COMPANY RESEARCH AND ANALYSIS REPORT

UNIRITA Inc.

3800

Tokyo Stock Exchange Standard Market

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Index

Summary

FY3/23 sales and profits increased by a significant margin, exceeding forecasts. All services performed well on a tailwind from rampant DX demand. Expecting steady increases in FY3/24 as well

1. Company profile

UNIRITA <3800> (hereafter, also "the Company") develops, sells, and provides support for packaged software for the operation of IT systems for a broad range of industries, primarily finance and manufacturing, as well as solutions that utilize data. The role of IT is changing from defensive (such as to improve operational efficiency and reduce costs) to offensive (a means to realize competitive advantages in business). In this situation, by utilizing its strengths in the areas of systems operations and data utilization, the Company has demonstrated its ability to provide solutions that directly solve the operational challenges of companies engaged in digital transformation (DX). Recently, under a management policy of services shifting, the Company has been working on transforming to a new service model (a subscription-type earnings model offering proprietary services through cloud use) and engaging in businesses that solve social issues (working style reforms, regional revitalization, and primary industry stimulation) utilizing digital technologies.

The Company started the three-year medium-term management plan in FY3/22, and FY3/24 marks the final year of this plan. With the basic policy of "becoming an IT services company that embodies empathy and creates uniqueness," it has changed its segment categories to Product Services, Cloud Services, and Professional Services, and set a course to realize both economic value as a business company and societal value through solving societal problems by conducting business activities that utilize the Group's management resources and IT solutions capabilities.

2. Summary of FY3/23 results

In FY3/23, the Company's net sales increased 10.6% year on year (YoY) to ¥11,549mn and its operating income rose 32.1% to ¥915mn, so there were large increases in both sales and profits that exceeded forecasts. Sales were buoyant in each of the three business segments, Product Services, Cloud Services, and Professional Services. In Product Services, there was growth in recurring revenue as initiatives got off to a steady start for switching the Company's mainstay automation and forms products business to a service-based model. In Cloud Services as well, revenue steadily increased pivoting on IT-utilization clouds against a backdrop of rampant DX investment. In Professional Services, drawing on the Company's specialized knowledge in data service management, consulting performed well and drove overall results growth as the starting point for one-stop solutions that aggregate the Group's functions. Regarding profits, operating income increased in excess of the forecast. Although personnel expenses increased as wages were raised in line with current trends and future-directed R&D expenses also increased, income was boosted by the increase in revenue and progress was made in reducing outsourcing costs by providing maintenance support and other services on an in-house basis. The Company was also able to make significant progress on a number of activities. These include developing new collaborative models with highly specialized partner companies and shifting its sales strategy to local governments for services in support of solving local transit issues through the use of mobile IoT technologies.

3. FY3/24 results forecasts

For FY3/24, the final year of the Company's medium-term management plan, the Company is forecasting net sales to increase 5.2% YoY to ¥12,150mn and operating income to edge up 0.4% to ¥920mn, so increases in both revenue and profit are expected. The forecasted figures exceed the targets set by the plan (announced in May 2022). Like in the previous fiscal year, sales growth will start with consulting, where orders have been strong, and receive contributions from increases in recurring sales as products are converted to services, from growth in mainstay Cloud Services, and from further expansion in system integration. On the profit front, the Company is planning to make upfront investments in R&D and to strengthen human capital for the future while also bearing supply purchase costs, outsourcing expenses, and other expenditures, but it is expecting to see an increase in operating income as higher revenues lead to higher earnings. In addition, the Company is also projecting improved profitability in Cloud Services, where expenditures had been made in advance, and to acquire high-profit projects in the system integration business, which is part of Professional Services. These and other factors are expected to further boost income.

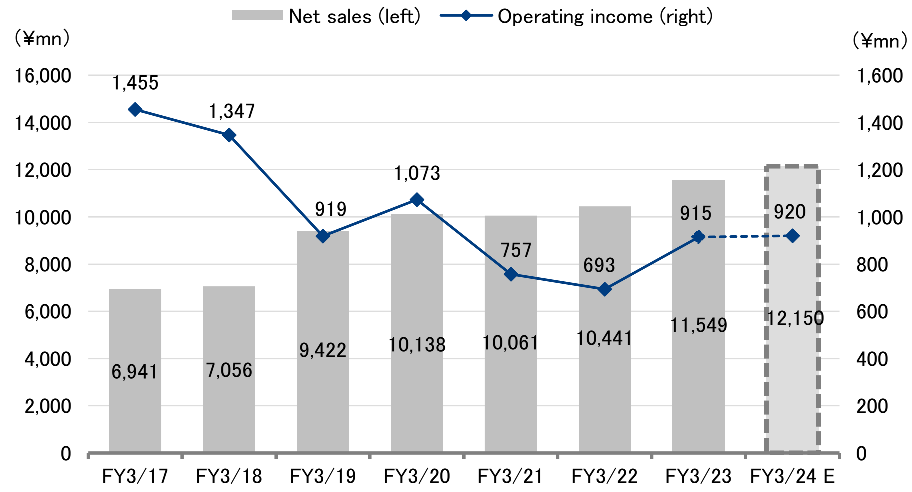
4. Progress of the medium-term management plan

The Company's business strategy itself remains unchanged. This is despite slow progress in some Cloud Services (business-promotion cloud business and social cloud business) because of the protracted COVID-19 pandemic and other factors. The Company plans to accelerate growth going forward by establishing DX services for reforming customer business models. These services will be based on three core technologies, data management, service management and process management, which the Company has strengthened through business structure reforms.

