COMPANY RESEARCH AND ANALYSIS REPORT

UNIRITA Inc.

3800

TSE JASDAQ

25-Dec.-2020

FISCO Ltd. Analyst

Ikuo Shibata

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

In FY3/21 1H results, sales and profits decreased due to the impact of COVID-19. Achieved a certain level of results for the future, of the growth of the mainstay cloud services and initiatives for new areas

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, as well as solutions that utilize data. The role of IT is changing from "defensive" (such as to improve operational efficiency and reduce costs) to "offensive" (a means to realize 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 transformation (DX). Recently, the Company has been working on measures including strengthening the services model (converting to a subscription model by shifting existing products to the cloud) and utilizing digital technologies to solve social issues (working style reforms, regional revitalization, and primary industry stimulation).

2. Summary of the FY3/21 1H results

In FY3/21 1H results, net sales decreased 0.9% year-on-year (YoY) to ¥4,836mn and operating income fell 53.7% to ¥208mn, for declines in sales and profits that were below the initial forecasts. Sales grew in the mainstay Cloud Business and also trended solidly in the Mainframe Business. But overall, sales decreased because they fell in the Product Business and the Solution Business (particularly technology-support services) due to the impact of the novel coronavirus pandemic (hereafter, COVID-19). In profits also, operating income declined, because in addition to profits being pushed down by the lower sales, in the Solution Business, the occurrence of unprofitable projects and other factors caused the cost-of-sales rate to deteriorate, while SG&A expenses increased due to measures to deal with COVID-19 (including establishing a teleworking environment). However, looking toward the new normal in the COVID-19 era, the Company is emphasizing maintaining relations of trust with stakeholders, and its basic policies are 1) do not conduct cost measures from a short-term perspective and 2) progress the in-house working style reforms. For these points, it can be highly evaluated from the viewpoint of making possible sustainable growth. Also, based on the COVID-19 situation, it has been actively developing initiatives for new areas and was able to achieve a certain level of results for this.

3. FY3/21 results forecasts

For the FY3/21 results, the Company has downwardly revised the forecast amounts based on factors including the progress made in the 1H results and the current uncertain conditions due to COVID-19. It is forecasting declines in sales and profits, with net sales to decrease 4.3% YoY to ¥9,700mn and operating income to fall 53.4% to ¥500mn. Sales will grow in the Cloud Business throughout the year, but in all other businesses, the Company has estimated sales cautiously due to the same factors as 1H, of the impacts of cooling down of investment and the limitations on activities due to COVID-19. As a whole, it expects sales to trend at a low level. For profits also, the Company has forecast a decline in operating income in consideration of the upfront investment in new businesses and negative factors like the sluggish sales of new licenses in the Product Business and the decline in service provider-type services in the Solution Business.

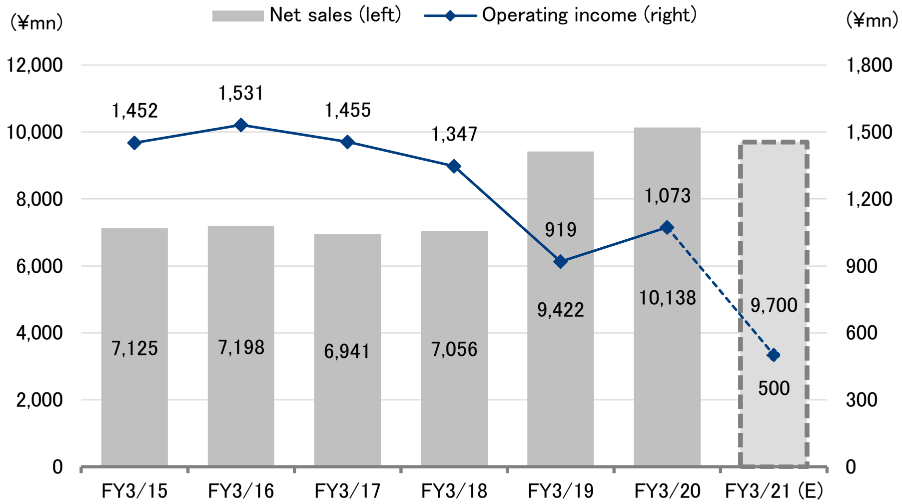
4. Direction for the future

The Company is moving forward on the medium-term management plan, with FY3/21 as its final fiscal year. With the Mainframe Business as the source of earnings, the plan is to grow the Cloud Business and the Product Business. But it has particularly positioned the Cloud Business, in which demand is increasing, as a growth field, and providing a proprietary cloud infrastructure, strengthening cloud services, and implementing new initiatives for business SaaS have become the centerpieces of its strategy. However, the speed of growth up to now has been slower than anticipated, while the Company has increased investment to strengthen the business infrastructure to accelerate growth in the future and COVID-19 is having a negative impact now. Therefore, the situation is that it will be difficult to achieve the initial targets. However, it is steadily advancing the strategic initiatives toward “business structural reforms,” and it is thought that there has been no major change of direction for from FY3/22 onwards. We shall be focusing on the path the Company is taking, of whether it will further improve the initiatives up to now and whether it will enter a stage of recovering its investments.

