COMPANY RESEARCH AND ANALYSIS REPORT

UNIRITA Inc.

3800

Tokyo Stock Exchange Standard Market

10-Jul.-2024

FISCO Ltd. Analyst

Ikuo Shibata

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

In FY3/24, realized higher sales and profits thanks to favorable order environment.
Aiming to accelerate growth by establishing a new value provision model under the new medium-term management plan

1. Company profile

UNIRITA Inc. <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.

In May 14, 2024, the Company released its new three-year medium-term management plan. The basic policy of this plan, named Re.Connect 2026, is to realize the Company's vision of "becoming an IT services company that embodies empathy and creates uniqueness" by further evolving three business strategies. These strategies are "grow service-provision-type businesses," "establish a new value provision model," and "transform business processes." It will also work to reinforce a sustainability base for facilitating sustainable growth, including by accelerating human capital investment, based on the concept of realizing both economic value as a business company and societal value by solving societal problems through business activities that utilize the Group's management resources and IT solutions capabilities.

2. Summary of FY3/24 results

In the FY3/24 results, net sales increased 3.7% year on year (YoY) to ¥11,982mn and operating income rose 11.7% to ¥1,023mn, posting higher sales and profits. Net sales recorded an increase in all three segments (Product Services, Cloud Services, and Professional Services). In Product Services, the core automation and forms products performed strongly, benefiting from the advancement of DX and the shift to electronic document retention following regulatory changes. In Cloud Services, mainstay services grew steadily, particularly in the IT-utilization cloud business. Professional Services posted a sharp sales increase driven by an uptick in orders for high-value-added projects and Group-wide bulk contracting projects (system integration). In terms of profits, operating income grew strongly due to revenue growth on higher net sales, a streamlining effect on R&D expenses, and a shift to high-profit models (systems integration), despite increased investment in strengthening the management base.

3. Direction of the new medium-term management plan

Looking to build on the successes of the previous medium-term management plan and address issues that came to light, the new medium-term management plan aims to use consulting as a starting point to establish a new value provision model for the entire Group, based on the redefinition of “service management” and “data management.” In particular, the Company will work to expand in scale in each cloud category by continuing to invest in cloud growth areas and advancing value co-creation, including through collaborations with joint venture partners. The targets for the final year of the plan are net sales of ¥14.0bn (annual average growth rate of 5.3% over the three-year period), operating income of ¥1.45bn (12.4%), and ROE of 8.8% (+1.7pt compared to FY3/24). Under the plan, the Company will continue to invest in the cloud while focusing on profitability. It is also willing to raise dividends in line with profit growth. Additionally, it plans to consider M&As in order to facilitate the recruitment of data management personnel and strengthening of service lines.

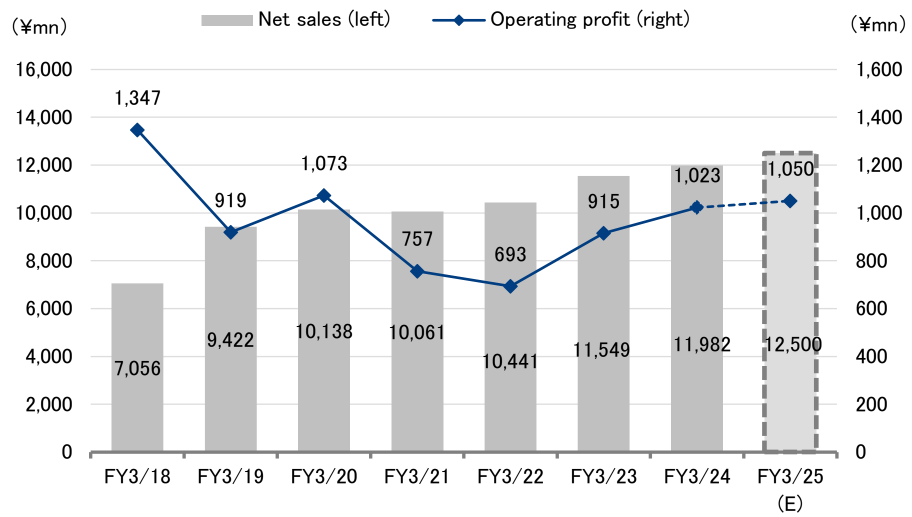
4. FY3/25 results forecasts

For FY3/25, the first year of the new medium-term management plan, the Company is forecasting a continued increase in sales and profits, with net sales to increase 4.3% YoY to ¥12,500mn and operating income to increase 2.6% to ¥1,050mn. In Product Services, sales are expected to trend downward in the mainframe business but in Cloud Services, proactive business expansion is expected to contribute to sales growth. Also, the Company plans to promote value provision in an integrated manner by using consulting, where orders have been particularly strong, as a starting point to increase recurring sales in Product Services, grow mainstay cloud services, and implement system integration and outsourcing. On the profit front, the Company will continue to invest strategically while ensuring profit growth by turning Cloud Services profitable and promoting high-profit models.

