UNIRITA Inc.
3800 TSE JASDAQ

22-Jun.-16

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FISCO Ltd. Analyst
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Aiming for net sales of ¥10bn and an ROE of 14% under the medium-term management plan currently in progress

As well as developing, selling and servicing package software for the operation of core commercial computer systems for a broad range of industries, primarily finance and manufacturing, UNIRITA [3800] focuses on providing solutions based on data utilization services. In April 2015, BSP Incorporated merged with its consolidated subsidiary, Beacon Information Technology Inc. (Beacon IT), and changed its name to UNIRITA Inc. The goal of this merger was to improve the company's organization quickly by absorbing the data management capabilities of Beacon IT and combining the management resources of that company and BSP, allowing UNIRITA to respond rapidly to a changing business environment. Through creating synergies between BSP's core business (in the field of contributing to improvement in client productivity via promoting the automation of systems operation and other measures to increase efficiency) and Beacon IT's business (in the field of contributing directly to enhanced corporate client value via data utilization) the merged entity can enter a new growth stage.

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

However, in its FY3/16 results, net sales fell short of initial forecasts (while profits exceeded them), with sluggish growth stalling at 1.0% YoY in net sales at ¥7,198mn and 5.5% YoY in operating income at ¥1,531mn. Contraction in the Mainframe Business fell within expectations, however, while its Data Utilization Business and Systems Operation Business within existing businesses performed soundly due to development of value-added services matching cloud utilization and data utilization needs, as well as strategic product line-up replacement, the fact that results were not delivered in line with the plan under the operation of the new sales structure, along with delays in establishing new and growth business fields were factors behind the underperformance in net sales.

The FY3/17 results outlook calls for double-digit revenue and earnings growth, with net sales up 13.9% YoY to ¥8,200mn, and operating income up 16.2% YoY to ¥1,780mn. Citing three key initiatives: (1) the promotion of new customer acquisition, (2) a shift in technical staff from the perspective of seeking added-value, and (3) investment in incubation operations with the group and expansion of subsidiary businesses, the expectation is for significant continued growth in existing operations in its Data Utilization and System Operation Businesses. Further, it anticipates new and growth business fields will expand 1.5 times year-on-year.

At FISCO we judge the company's results targets to be achievable, taking into account that, in addition to existing businesses that grasp customer needs performing well, the fact that benefits from HR shifts (IT technology replacement) in new and growth business fields, which take time to establish, are starting to appear. Rather, we are focusing on initiatives and specific progress towards acceleration in growth from the next fiscal year (achievement of the medium-term management plan). In particular, we feel that the company's strategic investment direction utilizing its robust financial platform containing ample available liquidity (and including M&A), holds a vital key in achieving growth.

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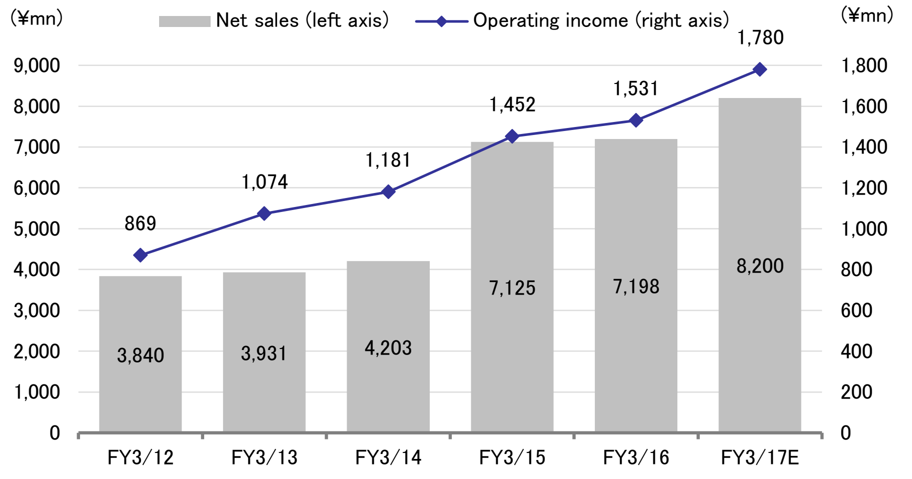
Check Point

