

UNIRITA Inc.

3800

TSE JASDAQ

3-Jul.-2018

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Summary

Announced medium-term management plan, centered on Cloud Solutions **Aiming to accelerate growth, including by advancing the industry SaaS business**

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 merged 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 FY3/18 results

In the FY3/18 results, sales increasingly slightly but profits decreased, with net sales rising 1.7% year-on-year (YoY) to ¥7,056mn, but operating income falling 7.5% to ¥1,347mn. These results were below the initial forecasts. Sales grew significantly in the Cloud Business, while higher sales were also secured in the Product Business. But overall, sales increased only slightly due to the contraction of the Solutions Business and the Mainframe Business. The reason why the results were below the initial forecasts was that the Company was unable to cover for the part that was below forecast in 1H in the Product Business, and alongside this, results slumped in the Solutions Business due to a lack of orders for technical support services on the introductions of products. In particular, although the sales force and sales engineers worked together to develop activities to propose solutions, they required time until they achieved results, which became a factor behind results falling below the forecasts in the 1H. However, in the 2H, the results of the activities started to appear, and also the alliances with partner companies proved successful, and results trended upward. On the other hand, in profit and loss, although there were no special cost factors, there was a decrease as a reaction to the large-scale orders in the previous fiscal period and an increase in upfront costs. Due to the effects of these and other factors, the operating margin fell to 19.1% (21.0% in the previous fiscal year).

3. New medium-term management plan

The Company has announced its new medium-term management plan, with FY3/21 as its final fiscal year. Within the rapid changes to the IT environment surrounding companies, it is aiming to expand its business as a “strategic IT partner” that contributes to its customers’ business growth. The targets for the plans’ final fiscal year are net sales ¥11bn (three-year average growth rate, 16.0%), operating income of ¥2bn (operating margin, 18.2%), and ROE of 10.7%. Except for the Mainframe Business, whose market is contracting, the plan is for all of the businesses to grow. But in particular, the Company has positioned the Cloud Business, for which demand is growing, as a growth field, and the main elements of its strategy are to provide its proprietary Cloud infrastructure, strengthen Cloud solutions, and conduct new initiatives for the industry SaaS business.

Summary

4. FY3/19 results forecasts

For the results forecasts for FY3/19, which is the first year of the new medium-term management plan, the Company is forecasting higher sales and profits, with net sales to increase 31.8% YoY to ¥9,300mn and operating income to rise 3.9% to ¥1,400mn. The growth in net sales will be from the new addition of the Systems Integration Business (an addition of ¥1,550mn) following the consolidation of Mugen Corp. However, even on excluding this amount, it is estimated that it will realize an increase in sales of 9.8% YoY from factors including the growth of the mainstay Cloud Business and Product Business. On the other hand, in profit and loss, while higher profits will be secured from the increase in sales, the forecast is that the operating margin will decline to 15.1% (previous fiscal year, 19.1%), because in addition to the effects of the consolidation of Mugen (a factor lowering profitability), SG&A expenses will increase to invest in human resources (including to raise wages) and in existing and new businesses.

5. Shareholder returns policy

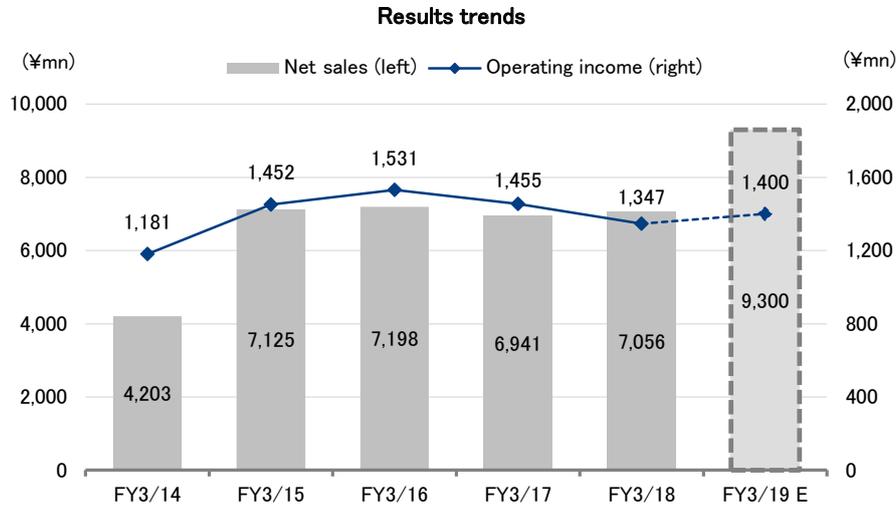
The Company has changed its dividend policy, from the previous policy in which the consolidated dividend payout ratio was the standard, to a policy in which dividend on equity (DOE) is the standard, with the aim of stably and sustainably increasing dividends. The FY3/19 dividend is forecast to increase ¥8 YoY for an annual dividend of ¥54 (interim dividend ¥27, year-end dividend, ¥27). Also, according to the new medium-term management plan, it intends to raise DOE to 4.5% in FY3/21 (FY3/18 result, 3.5%) and to increase the annual dividend per share to ¥71.