Key Points

- In FY3/21 1H, sales and profits decreased and were below initial forecasts due to the impact of COVID-19, but the mainstay Cloud Business steadily grew and became profitable. A certain level of results were achieved toward the future, including shifting to services for some existing products and initiatives for new areas
- Has downwardly revised the FY3/21 results forecasts. Continuing on from the 1H, COVID-19 is expected to have a negative impact
- There has been no major change to the direction from FY3/22 onwards. We will be focusing on whether it will further improve the initiatives up to now and whether it will enter a stage of recovering its investments

Results trends



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

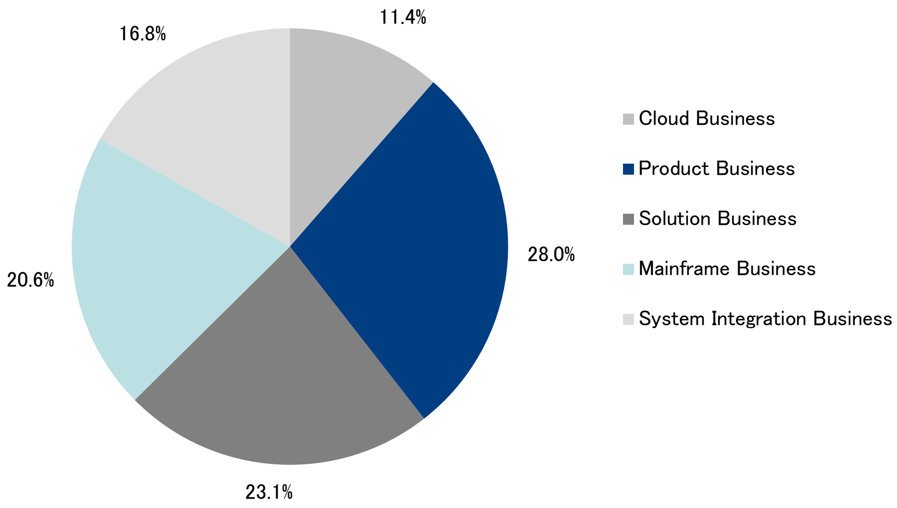
The Company develops, sells, and provides support for package software for the operation of IT systems for a broad range of industries, primarily finance and manufacturing, as well as solutions that utilize data.

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, in light of 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's strength lies in its business structure that addresses customers' DX needs, on both the sides of "offense" and "defense." Recently, it has been working on measures including strengthening the services model (converting to a subscription model by shifting existing products to the cloud) and utilizing digital technologies to solve social issues (working style reforms, regional revitalization, and primary industry stimulation).

The Company has five business segments; (1) the Cloud Business, (2) the Product Business, (3) the Solutions Business, (4) the Mainframe Business, and (5) the Systems Integration Business. The percentage of sales provided by (4) the Mainframe Business, which has been main business since its establishment, has been declining due to the growth of the other businesses. However, the percentage provided by (1) the Cloud Business, which is a growth field, has grown significantly.

Percentages of total net sales by business (FY3/21 1H results)



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

An overview of each business is provided below.

(1) Cloud Business

The Company delivers all group products and services as cloud services (usage-based fees model) in data utilization, system operation, labor management and back office tasks, and other areas. Core products are comprehensive service management platform LMIS*1, SaaS-type attendance management service DigiSheet*2 for the personnel staffing industry and other industries, and spending workflow management service Rakuraku BOSS*3 that addresses demand for improved workflow efficiency. The Company also promotes sales of infoScoop x Digital Workforce*4 equipped with security features that supports demand for working style reforms and is developing new services that leverage its business strengths at the group level. Through collaboration with cloud data center operator I-NET CORP. <9600>*5, the Company has started provision of Unirita Cloud Service that supports a wide range of services that includes server operation and management, security measures, and responses to problem occurrence over the I-NET cloud foundation.

*1 LMIS is a service management platform that handles not only IT services, but all services provided by companies.
*2 Provided by the subsidiary, Aspex Inc.
*3 Provided by the subsidiary, Mugen Corp.
*4 "infoScoop x Digital Workforce" is a cloud-based service that has single sign-on and ID management functions, which contributes to improving operation efficiency and strengthens security.
*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. Revenue sources 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. The Company is also developing products and services in other areas, IoT solutions for bus operators by a subsidiary*3, and products to respond to BCP*4.

*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 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.
*4 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

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, this is the process related to expanding sales in the Cloud Business and Product Business.

