COMPANY RESEARCH AND ANALYSIS REPORT

UNIRITA Inc.

3800

TSE JASDAQ

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FISCO Ltd. Analyst
Ikuo Shibata

FISCO Ltd.
http://www.fisco.co.jp

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Summary

In FY3/19, sales increased, but profits decreased. Profits were kept down by active investment into new businesses and growth fields

1. Company profile

UNIRITA <3800> (hereafter, also "the Company") develops, sells, and provides support for package software for the operation of IT systems for a broad range of industries, primarily finance and manufacturing. It also provides solutions utilizing data. In April 2015, it merger with its consolidated subsidiary Beacon Information Technology Inc., (hereafter, "Beacon IT") and changed its name from BSP Incorporated, to UNIRITA Inc. By integrating its management resources with those of Beacon IT, which was strong in the growth field of data utilization, the Company has been advancing structural reforms to respond to environmental changes. The role of IT is changing from "defensive" (such as to improve operational efficiency and reduce costs) to "offensive" (a means to realize business competitive advantages). In this situation, it is utilizing its strengths in the areas of "systems operations" and "data utilization" and working to strengthen its provision of solutions that directly solve the operational problems that companies are tackling in their digital reforms.

2. Summary of the FY3/19 1H results

In the FY3/19 1H results, sales increased but profits decreased, with net sales rising 35.8% year-on-year (YoY) by ¥4,497mn and operating income falling 33.4% to ¥374mn. Net sales results are attributed to growth in all business segments (excluding the Mainframe Business), in addition to the effects of consolidation for Mugen Corp, which the Company bought in February 2018. In particular, there were successful proposals that combine consulting services and products in the Solutions Business that yielded positive sales results, as well as steady growth in the Cloud Business, to which the Company is placing its focus. On the other hand, profits dropped sharply due to factors such an increase in one-time development costs for personnel deployment to boost the Company's technological development capabilities, as well as an increase in R&D expenses for the Cloud Business segment and the IoT business for mobile devices. The decrease in profits was also caused by a portion of products in the Product Business falling short of sales targets and a downturn in the Mainframe Business. Thus it is necessary to note that the increase of prior investment in these areas was tied to future growth of the Company, despite the fact that profits declined. Furthermore, the IoT business for mobile devices and agricultural SaaS business were able to achieve results in terms of business activities.

3. FY3/19 results forecasts

For the results forecasts for FY3/19, the Company downwardly revised the initial profit forecast in consideration of progress made in the results for the first half of the fiscal year and market conditions (and upwardly revised sales forecasts). The Company is now forecasting net sales to increase 33.2% YoY to ¥9,400mn and operating income to decrease 36.9% to ¥850mn--an increase in net sales, but a decrease in operating income from the previous forecast. Continuing on from the first half of the fiscal year, the Systems Integration Business is expected to contribute to an increase in sales in line with the consolidation of Mugen. Furthermore, the Solutions Business, which trended favorably in the first half of the fiscal year, is expected to experience steady growth along with significant expansion focused on the Cloud Business, to which the Company is placing its focus. As for profits, aside from the contraction of the high-margin Mainframe Business and a portion of products falling short of sales targets in the Products Business, ongoing active investment into the Cloud Business and the IoT business for mobile devices also contribute to a forecast of decreased profits.

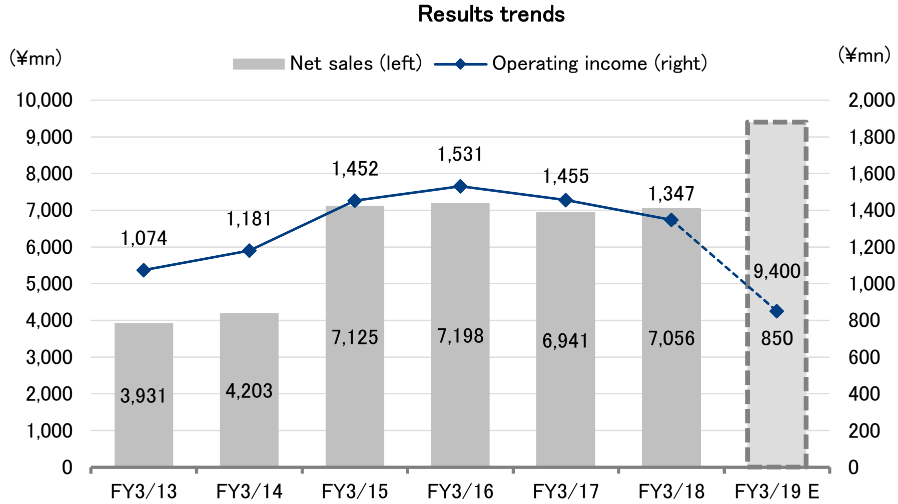
4. Growth strategy

FY3/19 marks the start of the three-year medium-term management plan. Despite this, the Company has already announced downward revisions to the income plan, setting its sights on activities that respond to drastic changes in market conditions, such as switching out product mixes in accordance with those changes. With the net sales plan remaining as-is, there are no substantial changes to the Company's fundamental course of action. Post-revision targets for FY3/21, the final fiscal year of the medium-term management plan, list net sales as ¥11bn (three-year average growth rate, up 15.9%), operating income of ¥1.55bn (operating margin, 14.1%), and ROE of 9.8%. The plan is to develop all businesses except the Mainframe Business, which is experiencing a shrinking market. The Company has positioned the Cloud Business, in which demand is increasing, as a growth field, and the main elements of its strategy are to strengthen Cloud solutions and carry out new initiatives for the industry SaaS business.

At FISCO, we see the possibility for sustainable growth at the Company from a number of actions it has carried out. These include enhancements to the product lineup (the shift to solutions) in the Cloud Business, in which demand is expanding, getting on track with solutions proposals that combine consulting and Company products, and further strengthening the Group's ecosystem through Mugen's consolidation so that it can provide a one-stop service in the upstream stage of a system lifecycle. At this juncture, the Company's strategy to lay down a foundation with a focus on the future through ongoing active investment and switching out product mixes amidst rapidly changing market conditions can be evaluated as rational, despite cuts in the income plan. On the flip side, the greatest question now is how far the Company will cultivate the axis of its next-generation profits. There is significant potential in certain fields, such as development in the Company's own created industry SaaS businesses, which tailored to human resources, mobile devices, and agriculture, and we at FISCO would like to focus on progress in those businesses where the Company can pursue a first-mover advantage.