At FISCO, we think that it is fully possible that the Company will achieve the FY3/19 results forecasts due to various factors. These include that it has enhanced its lineup (provision of solutions) in the Cloud Business, in which demand is expanding; that solutions-proposals activities, which were a factor causing results to lag behind forecast in the previous fiscal period, are back on track; and that through the consolidation of Mugen, it has further strengthened the Group's ecosystem that is able to provide one-stop proposals from the upstream. Also, toward realizing the targets in the medium-term management plan, it will be focusing on developing the industry SaaS business, which has major potential. We judge that the key to success will be how it will acquire the first-mover advantage for this business, and we shall be following the speed of its development and the path to it becoming profitable.

Key Points

- In FY3/18, was unable to cover for the part of results below forecast in the 1H, and although sales increased slightly, profits declined (but results improved in the 2H)
- Announced a new medium-term management plan centered on the Cloud Business to respond to customers' digital-reform needs
- Policy is to accelerate growth, including through measures for the SaaS business specializing in specific industries
- Changed to a dividend policy based on a DOE standard with the aim of stably and sustainably increasing dividends

Summary



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

Company profile

**Is 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. 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.

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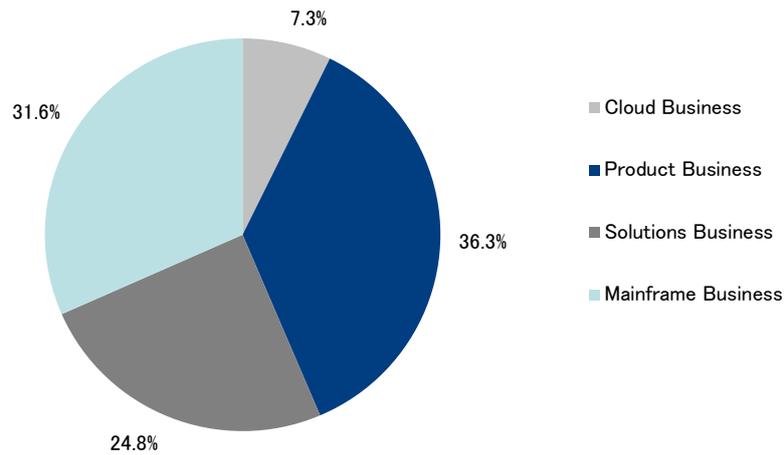
Company profile

In April 2017, the Company changed its management structure in conjunction with the changes to its representative directors as a generational transfer of leadership to accelerate the reforms to its business structure. In addition, in February 2018, it announced its medium-term management plan, with FY3/21 as its final fiscal year. The plan sets a direction that prioritizes the provision of more concrete solutions (to directly solve customers' problems and to create new businesses), including by further evolving the measures up to the present time, providing Cloud services with higher levels of business expertise, and promoting the collaboration model with partner companies.

The Company has five business segments*; the Cloud Business, the Product Business, the Solutions Business, the Mainframe Business, and the System 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 (FY3/18 results)



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

Company profile

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 main products it is developing include the ITSM (IT services management) tool LMIS on cloud*1 and Be. Cloud*2, and also SaaS-type attendance management services*3 for the personnel outsourcing industry, and LIVE UNIVERSE*4, which is a human resources education tool for the restaurant and other industries. In addition, recently the Company released the communication specialized-type PaaS Smart Communication Platform*5, 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>*6, 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 "Be.Cloud" is a cloud-based service that provides an extensive menu, including from expanding and the management of the cloudbased services used by customers.

*3 Provided by the subsidiary, Aspex Inc.

4 An e-learning and knowledge system for companies launched in March 2016 that the Company jointly planned with Golden Magic Co., Ltd. (wholly-owned subsidiary of Diamond Dining Holdings <3073>), which operates around 100 izakaya (Japanese style) restaurants in the Kyushu Netchuya chain. It is an effective tool for training human resources (such as to pass down expertise and improve skills and motivation) by combing video and SNS (two-way communication) on the system infrastructure provided by the Company. The expandability of its services has been highly evaluated, and it was awarded the SaaS Partner of the Year 2017 in the Amazon Web Services APN Awards.

