UNIRITA Inc.
3800 TSE JASDAQ

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In 1H FY3/17, sales declined slightly YoY, but profits grew, driven by increases in sales of proprietary products

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> (hereafter, also "the Company") 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 capabilities of Beacon IT and combining the management resources of that company and BSP, allowing UNIRITA to respond rapidly to a changing business environment. Through creating synergies between BSP's core business (in the field of contributing to improvement in client productivity via promoting the automation of systems operation and other measures to increase efficiency) and Beacon IT's business (in the field of contributing directly to enhanced corporate client value via data utilization) the merged entity can enter a new growth stage.

From FY3/16, the Company has been promoting its second 3-year medium-term management plan. Citing three core policies of "reinforcing product development and service capabilities as a software maker," "boosting IT skills needed to resolve client management issues," and "creating a new corporate culture," and by significantly shifting (the replacement of IT technology) management resources to growth areas, the Company targets consolidated net sales of ¥10,000mn (representing an average annual growth rate of 12.8%), ordinary income of ¥2,400mn (representing an ordinary income ratio of 24.0%), and an ROE of 14.0% for FY3/18, the final year of the plan.

In the first half of the fiscal year through March 2017, i.e., in 1H FY3/17, the Company's consolidated net sales decreased by 0.8% YoY to ¥3,410mn, but its operating income advanced by 13.4% to ¥732mn. Both figures were smaller than the Company had projected at the start of the fiscal year. Sales of proprietary products in the two main businesses of Data Utilization and Systems Operations increased YoY, reflecting stronger sales by partner companies, but these increased sales by partner companies led to a YoY drop in sales of technical support services. Furthermore, the new business field of solutions services did not contribute as much as the Company had forecast, mainly because of customer reticence. However, the growth in sales of proprietary products, which carry high profit margins, supported large increases in profits, and the operating income margin hit the highest level since the Company was formed through the merger of April 2015.

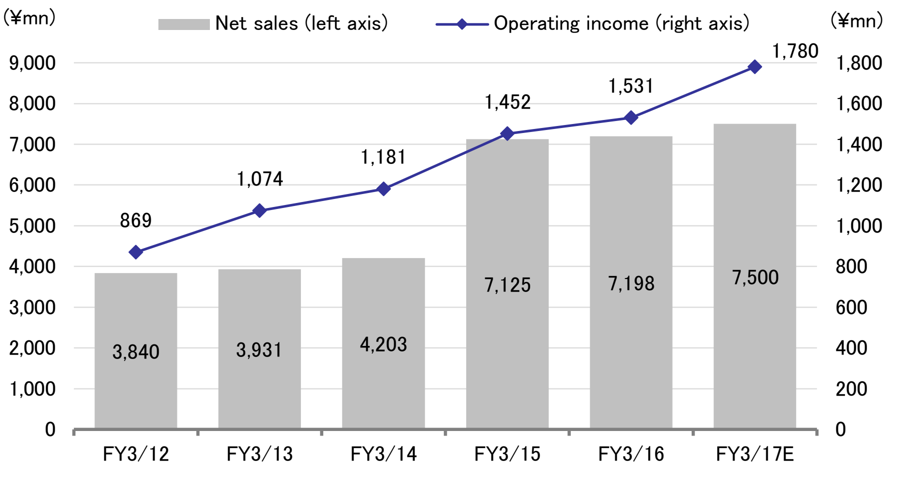
Given the 1H FY3/17 results, the Company lowered its original forecast of consolidated sales for FY3/17 by ¥700mn to ¥7,500mn, which is 4.2% more than sales in FY3/16. However, the Company maintained its original forecast of operating income for FY3/17, of ¥1,780mn, up 16.2% YoY. Although the Company's new and growth businesses are likely to develop more slowly than it had foreseen, FISCO believes that the Company could achieve its forecasts for FY3/17 because its existing businesses (sales of proprietary products) that meet the customer needs are continuing to grow favorably.

The Company projects only moderate sales growth for FY3/17, but the merger through which the Company was formed appears to be contributing to increased sales of proprietary products and to the replacement of the Company's IT technology. Thus, we are interested in the Company's approach and concrete steps toward accelerating sales and profit growth in FY3/18 to achieve its targets for that year and in its plan for growth in future years. In particular, we look for the Company to earn returns on its investments to date, such as investment to shift personnel to new and growth businesses, and we expect the Company to take advantage of its financial strength to undertake M&A.

Check Point

- Sales contracted slightly YoY in 1H FY3/17, but operating income rose strongly
- For FY3/17, the Company forecasts a 4.2% YoY increase in net sales to ¥7,500mn and a 16.2% increase in operating income to ¥1,780mn
- For FY3/18, the Company targets net sales of ¥10,000mn, ordinary income of ¥2,400mn, and ROE of 14.0%

Consolidated Net Sales and Operating Income



Business Overview

Since FY3/16, the Company has been developing its new business of solutions services based on data utilization

UNIRITA focuses on developing, selling and servicing package software (herein "products") for controlling the operation of core operating systems for a diverse range of industries, including the financial and manufacturing industries. In addition to also applying its proprietary know-how to offer peripheral services such as operational consulting and human resource development, the Company also provides administrative outsourcing services. From FY3/16, the Company is focusing on providing data utilization solutions.

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, boasting high revenue growth. The Company achieved steady results growth by contributing to automation and enhanced efficiency in 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 plans to accelerate growth by developing its business domain to areas that directly contribute to raising its customers' corporate value (e.g. market expansion and enhanced competitiveness), in addition to traditional business areas that contribute to automating and otherwise increasing the efficiency of IT systems operation (increased productivity etc.).

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 promote the establishment of an operating structure that combined BSP's forte, systems operation, and Beacon IT's forte of data utilization to realize synergies that would help it respond to changes in its operating environment, and to expedite business development.

The Company's business segments may be divided into the four set out below. Looking at the composition of sales by segment we see it is comprised of four core sectors: the Data Utilization Business, the Systems Operation Business, the Mainframe Business and Other Businesses. However, currently almost all operating income is derived from its Mainframe Business.

(1) Data Utilization Business

The Data Utilization Business combines the Product Division and the Solutions Division. This is a new business, which was acquired through the consolidation of Beacon IT (January 2014), and is poised to become a core segment going forward.

(a) The Product Division develops and sells software for data utilization, including for increasing data processing speeds and strengthening security functions. Further, it also engages in proposing solutions utilizing new and growth business fields including big data and IoT.

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

(2) Systems Operation Business

The Systems Operation Business also combines a Product Division, a Solutions Division, and an Outsourcing Division.

(a) The Product Division handles open architecture products to manage the operation of core operating systems. As well as developing, selling and supporting proprietary software in the three areas of operations automation, reporting, and IT service management (ITSM), it handles some software products made by other companies. Royalties from product usage rights (license fees) and maintenance service fees, that are a fixed ratio of the product cost, form the sources of income. The Company is also concentrating on its Be.Cloud cloud service for which demand is growing.

(b) The Solutions Division provides solutions services (including systems development consulting and human resource development) in the IT service area, offers a membership-based "Sys-Doc" service (which provides expert advice on IT systems operation via periodic client visits), and extends solutions services (including corporate value analysis, organizational reform and human resource development) using the ASMO method for structuring operational units that contribute to management.

(c) The Outsourcing Division is a new stock business, covering everything from mainframe operations to cloud utilization, utilizing the know-how of our veteran technical staff. Specifically, it supports tasks such as proposing ways to improve IT systems operation, systems development and migration, and the structuring of service desks, either on the premises of customers or remotely.

(3) Mainframe Business

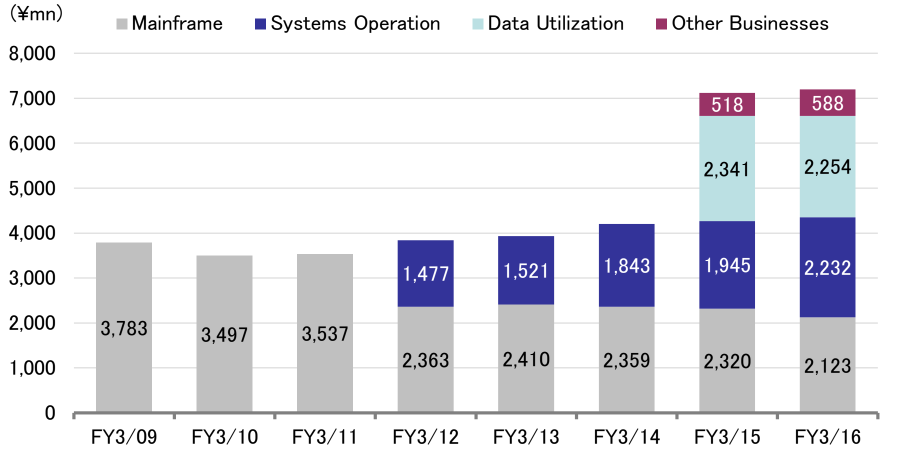
The Mainframe Business, part of the broader business of managing the operation of core operating systems, handles proprietary software for mainframe computers primarily for financial institutions and large corporations. The Company receives a maintenance service fee from mainframe product users, calculated 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.

(4) 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 BCP* (business continuity plan) development, administration and maintenance support, as well as an SaaS product for HR outsourcing management. These other businesses are conducted by consolidated group subsidiaries, including Bitis, Inc. and Aspex. Also, in May this year, the Company established UNITRAND. Inc. in order to undertake development of IoT format businesses in earnest, using its newly launched bus operations revitalization and support service (including bus route search and bus location tracking search services) to provide an entree.

* A business continuity plan (BCP) is a plan to continue key businesses after emergencies, such as natural disasters and scandals, or to minimize losses from the discontinuation of these businesses.

Sales by Segment



As of September 30, 2016, more than 900 companies had installed the Company's products. Most of these were large corporations. The range of customer industries was wide, but the manufacturing, retail and distribution, and finance and insurance industries accounted for high percentages of total aggregate sales.

In terms of sales channels, in its core business the Company mainly employs direct sales, however, not only in its Data Utilization Business, where there are multiple product categories and competition is fierce, but also in new and growth business fields, partner (sales agent) initiatives also enjoy a prominent position.

As of September 30, 2016, the Company had the following six 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. UNITRAND.inc offers solution services for IoT-based mobile equipment.

Corporate Characteristics

Mainframe Business is a source of stable profit

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.

(1) An independent developer of proprietary software

A strength of UNIRITA's products in its flagship Systems Operation and Mainframe Businesses is that they enable smooth system operation regardless of the scale of a computer, its manufacturer or other such factors. Competing manufacturer-affiliated products do not allow the replacement of the hardware component with other maker's products, which is clearly a hindrance to a customer's flexible system development. Also, as the Company's value proposition in its core businesses is the aggregate of how much the Company can contribute to the automation or improved efficiency of an IT system's operation, the track record and know-how the Company has accumulated by focusing is this area are reflected in the precision and superior performance of its goods and services and in the precision of its proposals. Amidst a readily observable trend (by other vendors) to rely on agents to install systems, the fact that UNIRITA provides its products directly, chiefly to financial institutions and large corporations, and that its products are often adopted as replacements during system updates is arguably proof of this. The Company has been hired to operate the SysAdmin's Group, the largest network of system managers in Japan, boasting more than 15,000 members and 162 endorsing companies. This demonstrates that UNIRITA is the driving force in this field. (As of September 2016)

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

As well as having astoundingly high segment profit margin levels in the order of 76.6% (FY3/16 actual results), the Mainframe Business segment provides a stable income source that has supported the Company's growth. We believe this profitability is made possible not only by customer confidence in the Company's products and services, but also by high customer switching costs (costs arising from systems replacement). Sales in the Mainframe Business have been shrinking because of external factors, such as the development of open-architecture systems, but it is expected that it will for the time being play the role of a cash cow, enabling the income from the business to be diverted into investments in new growth areas, such as cloud computing services and data utilization, which we feel is a significant advantage for the Company.

(3) Achieving 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 of and enhanced efficiency of IT systems operation, but will also allow the Company to expand into the business of assisting customers to reallocate management resources, such as HR and budgeting, to create more corporate value. By realizing structures that can support both the expansive and defensive aspects of customer businesses, the Company will be able to offer comprehensive proposals to improve IT investment performance at its customers and solidify its superiority in the software industry.

Business Trends

Sales contracted slightly YoY in 1H FY3/17, but operating income rose strongly

(1) 1H FY3/17 Results Overview

In 1H FY3/17, net sales contracted by 0.8% YoY to ¥3,410mn, while operating income grew 13.4% to ¥732mn, ordinary income increased 10.3% to ¥813mn, and profit attributable to owners of the parent declined by 8.8% to ¥565mn. Thus, profits grew significantly despite a slight decline in sales, although both sales and profits were smaller than the Company had forecast at the start of the fiscal year.

In the Data Utilization and Systems Operations businesses, sales of mainline proprietary products increased YoY in 1H FY3/17, but sales of technical support services declined. Sales conducted by subsidiaries in Other Businesses marked time in 1H FY3/17 despite brisk growth through FY3/16. Sales from the Mainframe Business continued to decrease YoY, but more gradually than the Company had expected.

Sales fell short of the Company's original forecast for three main reasons: 1) accompanying the market shift toward cloud computing, the Company has been changing its sales approach from one-time payments for goods to recurring payments for the use of its products*; 2) sales of technical support services in the Data Utilization and Systems Operations businesses decreased YoY; and 3) sales in the new Solutions Business were weaker than the Company had projected.

* With the shift from a one-time payment sales approach (single payment of the product price) to recurring payments of product usage fees, sales value at the time a contract is concluded falls to about one-fifth the previous amount. However, usage fees provide a steady revenue in the future and strengthen the profit base by creating a profit structure in which profits accumulate gradually as the number of contracts increases.

The increase in sales of proprietary products, which carry high profit margins, contributed to the rise in overall operating income. In particular, a large turnaround in profitability in the Data Utilization Business propelled the overall operating income margin from 18.8% in 1H FY3/16 to 21.5% in 1H FY3/17, the highest level for the Company in a half fiscal year since the Company absorbed Beacon IT. The decline in profit attributable to owners of the parent was attributable to the end of a temporary tax relief effect in the same period of FY3/16 (assumption of deferred losses associated with a merger).

On the balance sheet, total assets increased by 4.1% from the end of FY3/16 to ¥13,023mn at the end of 1H FY3/17, and equity grew by 3.4% to ¥10,358mn, due to accumulation of internal reserves. Thus, the equity ratio remained high at 79.5% at the end of 1H FY3/17 (80.1% at the end of FY3/16).

Results by business are as set out below.

a) In the Data Utilization Business, sales declined 2.1% YoY to ¥1,057mn in 1H FY3/17, but the business posted a segment profit of ¥102mn, reversing a loss of ¥7mn in 1H FY3/16. Sales of proprietary products increased notably as the business stressed the sale of proprietary products for data utilization and data linkage and as the business promoted sales by partners. However, sales of technical support services, which normally accompany product sales, fell YoY reflecting the increase in sales by partners. Furthermore, the Company changed its sales approach from one-time payments to recurring payments for the use of its products accompanying the market shift toward cloud computing (usage fee sales grew 2.2-fold YoY). Moreover, with an increase in sales of highly profitable proprietary products, profits improved significantly. Subsidiary Data Research saw a large YoY rise in sales of data management consulting, which normally precedes data utilization.

b) In the Systems Operations Business, sales advanced by 2.4% YoY to ¥1,067mn in 1H FY3/17 and the segment loss contracted to ¥178mn from ¥182mn 1H FY3/16. In the field of automating operations, the business stressed sales of proprietary products that satisfied customer needs to restructure their systems operations bases, and this emphasis contributed to overall sales growth. However, issues remain to be addressed as sales of technical support services decreased YoY, just as they did in the Data Utilization Business, and the Systems Operations Business was unable to attract new customers. Furthermore, sales growth floundered despite a change in sales approach accompanying the market shift toward cloud computing (usage fee sales increased 1.6-fold YoY).

Combined sales by new and growth areas in the Data Utilization Business and the Systems Operations Business amounted to ¥371mn in 1H FY3/17, which was 11.1% more than in 1H FY3/16. However, considering that the Company plans to generate ¥1,010mn of sales from these areas in the full fiscal year, up 33.2% YoY, 1H sales lagged behind plan. In the new business areas, in particular, such as big data utilization, business process management (BPM)*1, and cybersecurity, the potential demand for these advanced IT fields is large, and the Company's businesses can provide these services, but in general, these services are not used much in Japan, so customers consider them for some time before adopting them. Furthermore, many users start small with focused application areas and costs. In the growth areas, such as ITSM and Be.Cloud, product development was behind schedule, and sales were impaired by the process of bringing restructured operations up to full scale.

*1 Business process management (BPM) entails comprehending and analyzing the flow of all business processes in a company and applying information systems to manage, improve and optimize these processes continuously.

Meanwhile, looking at the partner policy, which an important element for the Company, at the end of 1H FY3/17, the Systems Operations Business had 86 business partners, up from 73 at the end of FY3/16. Sales generated by these partners in 1H FY3/17 were 2.4 times greater than corresponding sales in 1H FY3/16, contributing greatly to the increase in sales of proprietary products.

c) In the Mainframe Business, sales declined by 0.6% YoY in 1H FY3/17 to ¥1,017mn, but segment profit increased by 0.8% to ¥784mn. Sales continued to contract accompanying the adoption of open systems and downsizing by companies, but the sales decline was within the range of the Company expectations. In fact, the decline was smaller than projected, reflecting the business's proposals of solutions for these changes in the external environment and its success in winning contracts to renovate computer systems for existing customers.

d) In Other Businesses, which are conducted by subsidiaries, sales grew briskly through FY3/16, but in 1H FY3/17, sales fell by 8.3% YoY to ¥268mn and segment profit dropped by 56.7% to ¥25mn. However, much of this large profit decline was due to upfront investment in new subsidiary UNITRAND, which suffered an operating loss estimated at ¥14mn. BCP services, which propose methods for companies to deal with natural disasters, are sold mainly by partner companies, but partner company sales of these services decreased YoY in 1H FY3/17. The SaaS attendance management service benefited from an increase in demand in the personnel outsourcing market, and the Company increased the rate of use of this service by existing customers and strengthened the functions of the service to attract new customers. However, these measures did not lead to an increase in sales of the service. Subsidiary UNITRAND, established in May 2016 to provide solutions services for IoT-based mobile equipment, is still in the investment phase of development, so it will take some time until it can fully contribute to results. However, UNITRAND has made a steady start, winning contracts and receiving inquiries from bus operating companies.

Aiming to build a full line of solutions services for secondary transportation companies in rural areas

(2) Main accomplishments in 1H FY3/17 (investing in and developing new businesses)

a) Large investment in UNITRAND

The Company established and invested heavily in new subsidiary UNITRAND, described previously. Part of this investment was to shift technicians from the Company to UNITRAND. While continuing to offer bus location search systems (route searches, searches of information on operational locations, etc.), the subsidiary is developing systems that can monitor the arrival and departure of bus passengers in real time and is building up a line of solutions services for rural secondary transportation operators, such as local buses. The subsidiary has received an order from a bus company in Hokkaido, and the number of inquiries from bus companies in other areas of Japan is increasing.

b) Equity stake in PBsystems

Based in Kyushu, PBsystems, Inc. has strengths in building infrastructure for cloud computing systems and virtual reality (VR)*2 technology. Through a third-party allocation of shares, UNIRITA acquired a 4.31% stake in PBsystems for ¥25mn. Using this business tie, UNIRITA will probably aim to develop the market in western Japan.

*2 Virtual reality (VR) refers to technology that enables users to experience a computer-generated world through their actual senses, and to such worlds.

c) Strengthened products and sales at LIVE UNIVERSE (an e-learning and knowledge system for companies)

In March 2016, UNIRITA began providing the LIVE UNIVERSE e-learning and knowledge system for companies. This system was planned jointly with Golden Magic Co., Ltd.*, which directly operates 94 restaurants, including those in the Kyushu Netchuya chain. Through this business tie with Golden Magic, UNIRITA is developing services for the restaurant industry and other service industries. Using the LIVE UNIVERSE system, restaurant employees can browse information on cooking methods and recipes anytime and anyplace for independent study. Similarly, employees of companies in other service industries can access video presentations of best-practice conversation skills and customer approach skills. Furthermore, the LIVE UNIVERSE system allows communication about the progress of different initiatives between workers and supervisors through the internet. Timely feedback from these parties enables the efficient transmission of knowhow and improvement of skills. Using this system, users can complete trainings in the order prescribed by the system and thereby advance to more challenging work. As trainees can view their growth progress, they are motivated to improve. UNIRITA intends to conclude similar win-win agreements with other companies with the aim of increasing public recognition of its products and expanding its sales channels. The Company’s policy is to work on creating similar arrangements going forward.

* Golden Magic Co., Ltd. is a wholly-owned subsidiary of Diamond Dining Co. Ltd. <3073>, which is listed on the First Section of the Tokyo Stock Exchange

1H FY3/17 Results Overview

(Unit: ¥mn)

	1H FY3/16 Results		1H FY3/17 Results		Nominal Change YoY		1H FY3/17 Company forecasts		Result/ forecast
		% of sales		% of sales		% change YoY		% of sales	
Net sales	3,438		3,410		-28	-0.8%	3,900		87.4%
Data Utilization	1,079	31.4%	1,057	31.0%	-22	-2.1%	-	-	
Systems Operation	1,042	30.3%	1,067	31.3%	25	2.4%	-	-	
Mainframe	1,023	29.8%	1,017	29.8%	-6	-0.6%	-	-	
Other Businesses	292	8.5%	268	7.9%	-24	-8.3%	-	-	
Cost of sales	866	25.2%	887	26.0%	21	2.4%	-	-	
SG&A expenses	1,926	56.0%	1,789	52.5%	-137	-7.1%	-	-	
Operating income	646	18.8%	732	21.5%	86	13.4%	860	22.1%	85.1%
Data Utilization	-7	-	102	9.7%	109	-	-	-	
Systems Operation	-182	-	-178	-	4	-	-	-	
Mainframe	777	76.0%	784	77.1%	6	0.8%	-	-	
Other Businesses	58	19.9%	25	9.4%	-33	-56.7%	-	-	
Ordinary income	737	21.4%	813	23.8%	76	10.3%	930	23.8%	87.5%
Profit attributable to owners of the parent	620	18.0%	565	16.6%	-55	-8.8%	637	16.3%	88.7%

Note: Each of the segment profit ratios is as against segment sales

	1H FY3/16 Results		1H FY3/17 Results		Nominal Change YoY	% change YoY
Data Utilization						
Products	123		163		40	31.6%
Technical support	471		395		-76	-16.2%
Maintenance fees	484		498		14	3.0%
Systems Operation						
Products	251		281		30	12.2%
Technical support	479		417		-62	-13.0%
Maintenance fees	311		368		57	18.2%
Mainframe						
Products	181		230		49	27.3%
Technical support	14		19		5	33.2%
Maintenance fees	827		766		-61	-7.4%

	At end of March 2016	At end of September 2016	Nominal Change YoY	% change YoY
Total assets	12,511	13,023	512	4.1%
Shareholders’ equity	10,019	10,358	338	3.4%
Shareholders’ equity ratio	80.1%	79.5%	-0.6	

Company projects 4.2% rise in net sales to ¥7,500mn and 16.2% increase in operating income to ¥1,780mn for FY3/17

(3) FY3/17 Results Outlook

Given the 1H FY3/17 results, the Company lowered its original forecast of consolidated net sales for FY3/17 by ¥700mn to ¥7,500mn, which is 4.2% more than in FY3/16. However, the Company maintained its original profit forecasts for FY3/17: operating income, of ¥1,780mn, up 16.2% YoY, ordinary income of ¥1,860mn, up 13.7%, and profit attributable to owners of the parent of ¥1,275mn, down 11.6%. Profit attributable to owners of the parent is expected to decrease for the same reason that it declined in 1H.

The Company lowered its forecast of net sales for FY3/17 for the same reasons that it failed to achieve its forecast of 1H FY3/17: in the Data Utilization and Systems Operations businesses, 1) accompanying the market shift toward cloud computing, the Company has been changing its sales approach from one-time payments for goods to recurring payments for the use of its products; 2) sales of technical support services decreased YoY in 1H; and 3) sales in new businesses were weaker in 1H than the Company had projected. In particular, with regard to 2), the Company's policy is to reverse this trend in 2H by shifting some of its technicians' activities. However, the financial impact will be the largest.

However, the Company foresees a YoY rise in FY3/17 net sales, reflecting ongoing strong net sales of proprietary products in the Data Utilization and Systems Operations businesses.

The Company maintained its original profit forecasts for FY3/17, despite lowering its sales forecast, because it projects increases in sales of its proprietary products, which yield high profit margins, and because it is further reinforcing its profit structure.

FISCO believes that the Company could achieve its forecasts for FY3/17 for two main reasons: 1) its sales of proprietary products from Data Utilization and Systems Operations businesses are continuing to grow favorably, and 2) its sales of technical support services, which fell in 1H, could recover with appropriate measures, although the Company appears to be somewhat late in implementing such measures.

The Company now forecasts only a 4.2% rise in net sales for FY3/17, while it originally projected a 13.9% rise. However, FISCO is more concerned about the Company's profit improvement than its sales growth. We are impressed by the significant improvement in the profitability of the Data Utilization Business since this business was acquired with the merger of Beacon IT.

Although the decrease in sales of labor-intensive technical support services is impairing overall sales growth, to some extent, this decrease may be inevitable as the Company shifts business resources to new and growth businesses, develops new package software, and strengthens its partnership sales. That sales of new and growth businesses have not grown enough to offset the drop in sales of technical support services implies that the Company should change its structure or approach from a long-term perspective. One reason that new businesses have not developed as rapidly as the Company had hoped is that the Company devotes 35% of its business activity to approaching existing and new customers. Although this aggressive approach has resulted in good relations with customers, the customers have remained cautious in buying the Company's products, often starting with small purchases. It is imperative for the Company to devote more of its activities to developing new businesses, including expediting the development of new products.

Although the shift in the Company's sales approach is acting as a drag on sales growth in the current fiscal year, the shift should not impede sales growth forever. The initial cost to customers of sales by product use fees is low, so customers are likely to adopt this sales approach. The demand for such sales is growing, and the Company is developing more products for sales through this approach. FISCO plans to monitor trends in the growth of these sales and their accounting impact on business results.

FY3/17 Results Outlook

(Unit: ¥mn)

	FY3/16		FY3/17 Forecast				% change YoY	
			Original forecast		Revised forecast			
		% of sales		% of sales		% of sales	Original forecast	Revised forecast
Net sales	7,198		8,200		7,500		13.9%	4.2%
Operating income	1,531	21.3%	1,780	21.7%	1,780	23.7%	16.2%	16.2%
Ordinary income	1,635	22.7%	1,860	22.7%	1,860	24.8%	13.7%	13.7%
Profit attributable to owners of parent	1,442	20.0%	1,275	15.5%	1,275	17.0%	-11.6%	-11.6%

(4) Prospects for FY3/18

FY3/18 is the final year of the Company's second 3-year medium-term management plan. Although the Company has lowered its forecast of net sales for FY3/17, it has maintained its net sales target for FY3/18 of ¥10,000mn and its ordinary income target of ¥2,400mn. To achieve these targets, the Company must increase its net sales by ¥2,500mn (33.3%) and its ordinary income by ¥540mn (29.0%) YoY in FY3/18. These increases may be difficult to achieve. In particular, it is becoming more difficult for the Company to profit from increases in sales volume as the Company narrows down strategy to selling proprietary products and shifts resources from traditional businesses to new and growth businesses.

FISCO expects the Company's new and growth businesses to become new drivers of sales and profit growth. To date, these businesses have developed more slowly than the Company had planned, but in order to achieve the Company's targets for FY3/18, these businesses must contribute more to sales and profit growth. The potential demand for these businesses is large, so if the Company can overcome external obstacles to their adoption, such as customer caution towards purchases, sales of the businesses would probably accelerate. In the Company's traditional businesses, strong sales of proprietary products that satisfy customer needs have improved profitability, and these sales are likely to grow as the Company strengthens its partnership sales. The Company's strategy of relying primarily on organic growth, while obtaining external resources through M&A appears rational, allowing the Company to overcome large obstacles to growth. As the Company has maintained its ¥10,000mn net sales target for FY3/18, it will probably resort to M&A to expedite its sales growth. Having successfully integrated Beacon IT and established a successful strategy for its subsidiaries, UNIRITA appear ready to succeed in active M&A. It appears to be interested in acquiring small, independent, growing businesses, including non-core businesses that have been divested of by large companies. In conclusion, we see new and growth businesses and M&A as important factors contributing to the Company's business results in FY3/18 and following years.

Growth Strategy

For FY3/18, the Company targets net sales of ¥10,000mn, ordinary income of ¥2,400mn, and ROE of 14.0%

As stated previously, the Company has been implementing its second 3-year medium-term management plan since FY3/16. As more companies are requiring their IT departments to contribute to enhanced corporate value, UNIRITA has been restructuring its operations in line with the three core policies of “reinforcing product development and service capabilities as a software maker,” “boosting IT skills needed to resolve client management issues,” and “creating a new corporate culture.”

For FY3/18, the final year of the current plan, the Company targets net sales of ¥10,000mn and ordinary income of ¥2,400mn, implying average annual growth rates of 12.8% and 24.0%, respectively, over the three years. The Company’s ROE target for FY3/18 is 14.0%.

The plan envisions a continued decline in sales in the Mainframe Business, but strong product sales in the Data Utilization and Systems Operations businesses. In particular, it aims to concentrate on the development of new and growth businesses.

Medium-Term Management Plan

(Unit: ¥mn)

	FY3/16	FY3/17		FY3/18	
	Actual results	Previous plan	Revised plan	Previous plan	Unchanged
Net sales	7,198	8,200	7,500	10,000	10,000
(Growth rate)	1.0%	13.9%	4.2%	22.0%	33.3%
Ordinary income	1,635	1,860	1,860	2,400	2,400
(Ordinary income ratio)	22.7%	22.7%	24.8%	24.0%	24.0%

Looking at the Company’s progress in meeting these goals, it has strengthened its market position as a maker of package software by increasing its sales of proprietary products and advancing partner sales of these products, even though new and growth businesses have developed more slowly than planned due to external factors.

The Company has attempted to restructure through a repeated process of trial and error, but it apparently has not yet effectively integrated with Beacon IT. However, this means that it can benefit from improved integration hereafter. Although starting somewhat later than planned, in FY3/17, the Company is reorganizing into two divisions, one for existing customers, the other for new customers. This reorganization allows an expansion of resource application from the customer information systems division, which has been the main division, to divisions with important needs for IT utilization. It also allows the formation of stronger ties with customers because the Company directors can easily communicate with technical and sales staff. The Company aims to boost its internal customer share using the integration effect and the results of these efforts are anticipated.

To boost its IT skills, in FY3/16, as part of its investment in replacing technology, the Company reassigned 60 employees, or about 20% of its total employees, from its traditional businesses to new and growth businesses where market expansion is expected, including the fields of mobile communications, big data analytics, cloud computing, and cybersecurity. The Company has established a new business headquarters to oversee the development of new businesses, and it is developing solutions services in the areas of IoT and cybersecurity. In FY3/17, it continues to invest in new and growth businesses, in part, by transferring personnel from traditional businesses to these businesses. The Company is steadily replacing its IT technology to achieve future growth. 15% of the Company’s employees are now conversant with the new technology, and the Company aims to increase the ratio to 20%.

The Company's strategy for its subsidiaries aims to use these small companies to lift sales and profit growth and respond appropriately to market conditions. Through FY3/16, this strategy contributed to sales and profit growth. The strategy appears to be contributing less to growth in FY3/17, but it remains important to the Company. The Company's newest subsidiary, UNITRAND, made a brisk start, and UNIRITA intends to create synergy between itself and its group companies, including those that it may acquire in the future, through measures such as exchanging personnel and cross-selling.

Towards the establishment of a new corporate culture, the Company has launched the UNIRITA Culture Creation Project to change employee mindsets (e.g. create a sense of non-complacency) and to improve communication between employees and organizations, which tends be problematic in newly integrated organizations. It is also tackling reforms for "middle up/middle down" behavioral patterns (environments which enable employees to take on new challenges). Thus, it is taking steps to create an organization that welcomes challenges.

As described above, the Company is making broad progress in implementing its growth strategy, despite some variations in this progress. We are particularly impressed by the impact of the integration of Beacon IT on improving its low profitability, an important goal to raise the profitability of company sales of proprietary products, and on replacing IT technology, which was an urgent need for BSP. A main objective for the Company hereafter is to ensure that its initiatives to date, including investments, contribute to sales growth in excess of the growth of the markets for the Company's products. The Company appears to have been underprepared for the current external environment. Moreover, with the market environment for IT is changing rapidly, the Company will need to focus on speeding up its product development and the transformation of its sales approach to keep pace with the increase in demand.

■ Corporate history and business performance

The Company registered its shares on the JASDAQ market in 2006

(1) Corporate history

The Company was established as Three B, Inc. in 1982 in Tokyo's Chuo Ward as a subsidiary of Business Consultant, Inc., a provider of programs for HR and organizational development. Business Consultant was the origin for Software AG of Far East, which changed its name to Beacon IT in August 1996. Software AG of Far East had been selling A-Auto software for automating the scheduling of complicated computer systems jobs and enhancing the efficiency of IT systems administration in Japan, with Three B, Inc. being set up to sell this software in the U.S.

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

In 2001, the Company established BSP Solutions Inc. and commenced full-scale consulting solutions operations. In 2006, it listed its shares on the JASDAQ Securities Exchange, currently TSE JASDAQ. 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, as well as incorporating growth areas such as data utilization, 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.

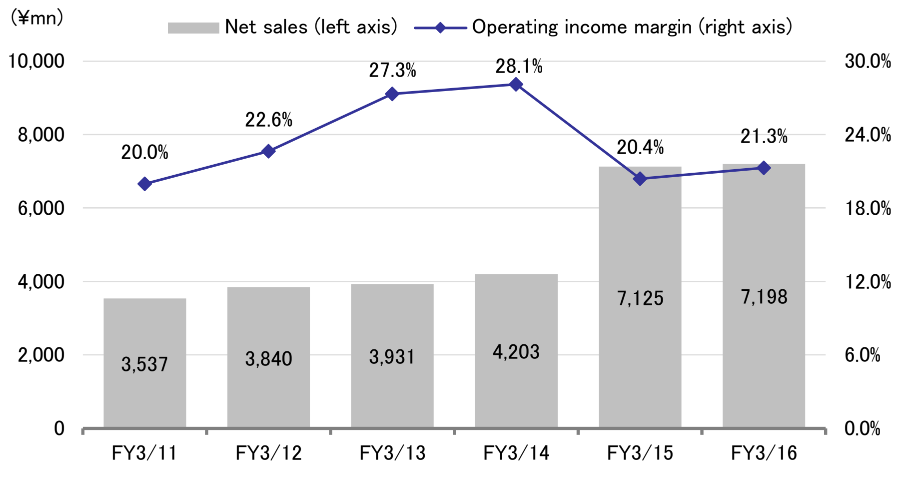
With the merger of Beacon IT in April 2015, the Company changed its name to UNIRITA Incorporated. The new company name embodies the concept of aspiring to contribute to the development of customers and society with “unique ideas” to create corporate value and an “altruistic” spirit (“rita” being the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

(2) Past business performance

Looking at the Company’s results trends, while net sales declined YoY from FY3/09 to FY3/10 due to the impact of the economic recession resulting from factors such as the collapse of Lehman Brothers, from FY3/12 onward, amidst a shift to open architecture systems, there has been continued underlying growth in sales, led by sales growth in the Product Division, which is now part of the Systems Operations Business. Also, as a result of the consolidation of Beacon IT in FY3/15, the Company’s operational scope expanded significantly.

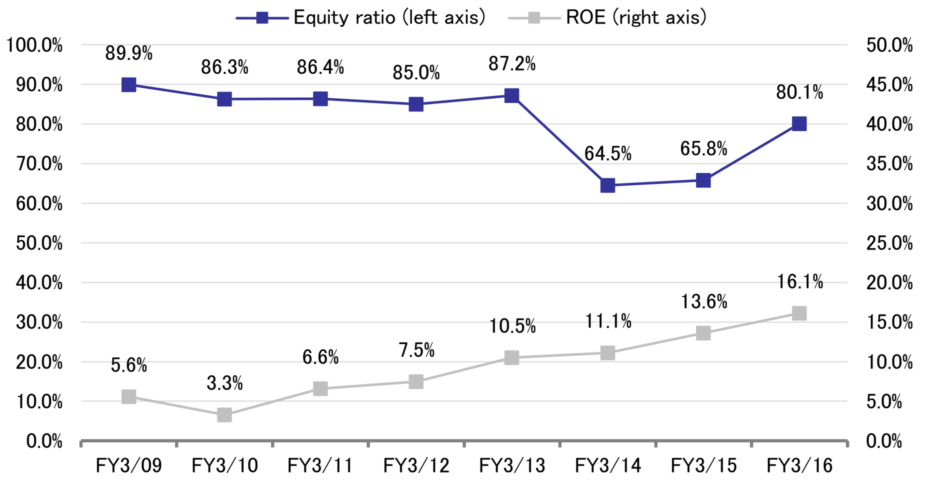
From a profitability perspective, despite there still being a high degree of reliance on the Mainframe Business for income, the Company’s operating income margin trended upward with improving profitability in the Product Division and reached 28.1% in FY3/14. However, this margin has declined since FY3/15 due to upfront expenditure in line with its structural business reforms and other factors. Notwithstanding, the Company has maintained it at levels exceeding 20%.

Net sales and Operating income margin



From a financial perspective, the Company arguably has an extremely conservative financial strategy. While the Company’s shareholders’ equity ratio, which represents the stability of the fiscal platform, suffered a one-off decline in FY3/14 as a result of the consolidation of Beacon IT, in FY3/16, in line with its merger with Beacon IT (and parent equity adjustment), the ratio rose to 80.1%. Further, the current ratio also, which represents its ability to meet short-term payments, reflecting an ample balance of cash and deposits, is trending at high levels, being 472.9% at March 31, 2016. However, we may view the strength of its financial platform as underpinning the Company’s growth, at times when it is necessary to invest in future growth fields. ROE, a measure of capital efficiency, has improved in lock step with improvements in the Company’s profit margins, reaching the 16.1% mark in FY3/16.

Equity Ratio and ROE trends



Industry Environment

Japan’s software market is growing, reflecting increasing demand for big data and analytics

According to a survey by International Data Corporation Japan, Japan’s software market grew 4.0% YoY in 2015 to about ¥2,617.4bn, with strong performance underpinned by high growth in SaaS and PaaS, and higher demand in big data and analytics. Within that, the Company’s core system management software market also performed well, expanding 4.9% YoY to about ¥309.5bn. Amidst progressive environmental changes, with as well as the market environment shifting away from a conventional mainframe focus toward open architecture systems, an increased use of cloud and other technologies, rising demand for virtual systems 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 LIMITED <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 remains 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.

There is an increasing trend for users to invest in IT areas that contribute directly to their business expansion. Thus, they are acquiring digital technologies, such as big data utilization, artificial intelligence (AI), and IoT. They are also building business models based on the perspectives of their customers in order to create new corporate value.

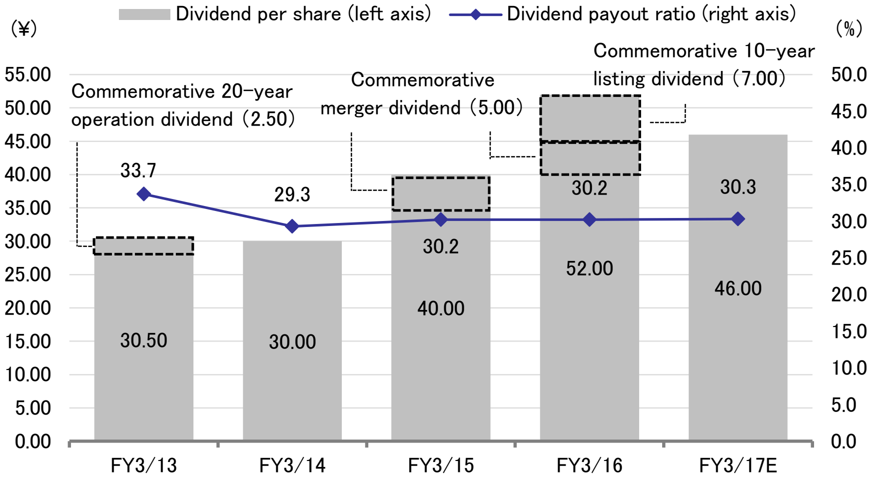
Shareholder Returns

Company aims to maintain a consolidated dividend payout ratio of 30%

The Company's policy toward shareholder returns is to maintain a consolidated dividend payout ratio of 30%. For FY3/17, the Company plans to pay full-year dividends of ¥46 per share (interim dividend of ¥23 and year-end dividend of ¥23) for a consolidated dividend payout ratio of 30.3%. For FY3/16, the Company paid dividends of ¥52 per share, but this included a commemorative dividend of ¥12 per share. Thus, the full-year dividends planned for FY3/17 are ¥6 per share larger than the normal full-year dividends paid for FY3/16. Given the Company's profitability and growth, FISCO sees an increases in dividends in line with profit growth over the medium term.

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

Dividend per share and Dividend Payout Ratio



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