(4) Mainframe 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. The Mainframe Business has been the Company's mainstay business since its foundation and is a stable source of revenue. Despite shrinkage of the overall market, demand remains firm, including upgrade needs accompanying expansion of data processing volume. Some major hardware manufacturers also have strategies that position this business as a driver of digital reforms and intend to steadily deliver new versions with additional features.

(5) Systems Integration Business

The Systems Integration Business segment was newly added in FY3/19 following the consolidation of Mugen Corp, 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, the Systems Integration Business' 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.

The number of customers (companies that have installed the Company's products) exceeds 1,700 companies, most of which are large corporations. The range of customer industries 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 provided 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. It is also focusing on online marketing and is establishing a framework to acquire projects from online marketing. The importance of online marketing is increasing more and more due to the impact of COVID-19.

The Company had the following nine main consolidated subsidiaries. BSP Solutions Inc. runs a systems operations consulting business. BSP (Shanghai) Inc. is the base for sales in China. 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 IT solution services for mobile equipment. UNIRITA PLUS Inc. offers sales channels to customers in western Japan and boosts sales of its products while collaborating with partners. Mugen Corp. operates a system integration business and develops and sells its own package software. Business Application Co., Ltd develops and sells support services for an operations management system targeted at the human resources service industry.

2. Corporate characteristics

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

UNIRITA has the following three characteristics.

(1) An independent developer of proprietary 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 17,431 members (as of the end of March 2020) and 252 endorsing companies (as of May 2020). The Company aims to build even closer ties with customers by switching from the past delivery method of product sales to a services (subscription) model that combines cloud utilization and system operation in response to changing customer needs.

(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 of 51.4% (FY3/20 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 play the role of a cash cow for the time being by receiving survivor benefits and from the continued firm demand and enabling the income from the business to be diverted into investments in new growth areas such as strengthening the service model and new businesses, 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 it 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 its customers comprehensive proposals as a strategic IT partner for DX and solidify its superiority in the software industry.

Business trends

In FY3/21 1H, sales and profits declined and were below the initial forecasts. However, the mainstay cloud services grew and became profitable

1. Summary of the FY3/21 1H results

In the FY3/21 1H results, net sales decreased 0.9% YoY to ¥4,836mn, operating income fell 53.7% to ¥208mn, ordinary income declined 43.6% to ¥313mn, and profit attributable to owners of parent decreased 5.3% to ¥339mn. So mainly due to the impact of COVID-19, sales and profits declined and were below the initial forecasts.

Net sales decreased, as although they grew in the mainstay Cloud Business and also trended solidly in the Mainframe Business, they declined in the Product Business and the Solution Business (particularly, technology-support services), which were impacted by COVID-19.

In profits also, operating income declined, because in addition to profits being pushed down by the lower sales, in the Solution Business, the occurrence of reduced operations, unprofitable projects and other factors caused the cost-of-sales rate to deteriorate, while SG&A expenses increased due to measures to deal with COVID-19 (including establishing a teleworking environment and an allowance for working at home). The operating income margin also fell to 4.3% (9.2% in the same period in the previous fiscal year). However, looking toward the new normal in the COVID-19 era, the Company is emphasizing maintaining relations of trust with stakeholders (customers, partners, employees, people scheduled to join the Company, etc.), and its basic policies are 1) do not conduct cost measures from a short-term perspective and 2) progress the in-house working style reforms is has conducted up now. For these points, it can be highly evaluated from the viewpoint of making possible sustainable growth. It also achieved the target of making the Cloud Business profitable, which can be said to be good news toward strengthening profitability in the future. To increase the efficiency of assets held, it sold its holdings of a listed company (1 issue) and recorded extraordinary income of ¥193mn.

For the financial condition, total assets were down 0.5% on the end of the previous fiscal year to ¥14,657mn, mainly due to a decrease in cash and deposits and a sale of investment securities. However, shareholders' equity increased 1.8% to ¥11,236mn because of the accumulation of retained earnings, and therefore the equity ratio rose to 76.7% (74.9% at end of previous fiscal year). The Company has secured cash and deposits of ¥7,865mn and is maintaining the current ratio at the high level of 296.8%, so there are no concerns about its financial stability.

