

UNIRITA Inc.

3800

TSE JASDAQ

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Summary

In FY3/21, sales and profits decreased, including due to the impact of COVID-19, but results grew in the mainstay Cloud Business, and profitability was achieved. Announced the new three-year medium-term management plan

1. Company profile

UNIRITA <3800> (hereafter, also “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. 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 transformation (DX). Recently, the Company has been working on measures including strengthening the services model (converting to a subscription model by shifting existing products to the cloud) and utilizing digital technologies to solve social issues (working style reforms, regional revitalization, and primary industry stimulation).

2. Summary of the FY3/21 results

In the FY3/21 results, sales and profits declined, including due to the impact of the novel coronavirus pandemic (hereafter, COVID-19), with net sales decreasing 0.8% year-on-year (YoY) to ¥10,061mn and operating income falling 29.4% to ¥757mn. Results grew steadily in the mainstay Cloud Business, and they also trended solidly in the Mainframe Business. However, sales decreased slightly in the Product Business and the Systems Integration Business due to the impact of COVID-19. In profit-loss, operating income decreased because of factors including the fall in sales in the Product Business, projects becoming prolonged and unprofitable projects occurring in the Solutions Business, and higher personnel costs and R&D costs with an eye to the future. However, the target of the Cloud Business becoming profitable was achieved, which can be said to be good news toward strengthening profitability in the future.

3. New medium-term management plan

The Company announced the new three-year medium-term management plan. With the basic policy of “becoming an IT services company that creates empathy and uniqueness,” it has set the direction of realizing both economic value and societal value through solving societal problems as a business company by conducting business activities that utilize the Group’s management resources and IT solutions capabilities. Also, it changed the segment categories to the Product Services, the Cloud Services, and the Professional Services. In the Product Services, it will transition to a recurring-income business through shifting to a service-provision-type business. Alongside this, in the Cloud Services, which will become the axis of growth, it has in sight expanding the market from solving IT problems to solving business problems, and moreover to solving societal problems. The Professional Services will play the role of increasing the value to customers of products and cloud services and it will function as the second growth engine. In this way, the Company aims to expand its business by segmenting the business into three categories and implementing different strategies for each one.