*5 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.) In addition to becoming the system infrastructure for the previously mentioned LIVE UNIVERSE, it has also been adopted for the M3 Care Portal, which is an educational service for nursing-care providers constructed and provided by Takumi Business Place Corporation.

*6 The Company entered into capital and business alliance with I-NET CORP on May 2017. The Company and I-NET are collaborating-on and have entered into a technical alliance to provide the middleware products for automating systems operations and for data linkage previously developed by the Company within the corporate cloud-based services provided by I-NET. The aim of the capital and business alliance is to utilize the strengths of both companies in order to quickly and strategically respond to the rapidly expanding corporate cloud market, particularly to customers' needs for digital reforms in their businesses.

(2) Product Business

The Company sell 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.

*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.

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Company profile

(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) 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. 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) The 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 is increasing and has reached 96 companies (up 8 companies YoY).

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 distinguishing 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 15,000 members and 178 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 FY3/18, sales increased slightly, but profits decreased (and the results were below the initial forecasts).
Aimed for a recovery in the 2H, but was unable to recover the part that was behind forecast in the 1H**

1. Summary of the FY3/18 results

In the FY3/18 results, sales increased slightly, but profits decreased, with net sales rising 1.7% YoY to ¥7,056mn, operating income falling 7.5% to ¥1,347mn, ordinary income declining 6.5% to ¥1,454mn, and profit attributable to owners of parent decreasing 8.6% to ¥965mn. Also, while the results were below the initial forecasts, they were basically in-line with the downwardly revised forecasts (on November 7, 2017).

Net sales grew significantly in the Cloud Business, in which demand is increasing, while in the Product Business also, higher sales were secured from the recovery in the 2H. But the overall increase in sales was only slight due to the contraction of the Solutions Business and the Mainframe Business. The reasons why the results were below the initial forecasts were that the Company was unable to cover for the part that was below forecast in the Product Business in the 1H and that, alongside this, sales slumped in the Solutions Business due to the lack of orders for technical support services for the introductions of products. In particular, in order to respond to environmental changes*1, the sales force and sales engineers worked together to develop activities to propose solutions, but they required time until they achieved specific results (such as improving the contract completion rate and shifting to large-scale proposals), which became a factor behind results falling below the forecasts in the 1H. However, in the 2H, the results of the activities started to appear, and also the alliances with partner companies were successful, and results trended upward*2.

*1 The role of IT has changed from “defense” to “offense” (such as to realize business competitive advantages), and alongside this, the department with control over it has changed from the IT department up until recently to business departments, while the commoditization of products (a situation in which differentiation is difficult) has also been advancing. In this situation, it seems that more specific solutions sales are required, rather than the former approach of sales of stand-alone products.

*2 In particular, on looking only at the results in FY3/18 Q4, net sales and operating income set new record highs (on a quarterly basis).

On the other hand, in profit and loss, although there were no special cost factors, there was a decrease as a reaction to the large-scale orders in the previous fiscal period, and an increase in upfront costs. Due to the effects of these and other factors, the operating margin fell to 19.1% (21.0% in the previous fiscal year).

Financially, total assets increased greatly, up 13.9% on the end of the previous fiscal year to ¥15,517mn, including due to the increase in investment securities*1 and the recording of goodwill*2. On the other hand, equity grew only 6.8% to ¥11,432mn, despite the accumulation of internal reserves. As a result, the equity ratio declined to 73.7% (78.5% at the end of the previous fiscal year), but it can be said that as before, it is being maintained at a very high level. In addition, ROE, which is an indicator of capital efficiency, declined slightly to 8.7% (10.2% in the previous fiscal year), mainly due to the effects of the lower profits.

*1 From the capital and business alliance with I-NET Corp (acquired 100,000 I-Net shares equivalent to a voting-rights ratio of 0.6% through trading during off-auction hours).

*2 Following the consolidation of Mugen (within the total acquisition price of ¥632mn, ¥535mn was recorded as goodwill).

Business trends

Summary of the FY3/18 results

(¥mn)

