COMPANY RESEARCH AND ANALYSIS REPORT

UNIRITA Inc.

3800

Tokyo Stock Exchange Standard Market

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FISCO Ltd. Analyst

Ikuo Shibata

FISCO

FISCO Ltd.

https://www.fisco.co.jp

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Summary

Lower sales and profits in 1H FY3/25 as issues with the order process remained. Company envisions sales and profit growth for the full year by catching up in 2H

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.

FY3/25 marked the start of the 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 1H FY3/25 results

In the 1H FY3/25 results, net sales declined 3.0% year on year (YoY) to ¥5,747mn and operating income dropped 26.9% to ¥368mn, resulting in decreased sales and profits. Net sales declined as lower orders from existing partners in Professional Services (system integration business) and a sluggish start for new orders in Cloud Services outweighed strong momentum for Product Services driven by growth in automation business tapping into robust migration demand. Profits also declined due to higher advertising expenses to win new customers and staffing increases to strengthen the service provision framework, in addition to a drag on earnings from lower sales. However, Product Services business is growing on migration demand and an appetite for investment accompanying DX, inquiries are generally rising, and the Company is working to improve issues with the order process.

3. FY3/25 results forecasts

For FY3/25, the Company's initial forecast is unchanged, with net sales to increase 4.3% YoY to ¥12,500mn and operating income to rise 2.6% to ¥1,050mn, so increases in both revenue and profits are expected. Although progress in 1H was a bit slow overall, the Company plans to catch up with Cloud Services making up for the sluggish start in 1H, growth for Product Services (automation business) tapping into migration demand, and recovery in orders for Professional Services (system integration business). In terms of profits, the Company intends to continue to invest strategically, while securing profit growth by turning Cloud Services profitable and raising Professional Services' added value. Its plans for strategic investments include strengthening investments in human capital and revamping business system infrastructure to bolster the management base.

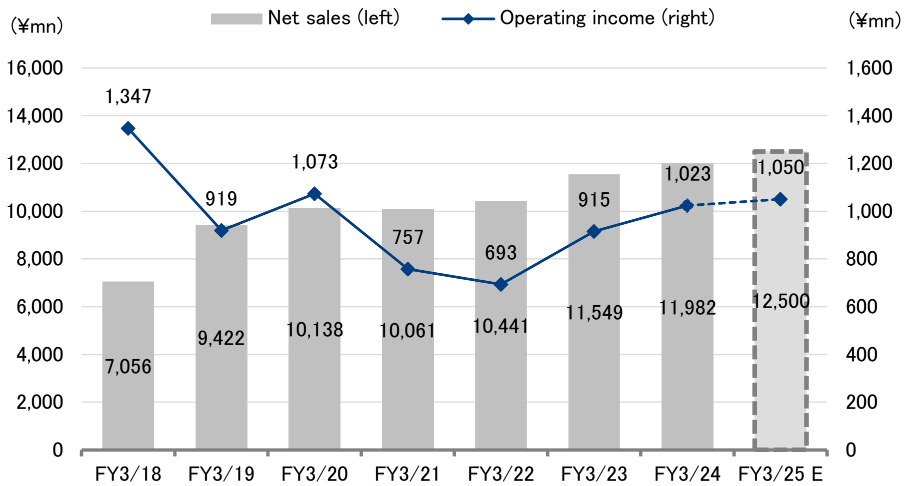
4. Direction of the medium-term management plan

The medium-term management plan aims to establish a new value provision model for the entire Group, starting with consulting and redefining its core competencies as "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 partner companies. 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% (+1.7pp 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.

