new company is also focusing on "the movements of people," pursuing the development of solutions that contribute to logistics, the marketing of indoor facilities, and the revitalization of event businesses by using analyses of indoor movement and vital sensing\*3. For HR-related (general affairs and human resources) services, as previously explained, the Company's efforts included the M&A of Business Application and strengthening infoScoop×Digital Workforce as the IT infrastructure to support reforms to ways of working.

\*1 In FY3/19, it completed the development of the data platform and the web app beta version, and the prototypes of an autonomous vehicle transport robot and harvest robot. In FY3/20, it will add AI analysis functions to the data platform and expand the data collection. For the robot system, it plans to improve the autonomous programs and the motion mechanism.

\*2 An AI reception service with an interactive display that has image recognition technology.

\*3 Technology that measures heartbeat, pulse, blood pressure, electrocardiograph, blood oxygen levels with different kinds of sensors.

## Business outlook

### Forecasts for FY3/20 are for higher sales and profits. Will continue with the upfront investment in growth fields

For the FY3/20 results, the Company is forecasting higher sales and profits, with net sales to increase 6.1% YoY to ¥10,000mn, operating income to rise 8.8% to ¥1,000mn, ordinary income to climb 6.9% to ¥1,100mn, and profit attributable to owners of parent to increase 20.1% to ¥750mn. However, the profits forecasts have been revised to levels below the targets in the medium-term management plan (operating income of ¥1,100mn and profit attributable to owners of parent of ¥820mn).

The outlook is for sales to grow steadily in each of the mainstay Cloud Business and Product Business, and in the Solutions Business. Higher profits are also expected to be secured from the increase in sales. However, the reasons why the operating income forecast has been revised to a level below the target in the medium-term management are the delay in improving earnings in the growth field of the Cloud Business (due to continuous upfront investment), and the rise in management costs (including additional investment to strengthen the in-Company information system). As a result, the operating margin is forecast to improve only slightly to 10.0% (9.8% in the previous fiscal year).

At FISCO, we think it is possible that the Company will achieve its net sales forecast. This includes because, in a situation in which customers' efforts for the digital transformation are expanding to business departments' IT, its own existing products, which meet market needs, are selling favorably, while its solutions proposals through collaborations with the consulting functions in the Group have also gotten on track. For profits, although it expects to continue to invest to establish the foundation for earnings in the future, we evaluate the assumptions for the profit forecasts to be rational. The biggest points to focus on will be the developments for the shift to Cloud services of existing products (introduction of UNIRITA Cloud services), for which progress seems to have lagged a little behind schedule up to FY3/19, and building collaboration models with various partner companies, and our understanding is that it is on track toward generating earnings from the new businesses with the aim of benefiting from the first mover advantage.

#### Forecast for FY3/20

	(¥mn)					
	FY3/19		FY3/20		Change	
	Results	% of sales	Initial forecast	% of sales		% change
<b>Net sales</b>	9,422		10,000		578	6.1%
Cloud Business	715	7.6%	950	9.5%	235	32.7%
Product Business	2,878	30.6%	3,100	31.0%	222	7.7%
Solution Business	2,018	21.4%	2,230	22.3%	212	10.5%
Mainframe Business	2,063	21.9%	1,970	19.7%	-93	-4.5%
System Integration Business	1,746	18.5%	1,750	17.5%	4	0.2%
<b>Operating income</b>	919	9.8%	1,000	10.0%	81	8.8%
Cloud Business	-153	-	-43	-	110	-
Product Business	294	10.2%	334	10.8%	40	13.8%
Solution Business	104	5.2%	124	5.6%	20	18.6%
Mainframe Business	1,079	52.3%	1,024	52.0%	-55	-5.1%
System Integration Business	44	2.5%	59	3.4%	15	34.0%
<b>Ordinary income</b>	1,029	10.9%	1,100	11.0%	71	6.9%
<b>Profit attributable to owners of parent</b>	624	6.6%	750	7.5%	126	20.1%

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

## Medium-term management plan

**Accelerate growth centered on Cloud Solutions. In particular, intends to expand the SaaS business specializing in specific industries.**

### 1. Basic policy and numerical targets

Since FY3/19, the Company has been progressing its medium-term management plan, with FY3/21 as its final fiscal year. As previously explained, due to the delay in improving earnings in the Cloud Business, which is a growth field, and the rise in management costs, it has lowered the profits forecasts for FY3/20, but there has been no change to the direction it is taking for the future. In the situation of the rapidly changing IT environment surrounding companies, it is aiming to be a “strategic IT partner” that contributes to the growth of its customers’ businesses, and it is working on the following three basic policies.