Summary of the FY3/21 1H results

(¥mn)

	FY3/20 1H		FY3/21 1H		Change		FY3/21 1H		Achievement rate
	Results	% of sales	Results	% of sales		% Change	Initial forecast	% of sales	
Net sales	4,879		4,836		-43	-0.9%	5,100		94.8%
Cloud Business	424	8.7%	552	11.4%	128	30.3%	-	-	-
Product Business	1,491	30.6%	1,355	28.0%	-136	-9.1%	-	-	-
Solution Business	1,015	20.8%	1,118	23.1%	103	10.2%	-	-	-
Mainframe Business	1,022	21.0%	996	20.6%	-26	-2.6%	-	-	-
System Integration Business	926	19.0%	812	16.8%	-113	-12.2%	-	-	-
Cost of sales	2,060	42.2%	2,140	44.3%	80	3.9%	-	-	-
SG&A expenses	2,368	48.5%	2,486	51.4%	118	5.0%	-	-	-
Operating income	451	9.2%	208	4.3%	-242	-53.7%	450	8.8%	46.4%
Cloud Business	-26	-	2	0.5%	29	-	-	-	-
Product Business	158	10.6%	80	5.9%	-77	-49.2%	-	-	-
Solution Business	14	1.4%	-109	-9.8%	-123	-	-	-	-
Mainframe Business	528	51.7%	522	52.5%	-5	-1.1%	-	-	-
System Integration Business	18	2.0%	35	4.4%	17	93.3%	-	-	-
Ordinary income	555	11.4%	313	6.5%	-241	-43.6%	520	10.2%	60.3%
Profit attributable to owners of parent	358	7.3%	339	7.0%	-18	-5.3%	450	8.8%	75.5%

	At end of March 2020 Results	At end of September 2020 Results	Change	
				% Change
Total assets	14,731	14,657	-74	-0.5%
Shareholders' equity	11,040	11,236	196	1.8%
Equity ratio	74.9%	76.7%	1.8pt	-

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 30.3% YoY to ¥552mn and segment profit was ¥2mn (compared to a loss of ¥26mn in the same period in the previous fiscal year), so sales and profits increased and this business became profitable. In a situation in which user needs are increasing for cloud services, sales grew of the mainstay services including service management, constructing remote-work infrastructures, and improving the efficiency of back-office work. In particular, sales steadily grew of four services that each utilize the Company's strengths; LMIS (an integrated services management platform), infoScoop x Digital Workforce (a remote-work infrastructure with security functions installed, the first in the industry), DigiSheet (a SaaS-type attendance management service), and Rakuraku BOSS (a spending workflow management service). Also, although its scale is still small, the Unirita Cloud Service, which is being jointly advanced with I-NET CORP, grew greatly alongside the shift to services for existing products, of automation, forms, and data linkage. In profits also, the profit-loss breakeven point was exceeded due to the increase in sales and the target of becoming profitable was realized. These can be said to be points worthy of a positive evaluation toward strengthening profitability in the future.

(2) Product Business

Sales and profits decreased, with net sales declining 9.1% to ¥1,355mn and segment profit falling 49.2% to ¥80mn. Direct sales to existing users and sales of maintenance services, which is stock-type income, trended steadily. But within the products group, sales to new users of products that are highly reliant on the sales of partners (new license sales) slumped, there was a decline as a reaction to a major forms-related project in the previous period, while the IoT services business for regional transportation operators struggled in a situation in which people's movement is being restricted due to COVID-19. Therefore, net sales declined. Profits also declined, as the decrease in sales pushed-down profits and also due to the upfront investment in new businesses.

(3) Solutions Business

Net sales increased 10.2% to ¥1,118mn and the segment loss was ¥109mn (compared to profit of ¥14mn in the same period in the previous fiscal year), so profits decreased while sales increased, and a segment loss was recorded. Results improved for the two subsidiaries that provide consulting services to support the DX of customers' businesses (BSP Solutions Inc., and the Data Research Institute), while the increase in sales of solutions projects for joint orders with the subsidiary Mugen Corp., also contributed. However, sales declined mainly because, alongside the sluggish sales in the Product Business (new license sales), sales of technology-support services fell, and also because of the opportunity loss to respond to unprofitable projects. Profits declined due to the fall in the operations of technology-support services and the occurrence of unprofitable projects.

(4) Mainframe Business

Net sales declined 2.6% YoY to ¥996mn and segment profit fell 1.1% to ¥522mn. Results were solid, as the business steadily captured demand to update systems from major companies, including financial institutions.

(5) Systems Integration Business

Net sales declined 12.2% YoY to ¥812mn and segment profit increased 93.3% to ¥35mn. Orders were affected by the movement to keep down IT investment due to COVID-19. But in profits, the profit margin improved thanks to the strengthening of collaborations with core partners and the careful selection of orders.

2. Summary of the FY3/21 1H

To summarize the FY3/21 1H results from the above, although there is the negative aspect that sales and profits declined and were below the forecasts, mainly due to COVID-19, it would seem that they can be highly evaluated on the points that steady progress was made for the “business structural reforms” that the Company is aiming for, including that the mainstay cloud services steadily grew and the profit-loss breakeven point was exceeded, and that progress was made in shifting to services for some existing products (the Product Business). Also, even while being impacted by COVID-19, the Company actively developed initiatives for new areas (details provided below). For internal policies also, including the working style reforms implemented up to now, it has been able to smoothly transition to and manage them in a COVID-19 environment, which can be said to be a point worthy of attention toward responding to environmental changes (the new normal) in the future.