Key Points

- Sales and profits declined in 1H FY3/25 as issues with the order process remained and upfront expenses grew
- Order environment is good with migration demand and an appetite for investment in IT accompanying DX, inquiries are steadily increasing
- The Company maintained its FY3/25 results forecasts, envisions higher sales and profits by catching up in 2H
- In its medium-term management plan, the Company aims to grow investment in cloud growth areas and establish a new value provision model that leverages strengths in services and data management

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

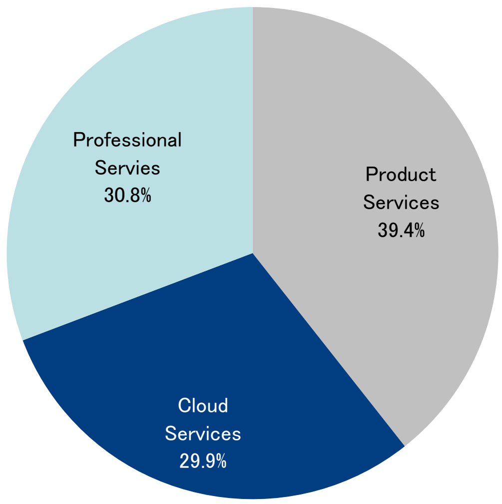
The Company develops, sells, and supports packaged software and data utilization solutions for the operation and management of IT systems for a wide range of industries, including finance and manufacturing, as well as consulting and outsourcing services related to these businesses.

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 has 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.). 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 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 39.4% 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 (1H FY3/25 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. Main products are job management tool A-AUTO (automation business)*2 and Marutto Form Cloud Service*3 for comprehensive assistance of form business.

*1 This format refers to operation of an information system, including servers and software, using equipment at facilities managed by the user.
*2 "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.
*3 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. Also, 3) the social cloud business promotes Community MaaS*2, a solution that supports public transportation and efforts to revitalize local areas, targeting local governments and public transportation 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 A platform that enables subsidiary UNITRAND Inc. to coordinate services promoting purposes for travel with MaaS (Mobility as a Service), a one-stop service for route searches, reservations, payments, and more that optimally combines multiple forms of public transport with other mobility services, and utilize data collected from those services.

(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 eight 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. 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.

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

Sales and profits declined in 1H FY3/25 as issues with the order process remained and upfront expenses looking to the future grew

1. Summary of 1H FY3/25 results

In the 1H FY3/25 results, net sales declined 3.0% year on year (YoY) to ¥5,747mn and operating income dropped 26.9% to ¥368mn, ordinary income went down 18.2% to ¥506mn, and profit attributable to owners of parent decreased 29.7% to ¥290mn, resulting in decreased sales and profits.

Net sales declined as lower orders from existing partners in Professional Services (system integration business) and a sluggish start for new orders in Cloud Services outweighed strong momentum for Product Services driven by growth in automation business tapping into robust migration demand.

Profits also declined, owing to a drag on earnings from lower sales, increased spending on advertising to win new customers and staffing increases to strengthen the service provision framework mainly in Cloud Services, and higher costs accompanying the bolstering of personnel education in Professional Services. The operating income margin also decreased to 6.4% (versus 8.5% in the previous 1H).

Regarding the Company's financial condition, there were no notable developments. Total assets decreased 4.0% from the end of the previous fiscal year to ¥15,138mn. Meanwhile, shareholders' equity was broadly steady with a 0.3% increase to ¥11,762mn, so the equity ratio improved to 77.7% (versus 74.4% at the previous fiscal year-end).

Summary of the 1H FY3/25 results

(¥mn)

	1H FY3/24		1H FY3/25				1H FY3/25		Achievement ratio
	Results	% of sales	Results	% of sales	Change	Change (%)	Initial forecast	% of sales	
Net sales	5,927	-	5,747	-	-179	-3.0%	6,000		95.8%
Product Services	2,110	35.6%	2,262	39.4%	152	7.2%	-	-	-
Cloud Services	1,766	29.8%	1,716	29.9%	-50	-2.8%	-	-	-
Professional Services	2,050	34.6%	1,768	30.8%	-282	-13.8%	-	-	-
Cost of sales	2,607	44.0%	2,507	43.6%	-100	-3.9%	-	-	-
SG&A expenses	2,814	47.5%	2,871	50.0%	56	2.0%	-	-	-
Operating income (loss)	504	8.5%	368	6.4%	-135	-26.9%	450	7.5%	81.8%
Product Services	565	26.8%	688	30.4%	123	21.8%	-	-	-
Cloud Services	-50	-	-274	-	-224	-	-	-	-
Professional Services	179	8.7%	99	5.7%	-79	-44.2%	-	-	-
Adjusted value	-189	-	-145	-	44	-	-	-	-
Ordinary income	619	10.5%	506	8.8%	-112	-18.2%	455	7.6%	111.2%
Profit attributable to owners of parent	412	7.0%	290	5.1%	-122	-29.7%	310	5.2%	93.5%

	End of March 2024 Results	End of September 2024		
		Results	Change	Change (%)
Total assets	15,763	15,138	-625	-4.0%
Shareholders' equity	11,725	11,762	36	0.3%
Equity ratio	74.4%	77.7%	3.3%	-

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 7.2% YoY to ¥2,262mn, and segment profit increased 21.8% to ¥688mn, so both sales and profit increased. As for net sales, 1) automation business sales rose sharply, driven by the mainstay product A-AUTO capturing migration demand*1 associated with the "2025 Digital Cliff" problem*2. 2) Form business sales grew steadily as well, reflecting Marutto Form Cloud Service addressing the needs of companies promoting DX and business efficiency improvement. 3) Sales in the mainframe business facing a shrinking market significantly topped plan, owing to acquiring new customers from mainframe vendors exiting the market, overseas customers' system upgrades, and revisions to formats for providing services. Turning to overall profit for the segment, a boost from higher sales (especially stronger-than-expected sales in the high-margin mainframe business) offset a drag from soaring purchasing costs for cloud infrastructure to realize sharp profit growth.

*1 Transitioning systems, hardware, software, data, etc. from current to different environments, platforms, versions, etc. This includes legacy migration from Fujitsu exiting mainframe business.

*2 A term used in a document called the DX Report that the Ministry of Economy, Trade and Industry released in 2018. The report asserts that advancing DX is vital for companies in Japan to succeed in the market, operating efficiency and competitiveness will inevitably decline unless DX is promoted, and annual economic losses could roughly triple from the current level to about ¥12 trillion from 2025 if competitiveness declines. This is referred to as the "2025 Digital Cliff."

(2) Cloud Services

Net sales decreased 2.8% YoY to ¥1,716mn and the segment loss came to ¥274mn (¥50mn segment loss in 1H FY3/24), resulting in a decline in net sales and an increase in the segment loss. As for net sales, 1) IT utilization cloud business sales declined 2.3% YoY. The mainstay product LMIS did well amid growing demand for introducing service management from companies aiming to balance shifting services and enhancing quality. Turning to Waha! Transformer (a cloud service for data processing and linkage/integration) and infoScoop×Digital Workforce (remote work promotion service), the number of proposals grew as inquires increased about data management projects and information security including ID management and SSO (Single Sign-On) projects, but there was downside from sluggish acquisitions of new customers and missing out on orders for large projects. 2) Business-promotion cloud business sales rose 6.0% YoY. Rakuraku BOSS (commuting expense management service) sales grew, underpinned by successful collaborations with partners and more companies switching back to working at the office from remove work. In addition, Growwwing (customer success ramp-up and growth assistance service) inquiries are apparently increasing for projects including consulting. However, performance for Digisheet and The Staff-V (a personnel management service for temporary staffing services) was weaker than expected. This is because although there is an uptrend in projects from a booming temporary staffing industry alongside economic recovery, there are still issues with the order process. 3) Social cloud business sales declined 32.0% YoY. Inquires grew from local governments, public transport entities, and so forth about Community MaaS, a digital platform that supports the establishment of a sustainable society as a way of resolving problems such as areas lacking public transportation and issues accompanying seniors surrendering their driver's license, but did not lead to contracts in 1H. Also, segment losses widened, reflecting drags from lower sales, higher personnel expenses from services provision framework bolstering, and higher advertising expenses to win new customers.

(3) Professional Services

Net sales and profit decreased, with net sales down 13.8% YoY to ¥1,768mn and segment profit down 44.2% to ¥99mn. As for net sales, 1) consulting business sales declined 0.2% YoY. Orders grew in the data management field on robust consulting demand, but were weak in the service management field. 2) System integration business sales decreased 24.8% YoY. This reflected a decline in orders from major partners and a decline in bulk contracting projects. 3) Outsourcing business sales rose 17.9% YoY. Demand for outsourcing system operations grew, supported by DX investment, and the order backlog is apparently gradually building up. Segment profit declined sharply, owing to a drag from lower sales and higher expenses accompanying the reinforcement of personnel education.

2. 1H FY3/25 overview

FY3/25 marked the start of the medium-term management plan Re.Connenct 2026, but earnings are currently off to a slow start including due to impact from upfront expenses looking to the future. Notably, Cloud Services is lagging plan as new business was weak since the order process lacks the detail for addressing individual companies' diverse needs and requirements. However, the Company is working quickly to improve the service provision framework to resolve issues, strengthen promotions, and so forth. We view that as positive for the future. Also, it seems that steps towards building an ecosystem unifying the Group as set out in the medium-term management plan have yet to come, but it is positive that issues that should be resolved have become clear and demand is growing on all fronts, and we want to keep an eye on future developments centered on the newly established Group Strategy Promotion Office.

Main topics

Strengthening alliances with strategic partners and promoting the introduction of IT services for local governments and public transport to solve social issues

1. LMIS wins top prize in ITreview Grid Award for the 14th consecutive quarter

LMIS, a service management platform that focuses on corporate service desk functions, won the top prize (Leader), which is presented to products with outstanding customer satisfaction and recognition, in the Incident Management category and the Helpdesk Tools category of the ITreview Grid Award 2024 Summer* run by ITcrowd Corp. It is the 14th quarter in a row since Spring 2021 that the Company has received the Leader award in the Incident Management category.

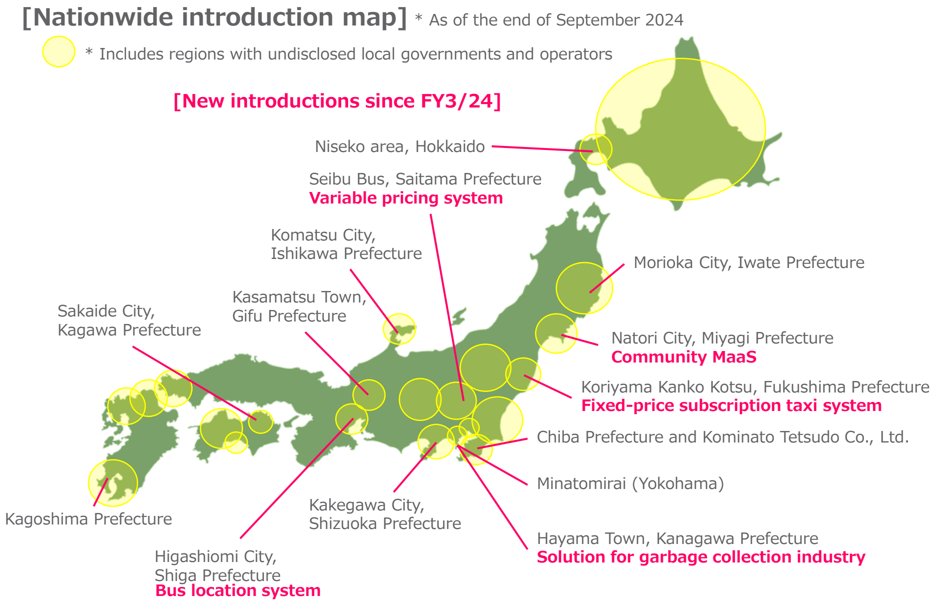
* ITreview, a review platform for business-use IT products and cloud services, presents the Leader prize to products with excellent customer satisfaction ratings and market recognition and the High Performer prize to products with excellent customer satisfaction ratings based on real user reviews compiled.

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

In May 2024, the Company started providing GOMIRUTO, a service co-developed with Hino Motors Ltd. <7205> as a solution for the garbage collection industry, to Hayama Town in Kanagawa Prefecture. Its purpose is to help make garbage collection more efficient and improve operations based on data. In addition, Community MaaS was adopted by Natori City in Miyagi Prefecture for its Natoringo community bus revamping in July 2024. Community MaaS supports the DX of regional public transport, from lightening the work of bus operations to improving convenience for users by introducing cashless payments. In 2H, Community MaaS was also adopted for the co-creation and MaaS demonstration project* that Miharu Town in Fukushima Prefecture is advancing in November 2024. It aims to solve common issues faced by rural areas, such as encouraging seniors to surrender their driver's licenses and resolving mobility problems in areas without public transportation. The project covers the transportation DX field and is the first attempt by a local government body involving the digitalization of transportation, introduction of new demand-responsive transportation, collection and analysis of data, and so forth.

* The Company is participating in a demonstration experiment of a flat-rate shared taxi service for ¥10,000 a month. It will provide assistance in establishing optimal dispatch routes based on a customer management system and data. It will also be responsible for analysis of the service in combination with route bus, railways, and so forth with an eye to the town's realization of transportation DX.

Introduction of IT services for local governments and public transport
(As of the end of September 2024)

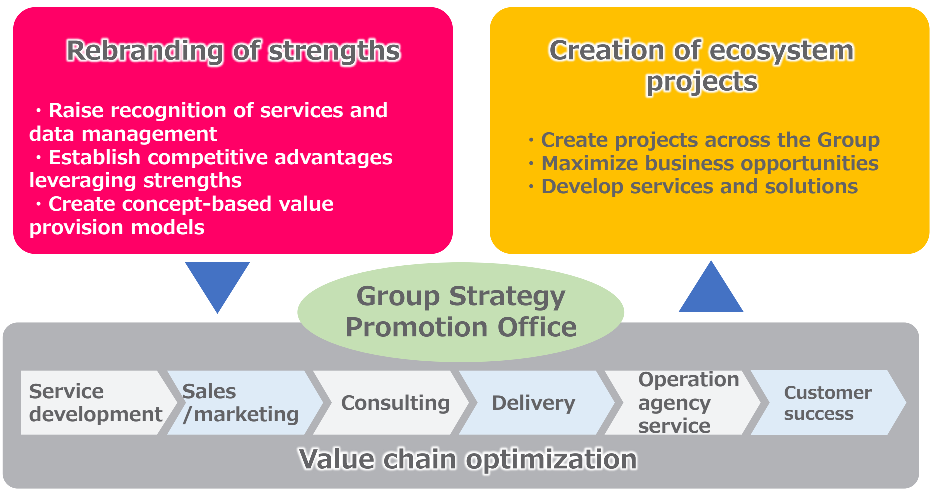


Source: The Company's supplementary results briefing materials

3. Newly established Strategy Promotion Office's initiatives

To facilitate its evolution into an organization that delivers corporate growth and functional enhancements as it carries out its medium-term management plan, the Company established two new business units in May 2024. They are the Services Management Division for advancing its core competencies in services and data management, and the Group Strategy Promotion Office for creating future value across the Group. In particular, the Group Strategy Promotion Office is working on rebranding strengths shared by the Group and raising recognition internally and externally to "establish a new value provision model" as set out in the medium-term management plan, as well as the creation of Group ecosystem projects and optimization of the Group value chain from development to sales, consulting, and customer success.

Group Strategy Promotion Office initiatives



Source: The Company's supplementary results briefing materials

Business outlook

The Company maintained its FY3/25 results forecasts; envisions higher sales and profits by catching up in 2H

1. FY3/25 results forecasts

For FY3/25, the Company's initial forecast is unchanged, with net sales to increase 4.3% YoY to ¥12,500mn, operating income to rise 2.6% to ¥1,050mn, ordinary income to grow 2.2% to ¥1,190mn, and profit attributable to owners of parent to increase 4.2% to ¥850mn, so increases in revenue and profits are expected.

At the start of FY3/25, the Company had assumed that proactive business expansion in Cloud Services would contribute significantly to sales growth. Although progress in 1H was generally slow, the Company envisions catching up with Cloud Services making up for the sluggish start in 1H, growth for Product Services tapping into migration demand, and recovery in orders for Professional Services (system integration business). In addition, it plans on continuing to build a new value provision model unifying the Group (all services), using consulting where demand is growing as a starting point.

In terms of profits, the Company maintains its initial assumption of securing profit growth by turning Cloud Services profitable and enhancing the added value of Professional Services, while continuing to invest strategically. Its plans for strategic investments include strengthening investments in human capital and revamping business system infrastructure to bolster the management base.

FY3/25 results forecasts

(¥mn)

	FY3/24		FY3/25			
	Results	% of sales	Initial forecast	% of sales	Change	Change (%)
Net sales	11,982		12,500		517	4.3%
Operating income	1,023	8.5%	1,050	8.4%	26	2.6%
Ordinary income	1,164	9.7%	1,190	9.5%	25	2.2%
Profit attributable to owners of parent	815	6.8%	850	6.8%	34	4.2%

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

2. FISCO's opinion

Net sales of ¥6,753mn and operating income of ¥682mn in 2H are needed to attain the Company's full-year results forecasts. Although 1H progress trailed expectations, the order climate is good with migration demand and an appetite for IT investment accompanying DX (especially in the Company's core domain of data and services management deployment), and we think the Company is fully capable of catching up if progress is made improving the order process, which has been an issue. Therefore, the key will likely be how the Company's efforts since 1H to strengthen its service provision framework and enhance promotions translate into results. We also want to keep an eye on moves to reinforce the Cloud Services framework (details and results of strategic investments) to accelerate growth from FY3/26.

Direction of the medium-term management plan

Working to build a Group-wide value provision model based on its core competencies in services and data management

1. Direction of the 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% (+1.7pp compared to FY3/24) while at the same time, the Company plans to invest a cumulative total of ¥2.4bn, 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 ¥75.0 per share in FY3/27 (+¥7.0 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 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

2. Medium- to long-term focal points

The direction of the medium-term management plan 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 optimizing the value chain with consulting as a starting point, 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 its 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 attract even more new partners, creating a positive cycle. On the other hand, in 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, concrete moves are beginning to be made, and if it goes smoothly, 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 (establishment of the Services Management Division and the Group Strategy Promotion Office, etc.) 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.

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.

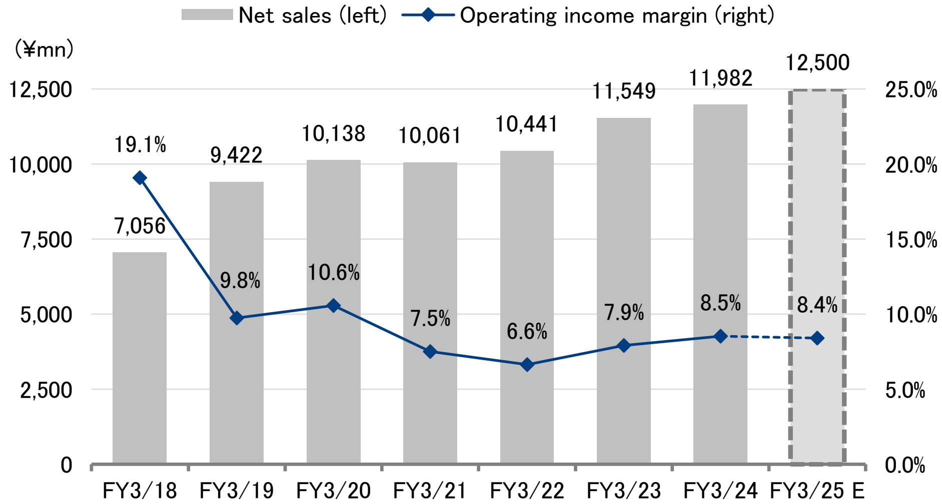
With the absorption-type merger of consolidated subsidiary Beacon IT in April 2015, the Company changed its name to UNIRITA, Inc. The new company name embodies the concept of aspiring to contribute to the development of customers and society with "unique ideas" to create value and an "altruistic spirit"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

