UNIRITA Inc.
3800 TSE JASDAQ

15-Jan.-16

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FISCO Ltd. Analyst
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Merged with Beacon IT, which has management capabilities, generating synergies to accelerate growth

As well as developing, selling and servicing package software for the operation of core commercial computer systems for a broad range of industries, primarily finance and manufacturing, UNIRITA [3800] focuses on providing solutions based on data utilization services. In April 2015, BSP Incorporated merged with its consolidated subsidiary, Beacon Information Technology Inc. (Beacon IT), and changed its name to UNIRITA Inc. The goal of this merger was to improve the company's organization quickly by absorbing the data management capability of Beacon IT and combining the management resources of that company and BSP, allowing UNIRITA to respond rapidly to a changing business environment. BSP had provided operation management services to improve the productivity of customer companies through automation of system management and other measures to increase efficiency. Beacon IT had supplied data management services to directly increase corporate value. As a single company, these units should generate synergy to enter a new growth stage.

From FY3/16, the company started its second medium-term management plan. By replacing its technologies to concentrate its management resources on growth areas, the company targets consolidated net sales of ¥10,000 mn, for average annual growth of 12.8%, ordinary income of ¥2,400 mn (ordinary income ratio of 24.0%), and an ROE of 14.0% for FY3/18, the final year of the second medium-term management plan.

In 1H FY3/16, consolidated net sales increased 1.0% year on year (Y o Y) to ¥3,438mn, and operating income rose 23.5% to ¥646mn, falling below initial forecasts despite strong sales and profit growth. UNIRITA allocated human resources to deemphasize existing businesses and focus more on new and growth business fields and endeavored to strengthen proposal capabilities in line with basic polices for three reasons. The first was to reinforce product development and service capabilities as a producer of package software. The second was to strengthen information technology capabilities to resolve client management issues. The third was to create a new corporate culture. Despite these efforts, however, the company was unable to fulfill its plans. This reflected some difficulties in shifting to a new sales structure, as well as delays in launching businesses in new and growth fields and in commercializing new products and services.

However, the company's FY3/16 forecasts have been left unchanged from the initial forecast with net sales up 6.7% Y o Y to ¥7,600mn, and operating income up 2.3% Y o Y to ¥1,500mn. UNIRITA plans to regain ground in 2H, as inquiries in new and growth business fields are increasing, complementing work related to Japan's new social security and tax number system, nicknamed My Number, and system upgrades.

Although 1H results fell short of targets, we have concluded that UNIRITA's forecasts are achievable, for several reasons. We anticipate contributions from businesses that got off to slow starts in new and growth fields. Sales should expand for products whose launches the company delayed, enhancing the performances of each subsidiary. Existing products in the System Operation Business should also perform well. It is also necessary to note the potential for large orders from financial and life and non-life insurance industries to exceed forecasts, as such projects are based on demand to accommodate My Number. We aim to keep tabs on the impact of management integration and progress in business structure reform from mid-to-long term perspectives.

Check Point

- From this term, focusing on providing solutions that leverage data management capabilities
- Initiating solutions related to My Number, the Internet of things, security, and other areas
- Increasing inquiries in new and growth business fields

Business Overview

From this term, focusing on providing solutions that leverage data management capabilities

UNIRITA develops, sells and services package software for controlling the operation of core commercial computer systems for a diverse range of industries, including the financial and manufacturing industries. It also applies its proprietary know-how to offer peripheral services such as operational consulting and human resource development, and provides administration services. From this term, the company is focusing on providing solutions that leverage data management capabilities

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 growth by contributing to the automation and enhanced efficiency of IT systems operation, including job management and report management.

However, to prepare for growth in the medium-to-long term in light of rapid changes in its operating environment, such as the shift to open architecture systems, downsizing, the proliferation of cloud computing, and the use of big data, the company initiated reforms to its business structure. It planned to accelerate growth by developing business areas that directly contribute to raising corporate value, supporting market expansion and improved competitiveness, while continuing its traditional business of automating and otherwise increasing the efficiency of operating IT systems, leading to greater productivity.

As part of its business structure reforms, in April 2015, BSP merged with its consolidated subsidiary, Beacon IT, and changed its name to UNIRITA. The goals of this merger were to combine the operations management capability of BSP and the data management capability of Beacon IT, to realize synergies that would help it respond to a changing operational environment, and to expedite business development.