Key Points

- All businesses grew in FY3/24 resulting in sales and profit increases (targets for the final year of the medium-term management plan achieved)
- In terms of activities, there was a certain amount of success in providing service-provision-type businesses (forms, etc.) and service management platforms (LMIS, etc.), and transitioning to high-profit models using consulting as a starting point
- A new three-year medium-term management plan has been released. It aims to grow investment in cloud growth areas and establish a new value provision model that leverages strengths in services and data management
- Continued sales and profit increases forecast in FY3/25 and the Company plans to increase annual dividends to ¥70 per share (+¥2 YoY)

Results trends



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

Company profile

Has strengths in services and data management cultivated in the domains of systems operations and data utilization, and supports the digital transformation of customers

1. Business overview

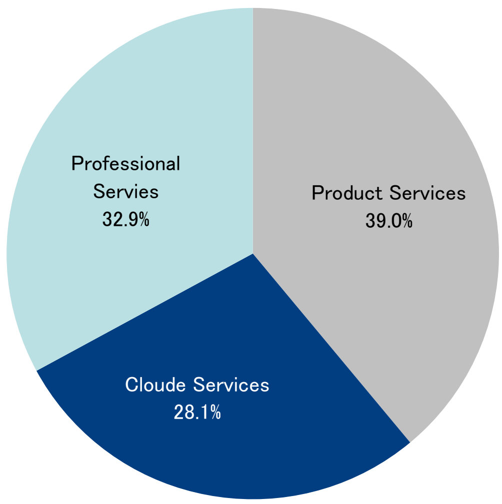
The Company develops, sells, and supports packaged software and data utilization solutions for the operation and management of IT systems for a wide range of industries, including finance and manufacturing, as well as consulting and outsourcing services related to these businesses.

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 is expanding 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.). In particular, the trend toward digital transformation (DX) is accelerating not only in corporate information system departments but also in the service provision models of business departments. 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 its own 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 approximately 39% of total sales and have become a key income source due to its high operating income margin. The Company's strategy calls for substantially increasing business in Cloud Services, a growth area.

Breakdown of net sales by business segments (FY3/24 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, etc.) in on-premises-type*1 and service-provision-type formats. It also handles sales and support for mainframe products (operation and management of core mainframe systems), the Company's mainstay business since its founding, primarily to financial institutions, insurers, and major manufacturers. Furthermore, the segment provides cloud operation business*2 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>*3. Main products are job management tool A-AUTO (automation business)*4 and Marutto Form Cloud Service*5 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 In FY3/25, the cloud operation business was moved into Cloud Services.
*3 Concluded a capital and business alliance in May 2017.
*4 "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.
*5 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)*1, infoScoop x 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 mobile IoT service*2 (bus search, bus location and approach information service), MANALYZE (operational conditions analysis report service), agricultural service (field income and expense management, production management, and other farming technology services), and other services to companies, local governments, and public entities.

*1 A service management platform that focuses on corporate service desk functions (channels through which users can make enquiries regarding system malfunctions, technical support, etc.).
*2 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.*1 provides services to the human resource business industry. Bitis, Inc. offers BCP development, administration, and maintenance support*2. Data Research Institute handles a data management consulting business. UNITRAND Inc. offers mobile IoT services for local public transport. 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.

*1 As of April 1, 2022, the company changed its name through the merger of consolidated subsidiary Aspex Inc. and Business Application Co., Ltd.
*2 Bitis, Inc. (BCP development, administration, and maintenance support), a full subsidiary of the Company, is due to be absorbed through an absorption-type merger on July 1, 2024.

2. Corporate characteristics

Under its vision of "becoming an IT services company that embodies empathy and creates uniqueness," the Company is pursuing a mission to "Create Your Business Value – Use the power of IT to create the near future." Its shared values are expressed through the name UNIRITA, which is a combination of "unique" and "rita" (the Japanese word for altruism).