Key Points

- Results in FY3/19 1H showed an increase in sales, but a decrease in profits. Profits were kept down by active investment into new businesses and growth fields, in addition to some products falling short of sales targets
- Given the 1H results, the Company downwardly revised FY3/19 full-year profits forecasts
- FY3/19 marks the start of the three-year medium-term management plan. However, the Company announced cuts to the income plan in consideration of drastic changes in market conditions (There are no changes to the Company's basic course of action)
- The Company has a policy to accelerate growth through initiatives in the SaaS business that specialize in certain industries, such as services which revolve around cloud solutions that address customers' digital transformation needs



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

Company profile

Strong in the areas of systems operations and data utilization. An independent developer of proprietary software.

1. Business overview

The Company develops, sells, and provides support for package software for the operation of IT systems for a broad range of industries, primarily finance and manufacturing. It also provides solutions utilizing data.

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

However, 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.* In addition to fields that contribute to automatizing and optimization in IT systems operations (productivity improvement), it plans to accelerate growth by developing its business domain in areas that directly contribute to raising its customers' corporate value (e.g. market expansion and enhanced competitiveness). The Company is also progressing with creating a business structure that addresses customers' digital transformation needs, on both the sides of "offense" and "defense."

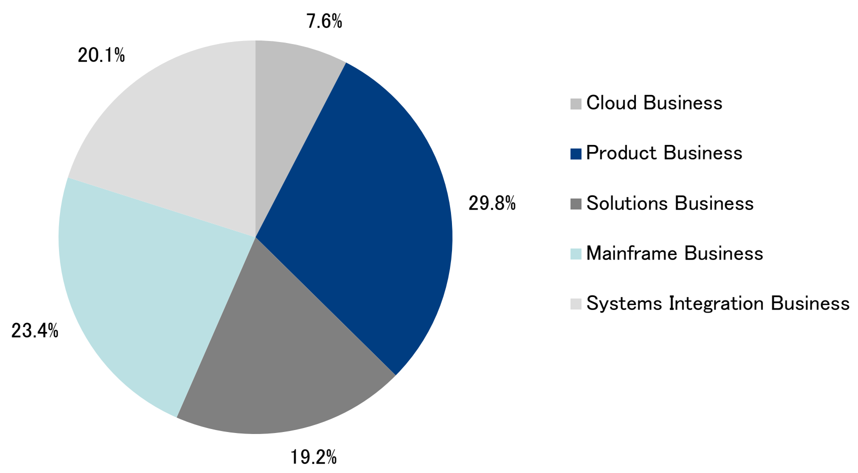
* As part of its business structure reforms, in April 2015, BSP merged with its consolidated subsidiary, Beacon IT, and changed its name to UNIRITA. The goals of this merger were to promote the establishment of an operating structure that combined BSP's forte of systems operation and Beacon IT's forte of data utilization to realize synergies that would help it respond to changes in its operating environment.

In addition, FY3/19 marks the start of the new three-year medium-term management plan. The Company is further progressing with initiatives it has carried out thus far, and adopting a course of action that emphasizes offering more specific solutions that directly solve customers' problems or create new business, such as offering cloud services with higher levels of business expertise and promoting collaborative models with partner companies.

The Company has five business segments*; the Cloud Business, the Product Business, the Solutions Business, the Mainframe Business, and the Systems Integration Business. The percentage of sales provided by the Mainframe Business, which has been main business since its establishment, has been declining due to the growth of the other businesses. But on the other hand, the percentage provided by the Cloud Business, which is a growth field, has grown significantly, although it is still only small scale.

* Newly added from FY3/19 following the consolidation of Mugen, which it acquired in February 2018.

Percentages of total net sales by business (FY3/19 1H results)



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

An overview of each business is provided below.

(1) Cloud Business

In areas such as data utilization, systems operations, work management, and back-office operations, the Company's Group provides products and services as Cloud services (usage-fees type). The ITSM (IT services management) tool LMIS on cloud*1, the Web x Security*2 security function which addresses needs for workstyle reforms, and SaaS-type attendance management services*3 for the personnel outsourcing industry serve as the main focus products for development. In addition, recently the Company released the communication specialized-type PaaS Smart Communication Platform*4, and it is the first vendor of this platform in Japan. It has also begun providing its security solutions on the Cloud-based platform of I-NET CORP <9600>*5, which manages Cloud-based data centers.

*1 "LMIS on cloud" is a cloud-based service that provides a framework for the appropriate management of IT services as a whole, centered on a service desk function.
*2 Web x Security is a cloud-based service that has single sign-on and ID management functions, which contributes to improving operation efficiency and strengthens security.
*3 Provided by the subsidiary, Aspex Inc.
*4 When a company is advancing digital reforms, and when a cloud integrator is developing cloud-based services, it is a platform on which the user can select and quickly deploy the necessary functions from the systems infrastructure provided by the Company and the micro services (video, SNS, etc.)
*5 Concluded a capital and business partnership in May 2017

(2) Product Business

The Company sells products focused on the open packaged software it develops in-house. In the data utilization area, it provides software products and services to link, analyze, and utilize huge amounts of data that are generated atypically and in real time. Also, in the systems operations area, it provides the products and services necessary to operate core operations systems accurately and efficiently. The sources of revenue are the royalties from product usage rights (license fees) and maintenance service fees, which are a fixed ratio of the product cost. Its main products include the job management tool "A-AUTO" (automation area)*1 and the data coordination and integration tool "Waha! Transformer" (ETL area)*2. It is also developing products and services in other areas, including BPM*3, IoT solutions for bus operators by a subsidiary*4, and products to respond to BCP*5.

*1 "A-AUTO" is a batch processing job management tool that manages the jobs on systems that are operating on different platforms in an integrated manner and that realizes automatic implementation controls.
*2 "Waha! Transformer" is an ETL tool produced in Japan that uses non-programming to convert the data in various formats used for operations into the necessary format.
*3 An abbreviation of Business Process Management. It involves ascertaining and analyzing the sequence of operations in a company as a whole, and using an information system to continuously manage, improve, and optimize.
*4 Solutions for bus operators utilizing IoT technologies. In addition to bus location search systems (bus route searches and bus location tracking searches), it is also developing system to count the number of bus passengers in real time. This business is conducted by consolidated subsidiary UNITRAND Inc.
*5 A business continuity plan (BCP) is a plan to continue key businesses after emergencies, such as natural disasters and scandals, or to minimize losses from the discontinuation of these businesses. This business is conducted by consolidated subsidiary Bitis, Inc.