Key Points

- FY3/23 sales and profit exceed forecasts on a tailwind from rampant DX investment
- Results growth driven by accumulating recurring sales from service conversion and by consulting where orders have been strong
- For FY3/24, the Company is expecting higher sales and profit as orders will continue to be buoyant
- The Company has set a course to realize both economic value as a business company and societal value through solving societal problems by conducting business activities that utilize the Group's management resources and IT solutions capabilities

Results trends



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

Company profile

Has strengths in the domains of systems operations and data utilization, and provides total DX support in order to transform customers' business models

1. Business overview

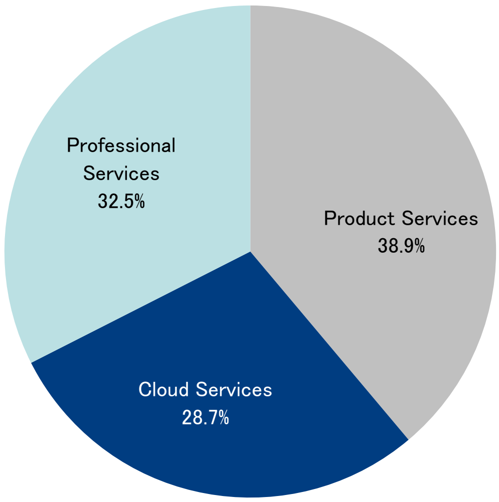
The Company develops, sells, and supports packaged software and data utilization solutions for the operation and management of IT systems for a wide range of industries, including finance and manufacturing, as well as consulting and outsourcing services related to these businesses.

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 customers' job management and ledger management.

However, in light of changes in its external environment, such as the shift to open architecture systems, down-sizing of systems, the proliferation of cloud computing, and the use of big data, the Company expanded its domain to fields that directly contribute to raising customers' corporate value (market expansion and enhanced competitiveness, etc.) in addition to the fields that had until then contributed to automation and enhanced efficiency in IT systems operation (productivity improvement, etc.). The Company's strength lies in its business structure that addresses customers' DX needs, on both the sides of offense and defense of IT. Recently, the Company has been working on creating services from the business model (a subscription-type earnings model offering proprietary services through cloud use) and engaging in businesses that solve social issues (working style reforms, regional revitalization, and primary industry stimulation) utilizing digital technologies.

The Company divides its business into the three segments of Product Services, Cloud Services, and Professional Services. Sales from Product Services, the main business area since its founding, account for 38.9% of total sales and have become a key income source. The Company's policy calls for substantially increasing business in Cloud Services, a growth area.

Breakdown of net sales by business segments (FY3/23 results)



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

An overview of each business is provided below.

(1) Product Services

The segment provides products related to system operation (automation, forms) in on-premises-type*1 and service-provision-type formats. It also handles sales and support for mainframe products (operation and management of mission-critical business systems), the Company's mainstay business since its founding, primarily to financial institutions, insurers, and major manufacturers. Furthermore, the segment provides cloud operation business with wide-ranging support from server operation and management to security measures and troubleshooting response on the cloud infrastructure of business partner I-NET CORP. <9600>*2. Main products are job management tool A-AUTO (automation business)*3 and Marutto Form Cloud Service*4 for comprehensive assistance of form business, and UNIRITA cloud service (cloud operation business).

*1 This format refers to operation of an information system, including servers and software, using equipment at facilities managed by the user.
*2 Concluded a capital and business alliance in May 2017.
*3 "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.
*4 This is a service that comprehensively assists customers in cumbersome form output tasks (ranging from form printing and mailing service to digitalization and web distribution).

(2) Cloud Services

The segment divides areas for issue-solving with service provision into IT issues (IT-utilization cloud business), business issues (business-promotion cloud business), and social issues (social cloud business) and provides services suited to the characteristics of each area. 1) The IT-utilization cloud business offers LMIS (service management platform), Digital Workforce (remote work promotion service), Marutto Data Conversion and Processing Cloud Service (data conversion, processing, and operation maintenance service), and other services to corporate information system departments. 2) The business-promotion cloud business provides DigiSheet (attendance management service for staffing businesses), Rakuraku BOSS (comprehensive solution for work management), CommuRing (service supporting communications between companies), Growwwing (customer success ramp-up and growth assistance service), and other services to corporate business departments and management departments. The Company views this business area as a growth opportunity. 3) The social cloud business promotes location-based service* (bus search, bus location and approach information service), MANALYZE (operational conditions survey report service), agricultural service (field income and expense management, production management, and other farming technology service), and other services to companies, local governments, and public entities.

