COMPANY RESEARCH AND ANALYSIS REPORT

UNIRITA Inc.

3800

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Index

Summary

FY3/23 1H sales and profit exceeded the Company's forecasts. The Company's main services grew due to the increase in demand accompanying the DX promotion and progress on developing services. Full-year forecasts were left unchanged, but a continued increase in both sales and profits is expected

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, under a management policy of services shifting, the Company has been working on transforming to a new service model (a subscription-type earnings model combining cloud use and system operations) and utilizing digital technologies to solve social issues (working style reforms, regional revitalization, and primary industry stimulation).

The Company started the three-year medium-term management plan in FY3/22, and FY3/23 marks the second year of this plan. 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 FY3/23 1H results

In FY3/23 1H, the Company's net sales increased 9.5% year on year (YoY) to ¥5,440mn and its operating income rose 22.9% YoY to ¥336mn, as both net sales and profit increased more than forecast. Net sales increased in each of the three segments. In Product Services, recurring revenue grew due to successful service shift proposals integrating production and sales for automation and forms products. In Cloud Services, core services matching new solutions needs accompanying DX promotion remained strong. In Professional Services, consulting projects in conjunction with DX promotion were robust, and overall results were driven originating with one-stop solutions aggregating the Group's functions. In terms of profit, despite the increase in personnel costs accompanying the increase in personnel and higher R&D costs, operating income increased more than forecast due to the increase in profit based on the growth in sales as well as a decline in outsourcing costs due to the promotion of insourcing. The Company was also able to make significant progress on a number of activities, including developing new collaborative models with highly-specialized partner companies and releasing a farming support cloud service.

3. FY3/23 results forecasts

In FY3/23, the Company forecasts remain unchanged from initial forecasts of 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 continue 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.

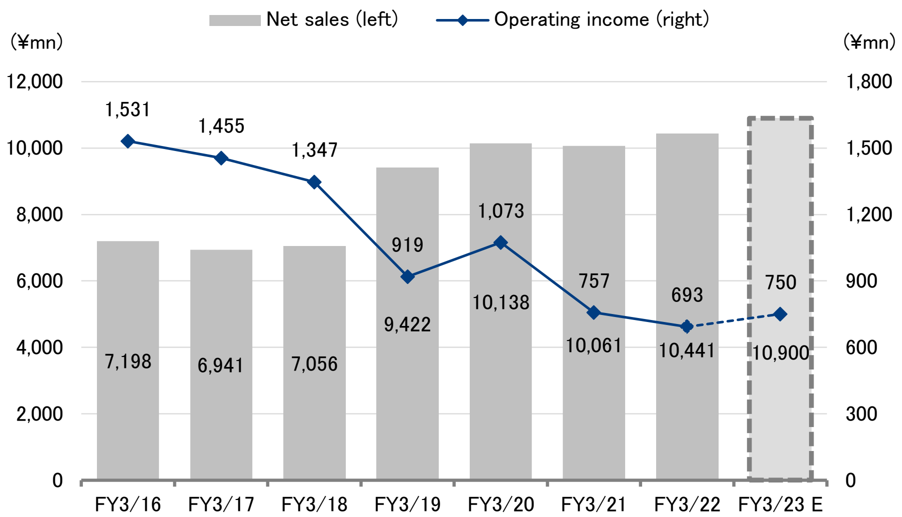
4. Progress of the medium-term management plan

On May 13, 2022, the Company downwardly revised its medium-term management plan targets due to a delay in progress on certain aspects of Cloud Services (business-promotion cloud business, social cloud business), and other services in conjunction with the prolonging of the COVID-19 pandemic, but the Company has not changed its future business strategy. For FY3/24, the final year of the medium-term management plan, the Company's net sales target is ¥11,500mn, and its operating income target is ¥900mn. The Company's plan is to accelerate growth by providing DX services to transform customers' business models based on the three core technologies of data management, service management, and process management that the Company has strengthened through business structure transformation.

Key Points

- FY3/23 1H net sales and operating income increased more than forecast
- Growth in core services due to increase in demand accompanying DX promotion and the development of services
- Left FY3/23 earnings forecasts unchanged, expecting continued increases in net sales and operating income through the reorganization of Group functions
- 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

Results trends



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

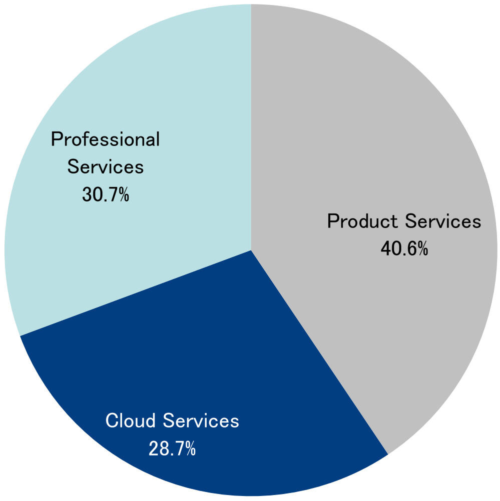
The Company develops, sells, and supports packaged software and data utilization solutions for the operation and management of IT systems for a wide range of industries, including finance and manufacturing, as well as consulting and outsourcing services related to these businesses.

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 ledger 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, the Company has been working on creating services from the business model (a subscription-type earnings model combining cloud use and system operations) 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.

Breakdown of net sales by business segments (1H FY3/23 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), businessissues (business-promotion cloud business), and social issues (social cloud business) and provides services suited to the characteristics of each area. 1) 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. 2) The business-promotion cloud business provides DigiSheet (attendance management service for staffing businesses), Rakuraku BOSS (comprehensive solution for work management), infoScoop 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. 3) The social cloud business promotes location-based service* (bus search, bus location and approach information service), MANALYZE (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

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

The Company has the following three characteristics.

(1) An independent developer of proprietary packaged software

A strength of The Company'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 the Company 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 18,000 members and approximately over 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-type earnings model) 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 FY3/23 1H, net sales and operating income increased more than forecast. Core services grew due to the increase in demand accompanying DX promotion and progress in developing services

1. Summary of the 1H FY3/23 results

In its FY3/23 1H results, the Company posted net sales and operating income increases, with ¥5,440mn in net sales (up 9.5% YoY), ¥336mn in operating income (up 22.9%), ¥488mn in ordinary income (up 29.6%), and ¥321mn in profit attributable to owners of parent (up 38.4%). Compared to initial forecasts at the start of the fiscal year, both net sales and profits were higher than the plan.

Net sales increased more than expected in all three segments. In Product Services, recurring revenue grew due to successful service shift proposals integrating production and sales for automation and forms products. In Cloud Services, core services matching new solutions needs accompanying DX promotion, including LMIS and Digital Workforce, remained strong. In Professional Services, consulting projects in conjunction with DX promotion were robust, and overall results were driven by one-stop solutions aggregating the Group's functions.

In terms of profit, despite the rise in personnel costs accompanying the increase in personnel to address to the increase in projects, as well as an increase in R&D costs (agriculture IT and data science-related costs) eyeing the future, operating income increased more than forecast due to the increase in profit based on the growth in net sales as well as a decline in outsourcing costs due to the promotion of insourcing (maintenance support, etc.). The operating margin also improved to 6.2% (versus 5.5% in the year-earlier period).

There were no major changes in the financial condition. Total assets increased by 1.8% from the end of the previous fiscal year to ¥14,618mn, while shareholders' equity increased 1.2% to ¥11,100mn. Therefore, the equity ratio was 75.9% (versus 76.4% at the end of FY3/22), so it was basically flat.

Summary of the 1H FY3/23 results

(¥mn)

	1H FY3/22		1H FY3/23		Change		1H FY3/23		Achievement ratio
	Results	% of sales	Results	% of sales		Change (%)	Initial forecast	% of sales	
Net sales	4,967		5,440		473	9.5%	5,276		103.1%
Product Services	2,102	42.3%	2,208	40.6%	106	5.0%	-	-	-
Cloud Services	1,445	29.1%	1,562	28.7%	116	8.1%	-	-	-
Professional Services	1,418	28.6%	1,668	30.7%	250	17.6%	-	-	-
Cost of sales	2,043	41.1%	2,317	42.6%	274	13.4%	-	-	-
SG&A expenses	2,649	53.3%	2,786	51.2%	136	5.1%	-	-	-
Operating income (loss)	273	5.5%	336	6.2%	62	22.9%	252	4.8%	133.6%
Product Services	555	26.4%	536	24.3%	-18	-3.4%	-	-	-
Cloud Services	-167	-11.6%	-154	-9.9%	13	-	-	-	-
Professional Services	50	3.6%	65	3.9%	14	29.3%	-	-	-
Adjusted value	-164	-	-111	-	52	-	-	-	-
Ordinary income	376	7.6%	488	9.0%	111	29.6%	352	6.7%	138.8%
Profit attributable to owners of parent	232	4.7%	321	5.9%	89	38.4%	230	4.4%	139.8%

	End of FY3/22	End of 1H FY3/23	Change	
				Change (%)
Total assets	14,364	14,618	254	1.8%
Shareholders' equity	10,969	11,100	130	1.2%
Equity ratio	76.4%	75.9%	-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 5.0% YoY to ¥2,208mn, and segment profit decreased 3.4% YoY to ¥536mn. 1) In terms of the core automation and forms products, there was growth in continuous billing-type recurring revenue due to the success of service shift proposals integrating production and sales to respond to system upgrade needs. In particular, net sales for maintenance and services were ¥1,622mn (up ¥31mn YoY) as net sales are increasing, and at FISCO we can evaluate that progress is being made on the business model's development of services. 2) Meanwhile, the mainframe business saw a YoY decline in net sales, despite continued strength in orders from the finance industry accompanying the increase in cashless payments and other factors. In profit-loss, profit declined due to the drop in sales in the high-profit-margin mainframe business, but the segment profit margin was 24.3%, remaining at a high level.

(2) Cloud Services

Net sales increased 8.1% YoY to ¥1,562mn and segment loss was ¥154mn (compared to a loss of ¥167mn in the year-earlier period). 1) In the IT-utilization cloud business, LMIS, Digital Workforce, Waha! Transformer, and other core services that match new issue-solving needs are steadily growing amid advances in DX promotion and remote work inroads*. 2) In the business-promotion cloud business, services for the staffing industry and personnel management, including DigiSheet and The Staff-V, performed well. For the group of services including Growwwing and infoScoop Smart x Portal, which are in the process of developing new markets, adoption not only by startup companies which were initially the target, but also by enterprise companies with large budgets, appear to have increased. Meanwhile, 3) in the social cloud business, the positioning information service for bus operators has been receiving positive responses from municipalities nationwide, but it has not fully developed into a business. In profit-loss, despite the fact that the social cloud business is still in the upfront investment stage, profit-loss is improving along with the growth of core services, and the Company is looking to become profitable in this area.

* LMIS, Digital Workforce and Waha! Transformer are each growing smoothly. LMIS, which responds to the demand for enhanced support quality of contact centers, service desks and other customer support, grew by 12.3% YoY. Digital Workforce, which is seeing increasing demand for bolstering the security and developing the system collaboration platform of remote work environments, grew by 24.9% YoY, and Waha! Transformer, which is receiving demand for data maintenance and conversion needs based on DX promotion, grew by 2.7% YoY. In particular, Digital Workforce can be linked with a variety of cloud services and allows users to safely access many cloud services with one login, thereby providing both safety and convenience. The cumulative number of users reached 250,000 in just two years since sales began, and the usage continuation rate is over 96%.

(3) Professional Services

Net sales increased 17.6% YoY to ¥1,668mn and segment profit increased 29.3% to ¥65mn. 1) Against a backdrop of DX promotion needs, in addition to information systems divisions, the consulting business saw robust inquiries for service management and data management projects from the business divisions. Originating with one-stop solutions bringing together the Group's capabilities, this drove the overall increase in earnings. Also, in conjunction with this, 2) in the system integration business the shift to high-price business domains appears to be making smooth progress. 3) The outsourcing business is also growing in association with the increase in personnel hiring for DX promotion and outsourcing demand for management operations. In profit-loss, segment profit increased due to the growth in the high-added-value consulting business and higher profit margins in the system integration business.

2. 1H FY3/23 overview

In summarizing FY3/23 1H results based on the points covered above, it can be said that in addition to each business growing more than forecast, one can positively assess that a certain degree of results emerged with respect to higher profitability due to insourcing and an increase in added value. In particular, several developments show that the Company's initiatives and strategies up until this point have gotten on track. First, the Company has made progress on developing services from the business model and there has been an increase in recurring revenue which is stable earnings. Second, the group of cloud services responding to demand accompanying DX promotion grew not only for IT divisions but also for business divisions. And third, there has been an increase in one-stop solutions originating with consulting due based on bringing together the Group's capabilities. These are all positive developments heading into the future. Meanwhile, taking a look at the Company's activities, as discussed later, the Company successfully made significant progress on initiatives targeting future business growth, including developing new collaborative models with highly-specialized partner companies and releasing a farming support cloud service.

Main activity results

Released a farming support cloud service and made significant progress on service collaboration with highly-specialized partner companies

1. Development of one-stop solutions

The Company is working to strengthen both the vertical relationship (promoting management integrated into segments) and horizontal relationship (cooperation among segments) through Group reorganization, and is working to create Group synergies that effectively utilize the capabilities and platforms that each Group company possesses and to achieve overall optimization. This has yielded results, and currently there is an increasing trend in high-added-value projects through one-stop solutions, spanning the entire range from consulting to deployment of the Company's cloud services, to system integration, and finally to outsourcing business operations. Specific examples include helping a large electronics equipment manufacturer build a customer success platform and helping a large medical equipment manufacturer increase the productivity and efficiency of its field support operations. A distinctive feature of this is that revenue is booked across multiple segments and services, and as projects led by the Company they contribute to shoring up overall profitability. Through these types of solution projects, the Company is aggregating its operational expertise and know-how, and is planning to horizontally expand it to an even wider customer base, as a Group-integrated value creation model has now come into view.

2. Release of agricultural business management support cloud service

On June 10, 2022, the Company released the official version of VegiPallet, a farming support cloud service that provides information for increasing management efficiency to farm managers. Unlike conventional daily farming log software, VegiPallet is a cloud service that provides information necessary in order to maximize farming profits. One year had gone by since the Company released the beta version in June 2021, and during that year the Company further developed the service based on feedback from farmers as well as insight gained from UNIRITA Future Farm (demonstration field) that the Company has operated in since 2020 in Chiba City, Chiba Prefecture. VegiPallet's key features include visualization on PCs or mobile devices allowing users to ascertain their farms situation at a glance, see their profit/loss for each group of fields, and make accurate comparisons of field profitability. Going forward, the Company plans to add functions with even more benefits through version upgrades utilizing the features of the cloud service. With respect to full-fledged monetization, a long-term view is required, but for starters the Company plans to create unique value by solving societal needs through the accumulation of data and knowledge.

3. Service collaboration with highly-specialized partner companies

The Company has been focusing on collaboration with partner companies, and is developing a collaboration model with highly-specialized partner companies utilizing the Company's Marutto Form cloud service. Specifically, the model is related to the construction of a platform business responding to the invoice system, which is scheduled to be introduced, and the Electronic Record Retention Act, and aims to cultivate the market for medium- to large- sized companies.

Business outlook

Keeping FY3/23 results forecast unchanged while expecting increases in both sales and profit

1. FY3/23 results forecasts

In the FY3/23 forecast, the Company forecasts remain unchanged from initial forecasts of net sales and operating income increases, and it 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%).

In net sales, the Company expects growth in Cloud Services and Professional Services to contribute to higher sales. The Company plans to continue to expand business through efforts including promoting a hybrid sales strategy utilizing the Group's customer base, cooperation between businesses, and collaboration with partner companies. Although 1H results exceeded the Company's forecast, it seems that the reason the Company left its full fiscal year forecasts unchanged is that it made a cautious judgment about the impacts of the highly uncertain economic situation and other factors.

In profit-loss, despite the continuation of upfront investment including personnel costs and R&D costs, as well as the impact from the decline in sales of high-profit-margin mainframes, the Company is expecting an increase in operating income due to the effect of higher net sales.

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

FISCO thinks that the Company is sufficiently capable of achieving its results forecast, considering the fact that in addition to 1H results exceeding the Company's forecasts, the Company's core services matching the DX promotion trend are performing well and profitability is smoothly improving due to insourcing and the increase in added value. The key points to focus on are 1) the Company's initiatives targeting future business expansion and their impacts, including changes in the profit structure caused by converting the business model into one providing services, 2) the generation of one-stop solution projects provided by the entire Group working together, and 3) market cultivation through collaboration with partner companies. In addition to solidifying its footing ahead of FY3/24, the final year of the medium-term management plan, whether or not the Company can strengthen its business base targeting acceleration of growth under the next medium-term management plan will be an important litmus test for the Company's medium- to long-term growth potential, so FISCO will follow the Company's progress going forward.

Medium-term management plan

Working to solidify the business base with the aim of accelerating growth by solving problems from IT to business and even societal problems

1. Basic policy

The Company started a three-year new medium-term management plan from FY3/22. 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. But, 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 up until now of data management, services management and process management that it strengthened through the business structural reforms, 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 an accumulated recurring billing (subscription) model.

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

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 solvingarea, 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 fiscal year of the plan's period, due to the prolonging of the COVID-19 pandemic and a delay in developing markets. Specifically, the Company's net sales target is ¥11,500mn, the operating income target is ¥900mn, the target for profit attributable to owners of parent is ¥650mn, the ROE target is 5.9%, the DOE target is 4.6%, and the dividend per share target is ¥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 through promotion of service-providing businesses, etc. For the final fiscal year, the Company is forecasting net sales of ¥4,388mn and segment profit of ¥900mn.

b) Cloud Services

Net 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. For the final fiscal year, the Company is forecasting net sales of ¥3,670mn and segment profit of ¥165mn.

c) Professional Services

The aim is to grow this business by contributing to customers' implementation of DX through collaborations with Product Services and Cloud Services and by providing total proposals, from consulting through to systems construction and outsourcing. In profit-loss, the Company will work to improve the profit margin by improving added value that makes use of consulting related to data utilization and other services. For the final fiscal year, the Company is forecasting net sales of ¥3,442mn and segment profit of ¥215mn.

Medium-term management plan (after revision)

(¥mn)

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

Note: FY3/21 segment data (new classifications) are based on reporting segment classifications and measurements following the change
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.

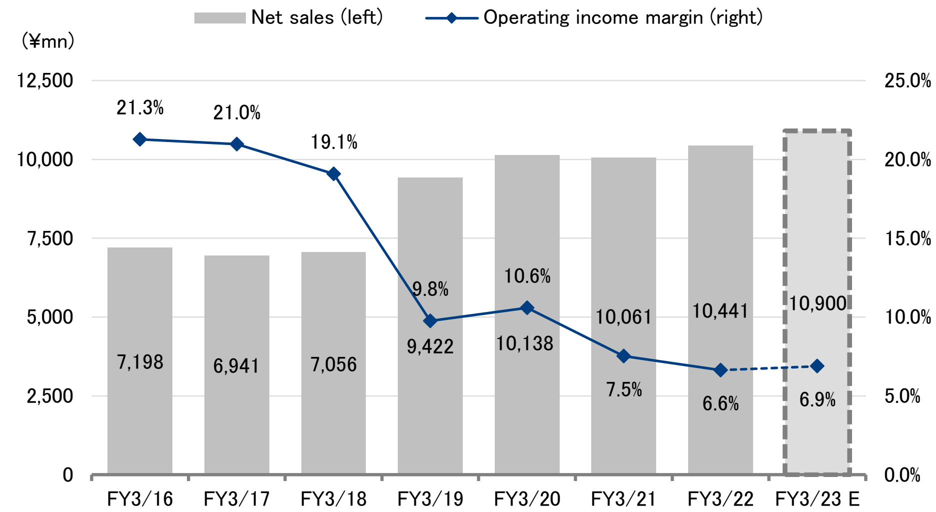
With the absorption-type merger of consolidated subsidiary Beacon IT in April 2015, the Company changed its name to UNIRITA, Inc. The new company name embodies the concept of aspiring to contribute to the development of customers and society with "unique ideas" to create value and an "altruistic spirit" ("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).

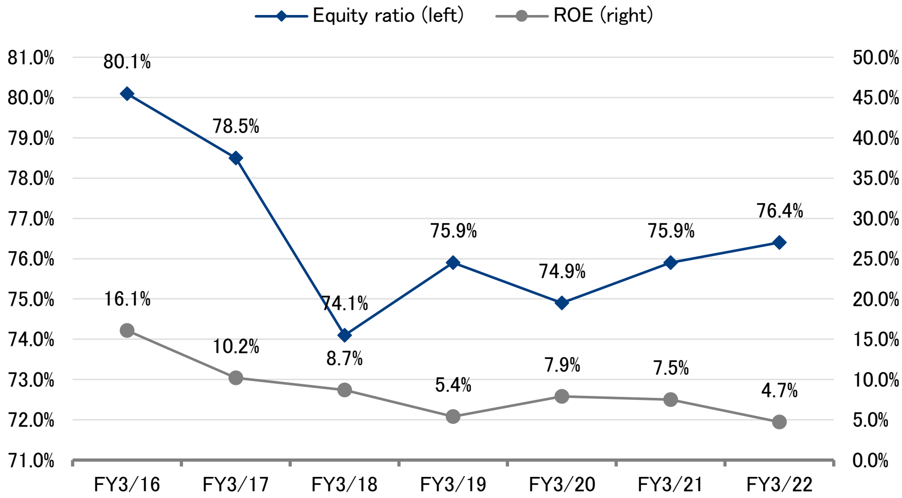
Net sales and operating income margin



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

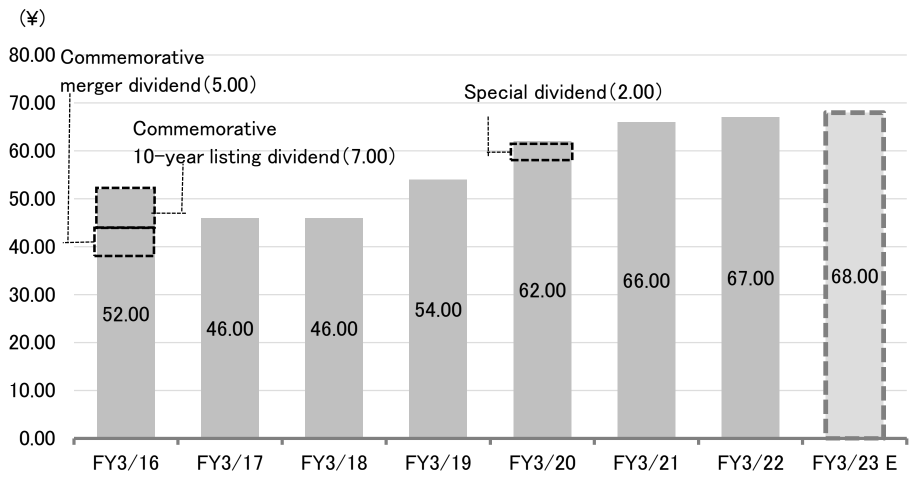
Shareholder returns

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

From FY3/19, instead of using the consolidated dividend payout ratio as the standard as it had previously done, the Company changed to using dividend on equity 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. The Company also has a strategy of flexibly executing share buybacks and retiring shares that it has bought back.

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.

Annual dividend per share



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

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