COMPANY RESEARCH AND ANALYSIS REPORT

UNIRITA Inc.

3800

TSE JASDAQ

7-Jan.-2020

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Summary

Posted higher sales and profits that beat guidance in FY3/20 1H, taking steps to strengthen the services model

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 FY3/20 1H results

The Company posted higher sales and profits that beat its guidance in FY3/20 1H with ¥4,879mn in net sales (+8.5% YoY) and ¥451mn in operating income (+20.6%). Sales increased in all businesses other than the mature Mainframe Business. In particular, new users rose for various services offered in the Cloud Business with a growing market. The Product Business reported higher sales of existing products thanks to the success of aggressive information provision activities (seminars, events, etc.). In earnings, cost of sales ratio improved with help from higher sales and healthier income in the Cloud Business. Operating income climbed sharply, despite modest increase in SG&A expenses led by personnel costs, goodwill amortization costs, and outsourcing costs, on higher sales and decline in cost of sales ratio. Additionally, operating margin improved to 9.2% (vs. 8.3% in the previous year). In activities, the Company pursued new value creation, reinforcement of the services model, and solutions for social issues (working style reforms, regional revitalization, and primary industry stimulation) and achieved solid results.

3. FY3/20 results forecasts

The Company retained its initial forecast for FY3/20 to deliver higher sales and profits at ¥10,000mn in net sales (+6.1% YoY) and ¥1,000mn in operating income (+8.8%). The sales outlook expects increases in the mainstay Cloud Business along with gains in the Product Business and the Solution Business, just as in 1H. In earnings, the Company projects stronger profits, despite continued upfront investments in the Cloud Business and new business, driven by expanded sales.

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 ¥11bn (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. 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 services and carry out new initiatives for the industry SaaS business (HR-related, mobile device-related, and agricultural-related). Looking back at progress thus far, while attainment of final fiscal-year numerical goals might be difficult, the Company outlined a new direction of reinforcing relationships with customers and stabilizing income through a switch to a subscription model that anticipates market change. We think it is important to follow this trend, including impact on growth potential and profitability.

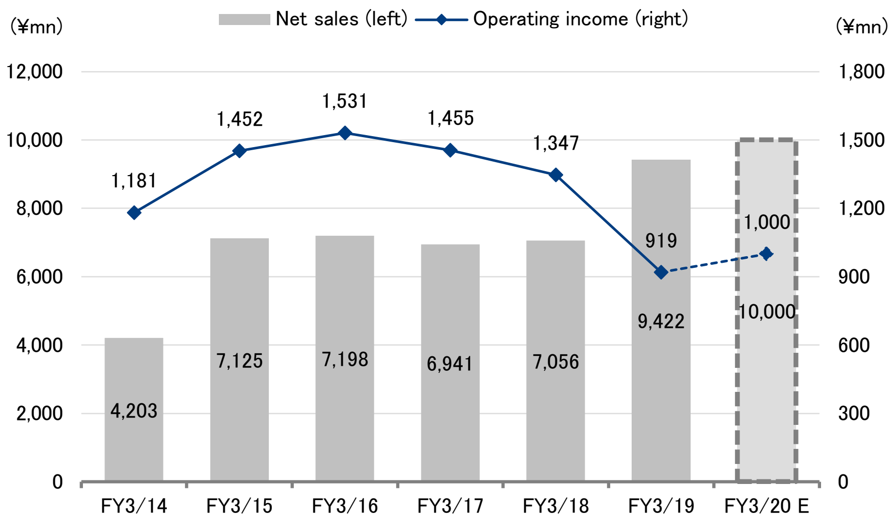
5. Capital policy

The Company announced on November 22, 2019 that it plans to conduct a tender offer to acquire its own shares with the aim of improving capital efficiency and returning profits to shareholders. It offered to purchase up to 800,100 ordinary shares with a budget of up to ¥1,268mn. This program corresponds to 9.41% of total outstanding share volume with a purchasing period of November 25, 2019 to December 23, 2019. The Company set the purchasing price at ¥1,585 per ordinary share.