* Subsidiary UNITRAND Inc. provides a solution for bus operators that utilizes IoT technology. Besides a bus position search system (route search, operation location information search, etc.), it has developed a system that measures bus passenger volume in real time.

(3) Professional Services

The Company supplies services through Group companies in a one-stop manner from consulting to services for system introduction support, system integration and outsourcing that draw on its expertise in data service management.

The number of customers (companies that have installed the Company's products) exceeds 1,700 companies, most of which are large corporations. The range of customer industries is wide, with the manufacturing, retail and distribution, and finance and insurance industries accounting for high percentages in terms of the ratio of sales by industry.

In terms of sales channels, the Company previously provided its products and services mainly through direct sales, but has recently been working to strengthen its ability to provide solutions through collaborations (promotion of a collaboration model) with its partner companies (sales agencies). The number of partner companies has exceeded 100. It is also focusing on online marketing and is establishing a framework to acquire projects from online marketing.

The Company has the following nine main consolidated subsidiaries. BSP Solutions Inc. runs a systems operations consulting business. BSP (Shanghai) Inc. is the base for sales in China. In addition, HuApp Technology Inc.* provides services to the human resource business industry. Bitis, Inc. offers BCP development, administration, and maintenance support. Data Research Institute handles a data management consulting business. UNITRAND Inc. offers IT solution services for mobile equipment. UNIRITA PLUS Inc. strengthens sales to customers in western Japan while collaborating with partners. Mugen Corp. conducts the system integration business and develops and sells its own packaged software. UNIRITA SR Inc. provides system operation agency services and technical support services.

* As of April 1, 2022, the company changed its name through the merger of consolidated subsidiary Aspex Inc. and Business Application Co., Ltd.

2. Corporate characteristics

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

The Company has the following three characteristics.

(1) An independent developer of proprietary packaged software

A strength of the Company's products in systems operations and for mainframe businesses, which have been its flagships since its establishment, is that they enable smooth system operation regardless of the scale of a computer, or restrictions on its manufacturer or other factors. There is a stark contrast with competing manufacturer-based products, which do not allow the replacement of the hardware component with other maker's products, clearly hindering 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 many trends (by other vendors) to rely on agents to install systems, the fact that the Company 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 outsourced to operate the SysAdmin's Group, the largest network of system managers in Japan, boasting more than 18,000 members and approximately over 300 endorsing companies, showing its presence as a driving force in this field. Going forward, to meet customers' changing needs the Company plans to build even stronger ties with customers by switching from the conventional method of product sales to a services model (subscription-type earnings model) that combines cloud utilization and system operation.

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

The majority of income comes from Product Services, and the Mainframe Business within this segment exceeds 50% margin and has supported the Company's earnings as a stable income source. It can be said that 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 by profiting as a remaining player and from the continued firm demand and enabling the income from the business to be diverted into investments in new growth areas (Cloud Services, etc.), which we feel is a significant advantage for the Company.

* Fujitsu <6702> has expressed its intent to exit the mainframe manufacturing and sales businesses in 2030. User companies are expected to migrate to the cloud by the end of the maintenance period.

(3) Building a system that allows the Company to propose total DX service

In past business structure reforms, the Company broadened the scope of service provision from the previous information system departments to business departments and management departments, and reinforced business areas to extend from contributing to automation and improved efficiency in IT system operation to areas that create corporate value. The ability to propose DX services for revamping customer business models on a total basis through its establishment of operations capable of assisting offensive and defensive aspects of customer businesses, should help form advantages as well. The Company has strengths in IT management technology and know-how, specifically in the three areas of data, services and processes, and the Company has stated it intends to draw on these strengths to support corporate business reform and help solve IT-related issues. In FY3/22, it reorganized Group functions into three segments, Product Services, Cloud Services and Professional Services. In Professional Services, it is building a cross-segment Group ecosystem. The starting point is consulting, with services provided on a one-stop basis. These include support for deployment of product and cloud segment services as well as system integration and outsourcing.

Business trends

FY3/23 sales and profit increased in excess of forecasts. Services performed well on a tailwind from rampant DX investment

1. Summary of the FY3/23 results

In its FY3/23 results, the Company's net sales increased 10.6% YoY to ¥11,549mn, operating income rose 32.1% to ¥915mn, ordinary income went up 36.7% to ¥1,132mn, and profit attributable to owners of parent increased 44.1% to ¥752mn, so there were major increases in sales and profit that exceeded forecasts.

Sales were buoyant in each of the three business segments, Product Services, Cloud Services, and Professional Services. In Product Services, there was growth in recurring revenue as initiatives got off to a steady start for switching the Company's mainstay automation and forms products business to a service-based model. In Cloud Services as well, revenue steadily increased, pivoting on IT-utilization clouds such as LMIS and Digital Workforce, against a backdrop of rampant DX investment. In Professional Services, drawing on the Company's specialized knowledge in data service management, consulting performed well and drove overall results growth as the starting point for one-stop solutions that aggregate the Group's functions.