	FY3/17		FY3/18		Change		FY3/18			
	Results	% of sales	Results	% of sales	% change	Initial forecast	Revised forecast			
						% of sales	% of sales	% of sales	% of sales	
Net sales	6,941		7,056		115	1.7%	7,500		7,000	
Cloud Business	420	6.1%	513	7.3%	92	22.1%	600	-	520	-
Product Business	2,492	35.9%	2,562	36.3%	69	2.8%	2,832	-	2,630	-
Solutions Business	1,767	25.5%	1,748	24.8%	-18	-1.1%	2,100	-	1,620	-
Mainframe Business	2,260	32.6%	2,231	31.6%	-28	-1.3%	1,968	-	2,230	-
Cost of sales	1,830	26.4%	2,032	28.8%	202	11.0%	-	-	-	-
SG&A expenses	3,654	52.6%	3,676	52.1%	21	0.6%	-	-	-	-
Operating income	1,455	21.0%	1,347	19.1%	-108	-7.5%	1,620	21.6%	1,380	19.7%
Cloud Business	-168	-	-83	-	85	-	-	-	-	-
Product Business	383	15.4%	302	11.8%	-81	-21.1%	-	-	-	-
Solutions Business	233	13.2%	219	12.6%	-13	-5.8%	-	-	-	-
Mainframe Business	1,205	53.3%	1,178	52.8%	-27	-2.2%	-	-	-	-
Ordinary income	1,555	22.4%	1,454	20.6%	-101	-6.5%	1,700	22.7%	1,460	20.9%
Profit attributable to owners of parent	1,056	15.2%	965	13.7%	-91	-8.6%	1,170	15.6%	1,000	14.3%

	FY3/17 Results	FY3/18 Results	Change	
				% change
Total assets	13,624	15,517	1,893	13.9%
Shareholders' equity	10,700	11,432	732	6.8%
Shareholders' equity ratio	78.5%	73.7%	-4.8pt	-

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 22.1% YoY to ¥513mn and the operating loss was ¥83mn (compared to a loss of ¥168mn in the previous fiscal year), so the extent of the loss was reduced by the higher sales and profits. In addition to the growth in sales of Be.Cloud, the main product of the ITSM product LMIS on cloud performed strongly through capturing demand by responding to the digital-business needs of customer companies (business departments and IT departments) through collaborating with systems operations consulting. Sales of SaaS-type attendance management services also grew from capturing demand from the personnel outsourcing industry. In terms of profit and loss, while as before an operating loss was recorded, the extent of the loss was greatly reduced due to the increase in sales.

(2) Product Business

Net sales increased 2.8% YoY to ¥2,562mn, but operating income decreased 21.1% to ¥302mn, for higher sales but lower profits. While the results were below forecast in the 1H, toward the 2H, the Company worked to increase the scale of proposals through providing business solutions centered on existing products (including sales of reports and BI products) and also achieved successes with the collaboration model with partner companies. In addition, sales were strong of BPM products and a subsidiary's BCP products, and each contributed to the higher sales. On the other hand, the reasons for the fall in profits included a decline in sales of ETL products as a reaction to the large-scale projects in the previous fiscal year, the delay in creating solutions in automation products, and also an increase in purchase sales of IoT devices following the expansion of sales in the IoT business for mobile devices.

Business trends

(3) Solutions Business

Net sales decreased 1.1% YoY to ¥1,748mn and operating income declined 5.8% to ¥219mn, for lower sales and profits. In response to the strong need for investment in digital areas, systems operations consulting for business departments and IT departments performed strongly. Also, in outsourcing and technical support services, sales grew of products including Be.Cloud, BI, and ITSM. However, the reason for the decline in profits was a reaction to the large-scale projects in the previous fiscal year for BPM and data management consulting.

(4) Mainframe Business

Net sales decreased 1.3% YoY to ¥2,231mn and operating income declined 2.2% to ¥1,178mn, for lower sales and profits. In a situation in which the market is contracting, the Company succeeding in collaborative proposals activities to provide solutions based on its expertise, including providing proposals tailored to the upgrades to host computers and for risk management, such as for the integration and relocation of data centers. As a result, the extent of the contraction in results was kept to within the expected range.

Achieved a certain level of results for establishing an organizational sales structure and strengthening the ability to provide solutions

2. Activities

As its activities policy for this fiscal period, the Company is implementing four policies, of (1) integrating and enhancing the sales force to expand the customer base, (2) strengthening the ability to provide solutions through alliances, (3) providing and developing products and services that create new value, and (4) leveraging Group synergies. The achievements for these four policies are described below.

(1) Integrating and enhancing the sales force to expand the customer base

In addition to the reorganization of the front organization that integrated the existing sales functions and the technical department's customer service functions, the Company has progressed the building of a structure for organizational sales activities (solutions proposals activities in which the sales force and sales engineers work together) to respond to the diversifying needs of existing customers and to strengthen its ability to solve problems. It took some time for specific results to appear, so this was a factor behind results falling below their forecasts in the 1H. But in the 2H, specific results did start to appear, which led to an improvement in the contract-completion rate and a shift to large-scale proposals. The Company also established UNIRITA Plus (formerly the West Japan Business Department) in order to strengthen the sales structure in the West Japan region.