- Investing in growth fields such as cloud services and data utilization
- Steadily promoting IT replacement aimed at future growth
- IT utilization areas attracting attention including big data, cloud and cybersecurity to become mainstream

Consolidated Net Sales and Operating Income



Business Overview

Mainframe products chiefly for financial and other industries provide a stable income source

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

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

However, to prepare for growth in the medium- to long-term in light of rapid changes in its operating environment, such as the shift to open architecture systems, downsizing, the proliferation of cloud computing, and the use of big data, the company initiated reforms to its business structure. It plans to accelerate growth by developing its business domain to areas that directly contribute to raising its customers’ corporate value (e.g. market expansion and enhanced competitiveness), in addition to traditional business areas that contribute to automating and otherwise increasing the efficiency of IT systems operation (increased productivity etc.).

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

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

(1) Data Utilization Business

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

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

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

(2) Systems Operation Business

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

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

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

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

(3) Mainframe Business

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

(4) Other Businesses

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

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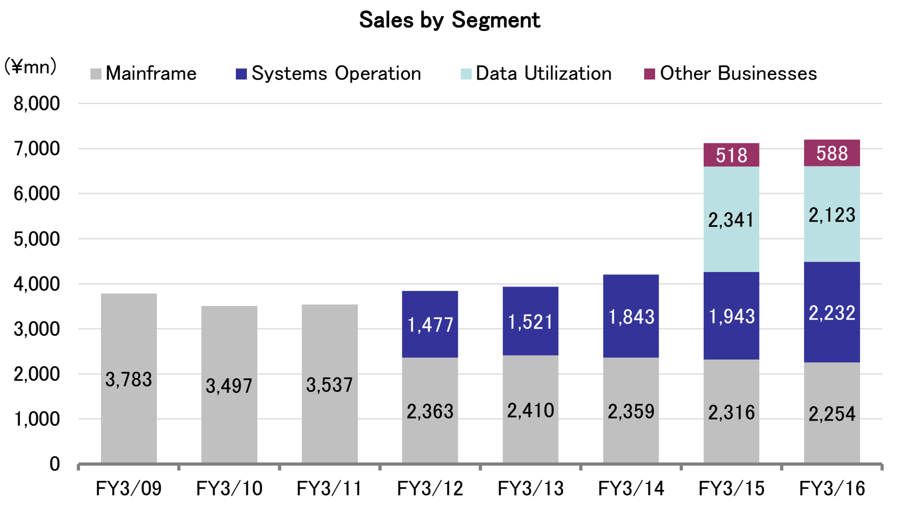

As of March 31, 2016, there were more than 800 corporate customers (the number of companies that had installed the company's products), with most of the installation track record having been for large corporations. In a breakdown of sales by industry, there is a broad range of customer industries, however, the percentage represented by manufacturing, retailing and distribution, and the finance and insurance industries is high.

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

As of March 31, 2016 the company had a total of five consolidated subsidiaries*. Apart from BSP Solutions Incorporated (herein BSP), which runs an IT service consulting business (and is now part of the Systems Operation Business), and BSP (Shanghai) Inc. (herein BSP Shanghai), which is the base for sales in China, there is ASPEX, which handles SaaS products for human resources outsourcing management, Bitis, Inc., which offers business continuity plan development, administration and maintenance support, and Data Research Institute, which is a data management consulting business.

* In May this year UNITRAND was newly established.

Corporate Characteristics

Investing in growth fields such as cloud computing and data utilization

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

UNIRITA has the following three distinguishing traits.