On the profit front, operating income increased in excess of the forecast. Although personnel expenses increased as wages were raised in line with current trends and future-directed R&D expenses (in areas including agricultural IT and data science) also increased, income was boosted by the increase in revenue and progress was made in reducing outsourcing costs by providing maintenance support and other services on an in-house basis. The operating income margin also improved to 7.9% (versus 6.6% in the previous fiscal year).

With regard to the Company's financial condition, shareholders' equity increased 3.3% from the end of the previous fiscal year to ¥11,329mn as a result of further increasing internal reserves, but total assets also increased, by 5.4% to ¥15,135mn, due to increases in cash and deposits and accounts receivable – trade, the latter as a result of higher revenue, so the equity ratio edged down to 74.9% (versus 76.4% at the previous fiscal year-end).

Summary of the FY3/23 results

(¥mn)

	FY3/22		FY3/23		Change		FY3/23		
	Results	% of sales	Results	% of sales		Change (%)	Initial forecast	% of sales	Achievement ratio
Net sales	10,441		11,549		1,108	10.6%	10,900		106.0%
Product Services	4,420	42.3%	4,488	38.9%	68	1.5%	4,384	40.2%	102.4%
Cloud Services	2,958	28.3%	3,310	28.7%	352	11.9%	3,252	29.8%	101.8%
Professional Services	3,062	29.3%	3,750	32.5%	688	22.5%	3,264	29.9%	114.9%
Cost of sales	4,340	41.6%	4,971	43.0%	631	14.5%	-	-	-
SG&A expenses	5,407	51.8%	5,661	49.0%	254	4.7%	-	-	-
Operating income (loss)	693	6.6%	915	7.9%	222	32.0%	750	6.9%	122.0%
Product Services	1,254	28.4%	1,093	24.4%	-161	-12.8%	950	-	115.1%
Cloud Services	-365	-	-197	-	168	-	-28	-	-
Professional Services	84	2.8%	298	8.0%	214	253.0%	203	-	146.8%
Adjusted value	-280	-	-278	-	2	-	-375	-	-
Ordinary income	828	7.9%	1,132	9.8%	304	36.7%	865	7.9%	130.9%
Profit attributable to owners of parent	522	5.0%	752	6.5%	230	44.1%	565	5.2%	133.1%

	End of FY3/22	End of FY3/23	Change	
				Change (%)
Total assets	14,364	15,135	771	5.4%
Shareholders' equity	10,969	11,329	360	3.3%
Equity ratio	76.4%	74.9%	-1.5pt	-

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

Results by business are as set out below.

(1) Product Services

Net sales increased 1.5% YoY to ¥4,488mn, and segment profit decreased 12.8% to ¥1,093mn, so revenue increased but profit declined. 1) In mainstay automation and forms products, proactive sales activities resulted in increased opportunities to propose cloud services for system upgrades and rebuilds, and Marutto Form Cloud Service got off to a solid start on a tailwind provided by projects to accommodate digitalization in connection with legal revisions. 2) In the cloud operation business as well, there was growth in the UNIRITA cloud service as a result of increased demand for cloud services used as core systems. As a result of 1) and 2) above, conversion of the business model to services made progress, and the fact that recurring sales increased is noteworthy. 3) At the same time, in the mainframe business, the Company secured a solid level of sales and profit despite the market continuing to contract. Profit decreased due to lower sales from the mainframe business, which has a high profit margin, but the segment profit margin remained high at 24.4%.

(2) Cloud Services

Net sales increased 11.9% YoY to ¥3,310mn, and the segment loss was ¥197mn (verses a loss of ¥365mn the previous year), so the margin of loss improved. 1) In the IT-utilization cloud business, mainstay services are steadily growing. These include LMIS, Digital Workforce, and Waha! Transformer, which address new needs related to solutions associated with the advance of DX and the spread of remote work.* 2) In the business-promotion cloud business, services for commuting expense management and personnel management such as Rakuraku BOSS and DigiSheet performed well. In the service group that includes Growwwing, whose market is currently being developed, the project unit price is increasing as the services are adopted not only by startup companies, which were the initial target, but also by enterprise companies with large budgets. 3) At the same time, in the social cloud business, a location information service for bus operators has been well received by local governments nationwide, and orders for it increased. On the profit front, however, there was growth in mainstay services and profit improved, but the social cloud business remains at the upfront investment stage, so the segment is still not profitable.

* LMIS, which meets demand for improving support quality at contact centers and service desks, etc., increased by 13.9% YoY. Digital Workforce, which strengthens security for remote work and serves as a platform linking various systems, areas where demand is expanding, increased by 28.5%. Waha! Transformer, which accommodates needs for data maintenance and conversion, etc. as companies move forward on DX, went up by 8.6%, so all three services are growing steadily. In particular, Digital Workforce improves both security and convenience as it links various cloud services and allows multiple cloud services to be securely accessed via a single login, and large-scale orders for it have been increasing.

