

UNIRITA Inc.

3800

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<http://www.fisco.co.jp>

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Summary

In FY3/20, realized higher sales and profits exceeding the forecasts. Also achieved a certain level of results toward growing the Cloud business and strengthening the services model. The FY3/21 outlook is for sales to increase slightly but profits to decrease, mainly due to the impact of the spread of the novel coronavirus

1. Company profile

UNIRITA <3800> (hereafter, also “the Company”) develops, sells, and provides support for package software for the operation of IT systems, as well as solutions that utilize data. The role of IT is changing from “defensive” (such as to improve operational efficiency and reduce costs) to “offensive” (a means to realize business competitive advantages). In this situation, it is utilizing its strengths in the areas of systems operations and data utilization and working to strengthen its provision of solutions that directly solve the operational problems that companies are tackling in their digital reforms (DX). Recently, the Company has been working on measures including strengthening the services model (converting to a subscription model by shifting existing products to the Cloud) and utilizing digital technologies to solve social issues (working style reforms, regional revitalization, and primary industry stimulation).

2. Summary of the FY3/20 results

In the FY3/20 results, net sales increased 7.6% year-on-year (YoY) to ¥10,138mn and operating income rose 16.7% to ¥1,073mn, for higher sales and profits that were above the forecasts and net sales in excess of ¥10bn. Results grew significantly in the mainstay Cloud Business due to the increase in the number of companies deploying its main services and also through the measures to shift existing products to Cloud services. The results were also higher than forecast in the Mainframe Business due to the receipt of large-scale orders. In profit-loss, the Company realized a significant increase in operating income, even while actively conducting upfront investment, through the major improvement in the profitability of the Cloud Business and the growth of the Mainframe Business, which has a high profit margin. It also achieved some specific results for its strategic measures, including growing the Cloud services developed in-house, strengthening the recurring-income businesses (shifting existing products to Cloud services), and working to solve social issues (working style reforms, regional revitalization, and primary industry stimulation).

3. The medium-term management plan and the progress made

The Company has completed the second year of the medium-term management plan, which it is progressing with FY3/21 as the final fiscal year. With the Mainframe Business as the source of earnings, the plan is to grow the Cloud Business and the Product Business. But it has particularly positioned the Cloud Business, in which demand is increasing, as a growth field, and providing a proprietary Cloud infrastructure, strengthening Cloud services, and implementing new initiatives for business SaaS (LMIS, DigiSheet, infoScoop x Digital Workforce, and Rakuraku BOSS) have become the centerpieces of its strategy. However, it has lowered the numerical targets for the plan’s final fiscal year (FY3/21) on considering that the speed of growth so far has been a little slower than expected, that it will increase investment to strengthen business infrastructure toward accelerating growth in the future, and the concerns at the present time about the negative effects of the spread of the novel coronavirus. However, there has been no major change in direction, of aiming to strengthen relations with customers and stabilize earnings, through shifting to services and converting to a subscription model in anticipation of market changes.

Summary

4. FY3/21 results forecasts

For the FY3/21 results, the Company is forecasting a slight increase in net sales but a decrease in profits, with net sales to rise 0.6% YoY to ¥10,200mn and operating income to fall 16.1% to ¥900mn. The reason why the forecasts appear conservative, of moderate results growth (and a forecast decline in profits) is from a decrease from the fact that major projects were recorded in the previous fiscal period and also the negative impact of the spread of the novel coronavirus at the present time. Sales will continue to grow in the Cloud Business, but it is anticipated that there will be a movement toward keeping down new investment following the impact of the spread of the novel coronavirus, which is expected to have a negative effect on the labor-intensive businesses, including the Solutions Business and the System Integration Business. For profit-loss, the outlook is for a decline in profits, as although the Cloud Business will achieve profitability for the full fiscal year, there will be a rebound decline in the Mainframe Business, which has a high profit margin, and also because of the upfront investment in new businesses. However, the dividend per share, which uses DOE (Dividend on Equity) as the standard, is forecast to increase ¥4 YoY.