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 between the Company's products and 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, although 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, recently, it has also played an important role in improving the quality of customer service provided by each company, and 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. In addition, the Company has been outsourced to operate the SysAdmin's Group, the largest network of system managers in Japan, boasting more than 19,000 members and approximately over 400 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 the 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 being 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) A strength in total proposals that leverage services and data management

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. Amid a shift in consumption trends from items to services, movement by companies to change service provision models from sales-based models to service-based models (set-fee usage models) is accelerating, and the importance of data utilization is rising. Therefore, the Company's 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 has become an advantage. The Company has redefined its core competencies as service management and data management cultivated in the domains of systems operations and data utilization and it is working to leverage these to help companies transform their businesses and support the solution of IT 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

In FY3/24, realized higher sales and profits thanks to favorable order environment.
All segments recorded earnings growth

1. Summary of the FY3/24 results

In its FY3/24 results, the Company's net sales increased 3.7% YoY to ¥11,982mn, operating income rose 11.7% to ¥1,023mn, ordinary income went up 2.8% to ¥1,164mn, and profit attributable to owners of parent increased 8.4% to ¥815mn, so both sales and profit increased. Compared to the initial forecast, although net sales were slightly lower than expected, profits greatly surpassed targets (and both net sales and profit targets for the final year of the medium-term management plan were achieved).

Net sales increased in all three segments—Product Services, Cloud Services, and Professional Services. In Product Services, the core automation and forms products performed strongly, benefiting from the advancement of DX and the shift to electronic document retention following regulatory changes*. In Cloud Services, mainstay services grew steadily, particularly in the IT-utilization cloud business. Professional Services posted a sharp sales increase driven by an increase in orders for high-value-added projects and Group-wide bulk contracting projects (system integration). However, net sales were slightly lower than forecast due to a downturn in the business-promotion cloud and social cloud businesses. This issue has been recognized and addressed in the new medium-term management plan.

* Act on Book and Record Keeping through Electronic Methods, handling of the invoice system, etc.

In terms of profits, operating income grew to exceed than the initial forecast due to revenue growth on higher net sales, a streamlining effect on R&D expenses, and a shift to high-profit models (systems integration), despite increased investment in strengthening its management foundation, such as business system restructuring and formulating the new medium-term management plan. The operating income margin rose to 8.5% (versus 7.9% in the previous year). Although the Company fell just short of realizing a profit in Cloud Services, it did achieve a profit in the IT-utilization cloud business within this segment.

With regard to the Company's financial condition, total assets increased 4.1% from the end of the previous fiscal year to ¥15,763mn due to increases in cash and deposits, and shareholder's equity also increased, by 3.5% to ¥11,725mn, as a result of further increasing internal reserve, so the equity ratio was basically flat at 74.4% (versus 74.9% at the previous fiscal year-end).

Summary of the FY3/24 results

(¥mn)

	FY3/23		FY3/24				FY3/24		Achievement ratio
	Results	% of sales	Results	% of sales	Change	Change (%)	Initial forecast	% of sales	
Net sales	11,549	-	11,982	-	433	3.7%	12,150	-	98.6%
Product Services	4,488	38.9%	4,668	39.0%	180	4.0%	4,550	37.4%	102.6%
Cloud Services	3,310	28.7%	3,369	28.1%	58	1.8%	3,800	31.3%	88.7%
Professional Services	3,750	32.5%	3,944	32.9%	193	5.2%	3,800	31.3%	103.8%
Cost of sales	4,971	43.0%	5,166	43.1%	195	3.9%	-	-	-
SG&A expenses	5,661	49.0%	5,792	48.3%	130	2.3%	-	-	-
Operating income (loss)	915	7.9%	1,023	8.5%	108	11.7%	920	7.6%	111.2%
Product Services	1,093	24.4%	1,152	24.7%	58	5.4%	920	-	125.2%
Cloud Services	-197	-	-26	-	170	-	87	-	-
Professional Services	298	8.0%	369	9.4%	71	24.0%	300	-	123.3%
Adjusted value	-278	-	-472	-	-193	-	-387	-	-
Ordinary income	1,132	9.8%	1,164	9.7%	31	2.8%	1,050	8.6%	110.9%
Profit attributable to owners of parent	752	6.5%	815	6.8%	63	8.4%	800	6.6%	102.0%

	End of FY3/23 Results	End of FY3/24		
		Results	Change	Change (%)
Total assets	15,135	15,763	627	4.1%
Shareholders' equity	11,329	11,725	396	3.5%
Equity ratio	74.9%	74.4%	-0.5pt	-

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

Results by business are as set out below.

(1) Product Services

Net sales increased 4.0% YoY to ¥4,668mn, and segment profit increased 5.4% to ¥1,152mn, so both sales and profit increased. 1) In mainstay automation and forms products, orders increased for proposal-based projects such as system upgrades in line with the advancement of DX, such as Marutto Form Cloud Service, which is compliant with the invoice system and the Act on Book and Record Keeping through Electronic Methods. 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 recurring sales have grown steadily by 3.1% YoY to ¥3,418mn. 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 growth from automation and forms products made up for contraction in the mainframe business and ensured an increase in profit for the segment as a whole. The segment profit margin remained high at 24.7% (versus 24.4% in the previous year).