(1) An independent developer of proprietary software

A strength of UNIRITA's products in its flagship Systems Operation and Mainframe Businesses is that they enable smooth system operation regardless of the scale of a computer, its manufacturer or other such factors. Competing manufacturer-affiliated products do not allow the replacement of the hardware component with other maker's products, which is clearly a hindrance to a customer's flexible system development. Also, as the company's value proposition in its core businesses is the aggregate of how much the company can contribute to the automation or improved efficiency of an IT system's operation, the track record and know-how the company has accumulated by focusing is this area are reflected in the precision and superior performance of its goods and services and in the precision of its proposals. Amidst a readily observable trend (by other vendors) to rely on agents to install systems, the fact that UNIRITA provides its products directly, chiefly to financial institutions and large corporations, and that its products are often adopted as replacements during system updates is arguably proof of this. The company has been hired to operate the SysAdmin's Group, the largest network of system managers in Japan, boasting more than 14,000 members and 158 endorsing companies. This demonstrates that UNIRITA is the driving force in this field. (As of May 2016)

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

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

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

The current business structure reforms will not only contribute to the automation of and enhanced efficiency of IT systems operation, but will also allow the company to expand into the business of assisting customers to reallocate management resources, such as HR and budgeting, to create more corporate value. By realizing structures that can support both the expansive and defensive aspects of customer businesses, the company will be able to offer comprehensive proposals to improve IT investment performance at its customers and solidify its superiority in the software industry.

Business Trends

Net sales below initial forecasts, but achieved increased revenue and earnings in FY3/16

(1) FY3/16 Results Overview

While FY3/16 results showed net sales up 1.0% YoY to ¥7,198mn, operating income up 5.5% YoY to ¥1,531mn, ordinary income up 4.6% YoY to ¥1,635mn and profit attributable to owners of parent up 42.2% YoY to ¥1,442mn, net sales fell short of initial forecasts, while profits exceeded them. Further, the high growth rate for profit was a result of declines in tax expenses due to the company inheriting carried forward losses flowing from the merger with Beacon IT.

Despite expansion in the Systems Operation Business and Other Businesses at subsidiaries, due to declines in the core Mainframe and Data Utilization Businesses, net sales only achieved minor gains. Declines in the Mainframe business fell within expectations, however, the fact that results from the operation of the new sales structure failed to deliver results in line with the plan, and delays in the launch of new and growth field operations in both the Data Utilization and Systems Operation Businesses, were factors behind net sales failing to achieve the target.

From a profit perspective, in addition to decreases in gross margins as a result of factors such as declines in the highly profitable Mainframe Business, and while there was the burden of upfront and other costs in line with continuing high R&D costs aimed at future growth and shifts in staffing, as well as this being absorbed by higher revenues, earnings exceeded plan due to factors including the discovery of cost synergies with Beacon IT (consolidation of offices etc.), and improved profitability in the Data Utilization and Systems Operation Businesses. Thus the operating income margin also improved to 21.3% from 20.4% in the previous period.

From a financial perspective, while total assets only rose 4% from the end of the previous period due to increases in cash and deposits and other categories, as a result of the merger with Beacon IT and accumulation of internal reserves, shareholders' equity rose significantly by 26.8%, with the shareholders' equity ratio rising to the high level of 80.1%, compared 65.8% at the previous period end.

Results by business are as set out below.

In the Data Utilization Business sales fell while earnings soared, with net sales declining 3.7% YoY to ¥2,254mn, while segment profit rose 603.6% to ¥104mn. Focusing on sales of the company's proprietary products that match cloud and data utilization needs strategic replacements within the product line-up led to declines in sales, while profitability, however, rose. However, in new and growth business fields such as cybersecurity measures, big data utilization and cloud utilization, while the company promoted shifts in staffing and other initiatives, due to delays in their launches they were unable to make a genuine contribution to results.