UNIRITA operates three main businesses, the Data Utilization Business, the System Operation Business, and the Mainframe Business, and Other Businesses, with the Mainframe Business contributing most of its operating income.

a) Data Utilization Business
The Data Utilization Business combines the Product Division and the Solutions Division.

It was acquired through the consolidation of Beacon IT in January 2014 and is poised to become a core business going forward.

Product Division develops and sells software for data utilization, including for increasing data processing speeds and strengthening operating functions.

In the Solutions Division, consolidated subsidiary Data Research Institute offers consulting and other services relating to data utilization.

b) Systems Operation Business
The Systems Operation Business combines the Product Division, the Solutions Division, and the Outsourcing Division.

The Product Division handles open architecture products to manage the operation of core commercial computer systems. It develops, sells and supports proprietary software to automate operations, handle reports, and manage IT services, and it handles some software products made by other companies. Royalties on product usage rights (license fees) and maintenance service fees that are a fixed ratio of the product cost form the sources of income. In March 2013, BSP commenced the cloud computing service Be.Cloud, for which demand is growing.

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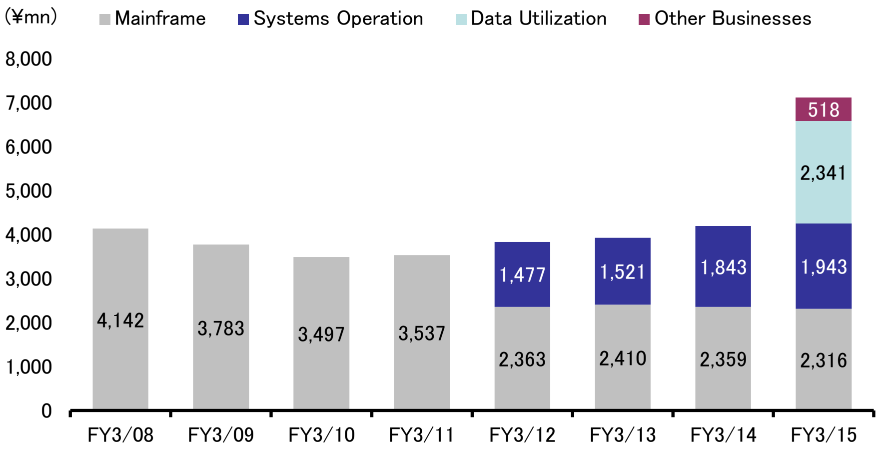
The Solutions Division provides solution services, including systems development consulting and human resource development, for IT services. It offers a membership-based “Sys-Doc” service, through which it provides expert advice on IT systems operation via periodic client visits, and it extends solution services, such as corporate value analysis, organizational reform and human resource development, using the ASMO method for structuring operational units that contribute to management.

The Outsourcing Division is a BPO (business process outsourcing) launched in October 2013 based on the “operationless” concept of IT divisions contributing to corporate value creation, which was introduced by BSP. Specifically, it proposes ways to improve the operation of IT systems and supports system development, systems migration, project management, and the structuring of service desks.

c) Mainframe Business
The Mainframe Business, part of the broader business of managing the operation of core commercial computer systems, handles proprietary software for mainframe computers primarily for financial institutions and large corporations. From the year following the sale of a mainframe product, the company receives a maintenance service fee from users, calculated as a fixed ratio of the product cost. This has been the company’s flagship business since its establishment and is a stable source of income.

d) Other Businesses
These are businesses acquired through the consolidation of the Beacon IT group. They comprise the businesses of the Beacon IT group other than the Data Utilization Business, including business continuity plan development, administration and maintenance support, as well as a SaaS product for HR outsourcing management. These other businesses are conducted by consolidated group subsidiaries, including Aspex and Bitis, Inc.

Sales by Segment, FY3/08–FY3/15



Note: The Mainframe and System Operation businesses were segregated from FY3/12

As of September 30, 2015, more than 800 companies had installed the company’s products. Most of these were large corporations. The range of customer industries was wide, but the manufacturing, retail and distribution, and finance and insurance industries accounted for high percentages of total aggregate sales.

The company’s flagship business mainly sells directly. That said, the position of the agency strategy is becoming more important in new and growth business fields, especially in the highly competitive Data Utilization Business, where there are many product types.