(2) Cloud Services

Net sales increased 1.8% YoY to ¥3,369mn and the segment loss came to ¥26mn (¥197mn segment loss in FY3/23), so both sales and profits increased and segment loss contracted significantly. 1) In the IT-utilization cloud business, sales of LMIS and infoScoop x Digital Workforce to corporate information system departments recorded solid growth amid progress in DX promotion. Sales of Waha! Transformer (a cloud service for data processing and link/integration) are also strong due to the increased number of companies working on data management. 2) Although sales were down YoY in the business-promotion cloud business, core products Rakuraku BOSS, DigiSheet, and The Staff-V (a personnel management cloud service for temporary staffing services) continued to grow, while Growwwing also continues rapid expansion, although still modest in scale. 3) The mobile IoT service of the social cloud business had an influx of project orders that it was able to win from municipalities in the context of the government's Vision for a Digital Garden City Nation. In terms of profit and loss, segment loss contracted sharply despite ongoing upfront investments due to growth of mainstay services underpinning revenues, promoting internal production, and expense cuts. Although the segment as a whole was one step short of reaching profitability, it did turn profitable in the IT-utilization cloud business.

(3) Professional Services

Net sales and profit increased in the Professional Services business, with net sales up 5.2% YoY to ¥3,944mn and segment profit up 24.0% to ¥369mn. 1) In the consulting business, orders from companies promoting DX were brisk, because they appreciate the Company's know-how in data and service management. 2) In the system integration business, earnings grew sharply due to an uptick in orders for Group-wide bulk contracting projects and high-profit projects harnessing the Group's development base. 3) Demand also increased in the outsourcing business amid a shortage of system operation personnel in corporate IT departments. Segment profit increased sharply as well because of the expansion of the high-value-added consulting business and improved profitability of the system integration business, with the segment operating income margin making a big improvement from 9.4% (versus 8.0% in the previous year).

2. FY3/24 overview

In summary, FY3/24 results reflect the positive results of management measures undertaken so far in that the Company made sure it attracted demand and achieved increases in sales and profit in a favorable order environment driven by the advancement of DX, moves to amend laws, and a shortage of IT personnel. This year was the final year of the medium-term management plan and the Company tried out the following activities. 1) It made progress on transitioning its business model to services, resulting in the accumulation of stable recurring sales. 2) Orders received in collaboration with partner companies increased (see below). 3) High-value-added projects in which the Company leverages its consulting skills in data and service management performed strongly, and 4) mobile IoT services for local governments picked up (see below). We would like to highlight the progress where our efforts are taking shape as achievements that will contribute to the next mid-term management plan. On the other hand, a negative factor was that the pace of product growth and business expansion in the business-promotion cloud and social cloud businesses has been slower than anticipated. However, we can take a positive view that collaborations with partners have enabled the Company to identify issues in its sales strategy and delivery structures, so it understands what should be done going forward.

Main Topics

Progress with service collaborations with partner companies and introduction of IT services for local governments and public transport

1. Collaboration with partner companies

The Company has been strengthening its capabilities to provide solutions and secure sales channels in partnerships with other companies. Its 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. As well, the Company's customer success platform Growwwing was selected as the platform for RICOH Japan Corporation's legal affairs support cloud service RICOH Contract Workflow Service. LMIS was also adopted as RICOH Japan Corporation's service management platform for providing customers with managed IT services. Recent movement that has been attracting attention is the use of bindit*, a workflow automation tool, in a succession of collaborations involving apps such as CloudSign, Google Chat, Microsoft Outlook, ChatGPT, Kintone, Google Calendar, and SmartHR. There is a strong expectation that it will become a new pillar of growth for the Company.

* A cloud-based IPaaS tool that can automate coordination between applications without the need for coding. It specializes in coordination between applications provided as SaaS. It offers a variety of setting recipes, a free flow-creation function and is distinctive for its simple UI, which makes it easy to use, even for people who are not IT engineers.

2. LMIS wins top prize in ITreview Grid Award for the 12th consecutive quarter

LMIS, service management platform that focuses on corporate service desk functions, won the top prize (Leader) in the Incident Management category of ITreview Grid Award 2024 Winter* run by ITcrowd Corp., as well as the High Performer prize given to services with high customer satisfaction ratings in the Helpdesk Tools category. It is the 12th quarter in a row since Spring 2021 that the Company has won awards in two categories of this competition (see Company news release, January 18, 2024).