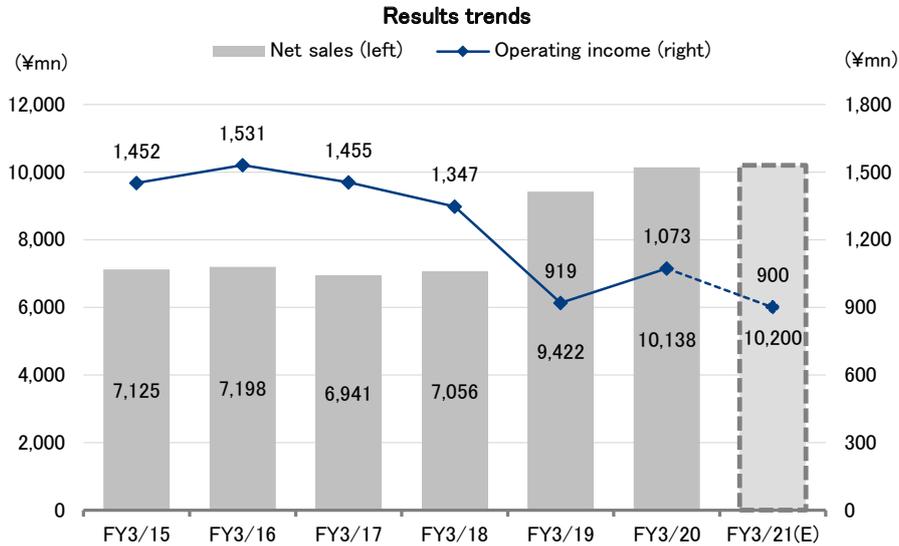
5. Implementation of capital policies

In December 2019 with the objective of improving capital efficiency, the Company acquired a total of 735,000 shares from two major shareholder companies (percentage of total outstanding shares, 8.65%) for a total cost of ¥1,164mn (tender offer). Then in December 2019 and January 2020, it sold some of the shares it held through reciprocal crossholdings of shares, for which it recorded a gain on sale of ¥187mn in extraordinary income. Also, in February 2020, with the objective of improving the liquidity of its shares, the Company obtained the intent of a major shareholder to sell a certain number of the shares it held (100,000 shares), which were sold in after-hours trading.

Key Points

- Posted FY3/20 results with higher sales and profits exceeding the forecasts, mainly from the growth of the Cloud Business
- Among its strategic measures, is working on strengthening the services model and solving social issues (working style reforms, regional revitalization, and primary industry stimulation)
- The Company's FY3/21 results forecasts, of sales to increase slightly but profits to decrease, appear conservative due to factors including the impact of the spread of the novel coronavirus and the upfront investment (however, is forecasting a dividend increase)
- Aims to reinforce relationships with customers and stabilize earnings through shifting to services and converting to a subscription model in anticipation of market changes

Summary



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

Company profile

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

1. Business overview

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

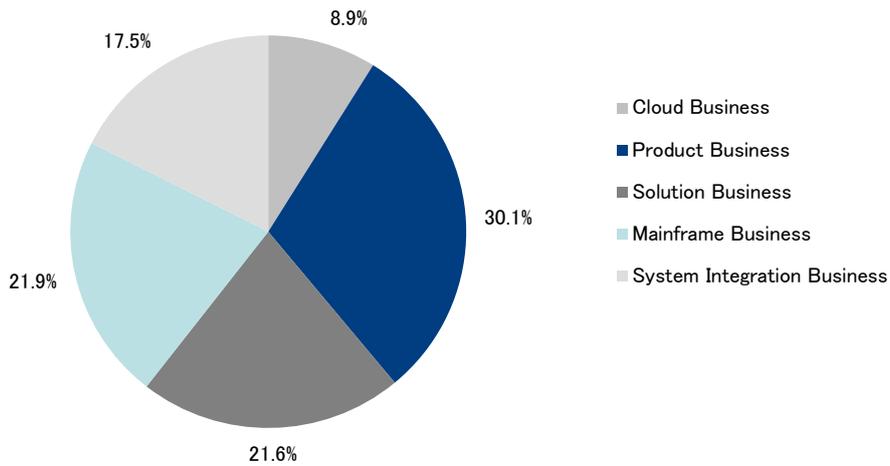
Products for mainframe computers, chiefly for financial institutions and large corporations, have been a stable, highly profitable, source of income since the Company's establishment. The Company achieved steady results growth in the past by contributing to automation and enhanced efficiency in IT systems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

However, in light of changes in its operating environment, such as the shift to open architecture systems, downsizing, the proliferation of cloud computing, and the use of big data, the Company initiated reforms to its business structure*. In addition to fields that contribute to automatizing and optimization in IT systems operations (productivity improvement), it plans to accelerate growth by developing its business domain in areas that directly contribute to raising its customers' corporate value (e.g. market expansion and enhanced competitiveness). The Company's strength lies in its business structure that addresses customers' digital transformation needs, on both the sides of "offense" and "defense." Recently, it has been working on measures including strengthening the services model (converting to a subscription model by shifting existing products to the Cloud) and utilizing digital technologies to solve social issues (working style reforms, regional revitalization, and primary industry stimulation).

Company profile

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

Percentages of total net sales by business (FY3/20 results)



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

An overview of each business is provided below.

(1) Cloud Business

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

*1 LMIS is a service management platform that handles not only IT services, but all services provided by companies.

*2 Provided by the subsidiary, Aspex Inc.

*3 Provided by the subsidiary, Mugen Corp.

*4 "infoScoop x Digital Workforce" is a cloud-based service that has single sign-on and ID management functions, which contributes to improving operation efficiency and strengthens security.

*5 Concluded a capital and business partnership in May 2017.