(2) Strengthening the ability to provide solutions through alliances

To strengthen its ability to provide problem solving-type solutions, the Company has been actively working to build a collaboration model with partner companies that are strong in specific business areas. As a result, the number of partner companies has grown to 96 companies (up eight companies on the end of the previous fiscal year), while the number of applications of the collaboration model increased by 37. In particular, in May 2017, on implementing a capital and business alliance with I-NET Corp, which operates a Cloud-based data center business, the Company began offering its security solutions on I-NET's Cloud services platform. It has also begun partnership alliances with T.D.I. Co., Ltd.*1 and Toukei Computer Co., Ltd <4746>*2.

*1 The business alliance between the Company and T.D.I., which has expertise in and an abundant track record for systems migration, will enable them to provide high-quality migration solutions in a short period of time.

*2 The objective is to link Toukei Computer's operations package software for restaurant-related companies to the Company's software.

Business trends

(3) Developing and providing products and services that create new value

Based on its track record of introducing products and services for more than 1,200 companies, the Company has started to provide its lineup (provision of 17 solutions) not only from the viewpoint of the functions of existing products, but also from the viewpoint of solving business problems, which is leading to orders from new customer groups. Also, in order to enhance its SaaS services, it has added AI functions on the industry's first communication-specific application development platform. At the subsidiary UNITRAND, which provides solutions for bus operators that utilize IoT technologies, in addition to expanding sales of existing services, which include a bus location information real time search function and destination search function, it has conducted a demonstration test for a bus passenger attributes analysis that uses a passenger embarking-disembarking sensor, and it also invested in an AI technology development company. As these are new services never seen before, first it is implementing a strategy of making a start with a sense of speed (to acquire the first-mover advantage). A medium-to long-term perspective is required to generate profits from data utilization, but in only the second year since its establishment, results are steadily expanding, including introducing products to 40 bus companies nationwide.

(4) Leveraging Group synergies

In order to solve its customers' business problems, the Company is participating from IT upstream processes through to consulting services, and it is conducting proposal activities for collaboration solutions through "consulting by a subsidiary x UNIRITA products," which is leading to orders for large-scale projects. In particular, it is succeeding with consulting activities that combines its expertise in systems operations for business and IT departments with the Company's Cloud-based products. Also, to establish the Group's ecosystem, it conducted an M&A to acquire and make a consolidated subsidiary of Mugen*, which covers system integration (the design and development phases).

* In addition to the Systems Integration Business, it also provides package software for back offices that contribute to reforming ways of working and improving productivity. It is aiming to develop new services solutions that meet the reform needs of business support departments by utilizing Mugen's systems development capabilities and responding more widely and faster to customers' introduction needs, and also by combining the technological capabilities and business expertise of both companies.

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

The Company has announced its new medium-term management plan, with FY3/21 as its final fiscal year. Within the rapid changes to the IT environment surrounding companies, it is aiming to expand its business as a "strategic IT partner" that contributes to its customers' business growth. The plan has 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

Medium-term management plan

Also, the targets for FY3/21 are net sales of ¥11bn (three-year average growth rate, up 16.0%), operating income of ¥2bn (operating margin, 18.2%), and ROE of 10.7%. Except for the Mainframe Business, whose market is contracting, the plan is for all the businesses (the Systems Integration Business has been newly added) to grow. But in particular, it has positioned the Cloud Business, for which demand is growing, 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. Also, even though the operating margin will decline temporarily in FY3/19, including due to the effects of launching the Systems Integration Business and upfront investment, the policy is for the operating margin to also steadily improve, such as from the effects of the higher sales and the improvement in added value.

Medium-term management plan

	(¥mn)				
	FY3/18 results	FY3/19 results	FY3/20 target	FY3/21 target	Average growth rate
Net sales	7,056	9,300	10,000	11,000	16.0%
Cloud Business	513	770	-	1,300	36.3%
Product Business	2,562	3,030	-	3,800	14.0%
Solutions Business	1,748	1,850	-	2,500	12.7%
Mainframe Business	2,231	2,100	-	2,000	-3.6%
Systems Integration Business	-	1,550	-	1,500	-
Operating income	1,347	1,400	1,650	2,000	14.1%
Profit margin	19.1%	15.1%	16.5%	18.2%	
Profit attributable to owners of parent	965	1,000	1,180	1,420	13.7%
Profit margin	13.7%	10.8%	11.8%	12.9%	
ROE	8.7%	8.5%	9.5%	10.7%	

Source: Prepared by FISCO from the Company's financial results 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; HRM (human resources)-related*2, mobile devices IoT-related*3, and agriculture-related*4. The target for the plan's final fiscal year is net sales of ¥1.3bn (annual average growth rate, up 36.3%).

*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 reforms to ways of working), 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").

Medium-term management plan

(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). The target for the plan's final fiscal year is net sales of ¥3.8bn (average growth rate, up 14.0%).

(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 ¥2.5bn (annual average growth rate, up 12.7%).

(4) Mainframe Business

As a comprehensive mainframe vendor, 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 ¥2bn (annual average growth rate, down 3.6%).

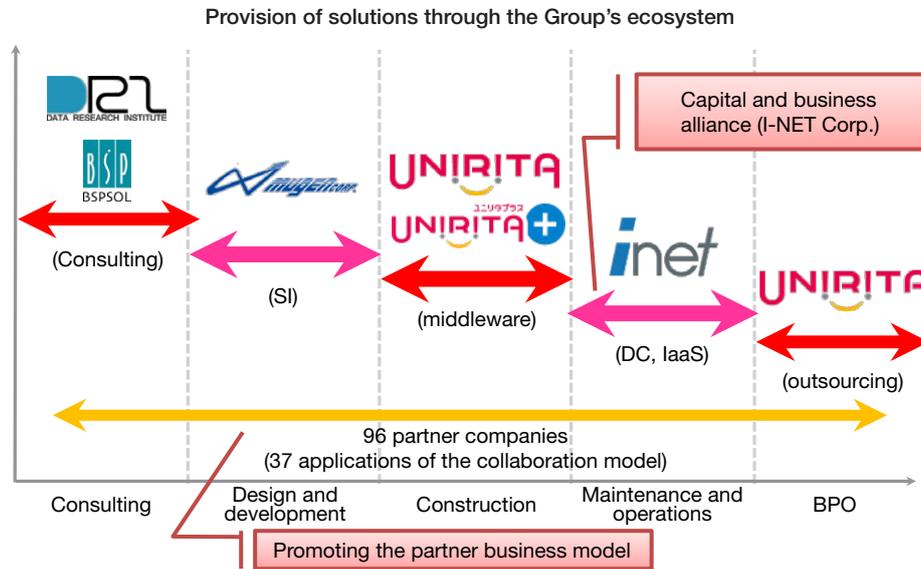
(5) Systems Integration Business

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 ¥1.5bn.

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.

Medium-term management plan



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. |

Business outlook

The outlook is for net sales to increase significantly, including from the effects of the consolidation of Mugen and the growth of the Cloud business

1. FY3/19 outlook

For the results forecasts for FY3/19, which is the first year of the new medium-term management plan, the Company is forecasting higher sales and profits, with net sales to increase 31.8% YoY to ¥9,300mn, operating income to rise 3.9% to ¥1,400mn, ordinary income increased 1.8% to ¥1,480mn, and profit attributable to owners of parent increasing 3.6% to ¥1,000mn.

We encourage readers to review our complete legal statement on “Disclaimer” page.

Business outlook

Net sales will increase significantly from the addition of the Systems Integration Business (a new business segment adding ¥1,550mn) following the consolidation of Mugen. However, even on excluding this amount, it is estimated that it will realize an increase in sales of 9.8% YoY from factors including the growth of the mainstay Cloud Business and Product Business.

On the other hand, in profit and loss, while higher profits will be secured from the increase in sales, the forecast is that the operating margin will decline to 15.1% (previous fiscal year, 19.1%). This is because in addition to the effects of the consolidation of Mugen (a factor lowering profitability), SG&A expenses will increase to invest in human resources (including to raise wages) and in existing and new businesses.

* In terms of its business characteristics, the profit margin of the Systems Integration Business is low compared to the level of the Company's mainstay businesses. Mugen's most recent operating margin was 3.3% (FY3/17 result).

Within the total investment amount of ¥3bn in the medium-term management plan, the Company intends to invest ¥1bn in this fiscal period. It plans to invest in strengthening its existing businesses (make existing products Cloud compliant) and the businesses it has already launched (HRM-related and mobile devices IoT-related), and in developing a new business (agriculture-related).

Forecast for FY3/19

	FY3/18		FY3/19		Change	
	Results	% of sales	Initial forecast	% of sales		% change
Net sales	7,056		9,300		2,243	31.8%
Cloud Business	513	7.3%	770	8.3%	256	49.9%
Product Business	2,562	36.3%	3,030	32.6%	467	18.3%
Solutions Business	1,748	24.8%	1,850	19.9%	101	5.8%
Mainframe Business	2,231	31.6%	2,100	22.6%	-131	-5.9%
Systems Integration Business	-	-	1,550	16.7%	1,550	
Cost of sales	2,032	28.8%	-	-	-	-
SG&A expenses	3,676	52.1%	-	-	-	-
Operating income	1,347	19.1%	1,400	15.1%	52	3.9%
Ordinary income	1,454	20.6%	1,480	15.9%	25	1.8%
Profit attributable to owners of parent	965	13.7%	1,000	10.8%	34	3.6%

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

2. Activities policy

In this fiscal period, toward realizing the targets in the medium-term management plan, its policy is to work to refine "operations expertise" and to acquire "business expertise". The key policies it will implement for this are (1) Cloud First, (2) Providing Group-ecosystem solutions and developing new businesses, and (3) Building an organization to take on the challenge of reforming itself.

(1) Cloud First

With an eye to the progress of Cloud technologies and customer needs, the Company intends to create an organization to shift existing products to the Cloud and to promote Cloud First, and also to expand Cloud services.

(2) Providing Group-ecosystem solutions and developing new businesses

The Company will develop micro-services on its own communications platform and launch an industry SaaS business. This will include by thoroughly ascertaining problem solving through customers' IT, strengthening the management of account plans in order to organizationally respond to sales, actively promoting the collaboration model with partner companies, and establishing a new organization, the Open Incubation Center.

Business outlook

(3) Building an organization to take on the challenge of reforming itself

In addition to in the technological areas it has been involved in up to the present time, which include IoT, AI, and data analytics, the Company will actively invest in the research and development of new technologies, such as Robot, RPA, and block chains. It also plans to launch businesses through investing in companies and business that specialize in the areas of expertise that the Company is targeting. In terms of corporate culture, it is working on various initiatives, including to develop a personnel system that broadens the career options for employees and to increase their basic wages to raise their motivation, to create a structure that can take on the challenge of projects to launch new businesses for business structural reforms, and to promote bottom-up type projects to reform the organizational culture, which will be implemented horizontally across the Group.

At FISCO, we think that it is fully possible that the Company will achieve the FY3/19 results forecasts due to various factors. These include that it has enhanced its lineup (provision of solutions) in the Cloud Business, in which demand is expanding; that solutions proposals activities, which were a factor causing the results to lag behind forecasts in the previous fiscal period, are back on track; and that through the consolidation of Mugen, it has further strengthened the Group's ecosystem that is able to provide one-stop proposals from the upstream. Also, toward realizing the targets in the medium-term management plan, it will be focusing on developing the industry SaaS business, which has major potential. We judge that the key to success will be how it will acquire the first-mover advantage in this business, and we shall be following the speed of its development and the path to it becoming profitable.

■ 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.

Corporate history and business performance

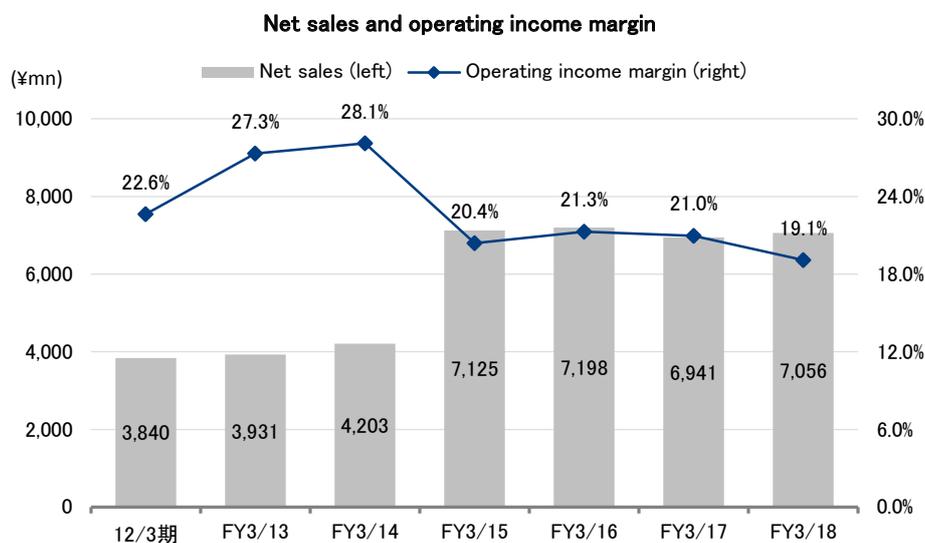
By consolidating Beacon IT in January 2014, BSP, as well as incorporating growth areas such as data utilization, began reforming its business structure.

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. Also, as a result of the consolidation of Beacon IT in FY3/15, the Company’s operational scope expanded significantly.

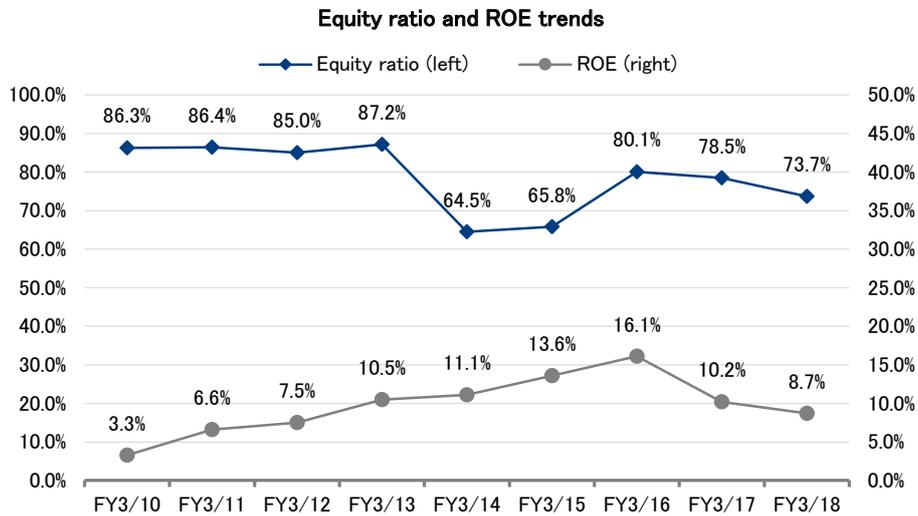
From a profitability perspective, despite there still being a high degree of reliance on the Mainframe Business for income, the Company’s operating income margin trended upward with improving profitability in the Product Business and reached 28.1% in FY3/14. However, this margin has declined since FY3/15 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.

Corporate history and business performance



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 by International Data Corporation Japan, in 2016, the software market in Japan was worth approximately ¥2.6957 tn (up 2.2% YoY). The market's growth is being driven by the fact that measures for big data have become fully fledged and the high growth of the data management software and analytics software markets. Also, in the applications market, the field relating to workstyle reforms in companies is growing. Elsewhere, the systems management software market, which is the Company's core area, performed strongly and was worth around ¥327.9bn (up 4.6%). It seems that an increasing number of companies are introducing software to monitor the operations of new systems, such as to monitor IT resources and performance and for log analysis, in order to respond to the increasing complexity of IT systems resulting from virtualization and the transition to the cloud computing.

The main developers of software in Japan are vendors affiliated with large Japanese computer makers, such as Hitachi, Ltd. <6501>, FUJITSU LIMITED <6702>, and NEC Corporation <6701>, and vendors affiliated with foreign computer makers, such as IBM Corporation and Hewlett Packard Company. However, UNIRITA holds a large share of the Japanese market for software for mainframe computers and remains positioned to receive survivor benefits. Furthermore, there is no other listed software vendor specializing in IT systems operation 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.

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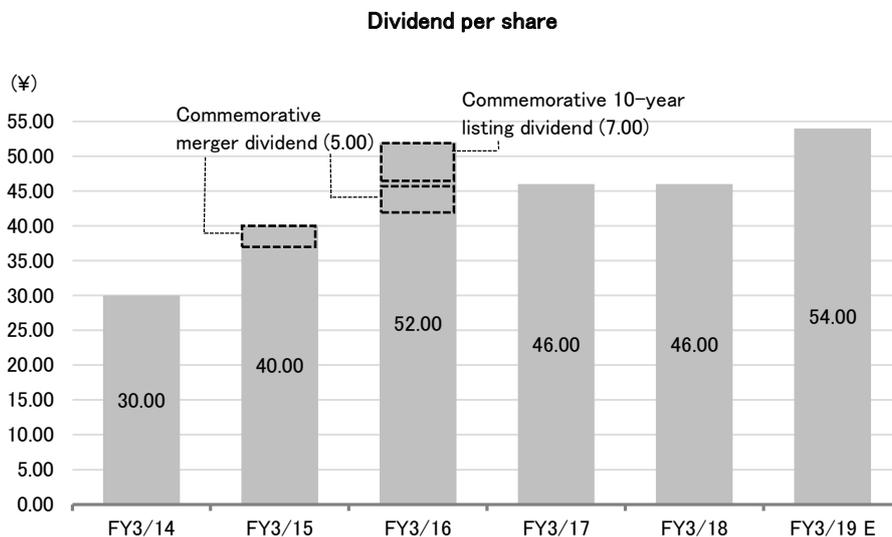
Shareholder returns

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

The Company decided on an annual dividend for FY3/18 of ¥46 (interim dividend ¥23, year-end dividend ¥23), which is the same as in the previous fiscal year (dividend payout ratio 40.0%, DOE 3.5%). Also, for FY3/19 it forecasting an annual dividend of ¥54 (interim dividend ¥27, year-end dividend ¥27), which is up ¥8 YoY (forecast dividend payout ratio, 45.4%).

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 ¥71.

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.



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



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