In the Systems Operation Business there were increased revenues and a reduction in the margin of losses, with sales up 14.8% YoY to ¥2,232mn and segment losses of ¥283mn, compared to ¥451mn the previous period. Repeat orders from existing customers in the core operational automation field, and as a result of My Number-related work in the reporting area and proposals for solutions responding to customer downsizing and other efforts, product sales rose significantly. However, in the Outsourcing Division (technical support), which aims to develop a new operational stock agency business, while there were multiple repeat standing orders from existing customers, it failed to establish a new business model. On the other hand, from a profit perspective, there was a significant improvement in profitability from growth in sales of high margin products.

There were declines in both revenues and earnings in the Mainframe Business, with sales down 8.5% YoY to ¥2,123mn and segment profit declining 10.2% YoY to ¥1,626mn. While it decreased as a result of trends towards open architecture systems and downsizing, both sales and profits fell within expectations.

There were increases in revenues and earnings in Other Businesses, with sales up 13.5% YoY to ¥588mn and segment profit up 7.1% YoY to ¥84mn. Apart from strengthening of product functions for the personnel placement market, in which demand is expanding, and utilization of new online marketing methodology, initiatives such as the launch of sales of a new Business Continuity Plan service, and the expansion of operations at all subsidiaries drove growth in results. Also, in respect of the newly launched bus-related business also (a bus operations revitalization and support service utilizing IoT technology), while a genuine results contribution will only occur going forward, in addition to route searching and location tracking searching, the company is promoting a line-up of solutions aimed at providing tourism applications, which has led to orders from a bus operator in Hokkaido.

Moreover, as mentioned above, in new and growth business fields in both the Data Utilization and Systems Operations Businesses, although there was 33.7% YoY growth to ¥758mn, despite there being enormous latent demand within that in the mobile, big data analytics, cloud, and cybersecurity domains, given that the lead time to decisions to install the products are longer than expected, they failed to make a real contribution to results and were a factor behind the shortfall in sales.

FY3/16 Results Overview

(Unit: ¥mn)

	FY3/15 (Results)		FY3/16 (Results)		Nominal Change YoY		FY3/16 Initial forecast		Result/ forecast
		% of sales		% of sales		% change YoY		% of sales	
Net sales	7,125		7,198		73	1.0%	7,600		94.7%
Data Utilization Business	2,341	32.9%	2,254	31.3%	-87	-3.7%	-	-	
Systems Operation Business	1,945	27.3%	2,232	31.0%	287	14.8%	-	-	
Mainframe Business	2,320	32.6%	2,123	29.5%	-196	-8.5%	-	-	
Other Businesses	518	7.3%	588	8.2%	69	13.5%	-	-	
COGs	1,623	22.8%	1,810	25.1%	187	11.5%	-	-	
SG&A	4,049	56.8%	3,856	53.6%	-193	-4.8%	-	-	
Operating income	1,452	20.4%	1,531	21.3%	79	5.5%	1,500	19.7%	102.1%
Data Utilization Business	14	0.6%	104	4.6%	89	603.6%	-	-	
Systems Operation Business	-451	-	-283	-	-	-	-	-	
Mainframe Business	1,810	78.0%	1,626	76.6%	-183	-10.2%	-	-	
Other Businesses	78	15.1%	84	14.3%	5	7.1%	-	-	
Ordinary income	1,562	21.9%	1,635	22.7%	73	4.6%	1,580	20.8%	103.5%
Profit attributable to owners of parent	1,014	14.2%	1,442	20.0%	428	42.2%	1,280	16.8%	112.7%

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

Data Utilization Business						
Products	383		323		-60	-15.7%
Technical support	874		945		71	8.1%
Maintenance fees	1,084		985		-99	-9.1%
Systems Operation Business						
Products	370		495		125	33.8%
Technical support	949		1,080		131	13.8%
Maintenance fees	624		656		32	5.1%
Mainframe Business						
Products	571		451		-120	-
Technical support	47		65		18	38.3%
Maintenance fees	1,701		1,607		-94	-

Total assets	12,013		12,511		497	4.1%
Shareholders' equity	7,900		10,019		2,119	26.8%
Shareholders' equity ratio	65.8%		80.1%		14.3	-