- (1) Refine the expertise in “systems operations” and “data utilization” and further strengthen the business foundation
- (2) Expand the SaaS business in the business IT field that will revitalize the market
- (3) Actively invest in the latest digital technologies and construct a business foundation

Also, the targets for final year of FY3/21 are net sales of ¥11bn (three-year average growth rate, up 15.9%), operating income of ¥1.25bn (operating margin, 11.4%), and ROE of 7.6%. The plan is for all the businesses, excluding the Mainframe Business, to grow. But in particular, it has positioned the Cloud Business, for which demand is increasing, as a growth field, and the main elements of its strategy are to provide its proprietary Cloud infrastructure, to strengthen Cloud solutions, and to conduct new initiatives for the industry SaaS business. The operating margin will decline significantly in from FY3/19 and continue to remain at a low level for the second consecutive fiscal year due to the effects of the Systems Integration Business, in which profitability is comparably low, and upfront investment aimed at expanding the Cloud Business. Despite this, the subsequent policy is to create sound improvements through the effects of increased profit and enhancements to added value.

### Revised medium-term management plan

	FY3/18 Results	FY3/19 Results	FY3/20		FY3/21 Plan	Average growth rate
			Initial forecast	Revised forecast		
Net sales	7,056	9,422	10,000	10,000	11,000	15.9%
Cloud Business	513	715	-	950	1,330	37.3%
Product Business	2,562	2,878	-	3,100	3,680	12.8%
Solution Business	1,748	2,018	-	2,230	2,480	12.3%
Mainframe Business	2,231	2,063	-	1,970	1,900	-5.2%
System integration Business	-	1,746	-	1,750	1,610	-
Operating income	1,347	919	1,100	1,000	1,550	4.8%
Profit margin	19.1%	9.8%	11.0%	10.0%	11.4%	
Profit attributable to owners of parent	965	624	820	750	1,220	8.1%
Profit margin	13.7%	6.6%	8.2%	7.5%	11.1%	
ROE	8.7%	5.4%	6.9%	-	7.6%	

Source: Prepared by FISCO from the Company's financial results, results briefing materials and new medium-term management plan materials

Medium-term management plan

**2. Strategy and targets by business segment**

**(1) Cloud Business**

By combining the Company's "existing products" and "business templates" to provide Cloud services (SaaS services), it is expanding its provision of services to directly solve customers' operational problems. Also, with the aim of providing its expertise in its existing businesses to industry specific platforms\*1, it is developing and advancing measures for an industry SaaS business that focuses on three fields; HR-related (general affairs and human resources)\*2, mobile device-related\*3, and agriculture-related\*4. The target for the plan's final fiscal year is net sales of ¥1.33bn (annual average growth rate, up 37.3%).

- \*1 Aiming for a platform that solves the problems of an industry by the Company itself acquiring the business expertise that is specific to that industry, and also by aggregating and analyzing data and increasing the accuracy of data analysis.
- \*2 The development of solutions relating to human assets (such as supporting workstyle reforms), centered on products and services, including SaaS-type attendance management services for the personnel outsourcing industry and expenses-calculation package software for back offices.
- \*3 Centered on IoT solutions for bus operators, strengthening IoT and AI technologies and developing transportation-related solutions (such as contributing to regional revitalization), including in relation to the Smart City concept.
- \*4 By utilizing its strengths in the data utilization area and collaborating with businesses in various fields, improving efficiency through introducing IT into agriculture and developing a platform and business model that will led to the generation of profits (including contributing to "revitalizing primary industries").