(3) Solutions Business

In order to expand the Cloud Business and Product Business, the Company is taking responsibility for the processes before and after these two businesses, and it provides consulting for systems operations and data management to support customers' digital reforms. It provides customers with high-value-added solutions through supporting their introductions of the Company Group's products and services and other technical support. In other words, the markets are approached from the Solutions Business (consulting), which leads to the sales of products and services in both these businesses. Then after that, integrated services are provided from the Solutions Business (such as technical support and outsourcing). Therefore, it is necessary to be aware of their relationship that means these two businesses mutually affect each other.

(4) Main frame Business

In this business, the Company sells and provides supports for its own software products for mainframes for the operations and management of core operations systems, mainly for financial institutions, life and non-life insurance companies, and major manufacturing industry companies. It has been its mainstay business since its foundation and is a stable source of revenue. Although it is positioned as a mature field, the Company is working to develop new demand, including by starting to provide new functions* that user companies are highly interested in.

* The Company has started to provide software with added systems operations simulation functions for mainframe users that utilize the expertise and skills it has accumulated up to the present time.

(5) Systems Integration Business

This segment was newly added in FY3/19 following the consolidation of Mugen, which the Company acquired in February 2018. It builds corporate information systems, such as for customer management, e-commerce, content management, and IT infrastructure, mainly for customers in the information and communications industry, distribution retailing industry, and manufacturing industry. In terms of its business characteristics, its profit margin is low compared to the level of the Company as a whole, but it plays an important role in the Group's ecosystem that provides one-stop proposals from the upstream of customers' system lifecycles.

As of March 31, 2018, more than 1,200 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, previously the Company provides its products and services mainly through direct sales, but recently it has been working to strengthen its ability to provide solutions through collaborations (promotion of a collaboration model) with its partner companies (sales agencies). The number of partner companies has exceeded 100.

The Company had the following eight consolidated subsidiaries. BSP Solutions Incorporated runs an IT service consulting business. BSP (Shanghai) Inc. is the base for sales in China. Aspex Inc. handles SaaS products for human resources outsourcing attendance management. Bitis, Inc. offers BCP development, administration and maintenance support. Data Research Institute is a data management consulting business. UNITRAND, Inc. offers solution services for IoT-based mobile equipment. UNIRITA PLUS Inc. offers sales channels to customers in western Japan and boost sales of its products while collaborating with partners. Mugen Corp. operates a system integration business and develops and sells its own package software.

Mainframe Business has been a source of stable profit since foundation. Supporting active investment in the new and growth businesses

2. Corporate characteristics

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

UNIRITA has the following three distinguished traits.

(1) An independent developer of proprietary software

A strength of UNIRITA's products in its flagship systems operations 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 in this area are reflected in the precision and superior performance of its goods and services and in the precision of its proposals. Amidst a readily observable trend (by other vendors) to rely on agents to install systems, the fact that UNIRITA provides its products directly, chiefly to financial institutions and large corporations, and that its products are often adopted as replacements during system updates is arguably proof of this. The Company has been hired to operate the SysAdmin's Group, the largest network of system managers in Japan, boasting more than 16,000 members and 180 endorsing companies. This demonstrates that UNIRITA is the driving force in this field. Also, the customer base of more than 1,200 companies has great potential in terms of providing them with solutions in the future to address their various business problems.

(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 52.8% (FY3/18 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 business and product business, which we feel is a significant advantage for the Company.

(3) Achieving a structure that can support both offense and defense aspects of customers' businesses

The 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 offense and defense 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

In FY3/19 1H, sales increased, but profits decreased. Profits were kept down by some products falling short of sales targets and an increase in up-front expenditures

1. Summary of the FY3/19 1H results

In the FY3/19 1H results, sales increased but profits decreased, with net sales rising 35.8% YoY to ¥4,497mn, operating income falling 33.4% to ¥374mn, ordinary income declining 27.0% to ¥469mn, and profit attributable to owners of parent decreasing 33.1% to ¥291mn. Compared to the initial forecasts, profits are proceeding to fall below the forecasted figures despite net sales exceeding forecasted figures to a certain extent.

Net sales results are attributed to growth in all business segments (excluding the Mainframe Business), in addition to the effects of consolidation for Mugen (and the basis of about ¥0.9bn in increased sales), which the Company bought in February 2018. In particular, there were successful proposals that combine consulting services and products in the Solutions Business that yielded positive sales results, as well as steady growth in the Cloud Business, to which the Company is placing its focus.

On the other hand, profits dropped sharply due to factors such an increase in one-time development costs for personnel deployment to boost the Company's technological development capabilities (investment in engineers that exceeded initial planning), as well as an increase in R&D expenses for the Cloud Business segment and the IoT business for mobile devices. The decrease in profits was also caused by a portion of products in the Product Business falling short of sales targets and a downturn in the Mainframe Business.

Financially, total assets decreased 0.7% on the end of the previous fiscal year to ¥15,331mn, trending around the same level. On the other hand, equity grew 2.2% to ¥11,686 from the accumulation of internal reserves. As a result, the equity ratio increased to 76.2% (74.1% in the previous fiscal year).