As of September 30, 2015, the company had the following five consolidated subsidiaries. BSP Solutions Incorporated runs an IT service consulting business, which is now part of the System Operation Business. BSP (Shanghai) Inc. is the base for sales in China. ASPEX handles SaaS products for human resources outsourcing management. Bitis, Inc., offers business continuity plan development, administration and maintenance support. Data Research Institute is a data management consulting business.

Corporate Characteristics

High profitability of the Mainframe Business attributable to high customer switching costs

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 distinguishing traits.

a) An independent developer of proprietary software
UNIRITA's products in the flagship Systems Operations and Mainframe businesses enable smooth system operation regardless of the scale of a computer its manufacturer, or other such factors. Competing products do not allow the replacement of hardware, so they are a hindrance to a company's flexible development of a computer system. Proposals by the company are valuable to customers because they concentrate on how much the company can contribute to the automation or efficiency improvement of operating IT systems. The company's long experience and knowhow in these endeavors are reflected in the detail and advanced performance of its goods and services and in the precision of its proposals. Other software developers often rely on agencies to implement their systems, but UNIRITA sells its products directly, chiefly to financial institutions and large corporations, and installs them. Furthermore, its products are often adopted as replacements during system updates. These factors testify to the high quality of the company's offerings. The company has been hired to operate the SysAdmin's Group, the largest network of system managers in Japan, with more than 14,000 members and 147 endorsing companies. This demonstrates that UNIRITA is a driving force in this field. (As of December 2015)

b) Stable income from the Mainframe Business being invested in new growth areas
The Mainframe Business yielded an astoundingly high segment profit margin of about 76.0% in 1H FY3/16 and the segment's stable income has supported the company's growth. We believe this profitability is made possible not only by customer confidence in the company's products and services, but also by high customer switching costs (the costs of replacing systems). Although we are concerned about the gradual decline of sales in the Mainframe Business, we foresee continued high profits from the business, enabling the company to invest the profits in new growth areas, such as cloud computing services and data utilization. This is a significant advantage.

c) A structure that can support both expansive and defensive aspects of customers' businesses
The current business structure reforms will not only contribute to the automation and enhanced efficiency of IT systems operation, but also allow the company to expand into the business of assisting customers to reallocate management resources, such as staff and budget, to create more corporate value. The company's new business structure should allow it to support both the expansive and defensive aspects of customer businesses. Thus, the company will be able to offer total proposals to improve the IT investment performance of its customers and solidify its superiority in the software industry.

Business trends

Despite slight sales growth, profits surged in 1H FY3/16

In 1H FY3/16, consolidated net sales increased 1.0% Y o Y to ¥3,438mn, operating income rose 23.5% to ¥646mn, ordinary income grew 20.9% to ¥737mn, and net income climbed 35.4% to ¥620mn. Although sales were up slightly, profits expanded significantly. Nonetheless, both sales and profits were below initial forecasts.

While sales expanded for the System Operations Business and the Other Businesses of subsidiaries, overall sales growth was small owing to declines in the flagship Mainframe and Data Utilization businesses. The downturn for the Mainframe Business was within the expected range. The main factors for being off target were delays in launches of new and growth field businesses and product sales in the Data Utilization Business and stagnating technological support sales in the System Operations Business.

Despite a gross profit margin drop stemming from a downsizing of the highly profitable Mainframe Business, the operating income margin jumped to 18.8%, from 15.4% a year earlier. This reflected SG&A expense reductions from cost synergies through the integration of offices and systems, as well as improved profitability in the Data Utilization and System Operations businesses.

Total assets expanded slightly, while the equity ratio climbed to 78.1%, from 65.8% a year earlier. This reflected the Beacon IT merger and the accumulation of internal reserves.

Operating results by segment were as follows.

In the Data Utilization Business, sales decreased 4.5% Y o Y to ¥1,079mn. Despite the decline, the segment loss decreased from ¥84mn a year earlier to ¥7mn. The company made upfront investments in the new and growth business fields of security measures and big data and cloud utilization. Slight delays in launching these products and delays in selling products in existing businesses led to sales declining less than projected. At the same time, profits improved significantly through efforts than included reviewing unprofitable operations.