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Expecting double-digit growth in revenues and earnings (operating and ordinary income) in FY3/17

(2) FY3/17 Results Outlook

In terms of the FY3/17 results outlook the company expects double-digit growth in revenues and earnings (operating and ordinary income), with net sales up 13.9% YoY to ¥8,200, operating income up 16.2% YoY to ¥1,780mn, ordinary income up 13.7% YoY to ¥1,860mn and profit attributable to owners of parent down 11.6% to ¥1,275mn. The reason for profit attributable to owners of parent declining is the absence of the one-off, extraordinary factors (lower tax expenses) in the past period.

Also, in relation to the medium-term management plan (the initial plan as of the beginning of FY3/17), while there was a downward revision to net sales in the order of ¥300mn due to factors such as delays in launches in new and growth business fields, with however the ordinary income plan remains unchanged.

While results outlook are not disclosed by business, with the exception of the Mainframe Business, each of the business is expected to grow under the three core initiatives of: (1) promotion of new customer acquisition, (2) shifts in technical staff from the perspective of seeking added-value, and (3) investment in incubation operations with the group and expansion of subsidiary businesses. In particular, it is expected that the existing operations within the Data Utilization and Systems Operation Businesses will grow significantly through a shift to focusing on proprietary products and having technical staff develop value-added services (cloud services, solutions services etc.). Further, the outlook is for new and growth business fields to also expand 1.5 times year-on-year (to the ¥1,150mn mark). At the same time, in respect of the company's bus-related business, as a result of its new subsidiary UNITRAND, established in May this year, becoming operational, although still slight, it appears that there will be a contribution to sales, estimated to be in the order of ¥30mn.

From a profitability perspective, while in addition to declines in the high margin Mainframe Business being a negative factor, R&D expenses aimed at future growth and continued high upfront costs are expected, as a result of the impact higher revenues and improved profitability in the Data Utilization and Systems Operation Businesses (continuing with its operational stance to prioritize profits) the outlook is for increased profits.

At FISCO, taking into consideration that, in addition to its existing businesses that match customer needs performing soundly, that fact that the impact from the staffing shift (replacing IT technology) in new and growth business fields, which take time to establish, is also gradually appearing, we judge the company's results targets to be achievable. Further, given that growth in product sales in the Data Utilization and Systems Operation Businesses are expected to drive overall results, the key new customer acquisition initiative (expanding customer numbers) holds the key to operational expansion. In particular, there is little overlap in the Data Utilization and Systems Operation Business customer bases, with a key point being whether synergies may be garnered via cross-selling. Additionally, attention is focused on how the company is tackling acceleration in growth from the next period (to achieve the medium-term management plan) and specific progress.

FY3/17 Results Outlook

(Unit: ¥mn)

	FY3/16 (Results)		FY3/17 Company forecast		Nominal Change YoY	
		% of sales		% of sales		% change YoY
Net sales	7,198		8,200		1,001	13.9%
Operating income	1,531	21.3%	1,780	21.7%	248	16.2%
Ordinary income	1,635	22.7%	1,860	22.7%	224	13.7%
Profit attributable to owners of parent	1,442	20.0%	1,275	15.5%	-167	-11.6%

Growth strategies and progress

Steadily promoting IT replacement aimed at future growth

From its last period, FY3/16, the company has been promoting its second 3-year medium-term management plan. Amidst a shift in the role expected of IT departments towards making direct contributions to enhancing corporate value, the company is engaged in realizing structural reforms to its operations under three core policies: “reinforcing product development and service capabilities as a package software maker”, “boosting IT skills needed to resolve client management issues” and “creating a new corporate culture”. As noted above, the FY3/17 net sales plan was revised down, however, it has been left unchanged for the final year of the plan FY3/18, aiming for net sales of ¥10,000mn (with an annual growth rate of 12.8% for the 3-year period), ordinary income of ¥2,400mn (for an ordinary income ratio of 24.0%) and an ROE of 14.0%.