Summary of the FY3/19 1H results

(¥mn)

	FY3/18 1H		FY3/19 1H		Change		FY3/19 1H		Vs plan	
	Results	% of sales	Results	% of sales		% change	Initial forecast	% of sales		Achievement rate
Net sales	3,311		4,497		1,185	35.8%	4,420		77	101.7%
Cloud Business	245	7.4%	342	7.6%	96	39.1%	-	-	-	-
Product Business	1,187	35.9%	1,339	29.8%	151	12.8%	-	-	-	-
Solutions Business	747	22.6%	862	19.2%	114	15.3%	-	-	-	-
Mainframe Business	1,130	34.1%	1,050	23.4%	-79	-7.1%	-	-	-	-
Systems Integration Business	-	-	903	20.1%	903	-	-	-	-	-
Cost of sales	914	27.6%	1,949	43.3%	1,034	113.2%	-	-	-	-
SG&A expenses	1,835	55.4%	2,173	48.3%	338	18.4%	-	-	-	-
Operating income	561	17.0%	374	8.3%	-187	-33.4%	580	13.1%	-205	64.5%
Cloud Business	-39	-	-66	-	-27	-	-43	-	-23	-
Product Business	145	12.3%	82	6.2%	-62	-43.1%	163	-	-80	50.9%
Solutions Business	17	2.4%	-1	-	-19	-	-2	-	0	-
Mainframe Business	599	53.0%	559	53.3%	-39	-6.6%	589	-	-29	95.1%
Systems Integration Business	-	-	20	2.3%	20	-	33	-	-12	63.6%
Adjustment	-161	-	-221	-	-60	-	-161	-	-60	-
Ordinary income	643	19.4%	469	10.4%	-173	-27.0%	660	14.9%	-190	71.2%
Profit attributable to owners of parent	435	13.1%	291	6.5%	-144	-33.1%	445	10.1%	-153	65.4%

	At end of March 2018	At end of September 2018	Change	
				% change
Total assets	15,437	15,331	-105	-0.7%
Shareholders' equity	11,432	11,686	254	2.2%
Shareholders' equity ratio	74.1%	76.2%	2.1%	-

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

Results by business are as set out below.

(1) Cloud Business

Net sales increased 39.1% YoY to ¥342mn and the operating loss was ¥66mn (compared to a loss of ¥39mn in the previous fiscal year), thus the extent of loss increased while sales increased. In net sales, aside from the mainstay service LMIS on cloud (an IT management service), expansion in both Web x Security (a web security service) and DigiSeet (an SaaS-type attendance management service) contributed to the sales increase along with Mugen's series of budgeting management solutions, Raku-Raku BOSS. LMIS on cloud in particular succeeded in strengthening its link to systems operation consulting and product functionality, enabling it to capture demand in the shift to business process outsourcing (BPO)*1 for help desk operations in accordance with business operation optimization. In addition, Web x Security addressed security needs*2 in line with diversification of work styles. DigiSeet also discovered new demand in the dispatch industry*3 amidst progress in workstyle reforms, expanding to 60,000 users at the end of September 2018 (compared to 50,000 in the previous fiscal year). In profits, however, up-front expenditures towards structural reinforcements for service development for Web x Security and Raku-Raku BOSS were higher than expected, which increased the extent of profit loss.

*1 In light of companies' shift to business process outsourcing (BPO) for help desk operations, it is essential to have a mechanism to manage continuous improvements, such as monitoring on items that visualize the quality of that service. The Company's subsidiary BSP Solutions Inc. is a pioneer in creating consulting services in line with this mechanism, with a superior system that enables the company to offer proposals that combine consulting and products and tie-in to larger scale projects. Over 100 companies are also using this service.

*2 The product's single sign-on function (a mechanism in which multiple software systems, etc., can be used by processing a user's verification only once) and ID management functions contribute to improving operation efficiency and strengthen security.

*3 Demand is increasing not only in business administration fields, but for construction-related dispatch companies as well.

(2) Product Business

Net sales increased 12.8% YoY to ¥1,339mn, while operating income decreased 43.1% to ¥82mn, an increase in sales but a decrease in profit, with profits especially falling short of targets. In net sales, the shift towards operation solutions that feature the Company's own products contributed to sales for ETL and report creation tools. Sales also increased for business process management (BPM) products that enable visualization of businesses processes during a company's digital reforms and capture demand for system reconstruction. However, the absence of a large project recorded in the previous fiscal year and structural changes (maturation of the market, the shift to the Cloud, etc.) made growth difficult for automation products in the systems operation field. Sales also fell short of planned targets due to a delay in orders for product sales projects in the IoT business for mobile devices. In terms of profits, high-margin automation products falling short of sales targets and additional costs for research and development in the IoT business for mobile devices led to a decline in profits.

(3) Solutions Business

Net sales increased 15.3% YoY to ¥862mn, with an operating loss of ¥1mn (compared to a profit of ¥17mn in the previous fiscal year), but an increase in sales with a decrease in profits (operating loss) can be generally seen to be within the scope of the plan. In net sales, the link between the Cloud Business and the Product Business served as the driver for growth, namely the pre-process consulting and post-process technological support services meant to expand both businesses; these services enabled sales to trend favorably. Sales of technological support services in particular expanded due to the growth of ETL product sales as part of measures to shift to management solutions. The Company also had success with a combination of proposals that utilized the Group's strengths in systems operations and consulting functions that use data. In profits, however, amidst the expansion into cloud services, the Solutions Business experienced an operating loss due to curtailing of on-premises information portal products for businesses and deterioration in profitability for a portion of system construction projects.

(4) Mainframe Business

Net sales decreased 7.1% YoY to ¥1,050mn, and operating income decreased 6.6% YoY to ¥559mn, with a decrease in both sales and profits while profits fell short of planned targets. Net sales declined due to lack of orders for large-scale projects such as machine replacement or reinforcement of host computers, which contributed to sales in the previous fiscal year. As for profits, a downturn in sales for high-margin licenses was the cause of decline in profits.

(5) Systems Integration Business

Net sales were ¥903mn and operating income was ¥20mn in the Systems Integration Business that was added with Mugen's consolidation. Orders for systems development projects expanded in a favorable environment. Profits, however, were sluggish due to orders for highly-profitable turnkey development projects falling short of planned targets, an increase in outsourcing costs due to a shortage of engineers, and the amortization of goodwill.

To summarize the assessments listed above for results in the first half of the fiscal year, the Company can be evaluated on factors such as steady growth and expanding demand in the Cloud Business and the successful proposals that combine consulting and products, despite profits falling short of planned targets. Furthermore, on the cause for decline in profits, it is necessary to separate factors such as products that fell short of sales goals and the contraction of the Mainframe Business, and up-front expenditure into new growth fields into two different categories. Namely, the latter was to address a rapidly changing market, especially the accelerating trend of shifting business to the Cloud, and can be evaluated as being tied to future growth.

2. Activities

The Company is undertaking key policies towards (1) Cloud First, (2) Providing Group ecosystem solutions, and (3) Developing new businesses, in accordance with the medium-term management plan, and was able to post the following results for the first half of the fiscal year.

(1) Cloud first

This policy places emphasis on initiatives such as promoting a shift of existing products to the Cloud, boosting the competitiveness of the IT service management business (ITSM), designing new SaaS products under the theme of workstyle reforms, and strengthening the collaboration model with I-NET CORP. As previously mentioned, the Company was able to achieve an increase in sales results in growth fields that are experiencing heightened demand from customers through products such as LMIS on cloud, Web x Security, and DigiSeet. Furthermore, the Company is undertaking active investment in order to strengthen its service and product brand power for future business expansion. For the second half of the fiscal year, the Company will undertake initiatives that utilize the cloud base at its capital and business partner I-NET CORP to strengthen its own service base centered on existing middleware products, with a policy of promoting sales of these products as solutions that solve issues for business departments.

In addition, the Company's subsidiary Aspex Inc. acquired all of the shares for Business Application Co., Ltd. on November 5, 2018, turning the company into its wholly-owned subsidiary. Business Application develops, sells, maintains, and manages support services for an operations management system targeted at the human resources service industry. The Staff series, its comprehensive management system for the human resources service industry, provides a one-stop service from development to sales to support and captures a high share of the market. Along with integrating the technological capabilities and knowledge cultivated at Business Application, the Company will aim to achieve a link between consulting and cloud services to address a broader range of customer needs than before.

(2) Providing Group ecosystem solutions

With this policy, the Group undertook initiatives which promoted collaboration within the Group to handle digital transformation needs, proposed solutions for business expansion with partner companies, and optimized personnel deployment to strengthen the Group's technological competitiveness. Particularly in Group collaboration, the Company had successful proposals that combine the Company's products with a subsidiary's consulting business, such as systems operation consulting and ITSM, or consulting that utilizes data and BPM. It can be said that the successful pattern which has taken shape in terms of utilizing the Group's own strengths paves the way for great progress in the future. Furthermore, the Company's business tie-ups have exceeded 100 partner companies with strengths in product users' industries; the collaboration model has also completed 40 lineups. As for optimizing personnel deployment, the Company is aiming to strengthen Group-wide technological capabilities by utilizing Mugen engineers' expertise within the Group.* In the first half of the fiscal year, the Company was still undergoing the process to cultivate and strengthen its human resources; although one-time costs for personnel deployment were a cause for a loss in profits, the situation is expected to improve as operations proceed with actions such as reduction of outsourcing costs and others.

* The Company assigned 30 engineers from Mugen to areas such as the Cloud Business, Solutions Business, and Product Business; along with strengthening the Company's technological development capabilities, each engineer will take package technology they have absorbed in the businesses back to Mugen to utilize in that company's product development in the near future.

(3) Developing new businesses

As for new businesses, there were some successes in the IoT business for mobile devices and the agricultural SaaS business that are worthy of attention. In the IoT business for mobile devices, the subsidiary UNITRAND, Inc. invested in a tech development company which provides interactive services that utilize AI. Through this investment, UNITRAND built a system for service development that responds to technological innovation and expands upon various services, such as interactive response services that use AI. UNITRAND also installed an AI reception service*1 at the Obihiro Station bus terminal in Hokkaido, which apparently led to an increase in inquiries from bus companies nationwide after the launch of service in July 2018. The Company also invested in a new company that carries out development of positioning data and indoor mapping technologies essential to IoT services for mobile devices. The new company is also focusing on "the movements of people," pursuing development of solutions that contribute to logistics, marketing of indoor facilities, and revitalization of event businesses by using analyses of indoor movement and vital sensing*2

*1 An AI reception service with an interactive display that has image recognition technology.
*2 Technology that measures heartbeat, pulse, blood pressure, electrocardiograph, blood oxygen levels with different kinds of sensors.

Furthermore, in the Agricultural SaaS Business, the Company is jointly participating with GINZA FARM CO., LTD in the Fukushima Innovation Coast Framework*2 promoted by Japan's Ministry of Economy, Trade, and Industry. The joint project seeks to develop solutions that enable even a small number of people to achieve large-scale operations through building a data platform that uses AI for fruit tree agriculture and the development of agricultural robot solutions.

*1 GINZA FARM CO., LTD. assists with providing agricultural systems and market pricing (Headquartered in Chuo Ward, Tokyo)
*2 This project seeks to rebuild lost industrial infrastructure in Hamadori, Fukushima Prefecture and proceed with new neighborhood creation.

Business outlook

Profit forecasts for FY3/19 were downwardly revised. The Company is forecasting sales to increase significantly while profits decrease

For the results forecasts for FY3/19, the Company downwardly revised the initial profit forecast and upwardly revised the sales forecast in consideration of progress made in the results for the first half of the fiscal year and market conditions. As for profits, despite a significant increase in sales, there is a reversal on initial forecasts expecting an increase; the Company is now forecasting net sales to increase 33.2% YoY to ¥9,400mn (upward revision of ¥100mn), but operating income to decrease 36.9% to ¥850mn (downward revision of ¥550mn), ordinary income to decrease 34.7% to ¥950mn (downward revision of ¥530mn), and profit attributable to owners of parent to decrease 34.8% to ¥630m.

Continuing on from the first half of the fiscal year, the Systems Integration Business obtained from through the consolidation of Mugen will greatly contribute to the significant increase in sales with an addition of approximately ¥1.77bn. Furthermore, the Solutions Business, which trended favorably in the first half of the fiscal year, is expected to experience steady growth along with significant expansion in the Cloud Business, to which the Company is placing its focus.

In profits, however, as with the first half of the fiscal year and aside from the contraction of the high-margin Mainframe Business and a portion of products falling short of sales targets in the Products Business, ongoing active investment in the Cloud Business and the IoT business for mobile devices also contribute to a forecast of decreased profits. More specifically, the reason for reductions to the initial profit forecasts was conservative consideration for primary factors, such as the timing of replacement for customer systems and machines in Mainframe Business, in addition to factors for the downturn in the first half of the fiscal year.

Revised Forecast for FY3/19

(¥mn)

	FY3/18		FY3/19				% change	
	Results	% of sales	Revised forecast	% of sales	Initial forecast	% of sales	Revised forecast	Initial forecast
Net sales	7,056		9,300		9,400		31.8%	33.2%
Cloud Business	513	7.3%	770	8.3%	770	8.2%	49.9%	49.9%
Product Business	2,562	36.3%	3,030	32.6%	2,810	29.9%	18.3%	9.7%
Solutions Business	1,748	24.8%	1,850	19.9%	2,030	21.6%	5.8%	16.1%
Mainframe Business	2,231	31.6%	2,100	22.6%	2,020	21.5%	-5.9%	-9.5%
Systems Integration Business	-	-	1,550	16.7%	1,770	18.8%	-	-
Operating income	1,347	19.1%	1,400	15.1%	850	9.0%	3.9%	-36.9%
Ordinary income	1,454	20.6%	1,480	15.9%	950	10.1%	1.8%	-34.7%
Profit attributable to owners of parent	965	13.7%	1,000	10.8%	630	6.7%	3.6%	-34.8%

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

Medium-term management plan

Accelerate growth centered on Cloud Solutions. In particular, intends to expand the SaaS business specializing in specific industries.

1. Basic policy and numerical targets

FY3/19 marks the start of the medium-term management plan. However, the Company has already announced downward revisions to its income plan in consideration of drastic changes in market conditions, that is to say, these revisions are taking place amidst expectations that certain trends occurring in the background will expand the extent of profit decline more than what was expected in the initial plan. This includes acceleration of actions that shift businesses from product sales to cloud service sales (which will lead to a decline in profits for a time) in order to address the market trends of shifting from ownership to utilization, from individual products to solutions, and from on-premises to the Cloud. The revisions can also be seen amidst decreasing profits for existing high-margin products in the license business (a pillar of the Mainframe Business segment). Therefore, although there have been reductions for the income plan, the Company can be seen as executing a strategy that switches out product mixes to accommodate market conditions and customer needs, while stabilizing its foundation by shifting from a flow business to a stock business. Furthermore, with the net sales plan remaining as-is, there are no substantial changes to the Company's fundamental course of action. Also amidst rapid changes in the IT environment at companies, the Company is aiming to expand its business as a "strategic IT partner" that contributes to its customers' business growth, and will undertake the following three basic policies:

(1) Refine the expertise in "systems operations" and "data utilization" and further strengthen the business foundation
(2) Expand the SaaS business in the business IT field that will revitalize the market
(3) Actively invest in the latest digital technologies and construct a business foundation

Also, the revised targets for final year of FY3/21 are net sales of ¥11bn (three-year average growth rate, up 15.9%), operating income of ¥1.55bn (operating margin, 14.1%), and ROE of 9.8%. The plan is for all the businesses, excluding the Mainframe Business, to grow. But in particular, it has positioned the Cloud Business, for which demand is increasing, as a growth field, and the main elements of its strategy are to provide its proprietary Cloud infrastructure, to strengthen Cloud solutions, and to conduct new initiatives for the industry SaaS business. Although the operating margin will decline significantly in FY3/19 due to the effects of launching the Systems Integration Business, in which profitability is comparably low, and upfront investment aimed at expanding the Cloud Business, the subsequent policy is to create sound improvements through the effects of increased profit and enhancements to added value.

Revised medium-term management plan

(¥mn)

	FY3/18 results	FY3/19		FY3/20		FY3/21		Revised average growth rate
		Before revisions	Initial forecast	Revised forecast	Initial forecast	Revised forecast	Initial forecast	
Net sales	7,056	9,300	9,400	10,000	10,000	11,000	11,000	15.9%
Cloud Business	513	770	770	-	-	1,300	1,330	37.3%
Product Business	2,562	3,030	2,810	-	-	3,800	3,680	12.8%
Solutions Business	1,748	1,850	2,030	-	-	2,500	2,480	12.3%
Mainframe Business	2,231	2,100	2,020	-	-	2,000	1,900	-5.2%
Systems Integration Business	-	1,550	1,770	-	-	1,500	1,610	-
Operating income	1,347	1,400	850	1,650	1,100	2,000	1,550	4.8%
Profit margin	19.1%	15.1%	9.0%	16.5%	11.0%	18.2%	14.1%	
Profit attributable to owners of parent	965	1,000	630	1,180	820	1,420	1,220	8.1%
Profit margin	13.7%	10.8%	6.7%	11.8%	8.2%	12.9%	11.1%	
ROE	8.7%	8.5%	5.4%	9.5%	6.9%	10.7%	9.8%	

Source: Prepared by FISCO from the Company's financial results, results briefing materials and new medium-term management plan materials

2. Strategy and targets by business segment

(1) Cloud Business

By combing the Company's "existing products" and "business templates" to provide Cloud services (SaaS services), it is expanding its provision of services to directly solve customers' operational problems. Also, with the aim of providing its expertise in its existing businesses to industry specific platforms*1, it is developing and advancing measures for an industry SaaS business that focuses on three fields; HR-related (management and human resources)*2, mobile device-related*3, and agriculture-related*4. The target for the plan's final fiscal year is net sales of ¥1.33bn (annual average growth rate, up 37.3%).

*1 Aiming for a platform that solves the problems of an industry by the Company itself acquiring the business expertise that is specific to that industry, and also by aggregating and analyzing data and increasing the accuracy of data analysis.
*2 The development of solutions relating to human assets (such as supporting workstyle reforms), centered on products and services, including SaaS-type attendance management services for the personnel outsourcing industry and expenses-calculation package software for back offices.
*3 Centered on IoT solutions for bus operators, strengthening IoT and AI technologies and developing transportation-related solutions (such as contributing to regional revitalization), including in relation to the Smart City concept.
*4 By utilizing its strengths in the data utilization area and collaborating with businesses in various fields, improving efficiency through introducing IT into agriculture and developing a platform and business model that will led to the generation of profits (including contributing to "revitalizing primary industries").

(2) Product Business

To expand core operations solutions, the Company will advance the installation of AI into groups of existing products and services. Also, in order to build a Win-Win relationship with partner companies (sales agencies), it will work to develop products and services that will expand the businesses of its partner companies, while it also plans to increase investment to strengthen the functions of Group companies' product and services (mobile devices IoT business and expenses-calculation package software for administrative departments). However, as stated above, the shift to the Cloud will be undertaken flexibly in line with changes in market conditions and customer needs. The target for the plan's final fiscal year is net sales of ¥3.68bn (annual average growth rate, up 12.8%).