In the System Operations Business, sales increased 16.5% Y o Y to ¥1,042mn. The segment loss shrank from ¥320mn a year earlier to ¥182mn. In the core operation automation business, product sales expanded significantly as a result of large orders. They included repeat orders from existing clients, orders in the reporting area to accommodate My Number, and transfer orders from mainframe to open environments. That said, progress was slow in outsourcing technical support services that the company is endeavoring to build as new stock businesses in the administration field, so these sales were below target. Still growth in highly profitable products greatly reduced the segment loss.

In the Mainframe Business, sales dropped 8.1% Y o Y to ¥1,023mn. Segment operating income dropped 9.9% Y o Y to ¥777mn. That said, declines in net sales and profits were within the expected range. This reflected an ongoing shrinkage of the market for mainframe services as open architecture systems proliferated and companies invested in smaller computers.

In Other Businesses, sales increased 9.5% Y o Y to ¥292mn, while segment operating income decreased 10.1% Y o Y to ¥58mn. Business expansions at each subsidiary contributed to revenue growth. Solutions expanded in the personnel outsourcing market, including in optional development of systems, while new Web advertising techniques were employed and services were launched for business continuity plans. That said, earnings declined owing for extensive forward investments.

1H FY3/16 Results Overview

(Unit: ¥mn)

	1H FY3/15 Results		1H FY3/16 Results		Nominal change YoY		1H FY3/16 1H FY3/16 Company forecasts		Result/ forecast
		% of sales		% of sales		% change YoY		% of sales	
Net sales	3,406		3,438		32	1.0%	3,800		90.5%
Data Utilization Business	1,130	33.2%	1,079	31.4%	-50	-4.5%	-	-	-
Systems Operation Business	895	26.3%	1,042	30.3%	147	16.5%	-	-	-
Mainframe Business	1,113	32.7%	1,023	29.8%	-89	-8.1%	-	-	-
Other Businesses	267	7.8%	292	8.5%	25	9.5%	-	-	-
COGS	824	24.2%	866	25.2%	42	5.1%	-	-	-
SG&A	2,058	60.4%	1,926	56.0%	-132	-6.4%	-	-	-
Operating income	523	15.4%	646	18.8%	122	23.5%	750	19.7%	86.2%
Data Utilization Business	-84	-	-7	-	77	-	-	-	-
Systems Operation Business	-320	-	-182	-	137	-	-	-	-
Mainframe Business	862	77.5%	777	76.0%	-85	-9.9%	-	-	-
Other Businesses	64	24.3%	58	19.9%	-6	-10.1%	-	-	-
Ordinary income	609	17.9%	737	21.4%	127	20.9%	820	21.6%	89.9%
Net income	458	13.4%	620	18.0%	162	35.4%	800	21.0%	77.5%
Data Utilization Business									
Products	162		123		-39	-23.9%			
Technical support	426		471		45	10.6%			
Maintenance fees	540		484		-56	-10.5%			
Systems Operation Business									
Products	124		251		127	101.3%			
Technical support	460		479		19	4.0%			
Maintenance fees	309		311		2	0.8%			
Mainframe Business									
Products	227		181		-46	-20.4%			
Technical support	29		14		-15	-49.7%			
Maintenance fees	855		827		-28	-3.4%			
Total assets	12,013		12,085		72	0.6%			
Net assets	7,900		9,442		1,542	19.5%			
Equity ratio	65.8%		78.1%		12.3				

■ Growth strategies and progress

Launching My Number-related, Internet of Things, security, and other solutions

The company has started its second medium-term management plan in FY3/16. Companies are shifting their demands on their IT departments, requiring them to contribute directly to raising their corporate values. To respond effectively to this shift, UNIRITA intends to implement several changes over the next three years. It will invest aggressively in new growth fields and assign more personnel to these businesses. It will replace obsolete technology with new technology, nurture young businesses through in-house incubation, and use M&A. Through these measures, the company aims to increase its consolidated net sales by 12.8% per year, on average, to ¥10,000 mn, and its ordinary income ratio by 24.0% per year, on average, to ¥2,400 mn. It also targets an ROE of 14.0% for FY3/18, the final year of the second medium-term management plan.

As its Mainframe Business is likely to continue to shrink, the company plans to promote the sale of products for use on open architectures to lead its growth. It also intends to increase the sales weight of new and growth businesses from 20% in FY3/15 to 48% in FY3/18.

*1 ETL: For Extract, Transform and Load. Extracting data accumulated in core company systems and other locations, putting the data in easy-to-use formats, and loading it on target database.