(3) Professional Services

Net sales increased 22.5% YoY to ¥3,750mn, and segment profit increased 253.0% to ¥298mn, so both sales and profit increased. 1) In the consulting business, the Company's specialization in data service management is a good fit with DX investment-related needs, and this business is driving results overall as the starting point for one-stop solutions that integrate Group functions. In addition, in conjunction with this, 2) in the system integration business, the shift to high unit-price business areas that utilize the Group's customer base appears to be proceeding steadily. 3) In the outsourcing business as well, system operation contract services are growing as companies seek to secure IT personnel and accelerate conversion of their business as they promote DX. With regard to profits, income increased as a result of growth in the high value-added consulting business and acquiring high-profit projects in the system integration business.

2. FY3/23 overview

Looking at FY3/23 overall based on the above, FISCO certainly takes a positive view of the Company's business performance, how it has achieved both higher sales and higher profit in excess of forecasts by successfully accommodating demand in the midst of the DX wave, but we also highly rate the substance of the initiatives that have led to this performance. In particular, developments that look positive for the future include 1) progress in converting business to a service-based model and growth in recurring revenue, a stable source of earnings, 2) the increasing importance of data utilization and service management accompanying the increase in one-stop solution projects that start with consulting, and 3) successful projects through service collaboration*1 with highly specialized partners. At the same time, a portion of cloud services (social clouds, etc.) have been slow to make progress and achieve profitability due to the impact of the COVID-19 pandemic. However, in location information services (mobile IoT), projects for local governments with issues related to transportation*2 have been increasing and the release of a cloud service that supports agricultural operations*3 has had some success as well.

*1 Marutto Form Cloud Service was adopted as one of the contract services used for form digitalization, online distribution and paper form mailing for invoices and other documents in an invoice system support solution released by Hitachi Solutions, Ltd. (announced May 22, 2023).

*2 Current projects include data analysis of bus operations for bus lines in the Niseko area of Hokkaido, a transit open data development project for all regions of Hokkaido (GTFS-JP), data analysis with the Chiba prefectural government and Kominato Railway, data analysis with Yokohama Minato Mirai, data analysis with Komatsu City in Ishikawa Prefecture, pre-analysis visualization projects with several local governments in Shikoku, and a service for transit bus operators in Kagoshima Prefecture and Saga Prefecture.

*3 VegiPallet is a cloud service that supports farm management by providing insights to farmers on increasing operational efficiency. The official version of the service was released on June 10, 2022. For more details, refer to the previous FISCO Report (published December 14, 2022).

Business outlook

For FY3/24, the Company is expecting higher sales and profit as orders will continue to be buoyant. It will also make upfront investments in R&D and to strengthen human capital

1. FY3/24 results forecasts

For FY3/24, the final year of the Company's medium-term management plan, the Company is forecasting net sales to increase 5.2% YoY to ¥12,150mn, operating income to edge up 0.4% to ¥920mn, ordinary income to decrease 7.3% to ¥1,050mn and profit attributable to owners of parent to go up 6.3% to ¥800mn, so increases in both revenue and profit are expected. The forecasted figures exceed the targets set by the plan (revised targets).

Net sales will continue to be buoyant as companies move forward on DX, so like last year the Company is expecting all its businesses to perform well. Sales growth will start with consulting, where orders have been strong, and receive contributions from increases in recurring sales as products are converted to services, from growth in mainstay Cloud Services, and from further expansion in system integration.

On the profit front, the Company is projecting an increase in operating income from the boost given by higher revenues. This is despite increases in the cost of materials for cloud infrastructure and other facilities and in outsourcing expenses due to a shortage of IT workers and the fact that the Company is planning upfront investments to strengthen human capital for the future (by acquiring and training personnel, etc.) and for R&D expenses aimed at the shift to services. In addition, the Company envisions earnings being boosted by the improved profitability of Cloud Services, in which expenditures had been made in advance, and from acquiring high-profit projects that are integrated with consulting services. The only decline from the previous year was in ordinary income, which was because there was temporary non-operating income that was stated the previous year that was not stated this year.

Forecast for FY3/24

(¥mn)

	FY3/23		FY3/24		Change	
	Results	% of sales	Initial forecast	% of sales		Change (%)
Net sales	11,549		12,150		601	5.2%
Operating income	915	7.9%	920	7.6%	5	0.4%
Ordinary income	1,132	9.8%	1,050	8.6%	-82	-7.3%
Profit attributable to owners of parent	752	6.5%	800	6.6%	48	6.3%

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

2. View of FISCO's analysts

FISCO believes the Company's forecasts are fully attainable because its mainstay services, which fit well with current DX trends, are performing well, recurring revenue in Product Services has been accumulating, and the order backlog in Professional Services has grown significantly, by 98.6%, from the end of the previous fiscal year. How the Company finishes up in the final year of its medium-term management plan in preparation for a new phase bears watching. In particular, to what extent will it be able to develop the market to solve business issues (the slowing seen in business progress and move to profitability) and also social issues? Will it be able to solidify its business base? On these matters, we will continue to follow the Company's progress.