While the trend for declines in the Mainframe Business continues it is expected that open architecture product sales will drive the company’s growth. Further, it is planned for new and growth business fields to expand and comprise up to 48% of overall net sales.

Medium-term Management Plan

(Unit: ¥mn)

	FY3/16 Initial plan	Actual results	FY3/17 Initial plan	Revised plan	FY3/18 Initial plan	Unchanged
Net sales	7,600	7,198	8,500	8,200	10,000	10,000
(Growth rate)	6.7%	1.0%	11.8%	13.9%	17.6%	22.0%
Ordinary income	1,580	1,635	1,860	1,860	2,400	2,400
(Ordinary income ratio)	20.8%	22.7%	21.9%	22.7%	24.0%	24.0%

The state of progress in the basic policies is as set out below.

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

In order to respond to the proliferation of cloud usage and data utilization needs, the company has released new products and services which have been rated highly by customers, such as the latest version of Waha! Transformer that speeds up data delivery between multiple cloud services, and MyQuery which enables bulk searches of data scattered amongst internal and external cloud platforms and servers. Further, aiming for a manufacturer style sales structure, the company has been promoting initiatives such as flexible cooperation with inside sales (a non-face-to-face approach), however, it has not delivered results in line with the plan.

(2) Boosting IT skills needed to resolve client management issues

As part of its upfront investment in technology replacement, the company has strategically allocated of around 20% or 60 staff into new and growth business fields with expected growth potential such as mobile, big data analytics, cloud, and cybersecurity from existing operations. As well as establishing a new business division to supervise fields for new investment, it has also engaged in solutions relating to new industry themes such as My Number-related areas, IoT and cybersecurity. Notwithstanding this, while potential demand is great in new and growth business fields, given that for certain proposals the lead time to the decision to install has taken longer than expected, the contribution to results has not been in accordance with the plan. On the other hand, arguably the IT replacement rollout aimed at future growth is proceeding steadily, with new staff able to respond to new technologies having increased 15% against a target of 20%.

At the same time, in respect of the company’s subsidiary strategy that aims to pursue growth and market adaptation via small corporate organizations, the company has strengthened structures for providing services as a Group by making three group companies wholly-owned subsidiaries. Also, the company has engaged in creating group synergies through initiatives such as reciprocal use of human resources between the parent company and group companies and the implementation of cross-selling, which has produced concrete results (in terms of improved results).

(3) Creating a new corporate culture

As well as launching the UNIRITA Culture Creation Project to change employee mindsets (e.g. creating a sense of non-complacency) and improve communication between employees and organizations, which tend be problematic in newly integrated organizations, the company has tackled reforms for “middle up/middle down” behavioral patterns (environments which facilitate employees to take new challenges).

At FISCO we adjudge that, despite delays being observable in the establishment of new and growth business fields, the company’s growth strategies are progressing steadily and broadly in line with the plan, when we take into consideration factors such as that its high value-added products and services as a package software manufacturer are performing soundly, that its IT technology replacement is proceeding almost in line with the plan, and that its subsidiary strategy is on track, including its new bus-related business.

Further, although the company remains dependent on its Mainframe Business for most of its profits, we applaud it for planning to restructure its businesses over the next 3–5 years. We further feel that, while its current source of income continues to function, there should be some urgency in developing the next earnings model. Most of all, with the Japanese market for Mainframe Business shrinking, although the company may benefit from being one of the survivors, and will have it continue to be a source of income for some time, it is safer to remove this sort of thinking from its expectations.

A key issue going forward, will be how the company can achieve a higher grow rate than the market overall. In order to achieve that, apart from nurturing new and growth business fields, it will be necessary for the company to quickly establish a new sales structure. Also, attention will be focused on its investment strategy utilizing its robust financial platform, including its ample available liquidity. Given that the subsidiary strategy is now on track, with the prospect of management integration with Beacon IT, we feel that a management structure that leads to successful M&A has been put in place.