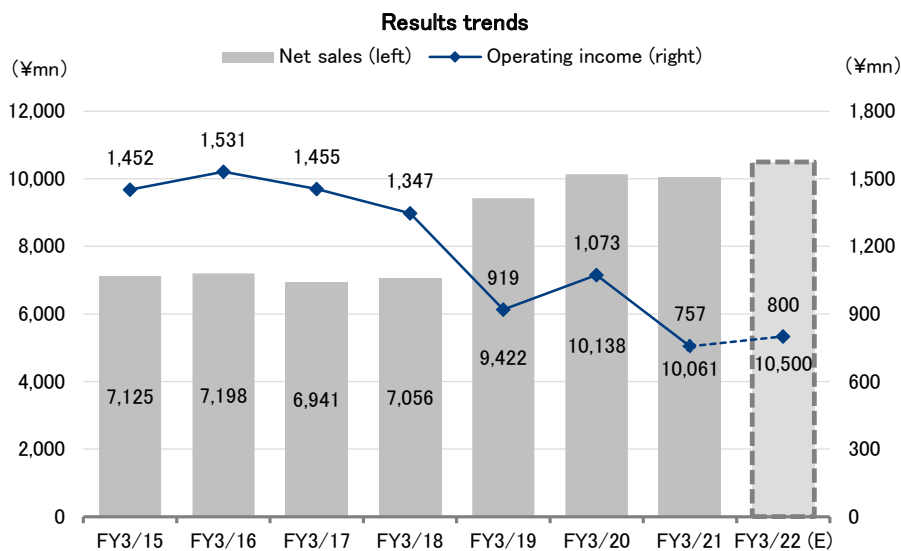
Summary

4. FY3/22 results forecasts

For the FY3/22 results, the Company is forecasting both net sales and operating income to increase, with net sales to rise 4.4% YoY to ¥10,500mn and operating income to grow 5.7% to ¥800mn. The outlook is that sales of the respective services in the new segment categories will grow, and in particular, the growth of the Cloud Services, which are the core services the Company is focusing on, will contribute to the higher sales. In profit-loss, an increase in operating income will be secured, including from the effects of the higher sales and the improvement of the profit-loss in the Professional Services (particularly in the former Solutions Business). However, the upfront investment, such as in the Cloud Services, will continue, so the operating income margin is forecast to be basically unchanged YoY at 7.6% (7.5% in the previous period). Looking on a medium- to long-term perspective, measures to accelerate growth from FY3/23 onwards will be important, and in addition to the state of progress by category in the Cloud Services, which are the axis of growth, we shall be focusing on how the Company incorporates the trend to implement DX, which has been accelerated by COVID-19, and solving societal problems into its growth.

Key Points

- In FY3/21, sales and profits declined mainly due to the impact of COVID-19, but results in the mainstay Cloud Business, steadily grew, and it realized profitability
- Has announced the new three year medium-term management plan. For the Cloud Services, which are the axis of growth, it has in sight expanding the market from solving IT problems to solving business problems, and moreover to solving societal problems. It has divided its business into three categories and is aiming for business growth through strategies for each category
- The FY3/22 results forecasts are for net sales and operating income to increase



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, down-sizing, 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' DX needs, on both the sides of "offense" and "defense." Recently, it has been working on measures including strengthening the services model (converting to a subscription model by shifting existing products to the cloud) and utilizing digital technologies to solve social issues (working style reforms, regional revitalization, and primary industry stimulation).

The Company has five business segments; (1) the Cloud Business, (2) the Product Business, (3) the Solutions Business, (4) the Mainframe Business, and (5) the Systems Integration Business. The percentage of sales provided by (4) 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 (1) the Cloud Business, which is a growth field, has grown significantly.

Company profile

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 x 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 x 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. Revenue sources 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. The Company is also developing products and services in other areas, IoT solutions for bus operators by a subsidiary*3, and products to respond to BCP*4.

- *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 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.
- *4 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

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.

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Company profile

(4) Mainframe 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. The Mainframe Business has been the Company's 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 reforms and intend to steadily deliver new versions with additional features.

(5) Systems Integration Business

The Systems Integration Business segment was newly added in FY3/19 following the consolidation of Mugen Corp, 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, the Systems Integration Business' 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.

The number of customers (companies that have installed the Company's products) exceeds 1,700 companies, most of which are 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 provided 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. It is also focusing on online marketing and is establishing a framework to acquire projects from online marketing. The importance of online marketing is increasing more and more due to the impact of COVID-19.

The Company had the following nine main consolidated subsidiaries at the end of FY3/21. BSP Solutions Inc. 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. conducts the System Integration Business and develops and sells its own package software. Business Application Co., Ltd develops and sells support services for an operations management system targeted at the human resources service industry.

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."

Company profile

UNIRITA has the following three characteristics.

(1) An independent developer of proprietary software

A strength of UNIRITA's products in its flagship systems operations and for 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 17,000 members and 275 endorsing companies. 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 of 53.1% (FY3/21 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 the 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

Through business structural reforms, the Company has expanded the services it provides, from the original services for information systems departments to those for business departments and management departments. It is working not only to contribute to the automation and improved efficiency of IT systems' management, but also to expand the business areas to as far as the field of creating enterprise 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 DX and solidify its superiority in the software industry.

■ Business trends

In FY3/21, sales and profits declined mainly due to the impact of COVID-19, but results in the mainstay Cloud Business, steadily grew, and it realized profitability

● Summary of the FY3/21 results

In the FY3/21 results, net sales decreased 0.8% YoY to ¥10,061mn, operating income declined 29.4% to ¥757mn, ordinary income fell 23.1% to ¥887mn, and profit attributable to owners of parent decreased 5.9% to ¥840mn. Even though sales and profits declined, mainly due to the impact of COVID-19, net sales and the profit items were all above the revised forecasts announced on October 15, 2020.

Net sales decreased, as although they grew in the mainstay Cloud Business and also trended solidly in the Mainframe Business, they declined in the Product Business and the Solution Business, which were impacted by COVID-19.

In profit-loss, operating income decreased because of factors including the fall in sales in the Product Business, projects becoming prolonged and unprofitable projects occurring in the Solutions Business, and higher personnel costs and R&D costs with an eye to the future. The operating income margin also fell to 7.5% (10.6% in the previous period). However, the target of the Cloud Business becoming profitable was achieved, which can be said to be good news toward strengthening profitability in the future. Also, to improve the efficiency of assets held, the Company sold its holdings of a listed company, and it therefore recorded extraordinary income of ¥519mn.

Looking at the Company's financial condition, total assets increased slightly, up 0.9% from the end of the previous fiscal year to ¥14,865mn, while shareholders' equity rose 2.2% to ¥11,279mn due to the accumulation of internal reserves. Therefore, the equity ratio increased slightly to 75.9% (74.9% at the end of the previous period). Also, cash and deposits of ¥8,297mn were secured, so the current ratio was maintained at the high level of 289.8% and there are no concerns about the Company's financial stability.

Business trends

Summary of the FY3/21 results

	FY3/20		FY3/21		Change		FY3/21			
	Results	% of sales	Results	% of sales	Change	% Change	Initial forecast	% of sales	Revised forecast	% of sales
Net sales	10,138		10,061		-77	-0.8%	10,200		9,700	
Cloud Business	900	8.9%	1,160	11.5%	260	29.0%	1,300	12.7%	-	-
Product Business	3,050	30.1%	2,836	28.2%	-214	-7.0%	3,000	29.4%	-	-
Solution Business	2,186	21.6%	2,412	24.0%	226	10.3%	2,550	25.0%	-	-
Mainframe Business	2,222	21.9%	2,113	21.0%	-109	-4.9%	1,935	19.0%	-	-
System Integration Business	1,778	17.5%	1,538	15.3%	-240	-13.5%	1,415	13.9%	-	-
Cost of sales	4,359	43.0%	4,291	42.7%	-68	-1.6%	-	-	-	-
SG&A expenses	4,705	46.4%	5,012	49.8%	307	6.5%	-	-	-	-
Operating income	1,073	10.6%	757	7.5%	-316	-29.4%	900	8.8%	500	5.2%
Cloud Business	-33	-	29	2.5%	63	-	90	6.9%	-	-
Product Business	305	10.0%	161	5.7%	-143	-47.1%	250	8.3%	-	-
Solution Business	76	3.5%	-5	-	-82	-	120	4.7%	-	-
Mainframe Business	1,142	51.4%	1,122	53.1%	-19	-1.7%	950	49.1%	-	-
System Integration Business	50	2.9%	61	4.0%	10	20.8%	40	2.8%	-	-
Ordinary income	1,153	11.4%	887	8.8%	-266	-23.1%	980	9.6%	610	6.3%
Profit attributable to owners of parent	893	8.8%	840	8.4%	-52	-5.9%	755	7.4%	755	7.8%

(¥mn)

	At end of March 2020	At end of March 2021	Change	
	Results	Results	Change	% Change
Total assets	14,731	14,865	133	0.9%
Shareholders' equity	11,040	11,279	239	2.2%
Equity ratio	74.9%	75.9%	1.0pt	-

Note: The FY3/21 revised forecasts are those announced on October 15, 2021

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 29.0% YoY to ¥1,160mn and segment profit was ¥29mn (a loss of ¥33mn in the previous period), and profitability was achieved due to the significant increase in sales. In an environment in which the need to use cloud services is rising and of workstyle reforms occurring during the COVID-19 pandemic, results grew steadily for the main four services of LMIS (a services-management platform), Digital WorkForce (a service to progress remote working), Rakuraku BOSS (a service to improve the efficiency of back-office work), and DigiSheet (a SaaS-type attendance management service). Also, sales of UNIRITA Cloud Service, which is being jointly developed with I-NET, are steadily growing alongside the transition to the cloud infrastructure. In profit-loss, even while the Company continues to conduct upfront investment, including to develop new services, the profit-loss breakeven point was exceeded through the higher sales, and the Cloud Business was able to achieve its target of becoming profitable. Toward the future as well, it has developed and started providing Growwwing as a service to support the realization of customer success*.

* Refers to a service "to guide customers to solving their own problems and to success."

Business trends

(2) Product Business

Sales and profits decreased, with net sales declining 7.0% YoY to ¥2,836mn and segment profit falling 47.1% to ¥161mn. Net sales decreased due mainly to sluggish sales of new licenses, an absence of the major forms-related projects that occurred in the previous period, and a slump in the IoT services business for regional transportation operators due to the impact of COVID-19 (restrictions on people's movements), despite strong sales in the recurring income-type maintenance services. In profit-loss, the main reasons for the fall in profits were the declines particularly in the forms and ETL areas. The Company provides IoT services for regional transportation operators to solve societal problems toward achieving "regional revitalization," and it seems that for the future, it is also considering directly approaching local governments.

(3) Solutions Business

Net sales increased 10.3% YoY to ¥2,412mn and the segment loss was ¥5mn (profit of ¥76mn in the previous period), so although sales increased, profit decreased and a segment loss was recorded. Net sales increased due to the growth of sales at a subsidiary that provides consulting services to support the implementation of DX in customers' businesses, and an increase in orders for large-scale projects owing to a success in joint proposals by Group companies. In profit-loss, profits declined because of the prolonging of projects' schedules due to the impact of COVID-19 and also the occurrence of unprofitable projects (additional costs are not expected to be incurred for the unprofitable projects).

(4) Mainframe Business

Net sales decreased 4.9% YoY to ¥2,113mn and segment profit decreased 1.7% to ¥1,122mn. Despite the impact from the absence of major projects that occurred in the previous period, both net sales and segment profit were steady due to needs for system updates for major corporate customers such as those in the finance industry.

(5) Systems Integration Business

Net sales decreased 13.5% YoY to ¥1,538mn, but segment profit increased 20.8% to ¥61mn. Net sales were impacted by customers keeping-down their IT investment due to COVID-19. But in profit-loss, an increase in profits was secured through strengthening collaborations with core partners and selecting orders, and the profit margin also improved.

■ Medium-term management plan

Has announced the three-year medium-term management plan. Is aiming to accelerate growth by shifting from solving IT problems to solving business problems, and moreover to solving societal problems

1. Reflecting on the previous medium-term management plan

FY3/21 was the final fiscal year of the previous three-year medium-term management plan. It did not achieve the plan's initial numerical targets because the speed of growth was lower than anticipated, it increased upfront investment to strengthen the business foundation toward accelerating growth in the future, and the results in the plan's final fiscal year were negatively impacted by COVID-19. However, it was able to achieve a certain level of results as described below, including through working on "Business structural reforms by shifting to services for businesses and products."

Medium-term management plan

a) Developed cloud services to support customers' businesses, and this business became profitable

As previously stated, the Company's proprietary services that it is focusing on steadily grew, and this business became profitable as planned.

b) Strengthened ability to respond to the market by creating services for the main products

The Company moved onto the Cloud the group of products for which it has a track record of many introductions, and it started providing them as general-purpose services with functions for which needs are high. Moreover, the addition of high-quality management services has led to services being expanded from the original services for information systems departments to those for business departments.

c) Measures to create businesses to solve societal problems

To utilize digital technologies to solve societal problems, the Company is contributing to "regional revitalization" *1 through solving the problems facing bus operators, which are regional secondary transportation operators, while for the primary industry, it has started measures for "Smart Agriculture" *2 toward solving the problems facing agriculture. It is necessary to take a long-term viewpoint for the fully fledged creation of these businesses, but the Company has achieved a certain level of results in terms of building a business infrastructure.

*1 As the first such initiative in the bus industry, the subsidiary UNITRAND, Inc., is working to realize compact cities based on the collection and analysis of bus movement data and passenger embarking and disembarking data, and to create model cases for proposals to improve the management of bus operations. It is conducting three-party demonstration experiments, including with Komatsu City, Ishikawa Prefecture, and Hino Motors, Ltd. <7205>.

*2 In the three years from FY2018, it has been participating in a project that is part of the Fukushima Innovation Coast Framework being promoted by the Ministry of Economy, Trade and Industry. Together with the other collaborating companies, it is conducting demonstration experiments, including for services using AI to support fruit farming and the development of various types of sensors.

2. Summary of the new medium-term management plan

The Company has announced its new three-year medium-term management plan (FY3/22 to FY3/24).

(1) Basic policy

With the basic policy of "becoming an IT services company that creates empathy and uniqueness," the Company has set the direction of realizing both economic value and societal value through solving societal problems as a business company by conducting business activities that utilize the Group's management resources and IT solutions capabilities. In particular, based on the three core technologies of data management, services management and process management that it strengthened through the business structural reforms in the previous medium-term management plan, it is aiming to grow through providing DX services in order to reform customers' business models.

(2) Important strategies
a) Creation of service provision-type businesses

For products (automation, forms, and mainframes), the Company is focusing on the systems management area and is building a structure to continuously provide high value-added services to customers that support the social infrastructure. It is also utilizing its strength of in-house developed products in order to respond to needs for both ownership-type (on-premises-type) and use-type (on-cloud-type), and it is creating service-provision-type businesses.

Medium-term management plan

b) Expansion of the Cloud Services business through strategies for each category

The Company has in sight expanding the market from solving IT problems to solving business problems, and moreover to solving societal problems. It has divided cloud services, which utilize its strengths, into three categories: 1) IT-utilization cloud (support for IT utilization and rationalization), 2) business-promotion cloud (provision of services indispensable for business growth / creating shared platforms by industry and business format), and 3) social cloud (growing the data science business / establishing societal-problem-solving-type businesses). It is realizing growth through creating unique cloud services for each category and adopting a subscription model.

c) Reorganizing Group functions in response to the new business segments

The Group's business segments have been reorganized into the following three segments. The aims are to promote the businesses and to solve societal problems under a business structure that is adapted to the speed of environmental changes and the diversifying markets.

1) Product Services (former Mainframe and one part of former Product segments)

This segment focuses on the systems management area and as the medium-term earnings foundation, it will be the source of resources to support the Group's investment in growth. In particular, it will create resources for new business development by deepening the previously cultivated strengths, enhancing the ability to respond to customer needs in a DX environment, and pursuing business efficiency.

2) Cloud Services (former Cloud and one part of the former Product segments)

The Company is building a business model that develops in new markets by expanding from the IT-problems-solving area, which constituted a high ratio of this business up to the present time, to the business-problems-solving and societal-problems-solving areas. To establish a business that will be a business pillar in the future, it is aiming to concentrate resources and realize growth as the foundation of earnings.

3) Professional Services (former Solutions and former SI segments)

Through its strengths and expertise in the three management areas of data, processes, and services, this segment will play the role of increasing the value of customers' product and cloud services and will function as the second growth engine. The Company is establishing a structure to provide a one-stop service, from consulting through to services for introduction support, systems integration and outsourcing.

d) Strengthening the management foundation toward improving enterprise value

The Company's policy is to further develop the "Measures for workstyle reforms," "Cultivating a culture of taking-on challenges," and "Permeating the CREDO*1" that it progressed in the previous medium-term management plan, which will lead to the realization of CSV management*2. In particular, it is working on various measures to "cultivate the worthwhileness of working," and to "promote workstyle reforms," at the same time as aiming to building a structure able to improve enterprise value based on highly effective corporate governance.

*1 The Company's principle. Its CREDO is "Based on the 'Unique ideas,' and 'Altruistic spirit' from which our company's name is derived and through our three strengths, take-on the challenges of providing value to society and of conducting ceaseless reforms, and grow together with society and with employees."

*2 Abbreviation of Creating Shared Value, which is a concept advocated by Professor Michael E. Porter in the Harvard Business Review. It means that by working on societal needs and problems, companies create societal value, and as a result, they also create economic value.

Medium-term management plan

(3) Numerical targets

The numerical targets for FY3/24, the plan's final fiscal year, are net sales of ¥12.2bn (three-year average annual growth rate of 6.6%), operating income of ¥1.37bn (operating income margin of 11.2%), net profit of ¥1bn, ROE of 8.4%, DOE of 4.5%, and a dividend per share of ¥70. Also, for the investment plan, the Company intends to invest ¥2.9bn in total over 3 years, of which, approximately 60% will be for R&D, and the investment amount for the development of the Cloud Services, which are a growth field, will continue to be large. The numerical targets in each business are as follow.

a) Product Services

The targets are net sales of ¥4.2bn (average growth rate of 0.8%) and segment profit of ¥1.12bn (segment profit margin of 26.7%). Although the growth of net sales will be moderate, the percentage of total net sales provided by recurring income-type sales will be raised-up from 67% to 73%, including by promoting the service-provision-type businesses, while the high profit margin will also be maintained.

b) Cloud Services

The targets are net sales of ¥4.2bn (average growth rate of 11.9%) and segment profit of ¥0.31bn (segment profit margin of 7.4%). Net sales will grow in each of the three categories of IT-utilization cloud, business-promotion cloud, and social cloud, while in particular, the growth of business-promotion cloud will drive growth during the plan's period. In profit-loss also, the aim is to improve the profit margin in stages by increasing sales, even while incurring upfront costs.

c) Professional Services

The targets are net sales of ¥3.8bn (average growth rate of 9.4%) and segment profit of ¥0.34bn (segment profit margin of 8.9%). Through collaborations with the Product and Cloud Services and providing a one-stop service, from consulting through to systems construction and outsourcing, the aim is to grow this business by contributing to customers' implementation of DX. In profit-loss also, the profit margin will be raised by improving added value that makes use of consulting relating to data utilization and other services.

New medium-term management plan

	FY3/21	FY3/22	FY3/23	FY3/24	Average
	Results	Forecast	Plan	Plan	growth rate
Net sales	10.06	10.50	11.30	12.20	6.6%
Product Services	4.10	4.15	-	4.20	0.8%
Cloud Services	3.00	3.25	-	4.20	11.9%
Professional Services	2.90	3.10	-	3.80	9.4%
Operating income	0.75	0.80	1.07	1.37	22.2%
Product Services	1.07	1.09	-	1.12	1.5%
Cloud Services	-0.12	-0.16	-	0.31	-
Professional Services	0.10	0.22	-	0.34	50.4%
Operating income margin	7.5%	7.6%	9.5%	11.2%	-
Product Services	26.1%	26.3%	-	26.7%	-
Cloud Services	-	-	-	7.4%	-
Professional Services	3.4%	7.1%	-	8.9%	-
Profit attributable to owners of parent	0.84	0.60	-	1.00	6.0%
ROE	7.5%	5.3%	6.9%	8.4%	-
DOE	4.5%	4.5%	4.5%	4.5%	-
Dividend per share (¥)	66	67	68	70	-

Note: FY3/21 segment information (new segments) are approximate calculations.

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

Business outlook

In FY3/22, net sales and operating income are forecast to increase. Results will continue to be driven by the growth of the Cloud Services

1. FY3/22 results forecasts

For the FY3/22 results, which is the first year of the new medium-term management plan, the Company is forecasting net sales to increase 4.4% YoY to ¥10,500mn, operating income to rise 5.7% to ¥800mn, ordinary income to grow 1.5% to ¥900mn, and profit attributable to owners of parent to decrease 28.6% to ¥600mn. Therefore, the forecasts are for net sales and operating income to increase.

The outlook is that net sales will grow for all of the services in the new segment categories. In particular, the growth of the Cloud Services, centered on the four mainstay services, will contribute to the increase in sales.

In profit-loss, an increase in operating income will be secured from the effects of the higher sales and the improvement to profit-loss in the Professional Services (particularly in the former Solutions Business). However, the upfront investment, including in the Cloud Services*, will continue, so the operating income margin is forecast to be basically unchanged YoY at 7.6% (7.5% in the previous period). The Company projects lower profit YoY due to an absence of gain on sales of investment securities of ¥519mn recorded under extraordinary income in the previous fiscal year.

* The reason why the new the Cloud Services segment will record a loss is that it will continue one part of the former Product Business segment.

Forecast for FY3/22

	FY3/21		FY3/22		Change	
	Results	% of sales	Forecast	% of sales		% Change
Net sales	10,061		10,500		438	4.4%
Product Services	4,100	40.8%	4,150	39.5%	50	1.2%
Cloud Services	3,000	29.8%	3,250	31.0%	250	8.3%
Professional Services	2,900	28.8%	3,100	29.5%	200	6.9%
Operating income	757	7.5%	800	7.6%	42	5.7%
Product Services	1,070	26.1%	1,090	26.3%	20	1.9%
Cloud Services	-120	-	-160	-	-40	-
Professional Services	100	3.4%	220	7.1%	120	120.0%
Ordinary income	887	8.8%	900	8.6%	12	1.5%
Profit attributable to owners of parent	840	8.3%	600	5.7%	-240	-28.6%

Note: FY3/21 segment information (new segments) are approximate calculations

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

2. FISCO's view

While it is necessary to continue to be aware of the impact of COVID-19, in a situation in which the movement to implement DX is accelerating, we consider that the Company is fully capable of achieving its results forecasts, including due to the strong growth of the Cloud Services that it is focusing on, and the provision of the Professional Services as a one-stop service, starting from consulting. Looking on a medium- to long-term perspective, measures to accelerate growth from FY3/22 onwards will be important. In particular, in addition to the state of progress by category in the Cloud Services, which are the axis of growth, how the Company incorporates the trend to implement DX, which has been accelerated by COVID-19, and solving societal problems into its growth can be understood to be important themes. In addition to the trends for each of the cloud services, we shall also be focusing on aspects such as the solutions proposals by the Group as a whole.

■ 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 it 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.

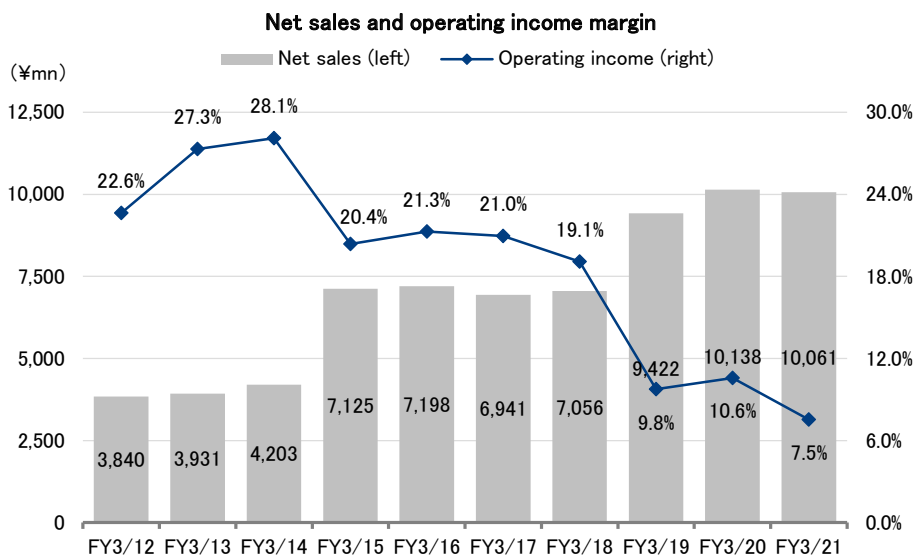
Following the consolidation of Beacon IT (registered company name: Beacon Information Technology Inc.) in January 2014, it started capturing demand in growth fields, such as data utilization, and also embarked on business reforms.

With the merger and absorption of consolidated subsidiary 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 back on the Company's past business performance, from FY3/12 to FY3/14, in the context of the shift to open-type systems, the increase in net sales in the Systems Operations Business (currently the Production Business and one part of the Solutions Business) drove the Company's growth. However, it conducted business structural reforms after its business scope greatly expanded following the consolidation of Beacon IT in FY3/15, and in this situation, it can be said that its net sales growth became sluggish. However, as the acquisition of Mugen Corp, which conducts the System Integration Business, contributed to the expansion of its business scope in FY3/19, the mainstay Cloud Business has grown steadily since FY3/20.

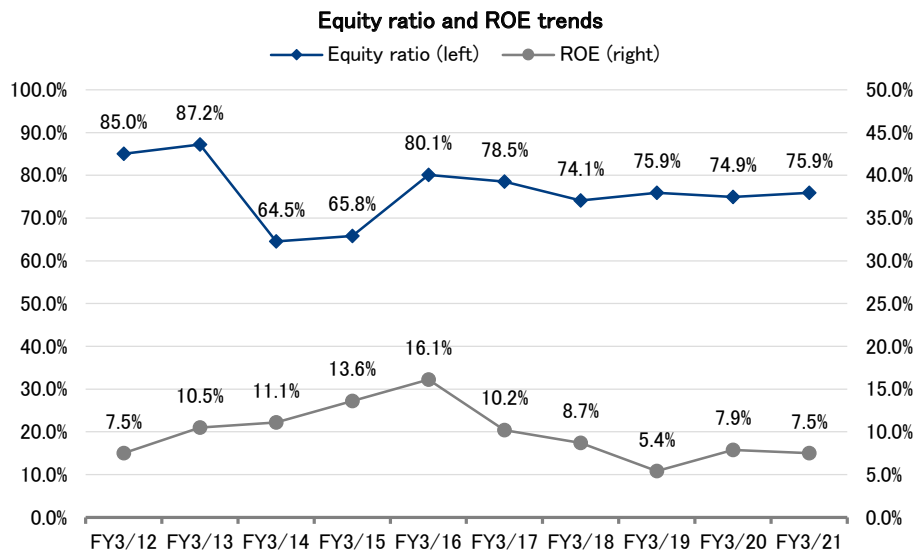
From a profitability perspective, despite there still being a high degree of reliance on the Mainframe Business for income, the Company's operating income margin trended upward with improving profitability in the Product Business and reached 28.1% in FY3/14. However, this margin has declined since FY3/15 due to upfront expenditure in line with its structural business reforms and other factors. Notwithstanding, the Company maintained it at levels around 20%. However, since FY3/19, the operating income margin has trended at around 10% due to the upfront investment in growth fields, such as the Cloud Business and new businesses, with an eye to the future. Going forward, the most important points to focus on would seem to be to what extent can the growth of the Cloud Business cover the impact of the contraction of the Mainframe Business, and what path will the Company take to recovering the profit margin to the same level as in the past (first, to around 20%).



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 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 (289.8% at the end of FY3/21), 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.

Corporate history and business performance



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

Shareholder returns

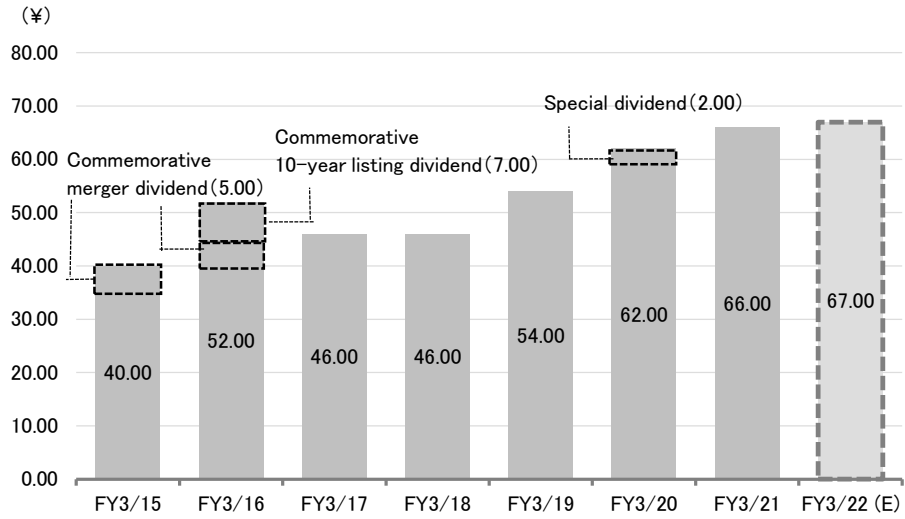
Policy is to aim to maintain and increase stable and continuous dividends. For FY3/22, is forecasting an annual dividend of ¥67, an increase of ¥1 YoY

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 maintain and increase dividends without being affected by fluctuations in profit and loss during a fiscal year, such as due to upfront investment.

For the FY3/21 dividend, just as it initially forecast, the Company paid an annual dividend of ¥66 (interim-dividend of ¥33, period-end dividend of ¥33, ratio of dividend to shareholders' equity 4.5%), up ¥4 YoY, for the third consecutive period of a higher dividend. For the FY3/22 dividend, it is forecasting an increase of ¥1 YoY for an annual dividend of ¥67 (interim dividend of ¥33, period-end dividend of ¥34). Therefore, it can be highly evaluated on the point of stably and continuously increasing the dividend.

Shareholder returns

Annual dividend per share



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

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