Progress of the medium-term management plan

Working to solidify the business base with the aim of accelerating growth by solving problems from IT to business and even societal problems

1. Basic policy

The Company started its three-year medium-term management plan in FY3/22 and FY3/24 marks the final year of this plan. The plan's targets were downwardly revised on May 13, 2022 due to slowing in the progress of certain Cloud Services (business-promotion cloud business and social cloud business), which are positioned as future growth drivers, but since then, the businesses have grown steadily on a tailwind from rampant DX investment, and based on this the Company again revised its forecasts (upward) on May 12, 2023. However, with respect to business strategy itself, there has been no change since the beginning of the plan. In other words, with the basic policy of "becoming an IT services company that embodies empathy and creates uniqueness," it has set a course to realize both economic value as a business company and societal value through solving societal problems by conducting business activities that utilize the Group's management resources and IT solutions capabilities. In particular, the Company plans to accelerate growth going forward by providing DX services for reforming customer business models based on three core technologies, data management, service management and process management, which the Company has strengthened through business structure reforms.

Medium-term management plan (after revision)

(¥mn)

	FY3/21 (baseline year) results	FY3/22 (year 1) results	FY3/23 (year 2)		FY3/24 (final year)	
			Previous revised targets	Results	Previous revised targets	Current revised targets
Net sales	10,061	10,441	10,900	11,549	11,500	12,150
Product Services	4,231	4,420	4,384	4,488	4,388	-
Cloud Services	2,885	2,958	3,252	3,310	3,670	-
Professional Services	2,944	3,062	3,264	3,750	3,442	-
Operating income	757	693	750	915	900	920
Product Services	1,185	1,254	950	1,093	900	-
Cloud Services	-229	-365	-28	-197	165	-
Professional Services	109	84	203	298	215	-
Operating income margin	7.5%	6.6%	6.9%	7.9%	7.8%	7.6%
Product Services	28.0%	28.4%	21.7%	24.4%	20.5%	-
Cloud Services	-7.9%	-	-	-	5.5%	-
Professional Services	3.7%	2.8%	6.2%	8.0%	6.2%	-
Profit attributable to owners of parent	840	522	565	752	650	800
ROE	7.5%	4.7%	5.1%	6.7%	5.9%	7.0%
DOE	4.5%	4.6%	4.6%	4.6%	4.6%	4.5%
Dividend per share (¥)	66	67	68	68	68	68

Note: Segment information (new segments) for FY3/21 is estimated.
Source: Prepared by FISCO from the Company's results briefing materials

2. Important strategies

(1) Creation of service provision-type businesses

For products (automation, forms, and mainframes), the Company is focusing on the systems operation area and is building a structure to continuously provide high value-added services to customers that support the social infrastructure. It is also utilizing its strength of in-house developed products in order to respond to needs for both ownership-type (on-premises-type) and use-type (on-cloud-type), and it is creating service-provision-type businesses.

(2) Expansion of the Cloud Services business through strategies for each category

The Company has in sight expanding the market from solving IT problems to solving business problems, and moreover to solving societal problems. It has divided cloud services, which utilize its strengths, into three categories: 1) IT-utilization cloud business (support for IT utilization and rationalization), 2) business-promotion cloud business (provision of services indispensable for business growth / creating shared platforms by industry and business format), and 3) social cloud business (growing the data science business / establishing societal-problem-solving-type businesses). It is realizing growth through creating unique cloud services for each category and adopting an accumulated recurring billing (subscription) model.

(3) Reorganization of group functions that address the various new business segments

The Group's business segments have been reorganized into the following three segments. The aims are to promote the businesses and to solve societal problems under a business structure that is adapted to the speed of environmental changes and the diversifying markets.

a) Product Services

This segment focuses on the systems operation area and as the medium-term earnings foundation, it will be the source of resources to support the Group's investment in growth. In particular, it will create resources for new business development by deepening the previously cultivated strengths, enhancing the ability to respond to customer needs in a DX environment, and pursing business efficiency.

b) Cloud Services

The Company is building a business model that develops in new markets by expanding from the IT-problems solving area, which constituted a high ratio of this business up to the present time, to the business-problems-solving and societal-problems-solving areas. To establish a business that will be a business pillar in the future, it is aiming to concentrate resources and realize growth as the foundation of earnings.

c) Professional Services

Through its strengths and expertise in the three management areas of data, processes, and services, this segment will play the role of increasing the value of customers' product and cloud services and will function as the second growth engine. The Company is establishing a structure to provide a one-stop service, from consulting through to services for introduction support, systems integration, and outsourcing.