Company profile

(2) Product Business

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

*1 “A-AUTO” is a batch processing job management tool that manages the jobs on systems that are operating on different platforms in an integrated manner and that realizes automatic implementation controls.

*2 “Waha! Transformer” is an ETL tool produced in Japan that uses non-programming to convert the data in various formats used for operations into the necessary format.

*3 An abbreviation of Business Process Management. It involves ascertaining and analyzing the sequence of operations in a company as a whole, and using an information system to continuously manage, improve, and optimize.

*4 Solutions for bus operators utilizing IoT technologies. In addition to bus location search systems (bus route searches and bus location tracking searches), it is also developing system to count the number of bus passengers in real time. This business is conducted by consolidated subsidiary UNITRAND Inc.

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

(3) Solutions Business

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

(4) Mainframe Business

In this business, the Company sells and provides supports for its own software products for mainframes for the operations and management of core operations systems, mainly for financial institutions, life and non-life insurance companies, and major manufacturing industry companies. It has been its mainstay business since its foundation and is a stable source of revenue. Despite shrinkage of the overall market, demand remains firm, including upgrade needs accompanying expansion of data processing volume. Some major hardware manufacturers also have strategies that position this business as a driver of digital innovation and intend to steadily deliver new versions with additional features.

(5) Systems Integration Business

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

Company profile

More than 1,700 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 provided its products and services mainly through direct sales, but recently it has been working to strengthen its ability to provide solutions through collaborations (promotion of a collaboration model) with its partner companies (sales agencies). The number of partner companies has exceeded 100.

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

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

2. Corporate characteristics

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

UNIRITA has the following three distinguished traits.

(1) An independent developer of proprietary software

A strength of UNIRITA's products in its flagship systems operations and mainframe businesses is that they enable smooth system operation regardless of the scale of a computer, its manufacturer or other such factors. Competing manufacturer-affiliated products do not allow the replacement of the hardware component with other maker's products, which is clearly a hindrance to a customer's flexible system development. Also, as the Company's value proposition in its core businesses is the aggregate of how much the Company can contribute to the automation or improved efficiency of an IT system's operation, the track record and know-how the Company has accumulated by focusing in this area are reflected in the precision and superior performance of its goods and services and in the precision of its proposals. Amidst a readily observable trend (by other vendors) to rely on agents to install systems, the fact that UNIRITA provides its products directly, chiefly to financial institutions and large corporations, and that its products are often adopted as replacements during system updates is arguably proof of this. The Company has been hired to operate the SysAdmin's Group, the largest network of system managers in Japan, boasting more than 17,431 members (as of the end of March 2020) and 252 endorsing companies (as of May 2020). The Company aims to build even closer ties with customers by switching from the past delivery method of product sales to a services (subscription) model that combines cloud utilization and system operation in response to changing customer needs.

Company profile

(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 51.4% (FY3/20 actual results), the Mainframe Business segment provides a stable income source that has supported the Company's growth. We believe this profitability is made possible not only by customer confidence in the Company's products and services, but also by high customer switching costs (costs arising from systems replacement). Sales in the Mainframe Business have been shrinking because of external factors, such as the development of open-architecture systems, but it is expected that it will play the role of a cash cow for the time being by receiving survivor benefits and from the continued firm demand, and enabling the income from the business to be diverted into investments in new growth areas such as strengthening service model and new businesses, which we feel is a significant advantage for the Company.

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

The business structure reforms will not only contribute to the automation of and enhanced efficiency of IT systems operation, but it will also allow the Company to expand into the business of assisting customers to reallocate management resources, such as HR and budgeting, to create more corporate value. By realizing structures that can support both the offense and defense aspects of customer businesses, the Company will be able to offer its customers comprehensive proposals as a strategic IT partner for digital transformation and solidify its superiority in the software industry.

Business trends

In FY3/20, realized higher sales and profits that exceeded the forecasts. Cloud services developed in-house are steadily growing

1. Summary of the FY3/20 results

In the FY3/20 results, net sales increased 7.6% YoY to ¥10,138mn, operating income rose 16.7% to ¥1,073mn, ordinary income climbed 12.1% to ¥1,153mn, and profit attributable to owners of parent increased 43.1% to ¥893mn, for higher sales and profits that were above the forecasts and net sales in excess of ¥10bn.

Net sales steadily grew in every business. In particular, they grew significantly in the mainstay Cloud Business due to the increase in the number of companies deploying the main services, and also as the Company worked to shift existing products to Cloud services. In addition, in the Mainframe Business, in which the market is approaching its mature period, sales were higher than forecast because of orders for large-scale projects.

In profit-loss, the Company realized a significant increase in operating income, even while actively conducting upfront investment, as the profitability of the Cloud Business improved significantly, and in addition from the growth of the Mainframe Business, which has a high profit margin. The operating income margin also improved to 10.6% (from 9.8% in the previous fiscal period). The reason for the major growth of the final profit item was that the Company sold one part of its reciprocal crossholdings of shares, for which it recorded a gain on sale of ¥187mn in extraordinary income.

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Business trends

For the financial condition, total assets were down 4.5% on the end of the previous fiscal period to ¥14,731mn, mainly due to a decrease in cash and deposits and the previously mentioned sale of one part of shares held. However, shareholders' equity decreased 5.6% on the end of the previous fiscal period to ¥11,040mn because of the tender offer for treasury shares (the details are given below), and as a result, the shareholders' equity ratio fell slightly to 74.9% (from 75.9% at the end of the previous fiscal period).

Summary of the FY3/20 results

	FY3/19		FY3/20		Change		(¥mn)		
	Results	% of sales	Results	% of sales	% Change		FY3/20		Achievement rate
							Initial forecast	% of sales	
Net sales	9,422	100.0%	10,138		715	7.6%	10,000		101.4%
Cloud Business	715	7.6%	900	8.9%	184	25.8%	950	9.5%	94.7%
Product Business	2,878	30.6%	3,050	30.1%	171	6.0%	3,100	31.0%	98.4%
Solution Business	2,018	21.4%	2,186	21.6%	167	8.3%	2,230	22.3%	98.0%
Mainframe Business	2,063	21.9%	2,222	21.9%	159	7.7%	1,970	19.7%	112.8%
System Integration Business	1,746	18.5%	1,778	17.5%	31	1.8%	1,750	17.5%	101.6%
Cost of sales	4,020	42.7%	4,359	43.0%	339	8.4%	-	-	-
SG&A expenses	4,482	47.6%	4,705	46.4%	222	5.0%	-	-	-
Operating income	919	9.8%	1,073	10.6%	153	16.7%	1,000	10.0%	107.3%
Cloud Business	-153	-	-33	-	119	-	-43	-	-
Product Business	294	10.2%	305	10.0%	11	4.0%	334	10.8%	91.3%
Solution Business	104	5.2%	76	3.5%	-28	-26.9%	124	5.6%	61.3%
Mainframe Business	1,079	52.3%	1,142	51.4%	63	5.9%	1,024	52.0%	111.5%
System Integration Business	44	2.5%	50	2.9%	6	15.1%	59	3.4%	84.7%
Ordinary income	1,029	10.9%	1,153	11.4%	124	12.1%	1,100	11.0%	104.8%
Profit attributable to owners of parent	624	6.6%	893	8.8%	269	43.1%	750	7.5%	119.1%

	At end of March 2019	At end of March 2020	Change	
	Results	Results	% Change	
Total assets	15,419	14,731	-687	-4.5%
Shareholders' equity	11,698	11,040	-658	-5.6%
Shareholders' equity ratio	75.9%	74.9%	-1.0pt	-

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

Business trends

Results by business are as set out below.

(1) Cloud Business

Net sales increased 25.8% YoY to ¥900mn and the segment loss was ¥33mn (compared to a loss of ¥153mn in the previous fiscal period), and this business realized a significant improvement in profitability through a major increase in sales, even while still being in the upfront-investment stage. The number of companies deploying the three main services steadily grew, including due to the introduction of a sales method that utilizes digital marketing (shortens the order cycle). In particular, for LMIS, in a situation in which customers' DX measures are spreading to business divisions' IT, the Company is succeeding in providing it as a comprehensive services management platform. It has also succeeded in expanding the deployment of DigiSheet (a SaaS-type attendance management service) from its main market, of the temporary staffing industry, to other industries (including the construction industry), while it is also working to develop services that use new technologies, such as AI. In addition, Rakuraku BOSS is capturing needs for improved work efficiency, including to respond to the increase in consumption tax, and sales of the spending workflow management service grew. Therefore, in a situation in which demand is increasing for Cloud services and needs to respond to DX are being actualized, the Company's efforts to expand its customer base to new customer groups (including deployments to business divisions' IT and other industries) and to introduce sales methods can be evaluated as driving its results growth. On the other hand, for infoScoop x Digital Workforce, which is still in its initial deployment period, as a remote work infrastructure that supports working style reforms, it integrates and implements security functions for "peace of mind" and "security" for the first time in the industry, which is leading to its adoption by major users. In profit-loss, the segment loss continued due to the active upfront investment in new services that are in their deployment and development periods, but earnings in this business still improved significantly, as the three main services were profitable. In particular, this business has already succeeded in becoming profitable if looking only at the 4Q, and it can be highly evaluated for steadily establishing an earnings base.

(2) Product Business

Net sales increased 6.0% YoY to ¥3,050mn and segment profit rose 4.0% to ¥305mn, for higher sales and profits. Sales were strong of each of automation products, ETL products, and report creation products. In particular, it seems that report creation products contributed greatly to the results from a large-scale order for report creation infrastructure in conjunction with the upgrading of a mission-critical system. For automation products as well, in the context of DX becoming mainstream, the Company captured needs for management automation in hybrid environments that combine on-premises and on-Cloud systems. For ETL products also, progress was made in data migration using the products' characteristics, data linkage, and partner-collaboration models, and the Company is succeeding in increasing the efficiency of sales and partner sales through strengthening pre-sales functions and utilizing digital sales. Also, toward converting from the single-product sales approach used up to the present time to a subscription model, it has achieved specific results for shifting some of the functions of existing products (data utilization, etc.) to Cloud services. In profit-loss, an increase in profits was secured through the higher sales, even while conducting upfront investment in a new business (mobile systems-related business).

(3) Solutions Business

Net sales increased 8.3% YoY to ¥2,186mn, while segment profit decreased 26.9% to ¥76mn, for higher sales but lower profits. In conjunction with the growth of the Product Business (sales of the Company's own products), sales grew of technology-support services, which are the subsequent process. Alongside this, in systems operations, which is one of the Company's strengths, for the development of its customers' digital businesses, it has been highly evaluated for its expertise in consulting services and the usefulness of the solutions provided by the Company's Group. Sales of outsourcing services are also growing significantly from capturing customers' needs for improved business efficiency. However, in profit-loss, profits were kept down, mainly because of the impact of a temporary deterioration in earnings for some systems construction projects and an increase in outsourcing costs.

Business trends

(4) Mainframe Business

Net sales increased 7.7% YoY to ¥2,222mn and segment profit rose 5.9% to ¥1,142mn, for higher sales and profits. Even though the market as a whole is gradually contracting, this business is benefiting from cashless policies (such as the increase in the volume of data processing alongside the spread in the use of electronic money), and in terms of demand, there are stable trends, including demand for equipment upgrades and support for follow-on products, and the resulting orders for large-scale projects contributed to the results growth. In profit-loss, as before this business is maintaining a high profit margin.

(5) Systems Integration Business

Net sales increased 1.8% YoY to ¥1,778mn and segment profit rose 15.1% to ¥50mn, for higher sales and profits. Thanks to the industry's favorable systems-investment environment, orders for systems development trended strongly. It also seems that steady progress is being made in collaborations for the provision of products and services between Mugen and the various Unirita Group companies that are involved in this segment. In profit-loss, it secured an increase in profits from the higher sales.

2. Summary of FY3/20

To summarize FY3/20 from the above, the Company not only achieved results of higher sales and profits that exceeded the forecasts, we can see that it also achieved some noteworthy results for its strategic measures. Specifically, the mainstay Cloud Business is steadily growing and it is on-track to becoming profitable (to making a fully-fledged contribution to profits) even while conducting upfront investment in new services, while we can see specific results in terms of shifting some of the functions of existing products to Cloud services and for strengthening the businesses' recurring-income foundation (conversion to a subscription model). Also, if excluding the impact of the spread of the novel coronavirus at the present time, the acceleration of the speed of growth, centered on the Cloud services, can be highly evaluated as a positive indicator for the future.

■ Main activities

In addition to strengthening the businesses' recurring-income foundation, also achieved results for initiatives to solve social issues and capital policies

1. Strengthening the businesses' recurring-income foundation

On the opening of the Unirita Cloud Service Center in July 2019, the Company has built a one stop solution-type system BPO* that undertakes tasks to as far as systems operations utilizing the functions of existing products, which is one of the Company's strengths, and it has started providing services focused on this Center. This can be said to be a major step forward toward strengthening the businesses' recurring-income foundation (conversion to a subscription model). By supporting customers' information-systems management and eliminating their lack of resources, it is responding to customer needs for concentrating on core businesses and for labor saving, and it would seem that orders are steadily increasing.

| * Acronym of Business Process Outsourcing. |

Main activities

2. Utilization of digital technologies to resolve societal issues

In working style reforms, as previously stated the Company captured demand with the spending workflow management cloud service Rakuraku BOSS and successfully broadened customer scope with horizontal rollout of SaaS attendance management service DigiSheet for the personnel staffing industry to the construction industry. It also concluded an academia-industry collaboration agreement to accelerate IT deployment in society with Hokkaido University that promotes research on stimulation of regional economies using IoT, big data, AI, and other technologies. In regional revitalization, it conducted extensive investments, such as improving features in the bus destination search system “Mokuiku” that uses IoT, AI, and other digital technologies and establishment of the Regional Revitalization Mobility Consortium* to analyze data collected from mobile devices. In primary industry stimulation, it started work on building a fruit-tree harvesting robot and fruit-tree farming data platform as part of participation in the Fukushima Innovation Coast Concept. It also exhibited for the first time at the Next Generation Agriculture Expo to present results obtained thus far. In the future, it intends to establish an earnings model through accumulating and utilizing data.

* Subsidiary UNITRAND Inc. is the managing firm. This Consortium received a consignment to develop an open data-base covering data on Japan's largest wide-area public transportation entity in Hokkaido from the Hokkaido Tourism Organization.

3. Initiatives for working style reforms in the Company

With the aim of realizing a working style that offers diversity and added value, the Company is promoting activities to improve work-life balance and enhance productivity under a “Smile Work” banner. In the 2H, it started initiatives for selective working hours, remote working, and satellite offices. Following the declaration of a state of emergency due to the spread of the novel coronavirus, these various initiatives, including remote working, were able to function effectively for business continuity during the emergency period.

4. Implementation of capital polices

In December 2019 with the objective of improving capital efficiency, the Company acquired a total of 735,000 shares from two major shareholder companies, BUSINESS CONSULTANTS, Inc., and LINCREA Corp., (percentage of total outstanding shares, 8.65%) for a total cost of ¥1,164mn (tender offer). Then in December 2019 and January 2020, it sold some of the shares it held through reciprocal crossholdings of shares, from which it recorded a gain on sale of ¥187mn in extraordinary income. Also, in February 2020, with the objective of improving the liquidity of its shares, the Company obtained the intention of a major shareholder to sell a certain number of the shares it held (100,000 shares), which were sold in after-hours trading.

■ The medium-term management plan and the progress made

Aiming to accelerate growth focused on Cloud services and to convert to a subscription model

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

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

With the Mainframe Business as the source of earnings, the plan is to grow the Cloud Business and the Product Business. But it has particularly positioned the Cloud Business, in which demand is increasing, as a growth field, and providing a proprietary Cloud infrastructure, strengthening Cloud services, and implementing new initiatives for business SaaS (LMIS, DigiSheet, infoScoop x Digital Workforce, Rakuraku BOSS) have become the centerpieces of its strategy.

However, the Company has lowered the numerical targets for the plan’s final fiscal year (FY3/21) on considering that the speed of growth so far has been a little slower than expected, that it will increase investment to strengthen the business infrastructure toward accelerating growth in the future, and the concerns at the present time about the negative effects of the spread of the novel coronavirus. Therefore, the target for net sales has been revised from ¥11,000mn to ¥10,200mn (down ¥800mn), for operating income from ¥1,250mn to ¥900mn (down ¥350mn), and for profit attributable to owners of parent from ¥920mn to ¥755mn (down ¥165mn). But there has been no major change in direction, of aiming to strengthen relations with customers and to stabilize earnings through shifting to services and converting to a subscription model in anticipation of market changes.

Business outlook

The FY3/21 outlook is for sales to increase slightly but profits to decrease, mainly due to the impact of the spread of the novel coronavirus

1. FY3/21 results forecasts

For the results in FY3/21, which is the final fiscal year of the medium-term management plan, as previously stated the Company is forecasting that sales will increase slightly but profits will decrease, with net sales rising 0.6% YoY to ¥10,200mn, operating income declining 16.1% to ¥900mn, ordinary income falling 15.0% to ¥980mn, and profit attributable to owners of parent decreasing 15.5% to ¥755mn. The reason why the forecasts appear conservative at the present time, of moderate YoY sales growth (and a forecast decline in profits) are a decrease from the fact that major projects were recorded in the previous fiscal period and also the negative impact of the spread of the novel coronavirus.

Net sales will continue to grow in the Cloud Business, but it is anticipated that there will be a movement toward keeping down new investment alongside the impact of the spread of the novel coronavirus, which is expected to have a negative effect on the labor-intensive businesses, including the Solutions Business and the System Integration Business. In the Mainframe Business, a decline is expected as a reaction to the fact that there were orders for major projects in the previous fiscal year. As a result, the outlook is for net sales as a whole to increase only slightly.

For profit-loss, the outlook is for a decline in profits, as although the Cloud Business will achieve profitability for the full fiscal year, there will a rebound decline in the Mainframe Business, which has a high profit margin, and also because of the upfront investment in new businesses. The operating income margin is expected to fall to 8.8% (from 10.6% in the previous fiscal period).

Forecast for FY3/21

	FY3/20		FY3/21		Change	
	Results	% of sales	Forecast	% of sales		% Change
Net sales	10,138		10,200		62	0.6%
Cloud Business	900	8.9%	1,300	12.7%	400	44.4%
Product Business	3,050	30.1%	3,000	29.4%	-50	-1.6%
Solution Business	2,186	21.6%	2,550	25.0%	364	16.7%
Mainframe Business	2,222	21.9%	1,935	19.0%	-287	-12.9%
System Integration Business	1,778	17.5%	1,415	13.9%	-363	-20.4%
Operating income	1,073	10.6%	900	8.8%	-173	-16.1%
Cloud Business	-33	-	90	6.9%	123	-
Product Business	305	10.0%	250	8.3%	-55	-18.0%
Solution Business	76	3.5%	120	4.7%	44	57.9%
Mainframe Business	1,142	51.4%	950	49.1%	-192	-16.8%
System Integration Business	50	2.9%	40	2.8%	-10	-20.0%
Ordinary income	1,153	11.4%	980	9.6%	-173	-15.0%
Profit attributable to owners of parent	893	8.8%	755	7.4%	-138	-15.5%

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

Business outlook

2. Activity policies and results outlook by business

Toward the next medium-term management plan, the Company will continue to work on three activity policies; 1) shifting existing products to services, 2) expanding the business SaaS business, and 3) creating a data driven-type business toward solving social issues. In particular, for 3), it has launched a dedicated department toward developing the data scientists who hold the key to business structural reforms in the future, and going forward, we shall be paying attention to developments.

The results outlooks for the main businesses are as follows.

(1) Cloud Business

The forecast is that this business will be profitable for the full fiscal year due to the major increase in sales, with net sales to rise 44.4% YoY to ¥1,300mn and segment profit of ¥90mn (compared to a loss of ¥33mn in the previous fiscal period). The policy is to improve the top line through offering services for business SaaS and to progress service development. In particular, major growth is expected for infoScoop x Digital Workforce, which was launched in the previous fiscal period. In addition, the Company's initiatives include developing industry-specific templates that utilize the characteristics of LMIS and developing new SaaS in response to DX.

(2) Product Business

The forecasts are for sales and profits to decline, mainly as a reaction to the fact that there were major orders in the previous fiscal period, with net sales decreasing 1.6% YoY to ¥3,000mn and segment profit falling 18.0% to ¥250mn. The Company is aiming to maintain transactions with existing customers while responding to their hybrid needs through combining on-premises and on-Cloud systems. For new-customer acquisition, its policy is to develop marketing activities premised on shifting products to services.

(3) Mainframe Business

The forecasts are for lower sales and profits, with net sales to decline 12.9% YoY to ¥1,935mn and segment profit to decrease 16.8% to ¥950mn. Although sales and profits will fall as a reaction to the fact that there were major orders in the previous fiscal period, there has been no change to the Company's direction, of securing the survivor position through continuing to develop new versions of products compliant with new mainframe servers, and training mainframe-engineer key personnel and establishing and maintaining systems.

At FISCO, while it will be necessary to pay attention to and follow the impact of the spread of the novel coronavirus, we think that the Company's results forecasts are at rationally-estimated levels when considering the factors at the present time, such as the anticipated impact of the spread of the novel coronavirus and the upfront investment, and that they are fully achievable. Although the outlook is that it will be unable to achieve the initial targets in the medium-term management plan, the most important point when looking toward the next medium-term management plan would seem to be what specific progress it is making in converting the business model in anticipation of market changes, such as developing business SaaS and shifting to a services model. In particular, after the novel coronavirus crisis has settled down, it is highly possible that companies' movement toward DX will accelerate, so it seems a major theme will be firmly establishing systems for business expansion.

■ Corporate history and business performance

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

1. Corporate history

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

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

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

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

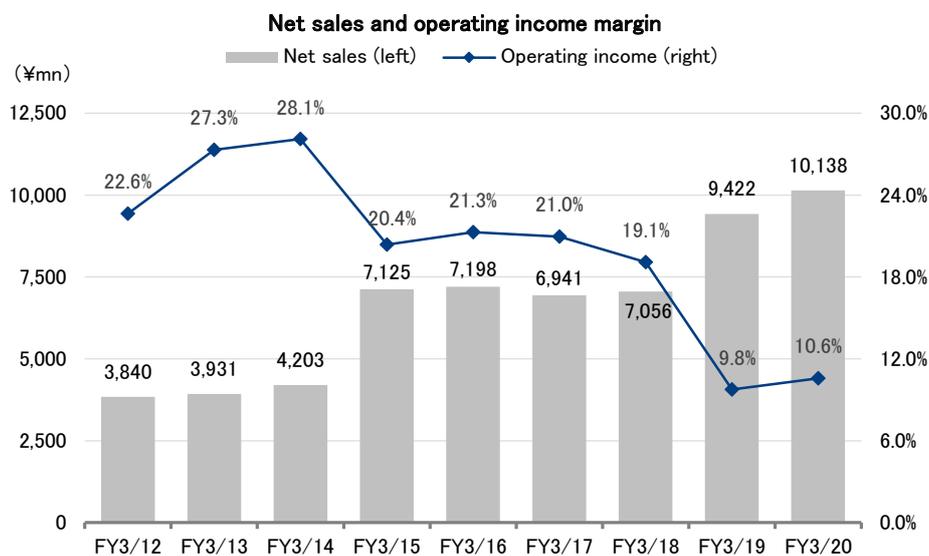
With the merger and absorption of consolidated subsidiary Beacon IT in April 2015, the Company changed its name to UNIRITA, Inc. The new company name embodies the concept of aspiring to contribute to the development of customers and society with "unique ideas" to create value and an "altruistic" spirit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

2. Past business performance

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

Corporate history and business performance

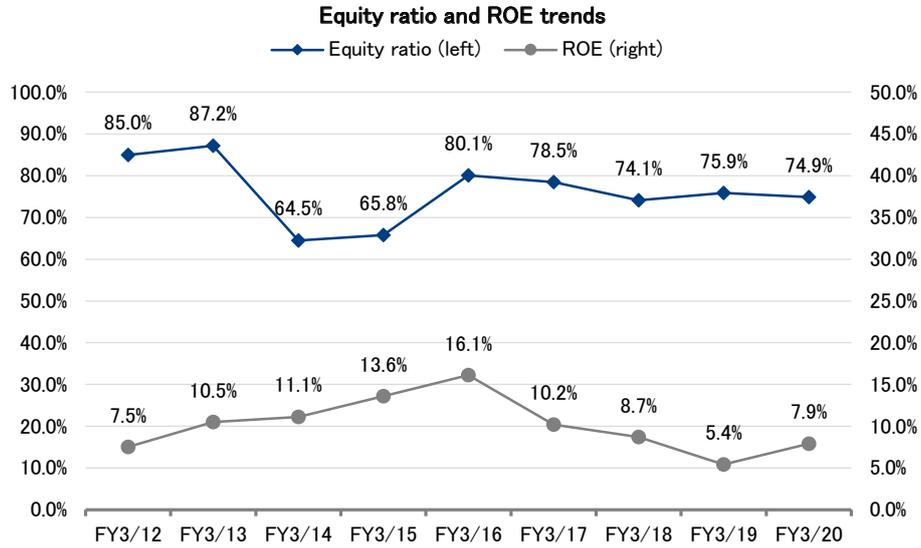
From a profitability perspective, despite there still being a high degree of reliance on the Mainframe Business for income, the Company's operating income margin trended upward with improving profitability in the Product Business and reached 28.1% in FY3/14. However, this margin has declined since FY3/15 due to upfront expenditure in line with its structural business reforms and other factors. Notwithstanding, the Company maintained it at levels around 20%. However, since FY3/19, the operating income margin has trended at around 10% due to the upfront investment in growth fields, such as the Cloud Business and new businesses, with an eye to the future. Going forward, the most important points to focus on would seem to be to what extent can the growth of the Cloud Business cover the impact of the contraction of the Mainframe Business, and what path will the Company take to recovering the profit margin to the same level as in the past (first, to around 20%).



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

Corporate history and business performance



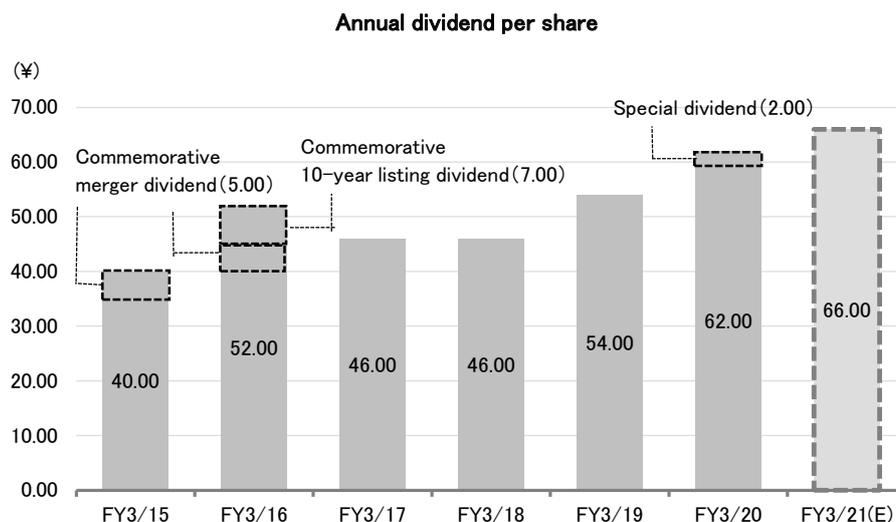
Source: Prepared by FISCO from the Company's financial results

Shareholder returns

In FY3/20, increased the dividend ¥8 for the second consecutive period (annual dividend of ¥62). The FY3/21 forecast is for a ¥4 increase for an annual dividend of ¥66

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.

In FY3/20, the Company increased the dividend ¥8 for the second consecutive period, for an annual dividend of ¥62 (interim dividend of ¥30 and period-end dividend of ¥32, for a period-end dividend on equity ratio of 4.4%). For FY3/21, even though profits are expected to decrease, it is forecasting a ¥4 increase YoY for an annual dividend of ¥66 (interim dividend of ¥33 and period-end dividend of ¥33). So, it can be highly evaluated for stably and continuously increasing the dividend.



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



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