**(2) Product Business**

To expand core operations solutions, the Company will advance the installation of AI into groups of existing products and services. Also, in order to build a Win-Win relationship with partner companies (sales agencies), it will work to develop products and services that will expand the businesses of its partner companies, while it also plans to increase investment to strengthen the functions of Group companies' product and services (the mobile-related business and expenses-calculation package software for administrative departments). However, as stated above, the shift to the Cloud will be undertaken flexibly in line with changes in market conditions and customer needs. The target for the plan's final fiscal year is net sales of ¥3.68bn (annual average growth rate, up 12.8%).

**(3) Solutions Business**

In addition to expanding the consulting business specializing in digital reforms and developing one-stop services (planning, design, construction, operations, and improvements), the Company is working to create stock businesses, including by developing RPA-related services for core operations-related IT and expanding the managed services (management and administration outsourcing services)-type BPO business. The target for the plan's final fiscal year is net sales of ¥2.48bn (annual average growth rate, up 12.3%).

**(4) Mainframe Business**

As a comprehensive mainframe vendor and amidst a reduction of the market, the Company will establish the survivor position in the market through utilizing the collaboration model with other mainframe vendors and training and developing engineers. The target for the plan's final fiscal year is net sales of ¥1.9bn (annual average growth rate, down 5.2%).

**(5) Systems Integration Business**

In addition to training and developing digital engineers, such as for AI, IoT, Big Data and block chains that are necessary for a digital business, the Company is aiming to utilize its application development engineers to speed-up the development of the Group's products and services. The target for the plan's final fiscal year is net sales of ¥1.61bn.



### 3. Other basic strategies

#### (1) Strengthening competitiveness through the UNIRITA Group ecosystem

Through collaborations between the Company itself, the Group companies, the companies with which it has business and capital alliances, and the partner companies, the aim is to strengthen competitiveness by building a structure that can provide one-stop proposals from the upstream of customers' system lifecycle (consultation ~ design and development ~ construction ~ maintenance and operations ~ BPO), and thereby approach a wider range of customers.

#### (2) Active investment to lead digital reforms

The Company is aiming to improve its business-creation capabilities through research and development into new technological areas (in addition to IoT, AI, data analytics, areas such as Robot, RPA, and block chains) and investing in the industry SaaS business. It plans to invest a total of ¥3bn over three years, which will be divided into the investment categories of 1) investment to refine expertise in the existing businesses of "systems operations" and "data utilization," which will form the base; 2) additional investment in business areas for which measures have been started, and investment to expand scale; and 3) investment to newly develop the industry SaaS business, which will heighten business expertise. The planned investment amounts are ¥800mn in 1), ¥1.2bn in 2), and ¥1bn in 3). The Company will also work to introduce a new system to invest in human resources (including increasing basic salaries) and to evaluate specialist human resources.

| \* Creation of the Open Incubation Center, a culture-creation project, enhancements to the personnel system, etc. |

Although profits are currently trending at a low level due to the impact of the upfront investment, in a situation in which the market environment is changing rapidly, including the progress of the digital transformation, at FISCO we evaluate as rational its strategy of focusing on building a foundation with an eye to the future, including through continuing to actively invest and replacing the product mix. To look at this in another way, the biggest issue is how to develop businesses to be the next-generation earnings pillars, so we shall be focusing on the businesses with significant potential for which is aiming to acquire the first mover advantage, including the progress made in the Company's own industry SaaS businesses.

## ■ Corporate history and business performance

### Management integration with Beacon IT in April 2015. 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.

#### Corporate history and business performance

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-based 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.

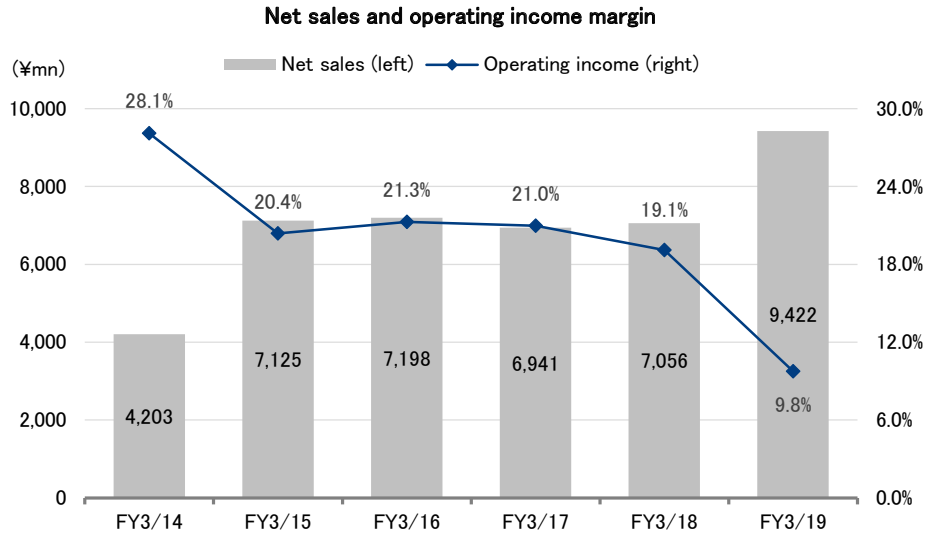
With the merger of Beacon IT in April 2015, the Company changed its name to UNIRITA, Inc. The new company name embodies the concept of aspiring to contribute to the development of customers and society with “unique ideas” to create value and an “altruistic” spirit (“rita” being the Japanese word for 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 systems operations business, which is now part of the Product Business and the Solutions Business. Also, the Company’s operational scope significantly expanded in FY3/19 due to the consolidation of Beacon IT in FY3/15 and the acquisition of Mugen, which develops the Systems Integration Business.

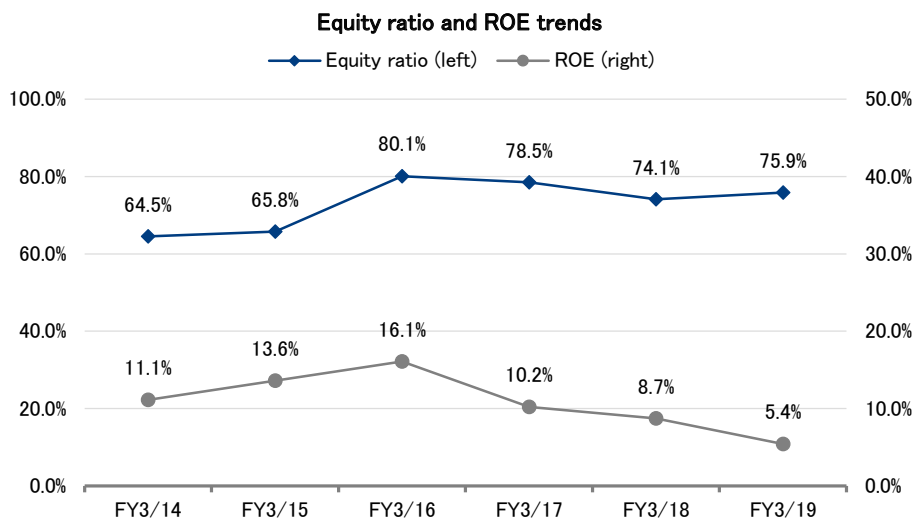
From a profitability perspective, despite there still being a high degree of reliance on the Mainframe Business for income, the Company’s operating income margin trended upward with improving profitability in the Product Business and reached 28.1% in FY3/14. However, this margin has declined since FY3/15 due to upfront expenditure in line with its structural business reforms and other factors. Notwithstanding, the Company has maintained it at levels around 20%. However, in FY3/19, the operating margin is expected to decline greatly to around 10% due to the upfront investment with an eye to the future, including in the Cloud Business, which is a growth field, and the new businesses.

Corporate history and business performance



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%. In addition, the current ratio, which indicates the ability to pay in the short term, has been trending at a high level (307.5% at the end of FY3/19), reflecting the abundant cash and deposits balance, and it can be said that the Company's financial base is extremely stable and that this is supporting its upfront investment for growth in the future. On the other hand, ROE, which indicates capital efficiency, had also been trending at a double-digit level, but recently it fell below 10% due to the changes to the business portfolio and the impact of the upfront investment.



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

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## ■ Industry environment

### High growth in fields related to big data and reforms to ways of working. Attention is also focusing on the progress of the digital transformation.

According to a survey conducted by International Data Corporation Japan, the software market in Japan was worth approximately ¥2,857.9bn in 2017 (up 5.8% YoY). In the application market within the domestic software market, customer relationship management (CRM) applications achieved double-digit growth due to the expansion of marketing applications and penetration of sales applications in mainstay small and medium businesses. In addition, due to implementations of workstyle reforms at companies, the market is greatly expanding for SaaS-type collaborative applications that support the execution of business tasks regardless of location or device used. In the application development market, initiatives for big data are becoming more active at companies, with the data management software and data analytics markets experiencing high growth. In the systems infrastructure market, there is an increase in software that builds secure remote network environments in the push for workstyle reforms.

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 <IBM> and Hewlett Packard Company <HPQ>. However, if limited to systems operations automation middleware for mainframes, 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 and data utilization in Japan. That is, there is no other listed company producing its own package software.

On the other hand, when looking from the side of the users, recently IT investment has tended to be distributed directly into business expansion, and the movement to create new value by incorporating digital technologies within companies, such as the utilization of big data, artificial intelligence, (AI), and IoT, and by building business models from the customer's perspective, has been attracting attention. Also, according to a report by the Ministry of Economy, Trade and Industry, companies' old information systems that are overly complex and black boxed, and their former organizational structures and business processes, will be factors inhibiting the progress of the digital transformation in the future. It indicates that if they are left as they are, from 2025 onwards an economic loss of up to ¥12tn a year may be incurred. This suggests the need to make rapid progress in this area, such as by updating systems, by 2025, and should this movement become fully fledged, then it will prove advantageous for the Company in terms of expanding demand.

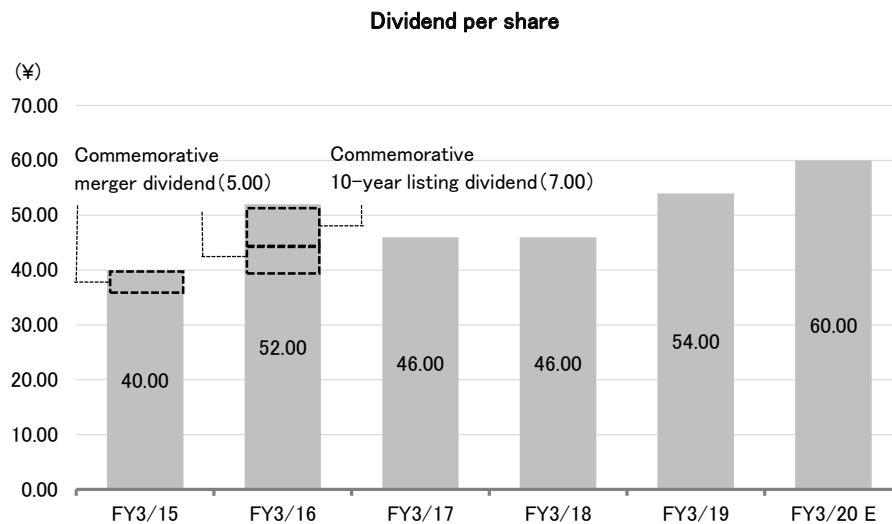
## Shareholder returns

**For FY3/20, is forecasting an annual dividend of ¥60, up ¥6 YoY. It will continue to increase in the future from the rise in the DOE.**

In FY3/19, the Company paid an annual dividend of ¥54 (interim dividend of ¥27 and period-end dividend of ¥27), which was an increase of ¥8 YoY (dividend on equity (DOE) of 3.9%). For FY3/20 also, it is forecasting a major increase in the dividend for the second consecutive fiscal period, up ¥6 YoY for an annual dividend of ¥60 (interim dividend of ¥30 and period-end dividend of ¥30).

From FY3/19, the Company has changed its dividend policy, and instead of using the consolidated dividend payout ratio as the standard as it did previously, it is using dividend on equity (DOE) as the standard. The aim of this is to stably and sustainably pay dividends without being affected by fluctuations in profit and loss during a fiscal period, such as due to upfront investment. Also, according to the medium-term management plan, in FY3/21 it plays to raise the DOE to 4.6% (FY3/18 result, 3.5%) and to increase the annual dividend per share to ¥66.

Given the Company's profitability and growth potential, at FISCO, we think it is highly possible that the dividend will steadily and continuously increase in the future. 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.



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



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