(4) Strengthening the management foundation toward improving corporate value

The Company's policy is to further develop the "Measures for workstyle reforms," "Cultivating a culture of taking-on challenges," and "Permeating the CREDO*1" that it progressed in the previous medium-term management plan, which will lead to the realization of CSV management*2. In particular, it is working on various measures to "cultivate the worthwhileness of working," and to "promote workstyle reforms," at the same time aiming to build a structure to improve corporate value based on highly effective corporate governance.

*1 The Company's principle. Its CREDO is "Based on the 'unique ideas,' and 'altruistic spirit' from which our company's name is derived and through our three strengths, taking on the challenges of providing value to society and of conducting ceaseless reforms, and growing together with society and with employees."

*2 Abbreviation of Creating Shared Value, which is a concept advocated by Professor Michael E. Porter in the Harvard Business Review. It means that by working on societal needs and problems, companies create societal value, and as a result, they also create economic value.

3. Points that the FISCO analyst is watching closely

At FISCO, amid trends such as the promotion of DX being in full gear at the same time as there is a shortage of IT human resources at companies becoming apparent, we feel that the Company's effort to expand its scope of business from only IT issues to also include business issues and social issues, as well as to provide a one-stop solution framework, and thereby capture the growth in demand, makes sense in terms of realizing sustainable growth. Although it is taking time to develop new markets due to the impact of the prolonged COVID-19 pandemic, various moves have been made recently, so we feel that accumulating a track record one project at a time will lead to future business expansion. In addition to developing new markets as the Company has done through online marketing thus far, we would like to see the Company strengthen complex channels by utilizing the Group's customer base and through collaboration with partner companies. In the social cloud business, collecting data is the business model that will create future advantages and barriers to entry, so full-scale monetization will likely require more of a medium- to long-term perspective. In any case, while the mainframe business, which is a stable source of earnings, plays the role of cash cow, it is clear that the biggest medium- to long-term topic will be to develop the next pillar of earnings and maintain and expand a strong earnings base, so it is necessary to pay close attention to future developments. In the next medium-term management plan, attention will be on how the Company develops initiatives over the three years to achieve profitability and the course it charts to reform its business portfolio and improve profitability.

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 operations business 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, and it built a track record chiefly in core mainframe systems, mainly for financial institutions and large corporations.

In 2001, the Company established BSP Solutions Inc. and commenced full-scale consulting and solutions business. In 2006, it was listed on the JASDAQ Securities Exchange. In response to the reformation of market segmentation of the Tokyo Stock Exchange ("TSE") from April 2022, the Company transferred to the Standard Market of the TSE.

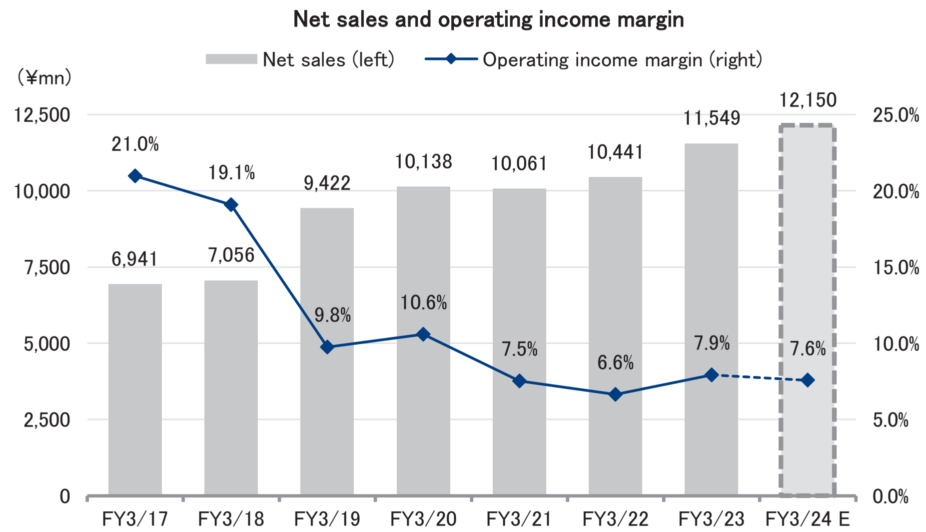
Following the consolidation of Beacon IT (registered company name: Beacon Information Technology Inc.) in January 2014, it started capturing demand in growth fields, such as data utilization, and also embarked on business reforms.