Key Points

- Posted FY3/20 1H results with higher sales and profits that beat guidance mainly on growth in the Cloud Business
- Pursued new value creation, reinforcement of the service model, and solutions for social issues (working style reforms, regional revitalization, and primary industry stimulation) and achieved solid results
- Retained existing FY3/20 guidance and expects higher sales and profits
- Aims to reinforce relationships with customers and stabilize earnings through a switch to a subscription model that anticipates market change

Results trends



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

Company profile

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

1. Business overview

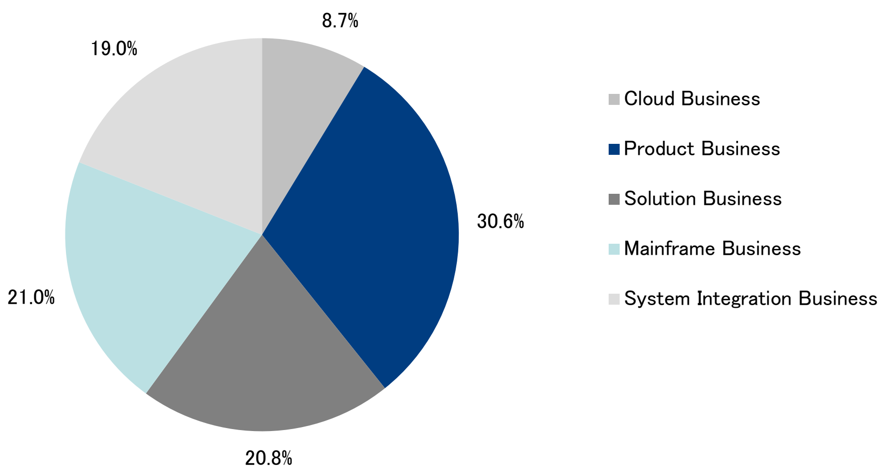
The Company develops, sells, and provides support for package software for the operation of IT systems for a broad range of industries, primarily finance and manufacturing, as well as solutions that utilize data.

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, in light of 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's strength lies in its business structure that addresses customers' digital transformation needs, on both the sides of "offense" and "defense."

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.

Percentages of total net sales by business (FY3/20 1H results)



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

An overview of each business is provided below.

(1) Cloud Business

The Company delivers all group products and services as cloud services (usage-based fees model) in data utilization, system operation, labor management and back office tasks, and other areas. Core products are comprehensive service management platform LMIS*1, SaaS-type attendance management service DigiSheet*2 for the personnel staffing industry and other industries, and spending workflow management service Rakuraku BOSS*3 that addresses demand for improved workflow efficiency. The Company also promotes sales of infoScoop×Digital Workforce*4 equipped with security features that supports demand for working style reforms and is developing new services that leverage its business strengths at the group level. Through collaboration with cloud data center operator I-NET CORP. <9600>*5, the Company has started provision of Unirita Cloud Service that supports a wide range of services that includes server operation and management, security measures, and responses to problem occurrence over the I-NET cloud foundation.

*1 LMIS is a service management platform that handles not only IT services, but all services provided by companies.
*2 Provided by the subsidiary, Aspex Inc.
*3 Provided by the subsidiary, Mugen Corp.
*4 "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.
*5 Concluded a capital and business partnership in May 2017

(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, this is the process related to expanding sales in the Cloud Business and Product Business.

(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 shrinkage of the overall market, demand remains firm, including upgrade needs accompanying expansion of data processing volume. Some major hardware manufacturers also have strategies that position this business as a driver of digital innovation and intend to steadily deliver new versions with additional features.

(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.

As of September 30, 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 17,347 members (as of the end of September 2019) and 231 endorsing companies (as of November 2019). The Company aims to build even closer ties with customers by switching from the past delivery method of product sales to a services (subscription) model that combines cloud utilization and system operation in response to changing customer needs.

(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 from the continued firm demand, and enabling the income from the business to be diverted into investments in new growth areas such as strengthening service model and new businesses, 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 its customers comprehensive proposals as a strategic IT partner for digital transformation and solidify its superiority in the software industry.