(3) Solutions Business

In addition to expanding the consulting business specializing in digital reforms and developing one-stop services (planning, design, construction, operations, and improvements), the Company is working to create stock businesses, including by developing RPA-related services for core operations-related IT and expanding the managed services (management and administration outsourcing services)-type BPO business. The target for the plan's final fiscal year is net sales of ¥2.48bn (annual average growth rate, up 12.3%).

(4) Mainframe Business

As a comprehensive mainframe vendor and amidst a reduction of the market, the Company will establish the survivor position in the market through utilizing the collaboration model with other mainframe vendors and training and developing engineers. The target for the plan's final fiscal year is net sales of ¥1.9bn (annual average growth rate, down 5.2%).

(5) Systems Integration Business

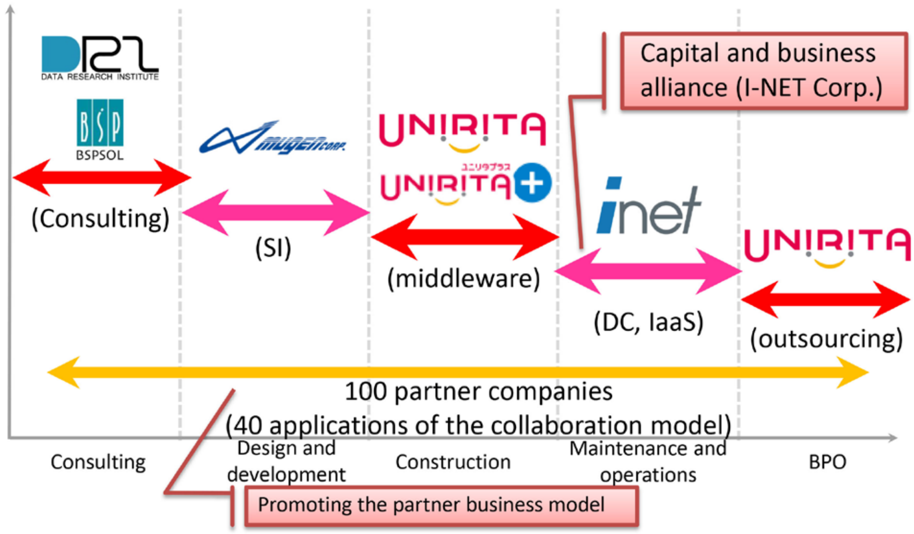
In addition to training and developing digital engineers, such as for AI, IoT, Big Data and block chains that are necessary for a digital business, the Company is aiming to utilize its application development engineers to speed-up the development of the Group's products and services. The target for the plan's final fiscal year is net sales of ¥1.61bn.

3. Other basic strategies

(1) Strengthening competitiveness through the UNIRITA Group ecosystem

Through collaborations between the Company itself, the Group companies, the companies with which it has business and capital alliances, and the partner companies, the aim is to strengthen competitiveness by building a structure that can provide one-stop proposals from the upstream of customers' system lifecycle (consultation ~ design and development ~ construction ~ maintenance and operations ~ BPO), and thereby approach a wider range of customers.

Provision of solutions through the Group's ecosystem



Source: From the Company's results briefing materials

(2) Active investment to lead digital reforms

The Company is aiming to improve its business-creation capabilities through research and development into new technological areas (in addition to IoT, AI, data analytics, areas such as Robot, RPA, and block chains) and investing in the industry SaaS business. It plans to invest a total of ¥3bn over three years, which will be divided into the investment categories of 1) investment to refine expertise in the existing businesses of "systems operations" and "data utilization," which will form the base; 2) additional investment in business areas for which measures have been started, and investment to expand scale; and 3) investment to newly develop the industry SaaS business, which will heighten business expertise. The planned investment amounts are ¥800mn in 1), ¥1.2bn in 2), and ¥1bn in 3). The Company will also work to introduce a new system to invest in human resources (including increasing basic salaries) and to evaluate specialist human resources.

* Creation of the Open Incubation Center, a culture-creation project, enhancements to the personnel system, etc.

At FISCO, we see the possibility for sustainable growth at the Company from a number of actions it has carried out. These include enhancements to the product lineup (the shift to solutions) in the Cloud Business, in which demand is increasing, getting on track with solutions proposals that combine consulting and Company products, and further strengthening the Group's ecosystem through Mugen's consolidation so that it can provide a one-stop service in the upstream stage. At this juncture, the Company's strategy to lay down a foundation with a focus on the future through ongoing active investment and switching out product mixes can be evaluated as rational, despite cuts in the income plan and amidst rapidly changing market conditions. On the flip side, the greatest question now is how far the Company will cultivate the axis of its next-generation profits. There is significant potential in certain fields, such as development in the Company's own created industry—SaaS businesses tailored to human resources, mobile devices, and agriculture—and we at FISCO would like to see the Company focus on progress in those businesses where it can pursue a first-mover advantage.

Corporate history and business performance

Management integration with Beacon IT in April 2015. Made a new start as UNIRITA

1. Corporate history

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

Subsequently, in 1987, Three B, Inc. changed its name to BSP. The turning point for BSP was when it took over the systems management operations of Software AG of Far East in 1993 and commenced full-scale operations as a specialist in systems administration package software. After that it steadily strengthened its operational platform, while benefiting from increased investment in IT systems in Japan, and 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-based service and administrative BPO Operations Service.

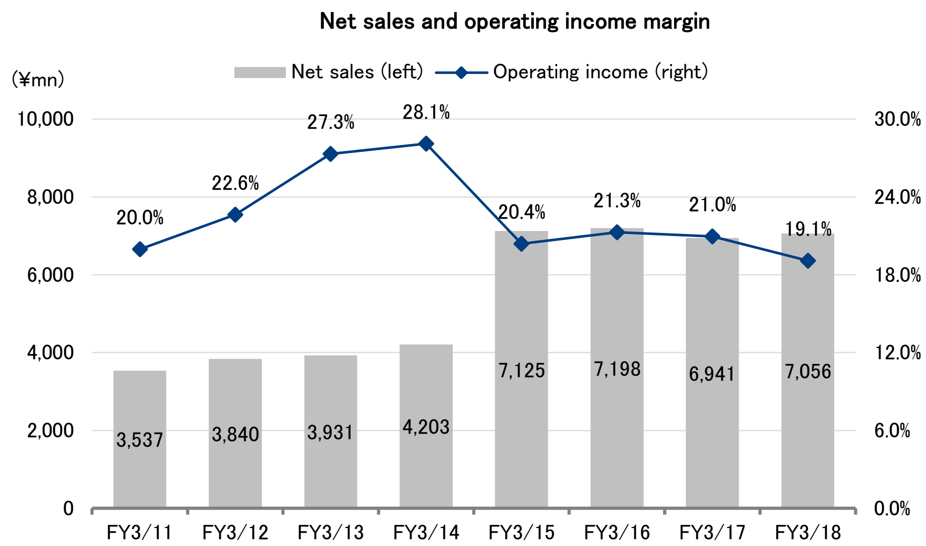
By consolidating Beacon IT in January 2014, BSP, as well as incorporating growth areas such as data utilization, began reforming its business structure.

With the merger of 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

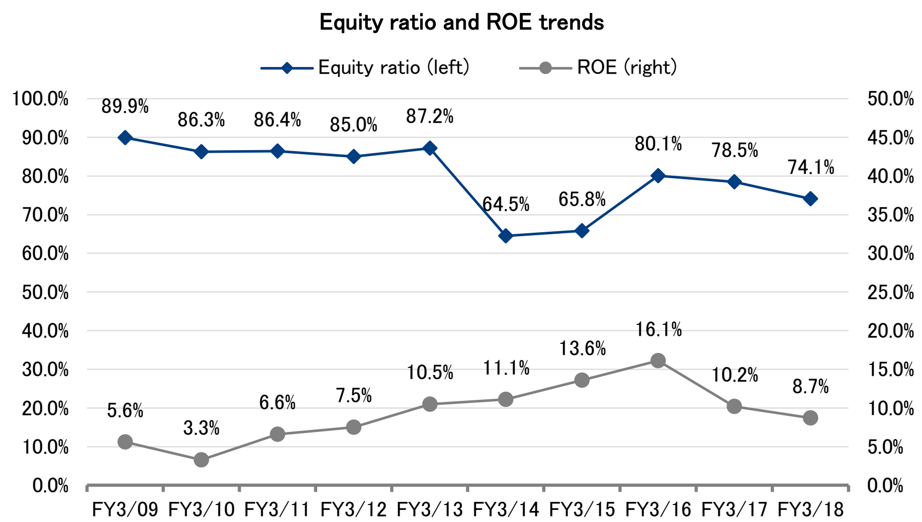
Looking at the Company's results trends, while net sales declined YoY from FY3/09 to FY3/10 due to the impact of the economic recession resulting from factors such as the collapse of Lehman Brothers, from FY3/12 onward, amidst a shift to open architecture systems, there has been continued underlying growth in sales, led by sales growth in the systems operations business, which is now part of the Product Business and the Solutions 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 Business and reached 28.1% in FY3/14. However, this margin has declined since FY3/15 due to upfront expenditure in line with its structural business reforms and other factors. Notwithstanding, the Company has maintained it at levels around 20%.



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

From a financial perspective, the Company arguably has an extremely conservative financial strategy. While the Company's 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 326.2% at March 31, 2018. 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, was progressing at double-digit levels but now falls short of 10% due to the influence of a drop in earnings in close proximity.



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

Industry environment

High growth in fields relating to big data and workstyle reforms

According to a survey conducted by International Data Corporation Japan, the software market in Japan was worth approximately ¥2,857.9bn in 2017 (up 5.8% YoY). In the application market within the domestic software market, customer relationship management (CRM) applications achieved double-digit growth due to the expansion of marketing applications and penetration of sales applications in mainstay small and medium businesses. In addition, due to implementations of workstyle reforms at companies, the market is greatly expanding for SaaS-type collaborative applications that support the execution of business tasks regardless of location or device used. In the application development market, initiatives for big data are becoming more active at companies, with the data management software and data analytics markets experiencing high growth. In the systems infrastructure market, there is an increase in software that builds secure remote network environments in the push for workstyle reforms.

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 <IBM> and Hewlett Packard Company <HPQ>. 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 and data utilization 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

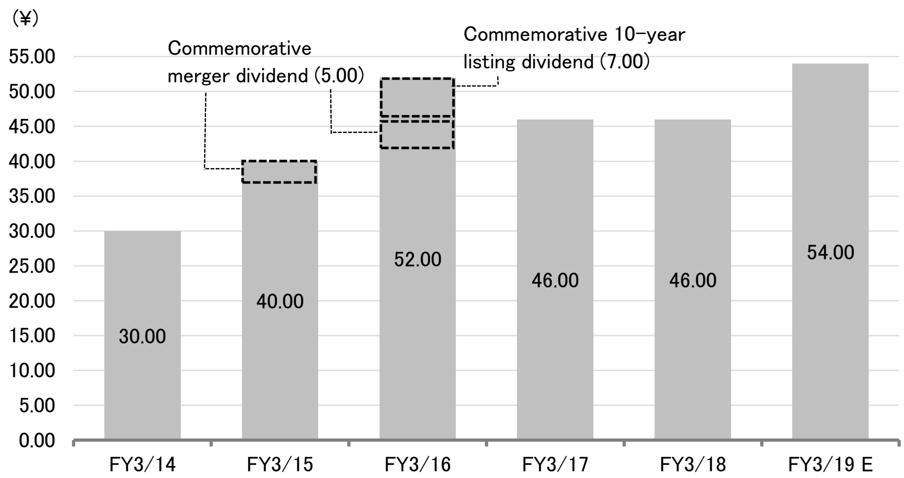
The forecast for FY3/19 is for an annual dividend of ¥54, up ¥8 YoY
Changed to a dividend policy with DOE as the standard

For FY3/19, the Company is forecasting an annual dividend of ¥54 (interim dividend ¥27, year-end dividend ¥27), which is up ¥8 YoY (forecast DOE of 3.9%)

From FY3/19, the Company has changed its dividend policy, and instead of using the consolidated dividend payout ratio as the standard as it did previously, it is using dividend on equity (DOE) as the standard. The aim of this is to stably and sustainably pay dividends without being affected by fluctuations in profit and loss during a fiscal period, such as due to upfront investment. Also, according to the new medium-term management plan, in FY3/21 it plays to raise the DOE to 4.5% (FY3/18 result, 3.5%) and to increase the annual dividend per share to ¥67.

Given the Company's profitability and growth potential, at FISCO, we think it is highly possible that the dividend will steadily and continuously increase in the future. 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



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

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