With the absorption-type merger 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

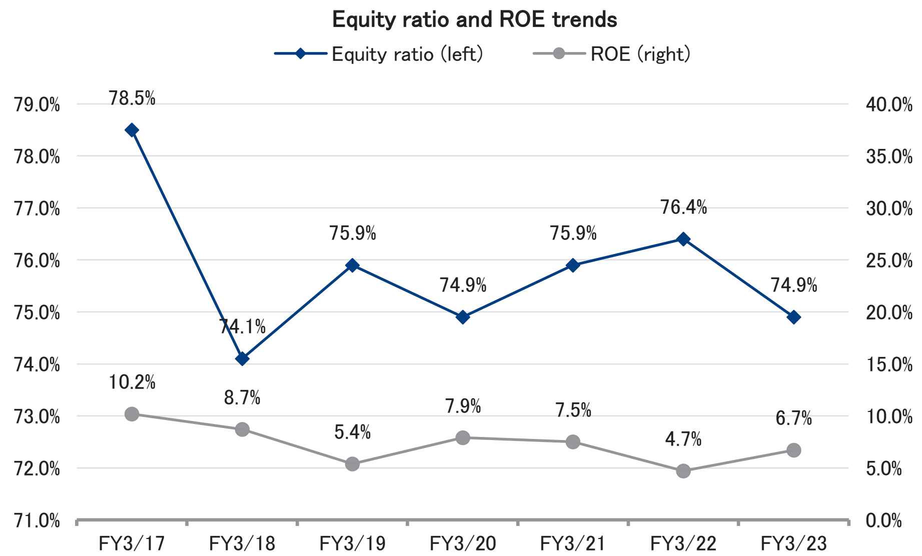
Looking back on the Company's past business performance, from FY3/12 to FY3/14, in the context of the shift to open-type systems, the increase in net sales in the Systems Operations Business (currently part of the Product Services segment) drove the Company's growth. However, it conducted business structural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

From a profitability perspective, despite there still being a high degree of reliance on the Mainframe Business (currently part of Product Services) for income, the Company's operating income margin trended upward with improving profitability in the Product Business (currently Product Services) and reached a high level of 28.1% in FY3/14. However, this margin has declined since FY3/15 due to upfront investments 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 lowly due to the upfront investment in growth fields, such as the Cloud Business (currently Cloud Services) and new businesses, with an eye to the future. Going forward, the most important points to focus on would be to what extent can the growth of the Cloud Business (currently Cloud Services) cover the impact of the contraction of the Mainframe Business (currently part of Product Services). Going forward, the biggest focus will be on how to return the Cloud Business to profitability and make up for the impact of the shrinking Mainframe Business (currently part of Product Services).



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

From a financial perspective, the Company's equity ratio, which represents the stability of the financial foundation, suffered a one-off decline in FY3/14 as a result of the consolidation of Beacon IT, in FY3/16, in line with its absorption-type merger with Beacon IT (change in ownership interest of parent), 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 (302.5% at the end of FY3/23), 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 investments for growth in the future. On the other hand, ROE, which indicates capital efficiency, had also been trending at a double-digit level, but it fell below 10% (from FY3/18 onward) due to the changes to the business portfolio and the impact of the upfront investment.



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

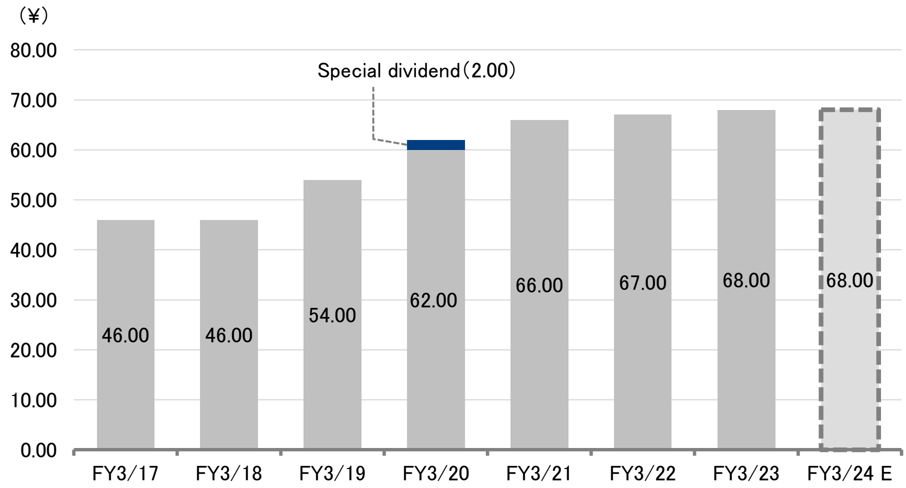
Shareholder returns

Policy of stably and sustainably increasing dividends. For FY3/24, the Company is forecasting an annual dividend of ¥68, the same as the previous year

From FY3/19, instead of using the consolidated dividend payout ratio as the standard as it had previously done, the Company changed to using dividend on equity as the standard. The aim of this is to stably and sustainably maintain and increase dividends without being affected by fluctuations in profit and loss during a fiscal year, such as due to upfront investment. The Company also has a strategy of flexibly executing share buybacks and retiring shares that it has bought back.

In FY3/23, the Company paid an annual dividend of ¥68 (¥34 interim, ¥34 period-end), an increase of ¥1 from the previous year for a fifth straight year of increases. The fact that the Company has stably and sustainability increased its dividend should be viewed positively. For FY3/24, it is planning to pay an annual dividend of ¥68 (¥34 interim, ¥34 period-end), the same as the previous term.

Annual dividend per share



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

Disclaimer

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