Business trends

Posted higher sales and profits that beat guidance in FY3/20 1H, making healthy progress in cloud services and existing product sales

The Company posted higher sales and profits that beat guidance in FY3/20 1H with ¥4,879mn in net sales (+8.5% YoY), ¥451mn in operating income (+20.6%), ¥555mn in ordinary income (+18.3%), and ¥358mn in profit attributable to owners of parent (+23.2%).

Sales increased in all businesses other than the mature Mainframe Business. In particular, new users rose for various services offered in the Cloud Business with a growing market. The Product Business reported higher sales of existing products thanks to the success of aggressive information provision activities (seminars, events, etc.). Furthermore, outsourcing was upbeat in the Solution Business.

In earnings, cost of sales ratio improved with help from higher sales and healthier income in the Cloud Business. Operating income climbed sharply, despite modest increase in SG&A expenses led by personnel costs, goodwill amortization costs, and outsourcing costs, on higher sales and decline in cost of sales ratio. Additionally, operating margin improved to 9.2% (vs. 8.3% in the previous year).

In financial standing, shareholders' equity ratio stayed at a high level at 76.4% (vs. 75.9% at the end of FY3/19), even with a slight 1.5% rise in total asset value from the end of FY3/19 to ¥15,654mn on increase in investment securities and software (intangible fixed assets), because of a 2.2% gain in shareholders' equity to ¥11,955mn with build-up in retained earnings.

Summary of the FY3/20 1H results

(¥mn)

	FY3/19 1H		FY3/20 1H		Change		FY3/20 1H		Vs plan	
	Results	% of sales	Results	% of sales		% Change	Initial forecast	% of sales		Achievement rate
Net sales	4,497		4,879		382	8.5%	4,800		79	101.6%
Cloud Business	342	7.6%	424	8.7%	82	24.0%	-	-	-	-
Product Business	1,339	29.8%	1,491	30.6%	152	11.4%	-	-	-	-
Solution Business	862	19.2%	1,015	20.8%	153	17.7%	-	-	-	-
Mainframe Business	1,050	23.4%	1,022	21.0%	-27	-2.6%	-	-	-	-
System Integration Business	903	20.1%	926	19.0%	22	2.5%	-	-	-	-
Cost of sales	1,949	43.3%	2,060	42.2%	111	5.7%	-	-		
SG&A expenses	2,173	48.3%	2,368	48.5%	194	9.0%	-	-		
Operating income	374	8.3%	451	9.2%	77	20.6%	430	9.0%	21	104.9%
Cloud Business	-66	-	-26	-	39	-	-	-	-	-
Product Business	82	6.2%	158	10.6%	75	90.7%	-	-	-	-
Solution Business	-1	-	14	1.4%	16	-	-	-	-	-
Mainframe Business	559	53.3%	528	51.7%	-31	-5.6%	-	-	-	-
System Integration Business	20	2.3%	18	2.0%	-2	-12.7%	-	-	-	-
Adjustment	-221	-	-241	-	-20	-	-	-	-	-
Ordinary income	469	10.4%	555	11.4%	85	18.3%	520	10.8%	35	106.7%
Profit attributable to owners of parent	291	6.5%	358	7.3%	67	23.2%	355	7.4%	3	100.8%

	At end of March 2019	At end of September 2019	Change	
				% Change
Total assets	15,419	15,654	234	1.5%
Shareholders' equity	11,698	11,955	257	2.2%
Shareholders' equity ratio	75.9%	76.4%	0.5pt	-

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

Segment sales expanded 24.0% YoY to ¥424mn and profitability improved, thanks to the steep sales increase, to an operating loss of ¥26mn (a loss of ¥66mn in FY3/19 1H). Higher sales was mainly due to the steady expansion of three core services in a growth phase. In particular, LMIS (service management platform) succeeded in provision of a comprehensive service management platform, not only services for IT divisions as previously, amid broadening of customer DX*1 initiatives to business divisions. DigitSheet (SaaS-type attendance management service) was successful in horizontal rollout from the mainstay personnel staffing industry to the construction industry. Rakuraku BOSS recruited workflow efficiency enhancement needs related to working style reforms, response to the consumption tax hike, and other areas and achieved healthy growth in spending workflow management service. We think broadening to new customer segments fueled amid manifestation of growing demand for cloud (or subscription model*2) services and DX response needs drove growth earnings. In infoScoop×Digital Workforce (remote work foundation that assists working style reforms), which is currently in a deployment phase, the Company received positive reactions from major customers and this led to adoption. In earnings, the Company sought improvements in profitability by reaching profits in the three core services, but robust investment outlays in new services at deployment and development stages resulted in operating losses.

*1 Refers to digital transformation – "The term "DX" refers to a situation where a company deals with dramatic changes in business environments, changes its products, services and business models so as to meet the demands of customers and society by taking advantage of data and digital technologies and changes its services per se, organizations, processes, corporate and business culture so that it can establish competitive advantages." (The Ministry of Economy, Trade and Industry definition)

*2 Refers to a fee model in which users do not own software and pay fees based on usage volume for utilization of software over a network.

(2) Product Business

Segment sales and profits climbed with ¥1,491mn (+11.4% YoY) in net sales and ¥158mn (+90.7%) in operating income. In DX activities, the Company had growth in automation products that incorporate integration and automation needs of system operation in a hybrid environment combining on-premise* and cloud systems. It also posted upbeat results in form-related products with an order for a large form foundation deal accompanying upgrade of a mission-critical system. We think the Company's proactive information provision to the market via product introduction seminars, event exhibits, and other initiatives during FY3/20 1Q succeeded. In earnings, the segment realized a steep rise in profits by more than offsetting upfront outlays in new businesses (mobility-related business) and other areas with higher sales.

* Refers to owning information systems and managing them with internal facilities. The conventional self-operated format is called on-premise to differentiate from cloud services.

(3) Solutions Business

This segment restored profitability on higher sales with a 17.7% increase in sales to ¥1,015mn and ¥14mn in operating income (a loss of ¥1mn in FY3/19 1H). Sales were upbeat thanks to growth in post-process "technology assistance service" related to expansion in the Product Business and advances in system operation and BPM consulting which Unirita has strength in. Outsourcing business grew substantially too on recruitment of customer needs to improve workflow efficiency. In earnings, the segment restored profit on benefits from higher sales and elimination of unprofitable projects that undermined the performance in FY3/19.

(4) Main frame Business

Segment sales and profits dropped with sales decreasing 2.6% to ¥1,022mn and operating income decreasing 5.6% to ¥528mn. Demand appears to be steady, despite a moderate downward trend in the overall market, thanks to from strong customer needs for mainframe upgrades* and ongoing product support. In earnings, profitability is still holding at a high level.

* Upgrades address expansion of data processing volume accompanying increase in e-money and other small-sum payments.

(5) Systems Integration Business

Segment profit dropped on higher sales with sales increasing 2.5% YoY to ¥926mn and operating income decreasing 12.7% to ¥18mn. Sales received support from healthy system development orders amid upbeat industrial system investment conditions. In earnings, meanwhile, profit slipped on backlash from non-recurrence of a high-margin major deal booked in the previous fiscal year.

Activity policies and progress in FY3/20 1H

Promoting activities aimed at strengthening the business foundation in the Cloud Business and Product Business

1. Changes in the business environment and activity policies

The Company implements the following three activity policies (measures) aimed at reinforcement of foundations in the Cloud Business and Product Business amid significant changes in the external environment, such as the government's promotion of DX initiatives.

(1) New creation of customer value

It aims to strengthen solution provision capabilities for resolving issues in order to support digital innovation as an IT strategy partner. In particular, it wants to rebuild operations to facilitate expansion of its own product sales and promote conversion to cloud services.

(2) Bolstering the service model

It intends to strengthen its own products and service operations, build services that combine cloud utilization and system operation (subscription model), and develop services that utilize cloud, IoT, AI, and other digital technologies.

(3) Efforts to resolve societal issues

It aims to pursue resolution of societal issues that utilize IT as a business theme with focus on working style reforms, regional revitalization, and primary industry stimulation as the issues and build a business foundation to resolve these issues and platform for delivery of data utilization services.

In particular, the Company is strongly emphasizing a direction of switching to a subscription model (cloud format) for provision of products and services in light of customer interest in having "quick, inexpensive, and immediate availability" amid accelerated change in user values from "owning and building" to "usage" and shift in IT budget decision-making from the "IT division" to "business divisions."

2. Main developments in FY3/20 1H

(1) Results from initiatives in growth markets

The Company achieved gains in core services and improved income for the Cloud Business, a growth area. We think a notable point is broadening of the customer segment from the "IT division" to "business divisions" due to transformation of the service concept (provision as a comprehensive service management platform) and ramp-up of digital marketing activities (such as a sales method of downloads over the Web and direct usage). These changes substantially shorten lead-time until orders and improve sales efficiency.

(2) Opened the Unirita Cloud Service Center

The Company developed services that combined its own products and operation outsourcing and other knowhow and started provision in Unirita Cloud Service. It also opened the Unirita Cloud Service Center to realize dynamic and expandable service provision and acquired customer demand for improved operational efficiency.

(3) Utilization of digital technology to resolve societal issues

In working style reforms, the Company recruited demand with spending workflow management cloud service Rakuraku BOSS and successfully broadened customer scope with horizontal rollout of SaaS attendance management service DigiSheet for the personnel staffing industry to the construction industry. It also concluded an academia-industry collaboration agreement to accelerate IT deployment in society with Hokkaido University that promotes research on stimulation of regional economies using IoT, big data, AI, and other technologies. In regional revitalization, it conducted extensive investments, such as improving features in the bus destination search system “Mokuiku” that uses IoT, AI, and other digital technologies and establishment of the Regional Revitalization Mobility Consortium* to analyze data collected from mobile devices. In primary industry stimulation, it started work on building a fruit-tree harvesting robot and fruit-tree farming data platform as part of participation in the Fukushima Innovation Coast Concept. It also exhibited for the first time at the Next Generation Agriculture Expo to present results obtained thus far.

* Subsidiary UNITRAND Inc. is the managing firm. This Consortium received a consignment to develop an open database covering data on Japan’s largest wide-area public transportation entity in Hokkaido from the Hokkaido Tourism Organization.

(4) Initiatives for working style reforms at the Company

With the aim of realizing a working style that offers diversity and added value, the Company is promoting activities to improve work-life balance and enhance productivity under a “Smile Work” banner. Specific initiatives include defining recommended days for paid holidays, extending the summer holiday acquisition period, implementing remote work, setting up satellite offices, adopting a selective working hours program, and conducting activities to stimulate communication in the company.

Business outlook

Maintained FY3/20 guidance, expects higher sales and profits even with continuation of upfront investments in growth areas

The Company retained its initial forecast for FY3/20 to deliver higher sales and profits at ¥10,000mn in net sales (+6.1% YoY), ¥1,000mn in operating income (+8.8%), ¥1,100mn in ordinary income (+6.9%), and ¥750mn in profit attributed to owners of parent (+20.1%).

The sales outlook expects increases in mainstay Cloud Business along with gains in the Product Business and Solution Business, just as in 1H. In earnings, the Company projects stronger profits, despite continued upfront investments in the Cloud Business and new business, driven by expanded sales.

We think the Company is capable of attaining guidance in light of FY3/20 1H results beating plan targets and generally upbeat trends in various businesses, including the growth-area Cloud Business. We intend to closely monitor the Company’s initiatives that accelerate growth from FY3/20. Key points are change in the growth pace in the Cloud Business, efforts to improve profitability (restore segment profits) by striking a balance between sales growth and investment, strengthening the service model cited in activity policies, and bolstering user scope with innovative marketing methods (recruitment of new customers).

Forecast for FY3/20

(¥mn)

	FY3/19		FY3/20		Change	
	Results	% of sales	Initial forecast	% of sales		% Change
Net sales	9,422		10,000		578	6.1%
Cloud Business	715	7.6%	950	9.5%	235	32.9%
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%
Operating income	919	9.8%	1,000	10.0%	81	8.8%
Cloud Business	-153	-	-43	-	110	-
Product Business	294	10.2%	334	10.8%	40	13.6%
Solution Business	104	5.2%	124	5.6%	20	19.2%
Mainframe Business	1,079	52.3%	1,024	52.0%	-55	-5.1%
System Integration Business	44	2.5%	59	3.4%	15	34.1%
Ordinary income	1,029	10.9%	1,100	11.0%	71	6.9%
Profit attributable to owners of parent	624	6.6%	750	7.5%	126	20.1%

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

Medium-term management plan

Accelerating growth with cloud service and targeting conversion to a subscription model

The Company is currently implementing the medium-term management plan that lasts from FY3/19 through FY3/21 as the final year. It is promoting the following three basic policies with the goal of being a strategic IT partner that contributes to business growth at customers amid rapid changes in the IT environment facing companies.

(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

The Company set final-year FY3/21 goals of ¥11bn in net sales, ¥1.25bn in operating income (11.4% operating margin), and 7.6% ROE and targets sales growth in all businesses (besides the Mainframe Business). It positions the Cloud Business as a growth area with healthy expansion of demand. Main strategic efforts are provision of a proprietary cloud foundation, enhancing cloud services, and pursuing new initiatives in industry SaaS business (general administration and human resources, mobility, and agriculture). It aims to steadily raise operating margin too on higher sales and increase in added value.

Looking back at progress thus far, attainment of final fiscal-year numerical goals might be difficult, even with recent results on a growth trajectory, because of rising management costs and other items. Nevertheless, the Company is making progress qualitatively as seen in steady advances in bolstering the business foundation for future opportunity. We have a positive view of the Company's clarification of a new direction of reinforcing relationships with customers and stabilizing earnings (expansion of recurring income business) through a switch to a subscription model as a strategy that rapidly addresses customer needs, structurally advancing the business model (such as product development and provision methods, sales strategy, and customer service), to boosts the possibility of business expansion. It seems the Company is planning full-fledged implementation in the next medium-term management plan and we think it is important to follow this trend, including impact on growth potential and profitability.

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.

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.

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

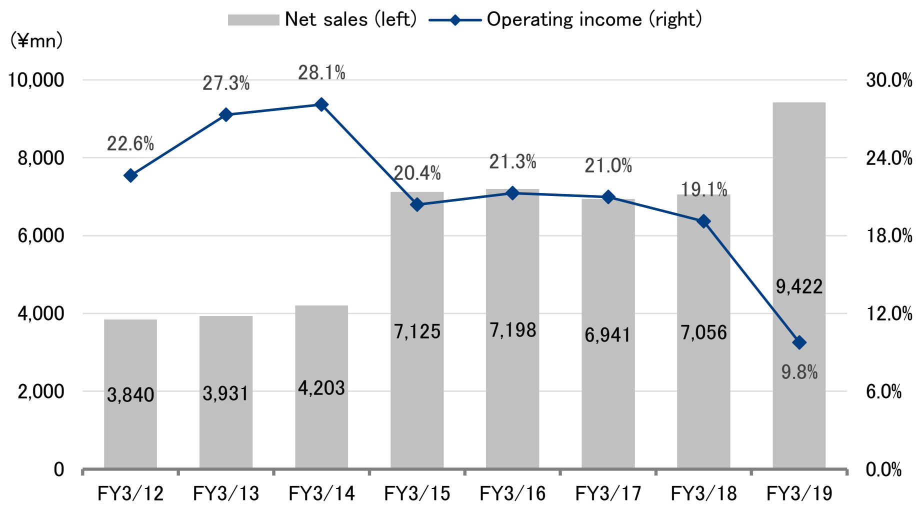
With the merger of Beacon IT in April 2015, the Company changed its name to UNIRITA, Inc. The new company name embodies the concept of aspiring to contribute to the development of customers and society with "unique ideas" to create value and an "altruistic" spirit ("rita" being the Japanese word for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

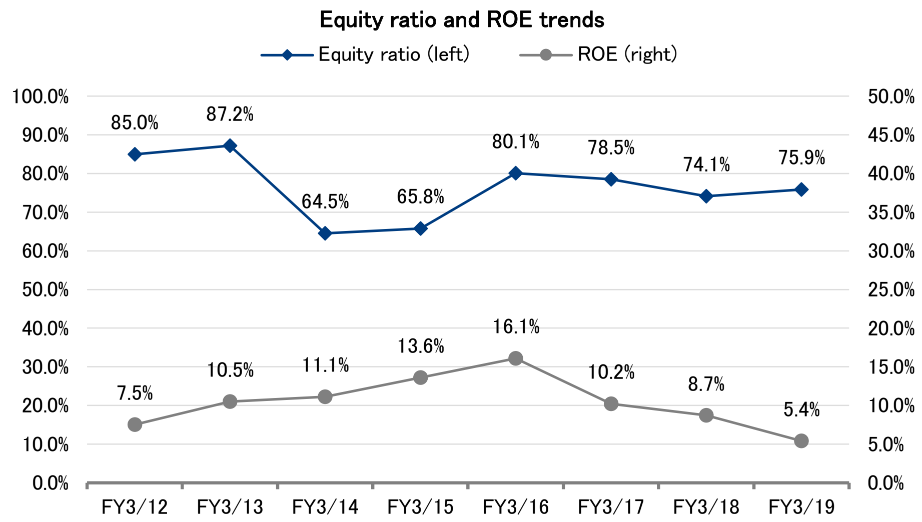
From a profitability perspective, despite there still being a high degree of reliance on the Mainframe Business for income, the Company's operating income margin trended upward with improving profitability in the Product Business and reached 28.1% in FY3/14. However, this margin has declined since FY3/15 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.

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%. 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

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.

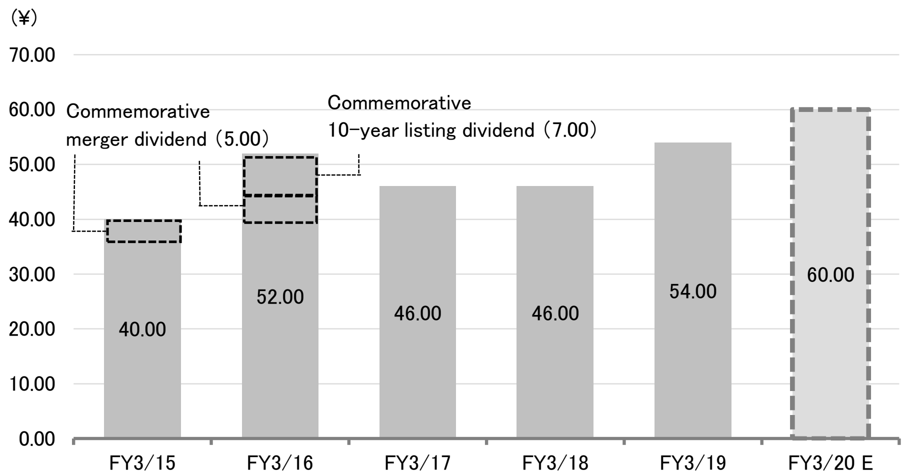
From FY3/19, the Company has changed its dividend policy, and instead of using the consolidated dividend payout ratio as the standard as it did previously, it is using dividend on equity (DOE) as the standard. The aim of this is to stably and sustainably pay dividends without being affected by fluctuations in profit and loss during a fiscal period, such as due to upfront investment.

For FY3/19, the Company conducted annual dividend of ¥54 (interim dividend ¥27, year-end dividend ¥27), which is up ¥8 YoY (DOE of 3.9%). For FY3/20, the Company is forecasting an annual dividend of ¥60 (interim dividend ¥30, year-end dividend ¥30), which is up ¥6 YoY, a steep dividend hike in a second straight year. The medium-term management plan also calls for a rise in DOE to 4.6% and lifting the annual dividend to ¥66 in FY3/21.

The Company announced on November 22, 2019 that it plans to conduct a tender offer to acquire its own shares with the aim of improving capital efficiency and returning profits to shareholders. It offered to purchase up to 800,100 ordinary shares with a budget of up to ¥1,268mn. This program corresponds to 9.41% of total outstanding share volume with a purchasing period of November 25, 2019 to December 23, 2019. The Company set the purchasing price at ¥1,585 per ordinary share.

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.

Dividend per share



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

FISCO

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