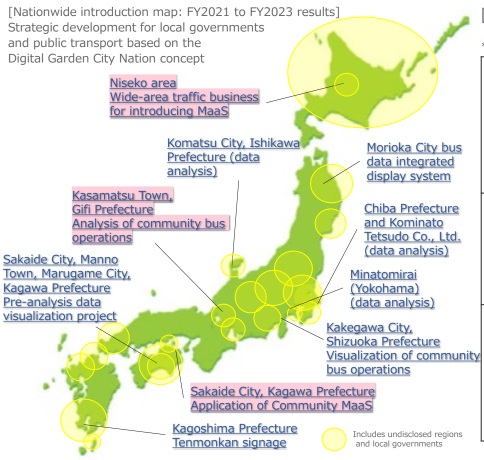
* ITreview, a review platform for business-use IT products and cloud services, presents the Leader prize to products with excellent customer satisfaction ratings and market recognition and the High Performer prize to products with excellent customer satisfaction ratings based on real user reviews compiled.

3. Progress with IT service for local governments and public transport

On March 6, 2024, Community MaaS*, developed and provided by Group subsidiary UNITRAND Inc., was adopted by Sakaide City, Kagawa Prefecture. It is the first case of a Vision for a Digital Garden City Nation grant being used in this industry. This project is aiming to build a digital platform that will not only realize regional MaaS, but also achieve goals such as revitalizing towns through co-creation between commercial areas and local governments through measures including cashless settlement, and creating purposes for travel.

* A platform that coordinates MaaS (Mobility as a Service), which is a one-stop service that optimally combines multiple forms public transport with other mobility services to offer route searches, reservations, settlement, and other functions, with services that facilitate purposes for travel. It also collects and utilizes data from these services. It is supporting efforts to revitalize public transport and regional areas.

Introduction of IT services for local governments and public transport



[Examples of usage by local governments]

*Dates are news release publication dates.

Sakaide City, Kagawa Prefecture Application of Community MaaS	**March 6, 2024** First case of a Digital Garden City Nation concept grant being used in the industry. Building a digital platform that will not only realize regional MAAS, but also achieve goals such as revitalizing towns through co-creation between commercial areas and local governments through measures including cashless settlement, and creating purposes for travel
Kasamatsu Town, Gifi Prefecture Analysis of community bus operations	**October 2, 2023** Reduces workloads and enhances the sustainability of bus operators by providing an accurate understanding of usage statuses through automation
Niseko area Wide-area traffic business for introducing MaaS	**February 1, 2023** Provides understanding and analysis of the boarding and alighting data and usage status of each bus in the Niseko area, which straddles three municipalities, in order to solve transport issues by enhancing convenience for both foreign tourists and local residents. Aims to realize transport infrastructure for both tourism and everyday life

Source: From the Company's supplementary results briefing materials

Direction of the new medium-term management plan

New three-year medium-term management plan released. Aims to establish a Group-wide value provision model based on the core competencies of services and data management

1. Reflecting on the previous medium-term management plan

To date, the Company has been advancing a three-year medium-term management plan (FY3/22-FY3/24). In order to realize its basic policy of "becoming an IT services company that embodies empathy and creates uniqueness," it has aimed to realize both economic value as a business company and societal value through solving societal problems by pursuing four important strategies. These are 1) creation of service-provision-type businesses, 2) expansion of the Cloud Services business through strategies for each category, 3) reorganization of Group functions that address the various new business segments, and 4) strengthening the management foundation toward improving corporate value.

Although factors such as the prolonging of the COVID-19 pandemic delayed progress on some Cloud Services businesses (the business-promotion cloud and social cloud businesses), which the Company had positioned as future growth drivers, it still managed to achieve each of the net sales, operating income, and ROE targets included its revised plan (financial plan) released in May 2022.

On the other hand, while it has achieved a certain amount of success on each of its four important strategies, new issues have also arisen. The successes and issues recognized for each important strategy are as follows.

1) Creation of service-provision-type businesses

In addition to steadily catering to cloud lift and shift by launching subscription-based services based on the migration (movement away from mainframes) of existing customers, the Company has achieved considerable growth for Marutto Form Cloud Service, the main service in its services shifting strategy. It has also received a positive response to services such as the work flow automation service bindit, thereby steadily accumulating the recurring sales that are a current priority. However, growth in sales figures has been found lacking when compared to initial forecasts and the Company has evaluated its own performance as "mixed." Going forward, it plans to differentiate by advancing a transformation that leverages the Group's combined response capabilities and customer contacts.

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

The IT-utilization cloud business performed strongly against the backdrop of demand for DX promotion at companies and the business-promotion cloud and social cloud businesses have been focusing on capturing customers, showing that a certain amount of progress has been made on establishing a business model. However, the speed of business expansion and the realization of profitability is slower than anticipated, and the Company has evaluated its own performance as "mixed." Going forward, it will work to expand in scale in each cloud category by further advancing business process transformation in the IT-utilization cloud business, the securing of collaboration partners in the business-promotion cloud business, and the establishment of a co-creation business model in the social cloud business.

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

The Group-wide collaboration framework has been steadily strengthened and huge growth has been achieved in the Professional Services segment, so the Company has evaluated its own performance as "good." Going forward it will aim to further raise the Group's combined capabilities and to shift to high-profit models by differentiating from other companies.

4) Strengthening the management foundation toward improving enterprise value

In addition to fostering job satisfaction and considerably advancing workstyle reforms with the aim of realizing CSV management, the Company has clarified the Group's shared philosophy and built a foundation for promoting and communicating this philosophy. Therefore, the Company has evaluated its own performance as "good." Going forward it will work to further strengthen its management foundation through measures such as building up human capital and accelerating workstyle reforms.

2. Direction of the new medium-term management plan

In May 2024, the Company released its new three-year medium-term management plan (FY3/25-FY3/27). Under its basic policy, named Re.Connect 2026*, it will further evolve three business strategies. These strategies are 1) grow service-provision-type businesses, 2) establish a new value provision model, and 3) transform business processes. It also aims to realize sustainable management and value creation, which are fundamental to the Group's philosophy, by strengthening its sustainability base, including by accelerating human capital investment.

* The name reflects the Company's desire to "reconnect to change relationships for the better" by fundamentally revising the way it interacts and connects with various stakeholders.

(1) Key points of the three business strategies

1) Grow service-provision-type business

Continue to grow investment in cloud growth areas, realize optimized modernization for customers, make certain products and services more efficient, and consider entering new domains, among other measures.

2) Establish a new value provision model

Based on the redefinition of services and data management, which were refined under the previous medium-term management plan, as the Company's core competencies, engage in initiatives including raising the level of value provided to customers through Group-wide development and the establishment of an ecosystem, making ongoing investments in businesses that address social issues, and strengthening alliances.

3) Transform business processes

Aim to strengthen quality management in a way that supports services shifting, implement process standardization, build operational frameworks, while at the same time establishing a Company-wide customer success promotion framework from the customer's perspective.

(2) Financial targets

The targets for the final year of the plan (FY3/27) are net sales of ¥14.0bn (annual average growth rate of 5.3% over the three-year period), operating income of ¥1.45bn (12.4%), and ROE of 8.8% (+1.7pt compared to FY3/24) while at the same time, the Company plans to invest a cumulative total of ¥2.4bn (versus ¥1.96bn in the previous plan), including R&D expenses and capital investment. It is also willing to raise dividends in line with profit growth and is targeting an annual dividend of ¥75 per share in FY3/27 (+¥7 compared to FY3/24). Additionally, although it is not stated in the medium-term management plan, the Company is considering M&As, and it will be looking for investment candidates that will facilitate the recruitment of data management personnel and strengthening of service lines.

Looking at the sales forecasts for each business, Product Services sales are expected to remain roughly level as contraction in the mainframe business will be balanced out by an increase in recurring sales from new growth services. On the other hand, the Cloud Services business, which has been positioned as an engine of growth, is anticipating considerable sales growth in each category. The Professional Services business will continue to advance a shift to high-profit models using consulting as a starting point. In regard to profits, the Company will continue to invest in the cloud while focusing on profitability. In particular, it expects profit growth in Cloud Services and increased profitability in Professional Services to contribute to improvements in the operating income margin and ROE.

Overview of the new medium-term management plan (financial targets)

(¥mn)

	Baseline years			Final year	
	FY3/24 Results	FY3/25 Plan	FY3/26 Plan	FY3/27 Plan	Average growth rate
Net sales	11,980	12,500	13,250	14,000	5.3%
Product Services	4,360	-	-	4,370	0.1%
Cloud Services	3,670	-	-	5,060	11.3%
Professional Services	3,940	-	-	4,570	5.1%
Operating income	1,020	1,050	1,150	1,450	12.4%
Product Services	1,250	-	-	980	-7.8%
Cloud Services	-90	-	-	610	-
Professional Services	360	-	-	520	13.0%
Operating income margin	8.5%	8.4%	8.7%	10.4%	-
Product Services	28.7%	-	-	22.4%	-
Cloud Services	-	-	-	12.1%	-
Professional Services	9.1%	-	-	11.4%	-
Profit attributable to owners of parent	815	850	920	1,130	11.5%
ROE	7.1%	7.1%	7.5%	8.8%	-
DOE	4.5%	4.5%	4.5%	4.5%	-
Dividend per share (¥)	68	70	72	75	-

Note: Segment information for FY3/24 has been arranged according to new categories
Source: Prepared by FISCO from the Company's medium-term management plan

3. Transition to a new organizational structure

In order to address issues that came to light during the previous medium-term management plan and implement business strategies under the new plan, the Company has established two new organizations. The Services Management Division will handle core competencies while the Group Strategy Promotion Office will work to create future value on a Group-wide basis.