Main activities

Achieved a certain level of results toward “business structural reforms,” including shifting to services for existing products and initiatives for new areas

To respond to the environmental changes due to COVID-19 and companies’ movement toward DX, the Company has set the business policies of “shifting existing products to services,” “growing the business-SaaS business”, and “creating a data-driven business toward solving social issues,” it is involved in structural reform of business in anticipation for the future. In FY3/21 1H, it steadily achieved the following results.

1. The shift to services in the existing businesses

(1) Started providing the Marutto Cloud and Chokotto Cloud services
By linking data utilization and systems management, which are the Company’s strengths, it has started providing, as a cloud service, work relating to customers’ (business departments) “data conversion and processing.” By using this service when dealing with, for example, data processing and the linkage of new systems that are required at the worksites of business departments, customers can realize improvements to work efficiency and productivity.

(2) Started providing cloud versions of management products for mainframes
In the situation of the shift to the cloud, to maintain and reinforce the Mainframe Business’ strengths and superiority, the Company has started to provide cloud versions of management products for platforms built on the cloud for the mainframe development environment newly launched by IBM <IBM>.

2. Growth of the business-SaaS business

(1) Started providing services for subscription businesses

The Company has developed the app Growwwing, which is a customer success management service for subscription*1 businesses, on the Salesforce*2 platform. It consolidates onto the Salesforce platform the Company's expertise in IT service management and data utilization from its provision of services to more than 1,700 customer companies up to now, and also the diverse templates it has cultivated in its own subscription services. To maintain the customer retention rate, which is important for subscription services, and to improve profitability, the Company will use software to support the series of marketing activities by businesses to actively and continuously improve product capabilities.

*1 A business model in which by paying subscription fees, users can receive products each month and continuously use services.
*2 The world's largest customer management system provided by Salesforce.com, Inc. <CRM> (Head Office: California, USA). This service was the first to be provided on Salesforce in Japan.

(2) Started providing an IT service for construction sites under the new normal

In collaboration with the subsidiaries Bitis, Inc., and Aspex Inc., the Company has started providing an IT service to support the management of construction sites under the new normal. It is a cloud service that combines various functions, including a facial verification system that utilizes AI to manage workers entering and leaving construction sites; smooth communication between work sites, guard stations, and the head office through utilizing tablets; and signage specialized for construction sites.

3. Creating a data-driven business toward solving social issues

(1) Entered-into a capital and business partnership agreement as an initiative for regional creation

The Company has entered-into a capital and business partnership agreement with Yukiyama Inc., which conducts a DX support business for ski resorts. The aim is to accumulate expertise in DX support for ski resorts, which will lead to regional creation, through coordinating Yukiyama's app business, the Company's data science business, and the IoT services of the subsidiary UNITRAND Inc. Toward improving management efficiency of the resort business, a verification experiment has also been started at the resort facilities of Tokyu Resorts & Stays Co., Ltd.

(2) Started providing a service to make visible the level of bus congestion

The subsidiary UNITRAND, together with Hitachi Kokusai Electric Inc., has started providing a service to make visible the level of congestion in buses, targeting operators of bus routes. It utilizes the image-analysis technologies of Hitachi Kokusai Electric to acquire more detailed image data from bus driver records, and it notifies both the bus operator and the users in real time of the level of congestion within a bus. Moreover, the Company's data science team analyzes the accumulated route information and data on the number of passengers on each route, which enables them to provide information to create optimized bus schedules and routes, and to propose management plans.

Business outlook

Has downwardly revised the FY3/21 results forecasts. Expects sales and profits to decline for the full fiscal year, mainly due to the impact of COVID-19

1. FY3/21 results forecasts

For the FY3/21 results, on October 15, 2020, the Company downwardly revised the initial forecasts, mainly due to the progress made in the 1H results and the uncertainty about the future because of COVID-19. It is now forecasting declines in sales and profits, with net sales to decrease 4.3% to ¥9,700mn (down ¥500mn compared to the initial forecast), operating income to fall 53.4% to ¥500mn (down ¥400mn), ordinary income to decrease 47.1% to ¥610mn (down ¥370mn), and profit attributable to owners of parent to fall 15.5% ¥755mn (no revision).

Sales will steadily grow in the Cloud Business throughout the year, but in all other businesses, the Company has estimated sales cautiously due to the same factors as in the 1H, of the impacts of the cooling down of investment and the limitations on activities due to COVID-19. So as a whole, it expects net sales to trend at a low level.