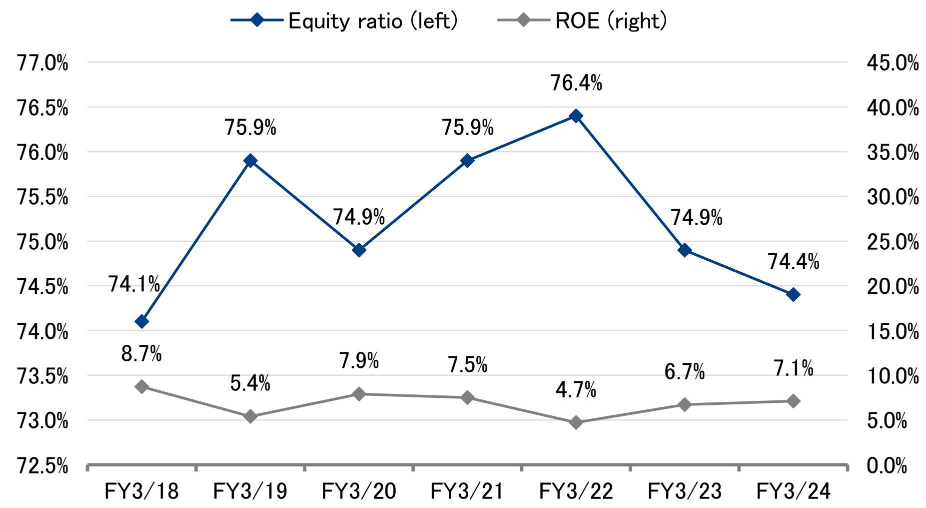
Net sales and operating income margin



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



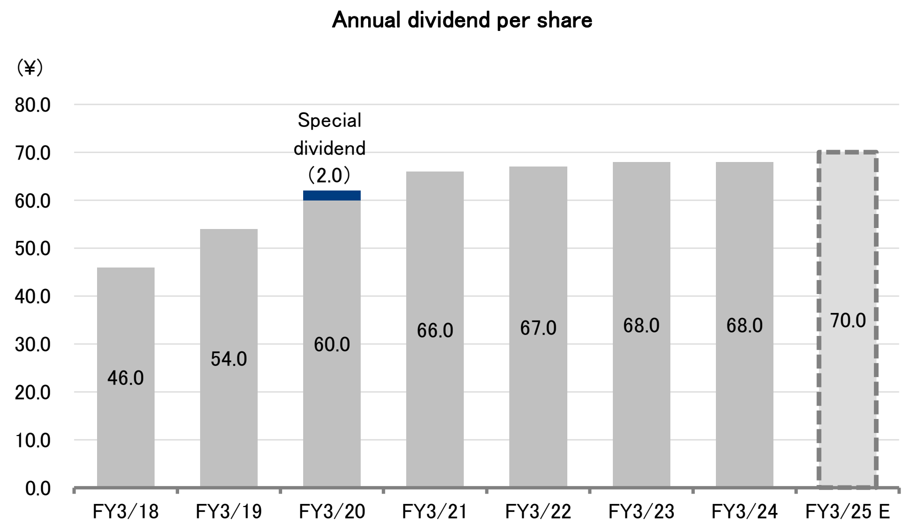
Source: Prepared by FISCO from the Company's financial results

Shareholder returns

The forecast for FY3/25 is for an annual dividend of ¥70.0, up ¥2.0 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.

For FY3/25, the Company is planning to raise the annual dividend ¥2.0 YoY to ¥70.0 (¥35.0 interim, ¥35.0 period-end). Under the medium-term management plan, it plans to continue to increase dividends in accordance with profit growth.



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

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■ 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