Corporate history and business performance

Operating income margin to decline due to upfront costs in line with structural business reforms and other factors

(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 software. After that it steadily strengthened its operational platform, while benefiting from increased investment in IT systems in Japan, and built a track record chiefly in software for core mainframe systems, mainly for financial institutions and large corporations.

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

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

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

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

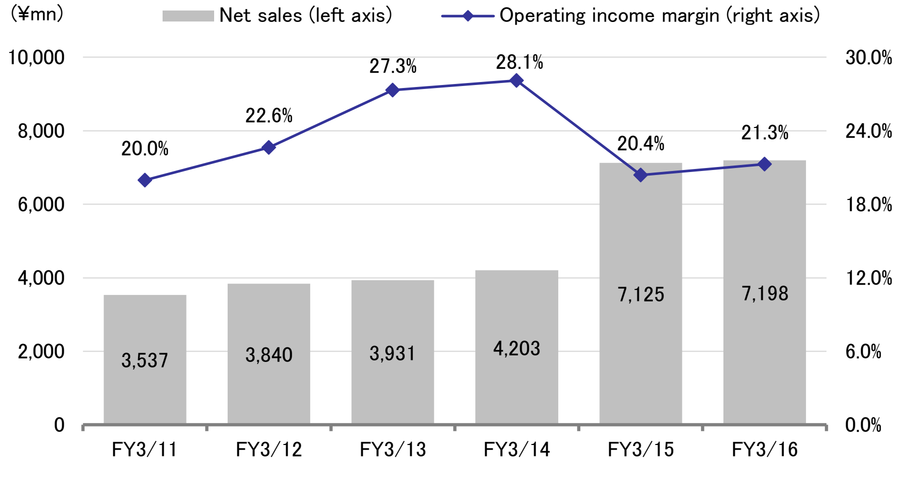
With the merger of Beacon IT in April 2015, the company changed its name to UNIRITA Incorporated. The new company name embodies the concept of aspiring to contribute to the development of customers and society with "unique ideas" to create corporate value and an "altruistic" spirit ("rita" being the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

(2) Past business performance

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

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

Net sales and Operating income margin



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

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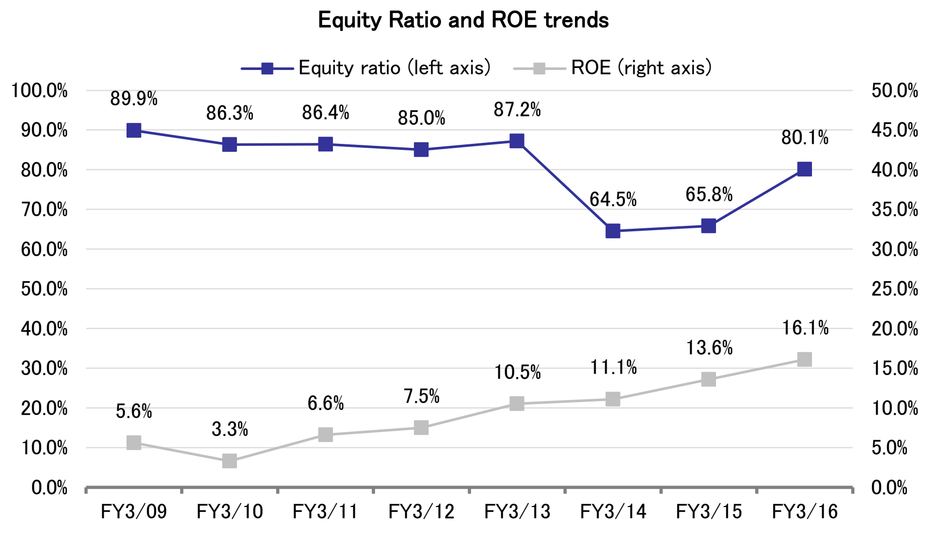
22-Jun.-16



Industry Environment

IT utilization areas attracting attention including big data, cloud and cybersecurity to become mainstream

An IDC Japan survey found that Japan's software market grew 4.6% YoY in 2014 to about ¥2,553.1 bn, buoyed by special demand to accommodate the end of support for Windows XP, high growth in SaaS and PaaS, and higher demand in big data and analytics. Within that, the company's core system management software market also performed well, expanding 4.2% YoY to about ¥294.6 bn. Amidst progressive environmental changes, with as well as the market environment shifting away from a conventional mainframe focus toward open architecture systems, an increased use of cloud computing and other technologies, rising demand for virtual systems environment surveillance, as well as for streamlining configuration management and for automating and optimizing operational processes are driving market growth.

The main players, representing the upper echelon of manufacturers, are chiefly domestic manufacturer-affiliated vendors (such as Hitachi, Ltd. [6501], Fujitsu Ltd. [6702], and NEC Corporation [6701]), and vendors affiliated with foreign computer manufacturers, such as IBM Corporation and Hewlett Packard Company. However, if we limit this to mainframes, UNIRITA holds a significant market share, arguably positioned to benefit as one of the last men standing. Furthermore, there is no other listed software vendor like UNIRITA, which is producing its own package software and specializing in IT systems operation in Japan.

On the other hand, looking at the users, there is a trend towards investing in IT areas that directly contribute to business expansion, and IT utilization now focuses on fields such as big data, cloud computing, and cybersecurity. Additionally, it is expected that responses to the My Number system and the 2020 Tokyo Olympics will be factors promoting growth in the IT services market.

Shareholder Returns

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

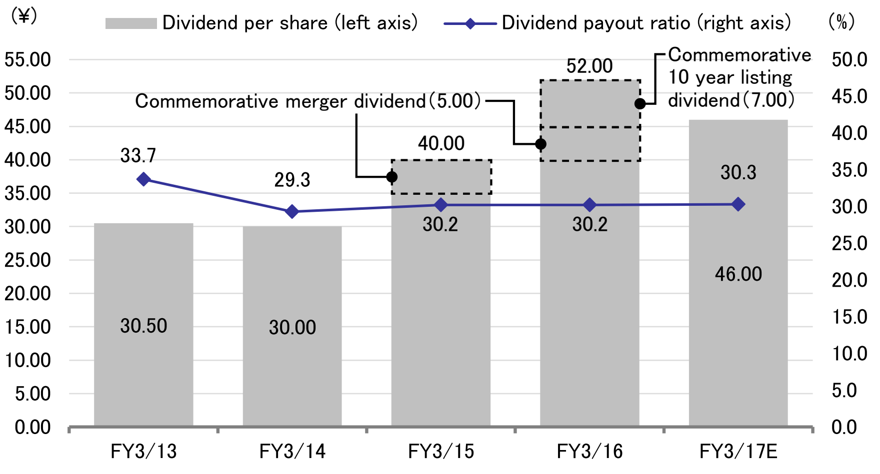
UNIRITA's shareholder return policy aims for a 30% consolidated dividend payout ratio. The FY3/16 year-end dividend was fixed at ¥27, an increase of ¥7 over the initial forecast, being a dividend to commemorate its 10th year of listing, and a ¥4.5 rise year-on-year. As a result, the full-year FY3/16 dividend payment was up ¥12 YoY to ¥52 (with an interim dividend of ¥25, including a dividend of ¥5 to commemorate its merger, and a ¥27 year-end dividend, including a dividend of ¥7 to commemorate its 10th year of listing); for a dividend payout ratio of 30.2%*.

The company is forecasting an annual dividend of ¥46 (interim ¥23, year-end ¥23) in FY3/17 (or a payout ratio of 30.3%). Stripping out the commemorative dividends, while the total annual amount shows a decline in dividends, on a regular dividend basis it is a ¥6 increase in dividends. We feel, in light of the company's profitability and growth potential, the likelihood of increased dividends in line with earnings growth is high over the medium-term also.

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.

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

Dividend per share and Dividend Payout Ratio



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