For profits, the initial forecasts were for declines in profits, mainly due to the upfront investment in new businesses. But on considering that the negative factors will continue on from the 1H, including the slump in new license sales in the Product Business and the delays in projects for service provider-type services in the Solution Business, the Company further downwardly revised the profit forecasts. The operating income margin is expected to fall to 5.2% (10.6% in the previous period). However, the Company has left the forecast for profit attributable to owners of the parent unchanged, because in the 2H, it is scheduled to record extraordinary income from the sale of one part of its policy holdings of shares.

Forecast for FY3/21

(¥mn)

	FY3/20		FY3/21				Change	
	Results	% of sales	Initial forecast	% of sales	Revised forecast	% of sales		% Change
Net sales	10,138		10,200		9,700		-438	-4.3%
Cloud Business	900	8.9%	1,300	12.7%	1,200	12.4%	300	33.3%
Product Business	3,050	30.1%	3,000	29.4%	2,720	28.0%	-330	-10.8%
Solution Business	2,186	21.6%	2,550	25.0%	2,250	23.2%	64	2.9%
Mainframe Business	2,222	21.9%	1,935	19.0%	1,960	20.2%	-262	-11.8%
System Integration Business	1,778	17.5%	1,415	13.9%	1,570	16.2%	-208	-11.7%
Operating income	1,073	10.6%	900	8.8%	500	5.2%	-573	-53.4%
Cloud Business	-33	-	90	6.9%	50	4.2%	83	-
Product Business	305	10.0%	250	8.3%	170	6.3%	-135	-44.3%
Solution Business	76	3.5%	120	4.7%	-140	-	-216	-
Mainframe Business	1,142	51.4%	950	49.1%	1,000	51.0%	-142	-12.4%
System Integration Business	50	2.9%	40	2.8%	50	3.2%	-	-
Ordinary income	1,153	11.4%	980	9.6%	610	6.3%	-543	-47.1%
Profit attributable to owners of parent	893	8.8%	755	7.4%	755	7.8%	-138	-15.5%

Note: the FY3/21 revised forecasts were announced on October 15, 2020. The increases and decreases are in comparison to the FY3/21 revised forecasts.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Results outlook by business and activity policies

(1) Cloud Business

The outlook is for profitability to be achieved for the full fiscal year through the increase in sales, with net sales forecast to increase 33.3% YoY to ¥1,200mn and segment profit of ¥50mn (compared to a loss of ¥33mn in the previous period.) For LMIS and infoScoop x Digital Workforce, which are both on a growth track, continuing on from the 1H, the Company's main plan is to develop sales activities to capture needs for promoting DX for services desks within companies and to improve teleworking productivity and security, and to acquire new users. Also, its policy is to work to develop new sales styles that reflect the market changes (moving customer contact points online, increasing sales of subscription services, etc.)*

* As one part of this, it has constructed and started operating the Work and Reforms Lab, which is an online community (information and community site to improve and reform work).

(2) Product Business

The outlook is for sales and profits to decline, with net sales forecast to decrease 10.8% YoY to ¥2,720mn and segment profit to decline 44.3% to ¥170mn. Due to COVID-19, license sales to new users are expected to be sluggish, the same as in the 1H. The Company is promoting sales styles in response to COVID-19 (conducting online sales, holding online seminars, strengthening collaborations with strategic partners, etc.) In addition, it is focusing on capturing needs to progress digitization*1, which is a policy being promoted by the Japanese government, and on needs to respond to COVID-19*2.

*1 It is strengthening sales of Marutto Cloud, a data conversion and processing service, to respond to new data processing needs, while it also plans to develop and provide services to respond to needs for eliminating use of seals and paperless.

*2 As the IoT services business, it plans to increase sales of solutions for avoiding the 3Cs of crowded places, close-contact settings and confined and enclosed spaces.

(3) Solution Business

The outlook is for profits to decrease while sales increase, with net sales forecast to rise 2.9% YoY to ¥2,250mn and a segment loss ¥140mn (compared to profit of ¥76mn in the previous period), so a loss is expected to be recorded for the full fiscal year also. The negative impacts in the 1H are expected to continue, of the fall in sales of technology-support services alongside the slump in new license sales (the Product Business) and the occurrence of unprofitable projects. In addition, toward business expansion from FY3/22 onwards, the Company's policies include strengthening consulting services that are necessary to implement the DX of customers in growth fields, capturing demand for technology-support services linked to products sales, and preventing the occurrence of unprofitable projects by strengthening the project management structure. In particular, for consulting services to implement DX, it is utilizing the strengths of the two specialist consulting subsidiaries that have expertise in this area (BSP Solutions Inc., and the Data Research Institute), and it is actively working to develop the market.