4. Points of attention for FISCO analysts

The policy direction the Company is taking has not changed significantly and we at FISCO evaluate it as being rational. Movement toward DX is in full gear throughout society, while at the same time, the shortage of IT human resources at companies has become apparent, so we feel that the Company's strategy to expand its scope of business from only IT issues to also include business issues and social issues, as well as to use consulting as a starting point to provide a one-stop solution framework, and thereby capture the growth in demand, makes sense in regard to realizing sustainable growth. Over the next three years, the Company will further develop the business models that it has been giving shape to, based on the initiatives it has been implementing and the issues that have arisen to date, and this should lead to concrete results. The two biggest points we are paying attention to are 1) its road map for business growth in Cloud Services, and 2) the establishment of a new value provision model. Regarding 1) in particular, we expect to see a breakthrough in the business-promotion cloud business, in which collaborations with partner companies have been taking shape. The key to this will most likely be a strategy in which the Company uses it foundation in services and data management to attract a wide range of influential partners, while also securing sales channels. It is conceivable that an increase in successful projects will then attracts even more new partners, creating a positive cycle. On the other hand, the social cloud business, data collection is a business model that will create future advantages and barriers to entry, so full-scale monetization will likely take time. However, if smooth progress is made, the business has potential to drive results upward. In regard to 2), the Company has established a comprehensive value provision model that makes use of consulting in the service and data management domains, but there is still room for realizing even greater value through collaborations between businesses and within the Group. In April 2024, the Company strengthened its organizational structure so we will be following whether this functions as planned and what results it yields. We will also be paying close attention to any M&A movement by the Company in which it leverages its ample cashflow from operating activities (approx. ¥1.5bn per year), cash and deposits (approx. ¥9.0bn), and robust financial standing (an equity ratio of around 75%). While the Company already has plans for growth investments in the cloud, there seems to be sufficient reserves for further investment, so it is possible that it will implement M&As aimed at dramatically accelerating the speed of growth and the establishment of a value provision model. 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 focus will be to develop the next pillar of earnings and maintain and expand a strong earnings base, so it will be necessary to pay close attention to future developments.

Business outlook

Continued sales and profit increases forecast in FY3/25. Growth (and shift to profitability) in Cloud Services to results increase

For FY3/25, the first year of the Company's new medium-term management plan, forecasting net sales to increase 4.3% YoY to ¥12,500mn, operating income to go up 2.6% to ¥1,050mn, ordinary income to rise 2.2% to ¥1,190mn and profit attributable to owners of parent to go up 4.2% to ¥850mn, so increases in both sales and profit are expected.

In Product Services, sales are expected to trend downward in the mainframe business but in Cloud Services, proactive business expansion is expected to contribute to sales growth. Also, the Company plans to promote value provision in an integrated manner by using consulting, where orders have been particularly strong, as a starting point to increase recurring sales in Product Services, grow mainstay cloud services, and implement system integration and outsourcing.

On the profit front, the Company will continue to invest strategically while ensuring profit growth by turning Cloud Services profitable and further enhancing the profitability of Professional Services. In regard to strategic investments, its policy is to strengthen investment in human capital, as well as renewing its base operational systems in order to reinforce its management foundation.

Forecast for FY3/25

(¥mn)

	FY3/24		FY3/25			
	Results	% of sales	Initial forecast	% of sales	Change	Change (%)
Net sales	11,982	-	12,500	-	518	4.3%
Operating income	1,023	8.5%	1,050	8.4%	27	2.6%
Ordinary income	1,164	9.7%	1,190	9.5%	26	2.2%
Profit attributable to owners of parent	815	6.8%	850	6.8%	35	4.2%

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

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 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.

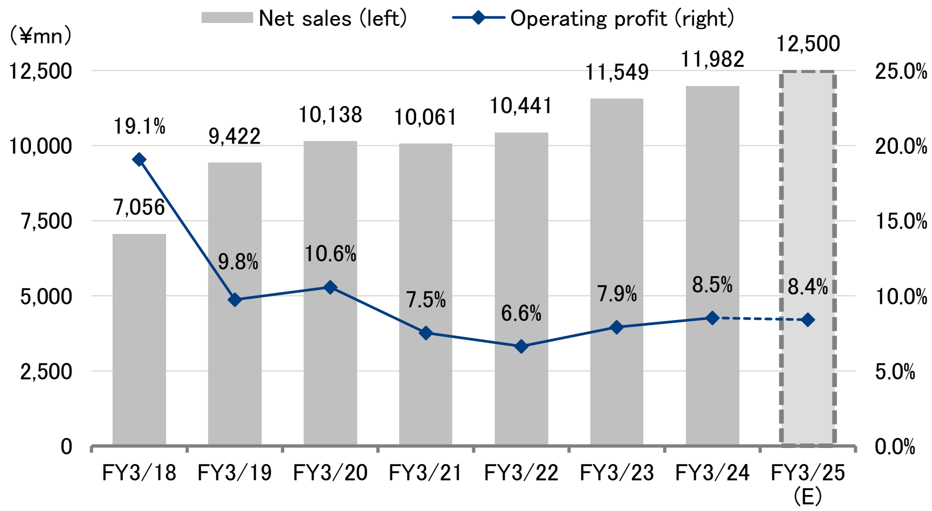
With the absorption-type merger of consolidated subsidiary Beacon IT in April 2015, the Company changed its name to UNIRITA, Inc. The new company name embodies the concept of aspiring to contribute to the development of customers and society with "unique ideas" to create value and an "altruistic spirit" ("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) 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), 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 lower than before 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 biggest focus will be on how to improve profitability in Cloud Services and enhance added value in Professional Services to make up for the impact of the shrinking mainframe business.