*2 BI: For Business Intelligence. A vehicle to effectively use large volumes of corporate data accumulated in such locations as operational systems for corporate decision-making processes by accumulating, analyzing, and processing the data.

*3 ITSM: For IT Service Management. A mechanism for managing appropriate IT services to match corporate needs and undertake ongoing improvements.

The basic policies of the second medium-term management plan and 1H achievements are as follows.

1. Reinforcing product development and service capabilities as a package software maker

In its specialty field of products that boost productivity, such as ETL*1, BI*2, and ITSM*3, the company launched new versions and products to prepare for business deployments in 2H FY3/16 and beyond. At the same time, it integrated support functions previously spread between the company and Beacon IT and set up a customer service department to enhance the quality of support services and technological support. The company addressed the needs of companies using mainframe core systems through cloud computing by establishing the wholly owned ASPEX, Bitis, Inc., and Data Research Institute to reinforce clients' non-core operations sourcing businesses and strengthen the group's services provision systems.

2. Boosting IT skills needed to resolve client management issues

The company invested in replacing technologies by allocating 60 people, accounting for 20% of existing businesses, to concentrate on new and growth fields, notably mobile communication services, Big Data analytics, cloud computing, and security software. It also established a business headquarters to oversee new investments and started working on solutions in such areas as My Number, the Internet of Things, and security.

3. Creating a new corporate culture

The company launched the UNIRITA Culture Creation Project to change employee mindsets and improve communications between employees and organizations, which tend be problematic in newly integrated organizations.

That said, several factors impeded efforts to reach initial targets. For example, new role- and functionally-specific sales entities failed to produce anticipated results. There were delays in new products and other market launches in the Data Utilization Business. New and growth field businesses got off to slow starts. There was also a partial delay in deploying the first phase of organizational integration measures under the slogan of organizational unification and process integration. The company plans to make up for shortfalls in 2H FY3/16 by quickly addressing these issues, accelerating growth to reach goals under the medium-term management plan. The company has already reorganized a slightly unwieldy sales structure, aligning it with sales approaches based on client and product portfolios. More specifically, it overhauled the structure to allocate resources more efficiently and engage in more effective sales by positioning clients and products in new and old categories, resulting in four segments. The company also plans to generate collaborative synergies between email and similar sales approaches and person-to-person selling, as well as seminars, events, and other preselling.

Although the company remains dependent on its Mainframe Business for most of its profits, we applaud it for planning to restructure its businesses over the next 3–5 years. We think that the company should rapidly build a new profit model while its Mainframe Business remains lucrative. Although the Japanese market for mainframe business is shrinking, the company's strength in this business should enable the business to generate enough profits to support overall profit growth for a few years.

Hereafter, it will be important for the company to grow faster than the overall market for software development. To achieve that growth, the company will have to strengthen its new and growth business areas. Although company seems to have started out late, we believe that it will be vital for the company to expedite the integration of its new organization and the training and reassignment of its staff so that it can develop new products for its new and growth businesses and realize synergy effects between these businesses and its established businesses. A key to success is likely to be how the company uses its ample funds on hand to promote growth. We anticipate (that management will be able to build a framework (empowerment, incentives, mindsets, etc.) to increase the speed and accuracy of business restructuring, as shown in its strategy for subsidiaries, including effective M&A.

Company forecasts for FY3/16

New and growth field businesses attracting more inquiries

The company has retained its initial FY3/16 projections of a 6.7% YoY rise in consolidated net sales to ¥7,600mn, a 2.3% increase in operating income to ¥1,500mn, a 0.3% upturn in ordinary income to ¥1,580mn, and a 25.4% improvement in net income to ¥1,280mn.

Though the company does not disclose figures by business segment, it anticipates growth in all areas except for the Mainframe Business. For the first year of its new medium-term management plan, however, it expects growth to be relatively mild. This is because management plans to prioritize building strong post-merger business foundations and making forward investments in new and growth field businesses. Although the company failed to reach its 1H targets, it enjoyed growth in My Number-related work and system upgrades. There were also more inquiries in new and growth field businesses. They included system development to help clients globalize and invigorate their businesses through the Internet of Things by building systems and providing cloud security. Management will take advantage of such interest to make up ground in 2H.

Augmenting the solid performances of existing products in the company's System Operation, we anticipate contributions from expanded sales of products* in new and growth field businesses, which experienced slow starts, and the Data Utilization Business, which experienced launch delays. Also, the businesses of each subsidiary are growing. We thus consider management's FY3/16 forecasts attainable. It seems more important to note that large special projects for financial institutions and life and non-life insurers could be greater than projected. One example would be My Number (safeguarding private information from leaks and building protections). We also want to keep tabs on specific progress in new and growth field businesses, where demand is expanding.

* Including the latest versions of products to speed up data delivery between different cloud services and new products for bulk searches through data dispersed around internal and external clouds and servers.

Company forecasts for FY3/16

(Unit: ¥mn)

	FY3/15 Results	% of sales	FY3/16 Company forecasts	% of sales	Nominal change YoY	% change YoY
Net sales	7,120		7,600		480	6.7%
Operating income	1,465	20.6%	1,500	19.7%	35	2.3%
Ordinary income	1,575	22.1%	1,580	20.8%	5	0.3%
Net income	1,020	14.3%	1,280	16.8%	260	25.4%

Corporate history and business performance

ROE has improved in lock step with the company's rising profit margins

(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 of 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, and it set up Three B, Inc. to sell this software in the U.S.

In 1987, Three B, Inc. changed its name to BSP. The turning point for BSP was when it took over the systems management operations from Software AG of Far East in 1993 and commenced full-scale operations as a specialist in systems administration software. After that it strengthened its business base while benefiting from increased investment in IT systems in Japan and built a track record chiefly in software for mainframe computer systems, mainly for financial institutions and large corporations.

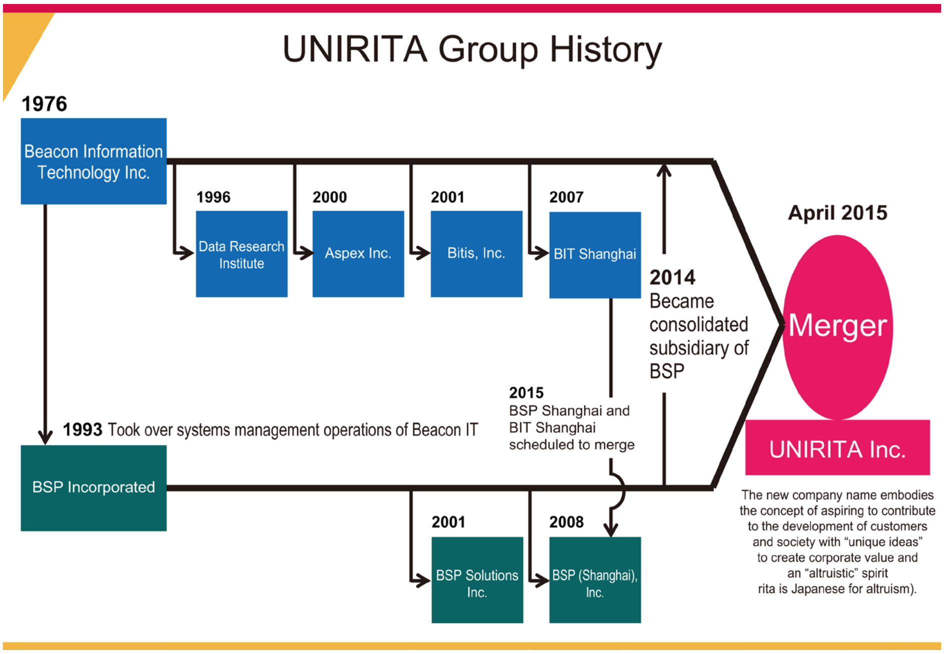
In 2001, the company established BSP Solutions Inc. and commenced full-scale consulting solutions operations. In 2006, it listed its shares on the JASDAQ Securities Exchange, currently TSE JASDAQ.

In 2008, the company expanded into China by establishing BSP Shanghai. In 2013, based on the "operationless" concept, it commenced the Be.Cloud cloud service and administrative BPO Operations Service.

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

In May 2014, BSP entered into a business alliance with Software AG, Inc. for handling products in the big data and business process management areas, thereby paving the way for operational expansion into the big data field.

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



Source: Company materials

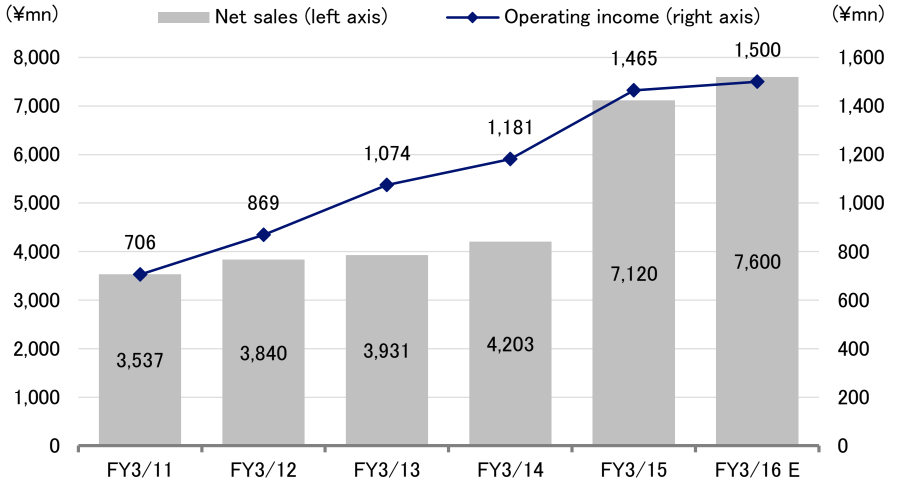
(2) Past business performance

The company's sales declined YoY from FY3/09 to FY3/10 due to the impact of the collapse of Lehman Brothers and other factors, but from FY3/12 onward, during a shift to open architecture systems, its sales have grown YoY, led by sales growth in the Product Division, which is now part of the Systems Operations Business. Accompanying the initial consolidation of Beacon IT in FY3/15, the company's business scope expanded significantly.

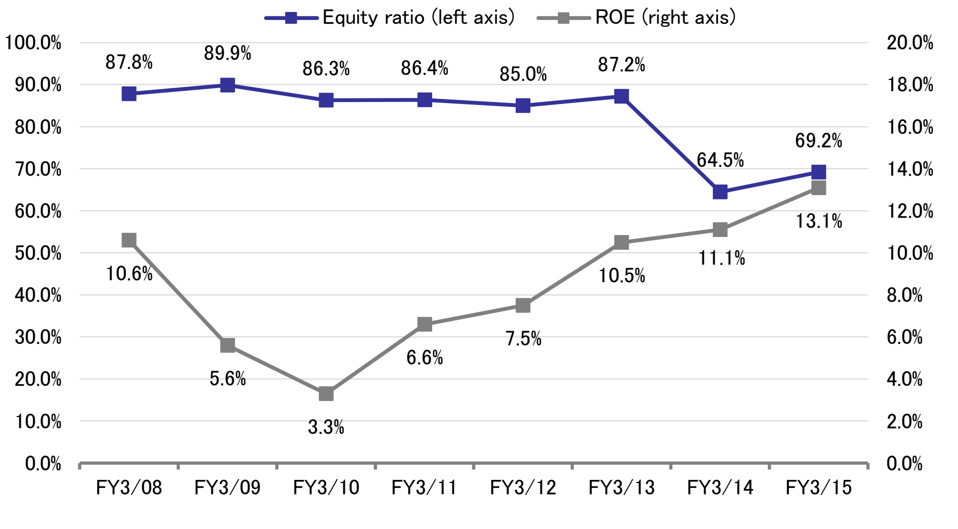
Despite a high degree of reliance on the mainframe business for profit, the company's operating income margin trended upward with improving profitability in the Product Division and reached 28.1% in FY3/14. However, this margin fell YoY in FY3/15 because the company increased its expenditures to cope with its business restructuring and undertook more, labor-intensive technical support services.

UNIRITA appears to have an extremely conservative financial strategy. Its equity ratio, which is an indicator of financial stability, fell YoY in FY3/14 due to the consolidation of Beacon IT but it remains high, at 69.2% at the end of FY3/15. Its current ratio, an indicator of its ability to meet short-term payments, is also high, at 450.9% at the end of FY3/15, reflecting its ample balance of cash and cash equivalents. When the company must invest in new growth areas its financial strength is likely to underpin its growth. ROE, a measure of capital efficiency, has improved in lock step with the rise in the company's profit margins, reaching 13.1% at the end of FY3/15.

Consolidated Net Sales and Operating Income, FY3/11–FY3/16E



Equity Ratio & ROE Trend



Industry Environment

IT utilization now focuses on big data, cloud computing, security, and other fields

An IDC Japan survey found that Japan's software market grew 4.6% YoY in 2014 to about ¥2,553.1 bn, buoyed by special demand to accommodate the end of support for Windows XP, high growth in SaaS and PaaS, and higher demand in big data and analytics. The company's core system management software market expanded 4.2% YoY to about ¥294.6 bn. The market environment is shifting away from a conventional mainframe focus toward open architecture systems and greater use of cloud computing. Against this backdrop, rising demand for virtual system environment surveillance, as well as for streamlining configuration management and for automating and optimizing operational processes are driving market growth.

The main developers of software in Japan are vendors affiliated with large Japanese computer makers, such as Hitachi, Ltd. [6501], Fujitsu Ltd. [6702], and NEC Corporation [6701], and vendors affiliated with foreign computer makers, such as IBM Corporation and Hewlett Packard Company. However, UNIRITA holds a large share of the Japanese market for software for mainframe computers and is arguably positioned to receive survivor benefits. Furthermore, there is no other listed software vendor specializing in IT systems operation in Japan. That is, there is no other listed company producing its own package software.

Recently, Japanese companies have tended to invest in IT areas that directly contribute to business expansion, and IT utilization now focuses on such fields as big data, cloud computing, and security. Other drivers of the Japanese software market are My Number and the 2020 Tokyo Olympics.

Shareholder returns

High possibility of dividend increases even in the medium term in line with earnings growth

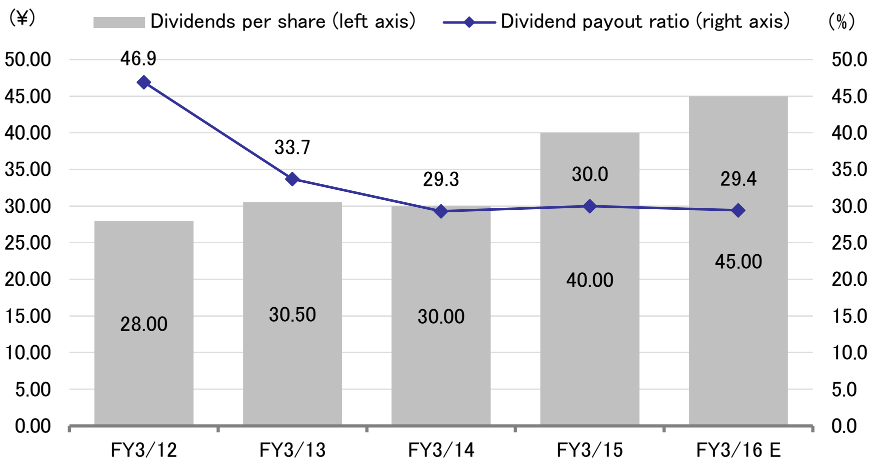
UNIRITA's shareholder return policy aims for a 30% consolidated dividend payout ratio. The company paid an interim dividend of ¥17.5 and a year-end dividend of ¥22.5 per share for FY3/15, which included a ¥5 dividend to commemorate its merger. Thus, for all of FY3/15, it paid a dividend of ¥40 per share, which was ¥10 per share more than the dividend paid for FY3/14, after adjusting for a two-for-one share split made on January 1, 2015. The dividend payout ratio for FY3/15 was therefore 30%. For FY3/16, the company plans to increase its full-year dividend to ¥45, which was ¥5 per share more than the previous year, with an interim dividend of ¥25, including another ¥5 to commemorate its merger, and a year-end dividend of ¥20. Based on the company's EPS forecast for FY3/16, the planned dividend would yield a dividend payout ratio of 29.4%*.

* The company implemented a two-for-one stock split on January 1, 2015, to improve share liquidity.

Based on the company's profitability and growth capabilities, it seems highly likely that management will increase dividends in line with earning growth over the medium term.

The company deployed a shareholder incentive scheme to increase the number of individual shareholders and enhance liquidity. Under this scheme, all shareholders as of March 31 each year will be presented with JCB gift cards corresponding to the number of shares they hold.

Dividends per Share and Dividend Payout Ratio



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