(4) Mainframe Business

The outlook is for declines in sales and profits, mainly as a reaction to a large scale project in FY3/20, with net sales to fall 11.8% YoY to ¥1,960mn and segment profit to decrease 12.4% to ¥1,000mn. Going forward, against the backdrop of factors such as the shifts to cashless payments, contactless payments, and online shopping, the Company will capture software needs from the increasing use of computers, including in the financial industry to respond to the growth in the volume of card payment data, and in the logistics industry to respond to the increase in logistics. In addition, to meet the needs for cost measures due to COVID-19, its policy is to strengthen proposals for consulting, including for computer integration, and for technology-support services.

(5) System Integration Business

The forecasts are for net sales to decrease 11.7% YoY to ¥1,570mn and segment profit to be unchanged at ¥50mn. The impact of COVID-19, of causing a decrease in orders, will remain, but the Company is still aiming to improve profitability, including by carefully selecting projects that prioritize profitability.

For the Company to achieve its results forecasts, in the 2H it must record net sales of ¥4,864mn (down 7.5% YoY) and operating income of ¥292mn (down 53.1%). It is necessary to be aware that the factors causing uncertainty about the future remain, including that the willingness to invest has cooled-down due to COVID-19. But if assuming the current external environment, we evaluate that the Company's results forecasts are at rational levels that incorporate the anticipated risk factors. Toward growth from FY3/22 onwards, it had planned active upfront investment in new businesses, but due to the serious impact of COVID-19, the outlook is that the FY3/21 results (particularly profits) will recede. However, the Company understands that establishing a structure to firmly capture demand generated by companies' movement toward implementing DX, including strengthening cloud services for which demand is growing, is an important theme, so we should pay attention to the progress made for this.

Future direction

Intends to accelerate growth, centered on cloud services, and also to further progress the business structural reforms

The Company is moving forward on the medium-term management plan, with FY3/21 as its final fiscal year. It is promoting the following three basic policies with the goal of being a strategic IT partner that contributes to business growth at customers amid rapid changes in the IT environment facing companies.

(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

In particular, with the Mainframe Business as the source of earnings, the Company plans to grow the Cloud Business and the Product Business, and it has positioned the Cloud Business, in which demand is especially growing, as a growth field. Its main strategies are to provide its proprietary cloud infrastructure, strengthen cloud services, and conduct new initiatives for business SaaS. However, so far the speed of growth has been slower than expected and it has increased investment to strengthen the business infrastructure toward accelerating growth in the future, and moreover at the current time, it is being negatively impacted by COVID-19. Therefore, the situation is that it will be difficult to achieve the initial numerical targets. However, toward "business structural reforms," it is steadily progressing on strategic initiatives, and it is considered that there has been no major change of direction for from FY3/22 onwards. We shall be focusing on this path it is taking, of whether it will further improve the initiatives up to now, and whether it will enter a stage of recovering its investments.

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 it 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.

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

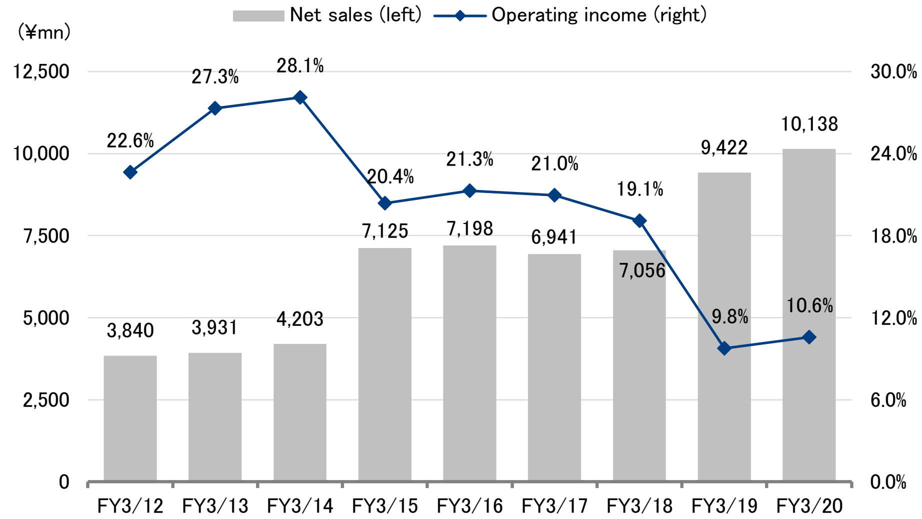
With the merger and absorption of consolidated subsidiary Beacon IT in April 2015, the Company changed its name to UNIRITA, Inc. The new company name embodies the concept of aspiring to contribute to the development of customers and society with "unique ideas" to create value and an "altruistic" spirit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

2. Past business performance

Looking back on the Company's past business performance, from FY3/12 to FY3/14, in the context of the shift to open-type systems, the increase in net sales in the Systems Operations Business (currently the Production Business and one part of the Solutions Business) drove the Company's growth. However, it conducted business structural reforms after its business scope greatly expanded following the consolidation of Beacon IT in FY3/15, and in this situation, it can be said that its net sales growth became sluggish. However, as the acquisition of Mugen Corp, which conducts the System Integration Business, contributed to the expansion of its business scope in FY3/19, it is currently realizing organic growth in the Cloud Business in FY3/20.