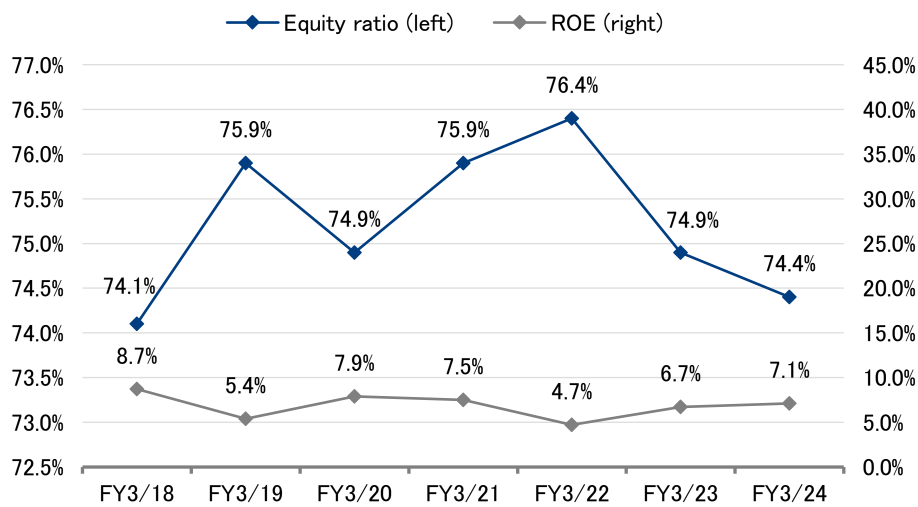
Net sales and operating income margin



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 (305.8% at the end of FY3/24), 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.

Equity ratio and ROE trends



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

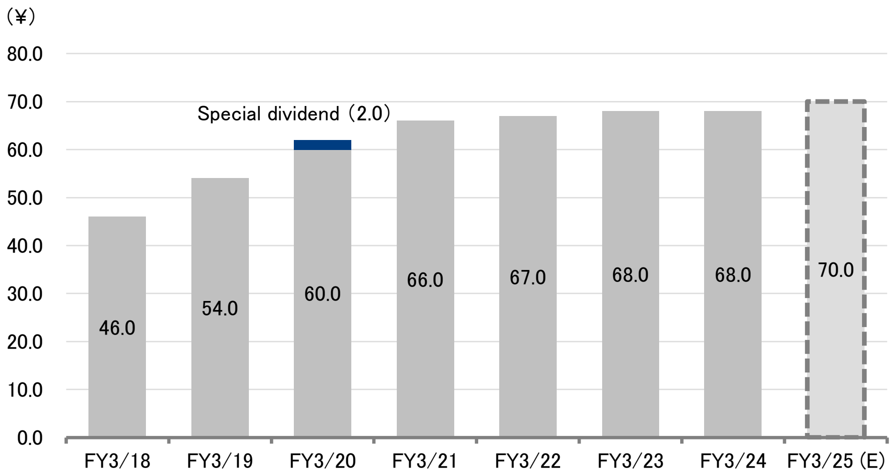
Shareholder returns

The forecast for FY3/25 is for an annual dividend of ¥70, up ¥2 YoY. Forecast for continued dividend increases in accordance with profit growth

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 FY3/24, the Company paid an annual dividend of ¥68 (¥34 interim, ¥34 period-end), the same amount as the previous year (consolidated dividend payout ratio of 63.0%, DOE of 4.5%). For FY3/25, it is planning to pay an annual dividend of ¥70 (¥35 interim, ¥35 period-end), an increase of ¥2 from the previous term. Under the new medium-term management plan, it plans to continue to increase dividends in accordance with profit growth.

Annual dividend per share



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

Disclaimer

FISCO Ltd. ("FISCO") offers stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp