UNIRITA Inc.

3800

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Summary

In FY3/22, sales increased while operating income declined. The Company downwardly revised its targets for its medium-term management plan due to the prolonging of the COVID-19 pandemic and delays in developing new markets, but there are no changes to the Company's direction going forward

1. Company profile

UNIRITA <3800> (hereafter, also "the Company") develops, sells, and provides support for packaged 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 competitive advantages in business). In this situation, by utilizing its strengths in the areas of systems operations and data utilization, the Company has demonstrated its ability to provide solutions that directly solve the operational challenges of companies engaged in digital transformation (DX). Recently, the Company has been working on transforming its business model by 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 started the new medium-term management plan in FY3/22. With the basic policy of "becoming an IT services company that embodies empathy and creates uniqueness," it has changed its segment categories to Product Services, Cloud Services, and Professional Services, and set a course to realize both economic value as a business company and societal value through solving societal problems by conducting business activities that utilize the Group's management resources and IT solutions capabilities.

2. Summary of the FY3/22 results

In FY3/22, the Company's net sales increased 3.8% year on year (YoY) to ¥10,441mn and its operating income declined 8.4% YoY to ¥693mn despite a sales increase. Net sales were generally on par with the initial forecast, while profit fell short of the initial forecast. Net sales increased in each of the three segments. In particular, sales grew more than expected in the Product Services segment due to the capturing of demand for migrating to the cloud. Meanwhile, in Cloud Services, while there was growth in core services, the social cloud business, which was impacted by the COVID-19 pandemic, struggled to grow and fell short of the forecast. Elsewhere, performance in Professional Services was strong due to factors including the increase in consulting against a backdrop of DX promotion. In terms of profit, operating income declined due to a number of factors, including an increase in personnel costs (aggressive hiring in fields of focus, etc.), and aggressive upfront investments (outsourcing costs, advertising costs, etc.) in Cloud Services (business-promotion cloud business).

3. FY3/23 results forecasts

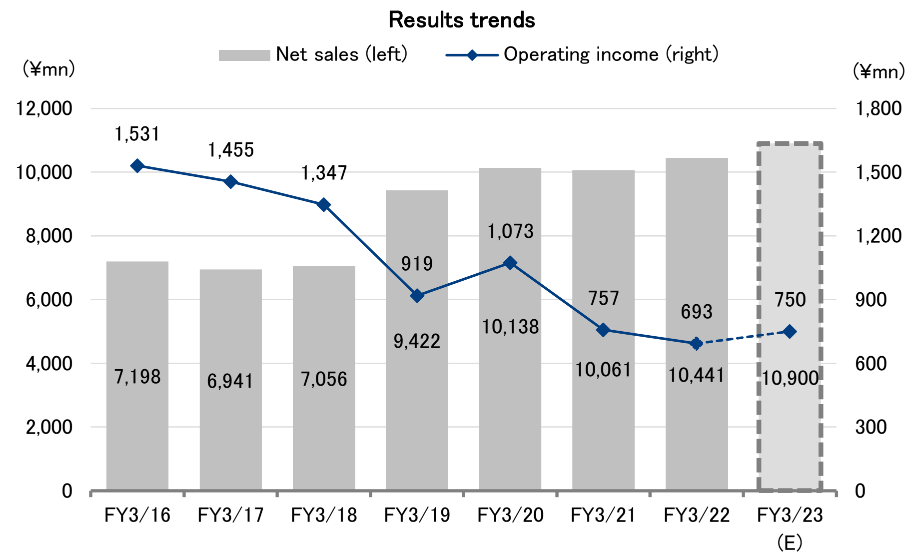
In FY3/23, the Company forecasts increases in both sales and operating income, with net sales increasing 4.4% YoY to ¥10,900mn and operating income up 8.2% to ¥750mn. The Company forecasts that growth in net sales in Cloud Services and Professional Services will contribute to the overall increase in net sales. In particular, the Company plans to expand business by advancing a hybrid sales strategy utilizing the Group's customer base, cooperating between businesses, and collaboration with partner companies, among other efforts. On the profit front, although the Company will continue upfront investments, it expects to realize an increase in operating income through higher earnings based on an increase in sales.

4. Progress of the medium-term management plan

The Company downwardly revised its medium-term management plan targets due to a delay in progress on certain parts of Cloud Services (business-promotion cloud business, social cloud business), and other services in conjunction with the prolonging of the COVID-19 pandemic. For FY3/24, the final year of the medium-term management plan, the Company lowered the net sales target from ¥12,200mn to ¥11,500mn, and reduced the operating income target from ¥1,370mn to ¥900mn. However, the Company has made no changes to its future business strategy. In Product Services, it will promote the transformation to a recurring-revenue business by shifting to a service-providing business. At the same time, in Cloud Services, which is a growth driver, the Company anticipates market expansion for solutions to IT issues, business issues, and even social issues. Also, with regard to Professional Services, this segment will raise the customer value of product and cloud services, and the Company is working to make it function as the second growth engine.

Key Points

- Posted an increase in net sales in FY3/22 but a decline in operating income due to the increase in upfront investments, among other factors
- Expecting higher sales and profit in FY3/23 due to the reorganization of Group functions and other factors
- Made downward revisions to medium-term management plan targets due to delays in progress in Cloud Services in conjunction with the prolonging of the COVID-19 pandemic and other factors. However, no changes have been made to the future business strategy
- The Company has set a course to realize both economic value as a business company and societal value through solving societal problems by conducting business activities that utilize the Group's management resources and IT solutions capabilities



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

Company profile

Has strengths in the domains of systems operations and data utilization, and provides total DX support in order to transform customers' business models

1. Business overview

The Company develops, sells, and supports packaged software and data utilization solutions for the operation and management of IT systems for a wide range of industries, including finance and manufacturing, as well as consulting and outsourcing services related to these businesses.

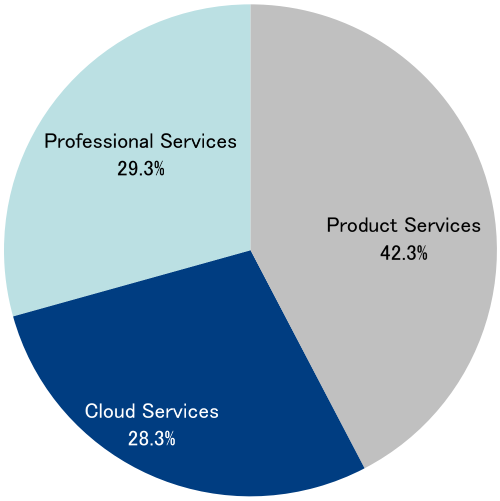
Products for mainframe computers, chiefly for financial institutions and large corporations, have been a stable, highly profitable source of income since the Company's establishment. The Company achieved steady results growth in the past by contributing to automation and enhanced efficiency in IT systems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

However, in light of changes in its external environment, such as the shift to open architecture systems, down-sizing of systems, the proliferation of cloud computing, and the use of big data, the Company expanded its domain to fields that directly contribute to raising customers' corporate value (market expansion and enhanced competitiveness, etc.) in addition to the fields that had until then contributed to automation and enhanced efficiency in IT systems operation (productivity improvement, etc.). The Company's strength lies in its business structure that addresses customers' DX needs, on both the sides of offense and defense of IT. 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 divides its business into the three segments of Product Services, Cloud Services, and Professional Services*. Sales from Product Services, the main business area since its founding, exceed 40% of total sales and have become a key income source. The Company's policy calls for substantially increasing business in Cloud Services, a growth area.

* Switched to new business segments in FY3/22.

Breakdown of net sales by business segments (FY3/22 results)



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

An overview of each business is provided below.

(1) Product Services

The segment provides products related to system operation (automation, forms) in on-premises-type*1 and service-provision-type formats. It also handles sales and support for mainframe products (operation and management of mission-critical business systems), the Company's mainstay business since its founding, primarily to financial institutions, insurers, and major manufacturers. Furthermore, the segment provides cloud operation business with wide-ranging support from server operation and management to security measures and troubleshooting response on the cloud infrastructure of business partner I-NET CORP. <9600>*2. Main products are job management tool A-AUTO (automation business)*3 and Marutto Form Cloud Service*4 for comprehensive assistance of form business, and UNIRITA cloud service (cloud operation business).

*1 This format refers to operation of an information system, including servers and software, using equipment at facilities managed by the user.
*2 Concluded a capital and business alliance in May 2017.
*3 "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.
*4 This is a service that comprehensively assists customers in cumbersome form output tasks (ranging from form printing and mailing service to digitalization and web distribution).

(2) Cloud Services

The segment divides areas for issue-solving with service provision into IT issues (IT-utilization cloud business), business issues (business-promotion cloud business), and social issues (social cloud business) and provides services suited to the characteristics of each area. The IT-utilization cloud business offers LMIS (service management platform), Digital Workforce (remote work promotion service), Marutto Data Conversion and Processing Cloud Service (data conversion, processing, and operation maintenance service), and other services to corporate information system departments. The business-promotion cloud business provides DigiSheet (attendance management service for staffing businesses), Rakuraku BOSS (comprehensive solution for work management), Smart x Portal (service supporting communications between companies), Growwwing (customer success ramp-up and growth assistance service), and other services to corporate business departments and management departments. The Company views this business area as a growth opportunity. The social cloud business promotes location-based service* (bus search, bus location and approach information service), MANALIZE (operational conditions survey report service), agricultural service (field income and expense management, production management, and other farming technology service), and other services to companies, local governments and public entities.

* Subsidiary UNITRAND Inc. provides a solution for bus operators that utilizes IoT technology. Besides a bus position search system (route search, operation location information search, etc.), it has developed a system that measures bus passenger volume in real time.

(3) Professional Services

The Company supplies services through group companies in a one-stop manner from consulting to services for system introduction support, system integration, and outsourcing that leverage its strengths in system operation and data management.

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 is wide, with the manufacturing, retail and distribution, and finance and insurance industries accounting for high percentages in terms of the ratio of sales by industry.

In terms of sales channels, the Company previously provided its products and services mainly through direct sales, but has recently 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 Company has the following nine main consolidated subsidiaries. BSP Solutions Inc. runs a systems operations consulting business. BSP (Shanghai) Inc. is the base for sales in China. In addition, HuApp Technology Inc.* provides services to the human resource business industry. Bitis, Inc. offers BCP development, administration and maintenance support. Data Research Institute handles a data management consulting business. UNITRAND Inc. offers IT solution services for mobile equipment. UNIRITA PLUS Inc. strengthens sales to customers in western Japan while collaborating with partners. Mugen Corp. conducts the system integration business and develops and sells its own packaged software. UNIRITA SR Inc. provides system operation agency services and technical support services.

* Newly established on April 1, 2022, through the merger of consolidated subsidiary Aspex Inc. and Business Application Co., Ltd.

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 characteristics.

(1) An independent developer of proprietary packaged 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, or restrictions on its manufacturer or other factors. There is a stark contrast with competing manufacturer-based products, which do not allow the replacement of the hardware component with other maker's products, clearly hindering 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 many trends (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 outsourced to operate the SysAdmin's Group, the largest network of system managers in Japan, boasting more than 17,500 members and approximately 300 endorsing companies, showing its presence as a driving force in this field. Going forward, to meet customers' changing needs the Company plans to build even stronger ties with customers by switching from the conventional method of product sales to a services model (subscription) that combines cloud utilization and system operation.

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

The majority of income comes from Product Services, and the Mainframe Business within this segment exceeds 50% margin and has supported the Company's earnings as a stable income source. It can be said that 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 by profiting as a remaining player and from the continued firm demand and enabling the income from the business to be diverted into investments in new growth areas (Cloud Services, etc.), which we feel is a significant advantage for the Company.

* Fujitsu <6702> has expressed its intent to exit the mainframe manufacturing and sales businesses in 2030. User companies are expected to migrate to the cloud by the end of the maintenance period.

(3) Building a system that allows the Company to propose total DX service

In past business structure reforms, the Company broadened the scope of service provision from the previous information system departments to business departments and management departments, and reinforced business areas to extend from contributing to automation and improved efficiency in IT system operation to areas that create corporate value. The ability to propose DX services for revamping customer business models on a total basis through its establishment of operations capable of assisting offensive and defensive aspects of customer businesses, should help form advantages as well. Starting from FY3/22, in addition to reorganizing the Group's functions into three segments, the Company is constructing a cross-segment Group ecosystem. This is a system that the Company can use to provide one-stop solutions, from consulting to supporting the deployment of services, to system integration and outsourcing.

Business trends

In FY3/22, sales increased while operating income declined due to the increase in upfront investments, among other factors. There have been delays in progress on some parts of Cloud Services caused by the prolonging COVID-19 pandemic

1. Summary of the FY3/22 results

The Company's FY3/22 results posted net sales and operating income increases with ¥10,441mn in net sales (up 3.8% YoY), ¥693mn in operating income (down 8.4%), ¥828mn in ordinary income (down 6.6%), and ¥522mn in profit attributable to owners of parent (down 37.9%). Compared to period-start forecasts, while net sales were roughly on track with the plan, profits fell short.

Net sales increased in all three segments. In particular, sales grew more than expected in the Product Services segment due to the capturing of demand for migrating to the cloud. Meanwhile, sales in Cloud Services fell short of the forecast due to sluggish growth in the social cloud business after being affected by the COVID-19 pandemic, despite steady growth in mainstay services. Elsewhere, performance in Professional Services was strong due to factors including the increase in consulting against a backdrop of DX promotion.

In terms of profit-loss, operating income declined, and was less than the forecast, due to a number of factors, including the increase in personnel costs (aggressive hiring in fields of focus, etc.), and the increase in upfront investments (outsourcing costs, advertising costs, etc.) in Cloud Services (business-promotion cloud business), despite the fact that the increase in sales and the pause in R&D expenses (and higher efficiency) were factors for increasing earnings.

There were no major changes in the financial condition. Total assets decreased by 3.4% from the end of the previous fiscal year to ¥14,364mn, while shareholders' equity declined 2.7% to ¥10,969mn due to proactive shareholder returns (dividends and share buybacks). The equity ratio was 76.4% (versus 75.9% at the end of FY3/21), so it was basically flat.

Summary of the FY3/22 results

(¥mn)

	FY3/21		FY3/22		Change		FY3/22		Achievement ratio
	Results	% of sales	Results	% of sales		Change (%)	Initial forecast	% of sales	
Net sales	10,061		10,441		380	3.8%	10,500		99.4%
Product Services	4,231	42.1%	4,420	42.3%	189	4.5%	4,150	39.5%	106.5%
Cloud Services	2,885	28.7%	2,958	28.3%	72	2.5%	3,250	31.0%	91.0%
Professional Services	2,944	29.3%	3,062	29.3%	118	4.0%	3,100	29.5%	98.8%
Cost of sales	4,291	42.7%	4,340	41.6%	48	1.1%	-	-	-
SG&A expenses	5,012	49.8%	5,407	51.8%	395	7.9%	-	-	-
Operating income (loss)	757	7.5%	693	6.6%	-63	-8.4%	800	7.6%	86.7%
Product Services	1,185	28.0%	1,254	28.4%	68	5.8%	1,090	26.3%	115.1%
Cloud Services	-229	-7.9%	-365	-12.4%	-135	-	-160	-4.9%	-
Professional Services	109	3.7%	84	2.8%	-25	-22.9%	220	7.1%	38.4%
Adjusted value	-309	-	-280	-	-28	-	-350	-	-
Ordinary income	887	8.8%	828	7.9%	-58	-6.6%	900	8.6%	92.1%
Profit attributable to owners of parent	840	8.4%	522	5.0%	-318	-37.9%	600	5.7%	87.0%

	End of FY3/21	End of FY3/22	Change	
				Change (%)
Total assets	14,865	14,364	-501	-3.4%
Shareholders' equity	11,279	10,969	-309	-2.7%
Equity ratio	75.9%	76.4%	0.5pt	-

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

Results by business are as set out below.

(1) Product Services

Net sales increased 4.5% YoY to ¥4,420mn, and segment profit increased 5.8% YoY to ¥1,254mn at a steady pace. The mainframe business performed well due to an increase in orders from the finance industry accompanying the increase in cashless payments. The automation business successfully captured demand to transfer on-premises products to cloud business, and the forms business won orders for large projects against a backdrop of digitalization needs for forms. In particular, the Marutto Form Service, which captured the digitalization needs due to the legal amendment of the form business, cultivated a new market due to cooperation with UNIRITA cloud service, and was able to win orders. In profit-loss, the increase in sales boosted earnings leading to an increase in profit, and the segment profit margin was 28.4% (versus 28.0% in the previous year), remaining at a high level.

(2) Cloud Services

Net sales increased 2.5% YoY to ¥2,958mn and segment loss was ¥365mn (compared to a loss of ¥229mn in the previous period), as the segment loss expanded due to the impact of upfront investments, despite a sales increase. In the IT-utilization cloud business, LMIS, Digital Workforce, Waha! Transformer, and other core services are steadily growing amid DX advances and remote work inroads*. In the business-promotion cloud business, services for the staffing industry and personnel management, including DigiSheet and Staff-V, performed well, while despite an increase in prospective projects in the group of services including Growwwing and Smart x Portal, which are in the process of developing new markets, these services appear to still be in the upfront investment stage. In the social cloud business, the positioning information service for bus operators struggled to grow due to the impact of the COVID-19 pandemic. In profit-loss, the segment loss expanded due to a decline in profit caused by aggressive upfront investments, mainly in promotions and sales for the business-promotion cloud business and outsourcing costs related to service development.

* Compound annual growth rate (CAGR) over the last three years was 11.4% for LMIS, 20.1% for Digital Workforce, and 4.1% for Waha! Transformer, as all continued to grow.

(3) Professional Services

Net sales increased 4.0% YoY to ¥3,062mn and segment profit decreased 22.9% to ¥84mn, so profit decreased although sales increased. Against a backdrop of the expansion of DX promotion, the consulting business saw a steady increase in projects in the data management domain and the service management domain. In the system integration business, in addition to receiving a new lump-sum contract deal, there was an increase in new projects by providing one-stop services bringing together the Group's capabilities, in order to respond to DX needs. In profit-loss, segment profit decreased due to the impact of a change in the retirement benefits system at a consolidated subsidiary.

2. FY3/22 overview

In an overview of FY3/22 results based on the points covered above, while the steady growth in core services in Product Services and Cloud Services can be positively evaluated, there were also negative developments, mainly the delays in progress in the business-promotion cloud business and the social cloud business, which are focus areas of the Company, in conjunction with the prolonging of the COVID-19 pandemic and other factors, as well as the decline in profit and the fact that profit fell short of the Company's forecast due to the increase in upfront investments, among other factors. As such, it is necessary to evaluate both the positive and negative aspects. Meanwhile, taking a look at the Company's activities, attention should be given to the fact that the Company focused its efforts on building a system targeting future business expansion, including collaborating with partner companies and reorganizing the Group's functions, to recover from the delay in progress.

Main activity results

Working to develop services through collaboration with partner companies and reorganizing Group functions

1. Collaboration with the partner companies

The Company is pursuing service development and provision based on collaboration with other companies that have strengths in industry based on the concept of open innovation to solve customer issues that are becoming increasingly diverse and complicated. In October 2021, it began delivery of "process-oriented agile solutions" (business-promotion cloud business) through collaboration with Canon IT Solutions Inc. The service assists in visualization of the customer's own operational process and in-house agile development* and is capable of contributing to improved customer work efficiency. By combining their strengths and customer bases, the two companies intend to collaborate in a variety of areas with the aim of creating new value that solves customer and societal issues.

* This is one of the system and software development techniques that proceeds in development work by repeatedly deploying and testing systems in small units, rather than using large units. It is referred to as agile because of the shorter development period than traditional development methods.

2. Evaluation from external organizations and awards received

LMIS, which provides a service management function, has gained recognition, including receiving awards*1 from multiple external organizations, and this is supporting growth in business performance. This is against a backdrop in which the use of service management to improve the satisfaction of service users has begun to attract attention, especially in the IT industry which is developing cloud business, and the Company was able to capture that demand. This service started being provided 10 years ago, and has grown to be supported by more than 150 major domestic companies and more than 15,000 users. In addition, Digital Workforce, Chokotto Data Conversion/Processing, and Growwwing have won awards*2 in various fields. Furthermore, the Company itself was highly evaluated for its programs promoting employee work-life balance, including a high telework implementation rate of above 80%, a flexible working hours system, as well as remote work, and was selected by the Ministry of Internal Affairs and Communications as a "Top Hundred Telework Pioneers" in fiscal 2021.

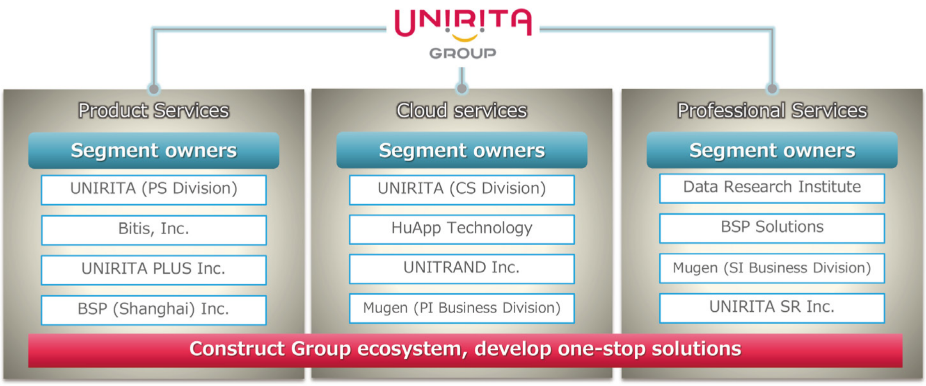
*1 The Company won the Management Reform Contribution Award at the ASPIC IoT/AI/Cloud Awards 2021, the Special Award at the Japan Subscription Business Grand Award 2021, and the Leader Award and the High performer Award at the ITreview Grid Award 2021-2022.

*2 At the ASPIC IoT/AI/Cloud Awards 2021, Digital Workforce won the Management Reform Contribution Award, while at these same awards, Chokotto Data Conversion/Processing won Honorable Mention and Growwwing won the New Business Model Award.

3. Promotion of growth strategy by reorganizing Group functions

The Company is reorganizing Group functions, centered on the business model, with the aim of increasing the efficacy of growth strategy promotion. Specifically, by establishing segment owners for each of the three segments and having these owners provide leadership in each segment, the Company will promote autonomous management as a single organization and the aim is to improve the value provided by cross-segment DX solutions. In other words, the plan is to strengthen vertical relationships (promotion of integrated segment management) and horizontal relationships (cooperation between segments) and effectively utilize the functions and infrastructure of each Group company to create Group synergies and optimize the whole.

Reorganization of Group functions



Source: The Company's results briefing materials

Business outlook

Expecting increase in sales and profit in FY3/23 due to growth in Cloud Services and other factors

1. FY3/23 results forecasts

In the FY3/23 forecast, the Company expects net sales and operating income increases, and forecasts net sales of ¥10,900mn (up 4.4% YoY), operating income of ¥750mn (up 8.2%), ordinary income of ¥865mn (up 4.4%), and profit attributable to owners of parent of ¥565mn (up 8.2%). However, both net sales and profit forecasts are lower than the initial targets in the medium-term management plan (Year 2).

In net sales, the Company expects growth in Cloud Services and Professional Services to contribute to higher sales, despite a slight decline in Product Services. In profit-loss, although growth in the high-profit-margin mainframe business will peak out, the Company expects to achieve an increase in operating income due to higher earnings based on an increase in sales.

The reasons for the results being below the medium-term management plan (Year 2) reflect the fact that it is taking time to cultivate markets for the business-promotion cloud business as well as the delay in the social cloud business, including the impact of the COVID-19 pandemic.

Forecast for FY3/23

(¥mn)

	FY3/22		FY3/23		Change	
	Results	% of sales	Initial forecast	% of sales		Change (%)
Net sales	10,441		10,900		458	4.4%
Product Services	4,420	42.3%	4,384	40.2%	-36	-0.8%
Cloud Services	2,958	28.3%	3,252	29.8%	293	9.9%
Professional Services	3,062	29.3%	3,264	29.9%	201	6.6%
Operating income	693	6.6%	750	6.9%	56	8.2%
Product Services	1,254	28.4%	950	21.7%	-304	-24.3%
Cloud Services	-365	-12.4%	-28	-0.9%	337	-
Professional Services	84	2.8%	203	6.2%	118	140.2%
Ordinary income	828	7.9%	865	7.9%	36	4.4%
Profit attributable to owners of parent	522	5.0%	565	5.2%	42	8.2%

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

2. View of FISCO's analysts

Based on the fact that the core services are growing steadily, FISCO thinks that the Company is sufficiently capable of achieving its targets, provided that the business-promotion cloud business, which has seen delays in progress, gets on track. Therefore, in addition to online promotion that the Company has been working on up until now, a key will be figuring out how to improve the accuracy up to closing by promoting a hybrid sales strategy that utilizes the Group's customer base. Furthermore, FISCO believes that the growth in business performance and the specifics of this in FY3/23 will be an important litmus test for the effectiveness of the growth strategy by reorganizing the Group functions.In addition, collaboration with partner companies is expanding in various ways, and going forward, FISCO will pay attention to how the Company develops markets and how it contributes to the development of the business.

Medium-term management plan

Aims to accelerate growth by solving problems from IT to business and even societal problems

1. Basic policy

The Company started a new medium-term management plan from FY3/22. One year has gone by since the start of this medium-term management plan, but on May 13, 2022, the Company made downward revisions to the medium-term management plan targets due to the fact that, in conjunction with the prolonging of the COVID-19 pandemic, delays arose in certain parts (the business-promotion cloud business and the social cloud business) of the Cloud Business segment, which is positioned as a future growth driver. Still, there have been no changes made to the future business strategy. In other words, with the basic policy of “becoming an IT services company that embodies empathy and creates uniqueness,” the Company has set a course to realize both economic value as a business company and societal value through solving societal problems 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

(1) Creation of service provision-type businesses

For products (automation, forms, and mainframes), the Company is focusing on the systems operation 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.

(2) 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 business (support for IT utilization and rationalization), 2) business-promotion cloud business (provision of services indispensable for business growth / creating shared platforms by industry and business format), and 3) social cloud business (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.

(3) Reorganization of group functions that address the various 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.

a) Product Services

This segment focuses on the systems operation 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 pursing business efficiency.

b) Cloud Services

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.

c) Professional Services

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.

(4) Strengthening the management foundation toward improving corporate 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 aiming to build a structure to improve corporate 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, taking on the challenges of providing value to society and of conducting ceaseless reforms, and growing 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.

3. Numerical targets (after revision)

The Company downwardly revised its medium-term management plan targets for FY3/24, the final year of the plan's period, due to the prolonging of the COVID-19 pandemic and a delay in developing markets. Specifically, the Company lowered the net sales target from ¥12,200mn to ¥11,500mn, reduced the operating income target from ¥1,370mn to ¥900mn, lowered the net profit target from ¥1,000mn to ¥650mn, reduced the ROE target from 8.4% to 5.9%, increased the DOE target from 4.5% to 4.6%, and lowered the dividend per share from ¥70 to ¥68. Also, for the investment plan, the Company has made no changes, and intends to invest ¥2.9bn in total over three years. Of this, approximately 60% will be for R&D, and the investment amount for the development of Cloud Services, which is a growth field, will remain large. The numerical targets (after revisions) for each business, and the thinking behind each, are as follows.

a) Product Services

The Company plans to raise the percentage of total net sales provided by recurring revenue and maintain a high profit margin. In light of the situation with the FY3/22 financial results, the Company raised the net sales target for the final fiscal year from ¥4,200mn to ¥4,388mn, while it lowered the segment profit target from ¥1,120mn to ¥900mn, taking into account the delay in developing services for existing products and the insufficient addressing of conversion needs for the shift to the cloud.

b) Cloud Services

Sales will grow in each of the three categories of IT utilization cloud business, business-promotion cloud business, and social cloud business, but growth in the business-promotion cloud business will drive growth, especially during the current period. In terms of profit-loss, the trend is for profit margin to gradually improve, while covering upfront investments with increasing sales. However, due to the fact that it takes time to develop new markets in the business-promotion cloud business, and due to the delay in full-scale business development of the social cloud business, which is being impacted for a long time by the COVID-19 pandemic, the Company lowered the net sales target for the final fiscal year from ¥4,200mn to ¥3,670mn, and also lowered the segment profit target from ¥310mn to ¥165mn.

c) Professional Services

Through collaborations with Product Services and Cloud Services, and providing total proposals, 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, the profit margin will be raised by improving added value that makes use of consulting relating to data utilization and other services. However, taking into consideration the delay in the shift to a total proposal system and a high earnings model, the Company downwardly revised the net sales target in the final fiscal year from ¥3,800mn to ¥3,442mn, and lowered the segment profit target from ¥320mm to ¥215mn.

Medium-term management plan (after revision)

(¥mn)

	FY3/21	FY3/22		FY3/23		FY3/24	
	Results	Initial plan	Results	Initial plan	After revision	Initial plan	After revision
Net sales	10,061	10,500	10,441	11,300	10,900	12,200	11,500
Product Services	4,231	4,150	4,420	-	4,384	4,200	4,388
Cloud Services	2,885	3,250	2,958	-	3,252	4,200	3,670
Professional Services	2,944	3,100	3,062	-	3,264	3,800	3,442
Operating income	757	800	693	1,070	750	1,370	900
Product Services	1,185	1,090	1,254	-	950	1,120	900
Cloud Services	-229	-160	-365	-	-28	310	165
Professional Services	109	220	84	-	203	320	215
Operating income margin	7.5%	7.6%	6.6%	9.5%	6.9%	11.2%	7.8%
Product Services	28.0%	26.3%	28.4%	-	21.7%	26.7%	20.5%
Cloud Services	-7.9%	-4.9%	-12.4%	-	-0.9%	7.4%	4.5%
Professional Services	3.7%	7.1%	2.8%	-	6.2%	8.4%	6.2%
Profit attributable to owners of parent	840	600	522	800	565	1,000	650
ROE	7.5%	5.3%	4.7%	6.9%	5.1%	8.4%	5.9%
DOE	4.5%	4.5%	4.6%	4.5%	4.6%	4.5%	4.6%
Dividend per share (¥)	66	67	67	68	68	70	68

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

4. Points that the FISCO analyst is watching closely

At FISCO, amid trends such as the promotion of DX being in full gear at the same time as there is a shortage of IT human resources at companies becoming apparent, we feel that the Company's effort to expand its scope of business from only IT issues to also include business issues and social issues, as well as to provide a one-stop solution framework, and thereby capture the growth in demand, makes sense in terms of realizing sustainable growth. Although it is taking time to develop new markets due to the impact of the prolonged COVID-19 pandemic, the number of prospective projects is on the rise, so we feel that accumulating a track record one project at a time will lead to future business expansion. In addition to developing new markets as the Company has done through online marketing thus far, we would like to see the Company strengthen complex channels by utilizing the Group's customer base and through collaboration with partner companies. In the social cloud business, collecting data is the business model that will create future advantages and barriers to entry, so full-scale monetization will likely require more of a medium- to long-term perspective. In any case, while the mainframe business, which is a stable source of earnings, plays the role of cash cow, it is clear that the biggest medium- to long-term topic will be to develop the next pillar of earnings and maintain and expand a strong earnings base, so it is necessary to pay close attention to future developments.

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 operations business 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, and it built a track record chiefly in core mainframe systems, mainly for financial institutions and large corporations.

In 2001, the Company established BSP Solutions Inc. and commenced full-scale consulting and solutions business. In 2006, it was listed on the JASDAQ Securities Exchange. In response to the reformation of market segmentation of the Tokyo Stock Exchange ("TSE") from April 2022, the Company transferred to the Standard Market of the TSE.

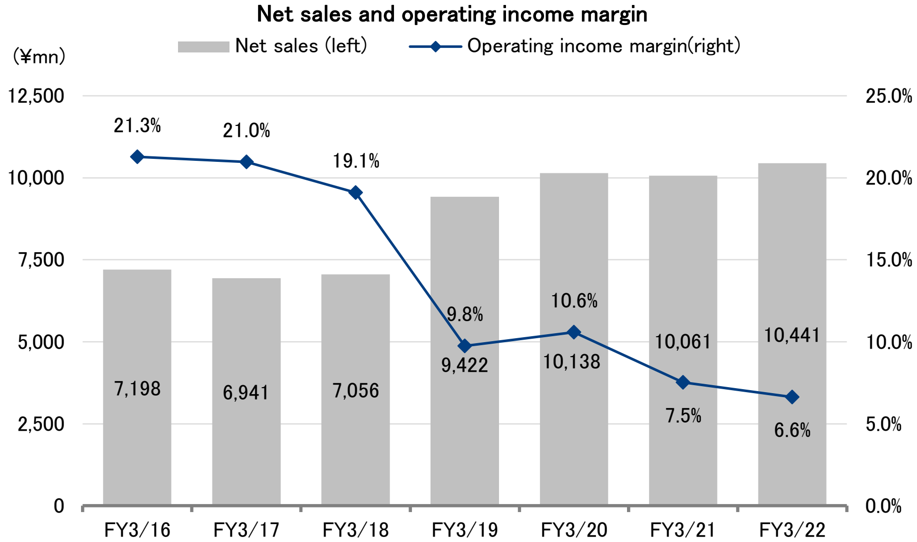
Following the consolidation of Beacon IT (registered company name: Beacon Information Technology Inc.) in January 2014, it started capturing demand in growth fields, such as data utilization, and also embarked on business reforms.

With the absorption-type merger 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 part of the Product Services segment) 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 engages in the System Integration Business (currently part of the Professional Services segment), contributed to the expansion of its business scope in FY3/19, the mainstay Cloud Business (currently Cloud Services) has grown steadily since FY3/20.

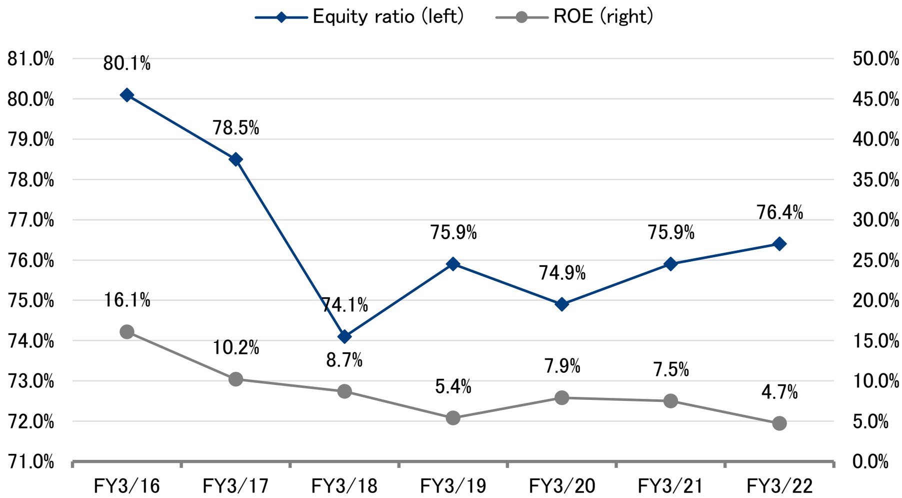
From a profitability perspective, despite there still being a high degree of reliance on the Mainframe Business (currently part of Product Services) for income, the Company’s operating income margin trended upward with improving profitability in the Product Business (currently Product Services) and reached a high level of 28.1% in FY3/14. However, this margin has declined since FY3/15 due to upfront investments 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 lowly due to the upfront investment in growth fields, such as the Cloud Business (currently Cloud Services) and new businesses, with an eye to the future. Going forward, the most important points to focus on would be to what extent can the growth of the Cloud Business (currently Cloud Services) cover the impact of the contraction of the Mainframe Business (currently part of Product Services).



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

From a financial perspective, the Company's equity ratio, which represents the stability of the financial foundation, suffered a one-off decline in FY3/14 as a result of the consolidation of Beacon IT, in FY3/16, in line with its absorption-type merger with Beacon IT (change in ownership interest of parent), 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 investments for growth in the future. On the other hand, ROE, which indicates capital efficiency, had also been trending at a double-digit level, but it fell below 10% (from FY3/18 onward) due to the changes to the business portfolio and the impact of the upfront investment.

Equity ratio and ROE trends



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

Shareholder returns

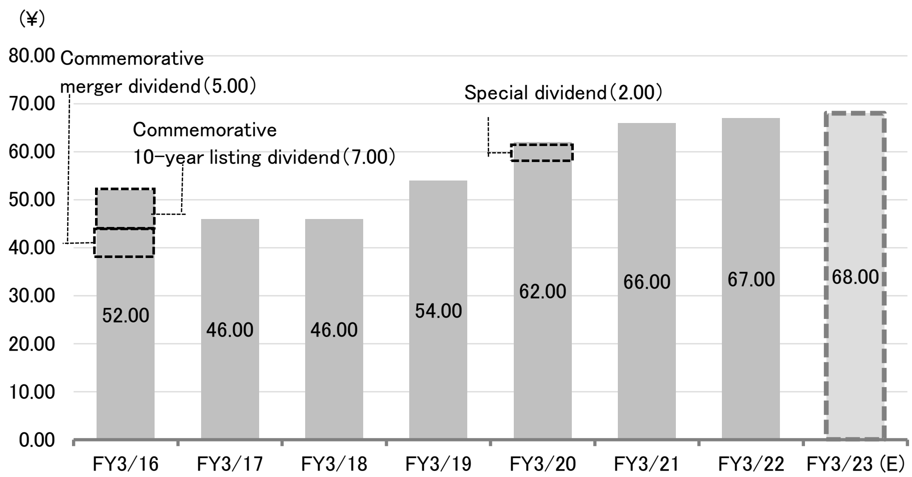
Policy is to aim to stably and sustainably maintain and increase dividends. For FY3/23, the Company is forecasting an annual dividend of ¥68, an increase of ¥1 YoY

In 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 uses 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 FY3/22 dividend, the Company paid an annual dividend of ¥67 (¥33 interim, ¥34 period-end), an increase of ¥1 YoY (DOE = 4.6%). For the FY3/23 dividend, the Company is forecasting an annual dividend of ¥68 (¥34 interim, ¥34 period-end), an increase of ¥1 YoY, which will be the fifth straight dividend hike if it attains this level. The Company's action to stably and continuously increase the dividend should be viewed positively.

In November 2021, the Company implemented a share buyback (purchasing 145,000 shares for a total acquisition cost of ¥266,220,000) and retired shares (retiring 500,000 shares that accounted for 5.88% of total outstanding shares prior to the retirement) with the aim of increasing shareholder return and improving capital efficiency.

Annual dividend per share



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

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