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 maintained it at levels around 20%. However, since FY3/19, the operating income margin has trended at around 10% due to the upfront investment in growth fields, such as the Cloud Business and new businesses, with an eye to the future. Going forward, the most important points to focus on would seem to be to what extent can the growth of the Cloud Business cover the impact of the contraction of the Mainframe Business, and what path will the Company take to recovering the profit margin to the same level as in the past (first, to around 20%).

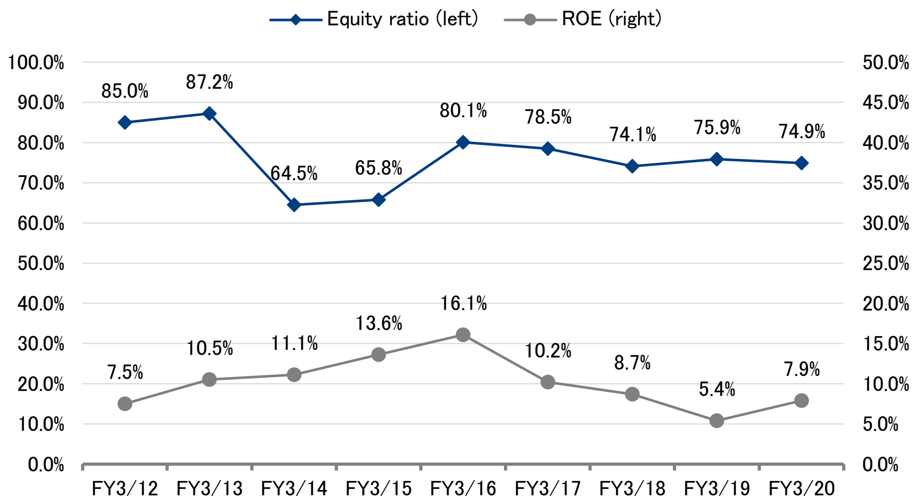
Net sales and operating income margin



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 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%. In addition, the current ratio, which indicates the ability to pay in the short term, has been trending at a high level (280.1% at the end of FY3/20), reflecting the abundant cash and deposits balance, and it can be said that the Company's financial base is extremely stable and that this is supporting its upfront investment for growth in the future. On the other hand, ROE, which indicates capital efficiency, had also been trending at a double-digit level, but recently it fell below 10% due to the changes to the business portfolio and the impact of the upfront investment.

Equity ratio and ROE trends



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

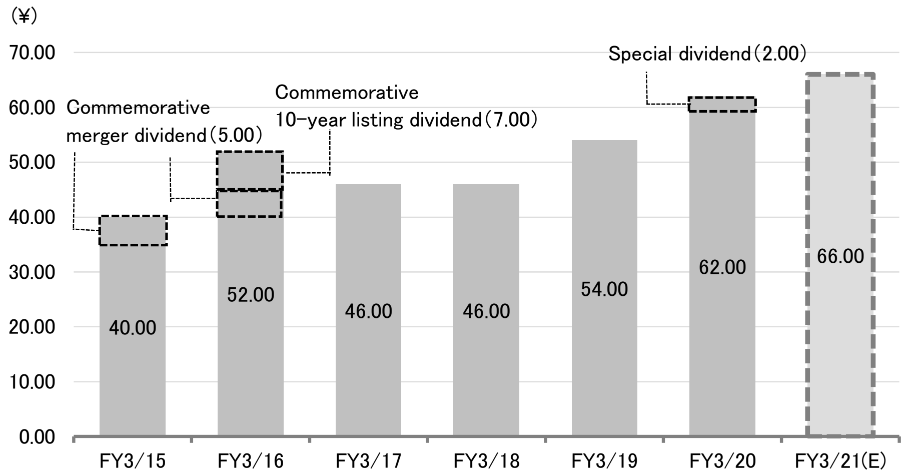
Shareholder returns

Policy is to aim to maintain and increase stable and continuous dividends. For FY3/21, is forecasting an annual dividend of ¥66, an increase of ¥4 YoY

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 maintain and increase dividends without being affected by fluctuations in profit and loss during a fiscal period, such as due to upfront investment.

For the FY3/21 dividend, despite the fact the profits are expected to decline, the Company is forecasting an annual dividend of ¥66 (interim ¥33, period-end ¥33), which is an increase of ¥4 YoY and the third consecutive fiscal year of a higher dividend. So it can be highly evaluated on the point of stably and continuously increasing the dividend.

Annual dividend per share



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

Disclaimer

■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp