

AVANT  
GROUP



December 28, 2023

To whom it may concern

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Name of Representative: Tetsuji Morikawa,  
President and Group CEO  
(Code: 3836, TSE Prime Market)  
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### **Measures to achieve cost of capital and share price conscious management.**

We have analyzed and evaluated the current status of our actions to achieve cost-of-capital and stock price conscious management and have prepared the attached notice regarding our policy for future efforts to improve the situation.

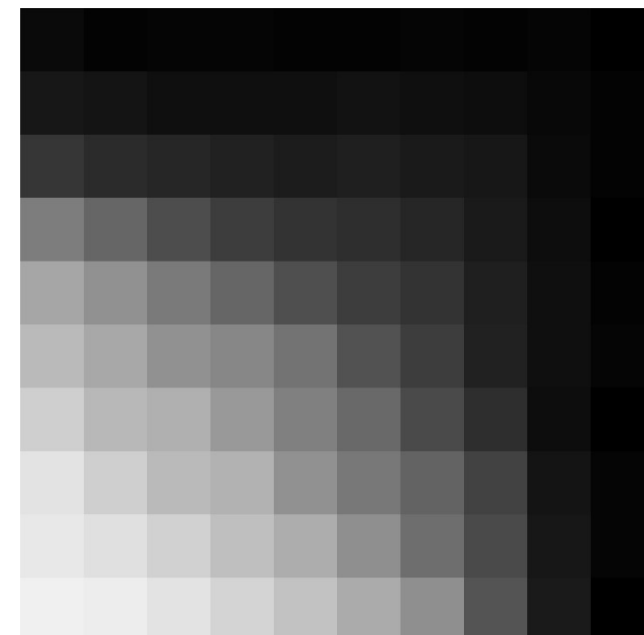
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3836 TSE Prime

# Avant Group Corporation

## Measures to achieve cost of capital and share price conscious management

December 28, 2023



This is an unofficial translation. In case of any difference in meaning between the original Japanese text and the English translation, the Japanese text shall prevail.

# | Executive Summary

Share price analysis is included in the regular agenda of the Board of Directors of the Avant Group and the following topics are discussed on an ongoing basis.

## ■ Status quo assessment

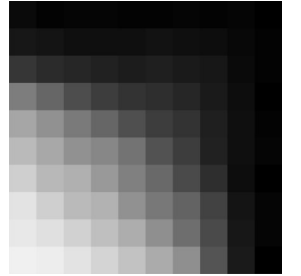
- Our ROE is running at around 20%, which is well above the range of our assumed cost of equity (around 7%).
- The P/B ratio has averaged 5.8x from FY2020 to the most recent Q1 FY2024, which suggests that growth potential is valued by investors.
- The PER has been in the range of 20x-40x, which is above the competitive level of the current business model, but below that of SaaS companies that are consistently profitable.

## ■ Policies and objectives

- As for ROE, the aim is to achieve an average of 20% throughout the medium-term plan period.
- As for PER, the aim is to achieve a business model change and improve it.
- Growth investments are planned to transform the business model and achieve high growth potential.

## ■ Efforts/period of implementation

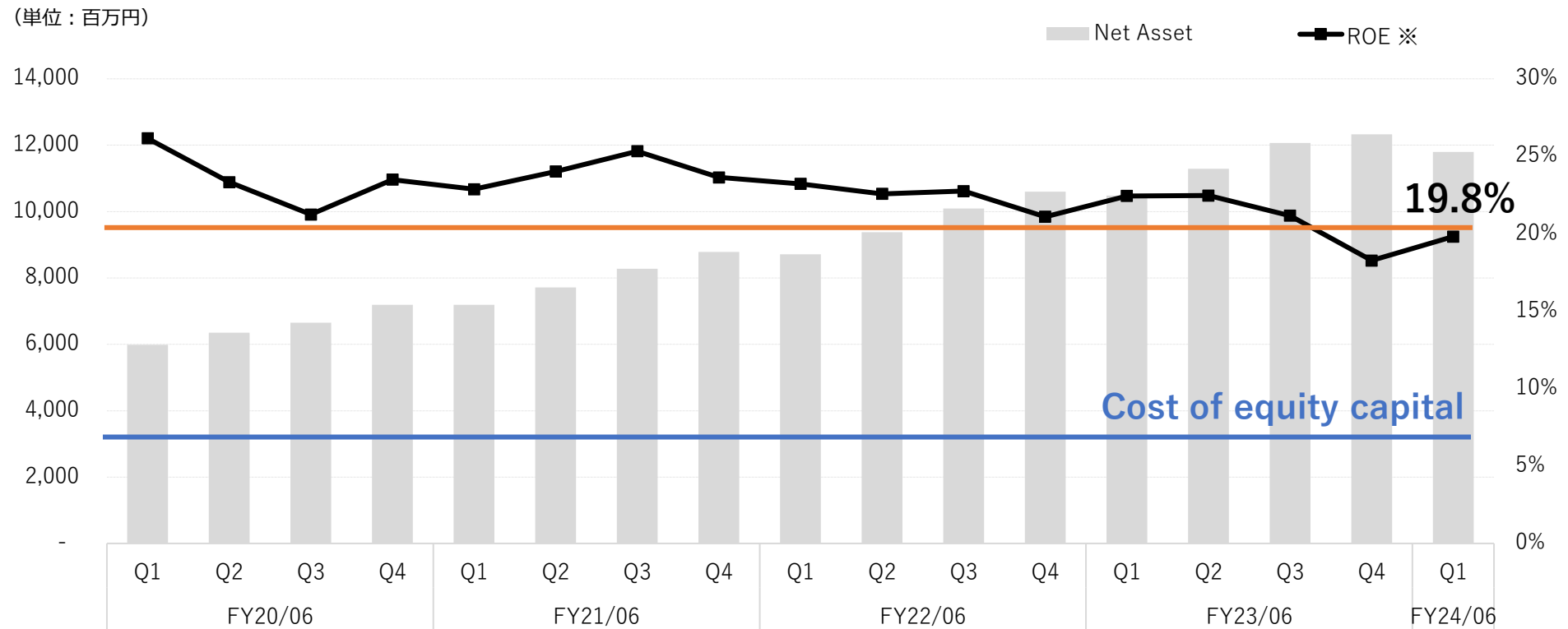
- The share grant system was introduced to raise employees' awareness of the need to improve their own company's corporate value, to encourage employees to contribute to the enhancement of corporate value through their own actions, to link this to proactive initiatives, and to share medium- and long-term results with other stakeholders.



# Status quo assessment

# Status quo assessment ~ ROE ~

- ROE has averaged 20%, which is well above the range of our assumed cost of equity (around 7%).

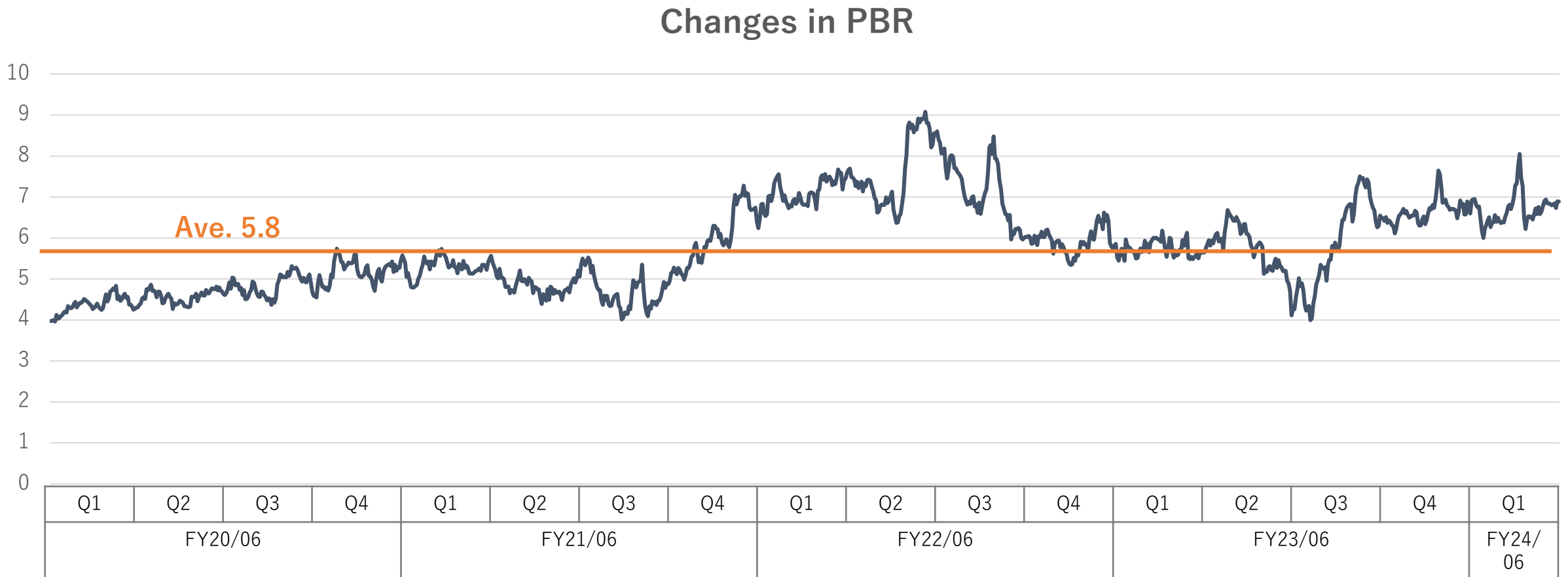


※Figures are calculated based on the past four quarters.

Effective from the beginning of the first quarter of FY6/22, the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and others have been applied.

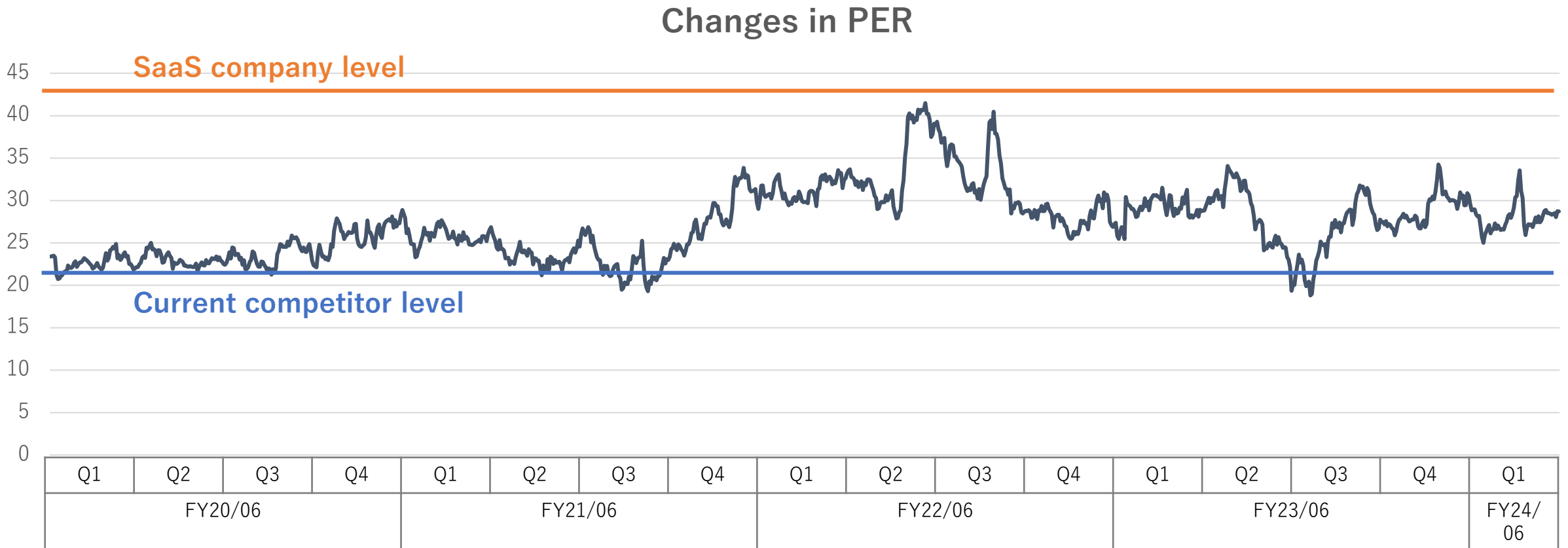
# Status quo assessment ~ PBR ~

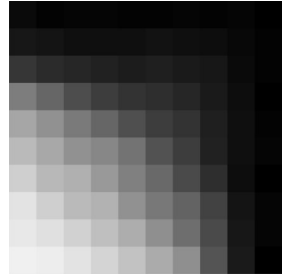
- The P/B ratio has averaged 5.8x from FY2020 to the most recent Q1 FY2024, which suggests that growth potential is valued by investors.



# Status quo assessment ~ PER ~

- The PER has been in the range of 20x-40x, which is above the competitive level of the current business model, but below that of SaaS companies that are consistently profitable.
- The medium-term management plan aims to change the business model and aims for a PER above the level of SaaS companies.





# Policies and objectives



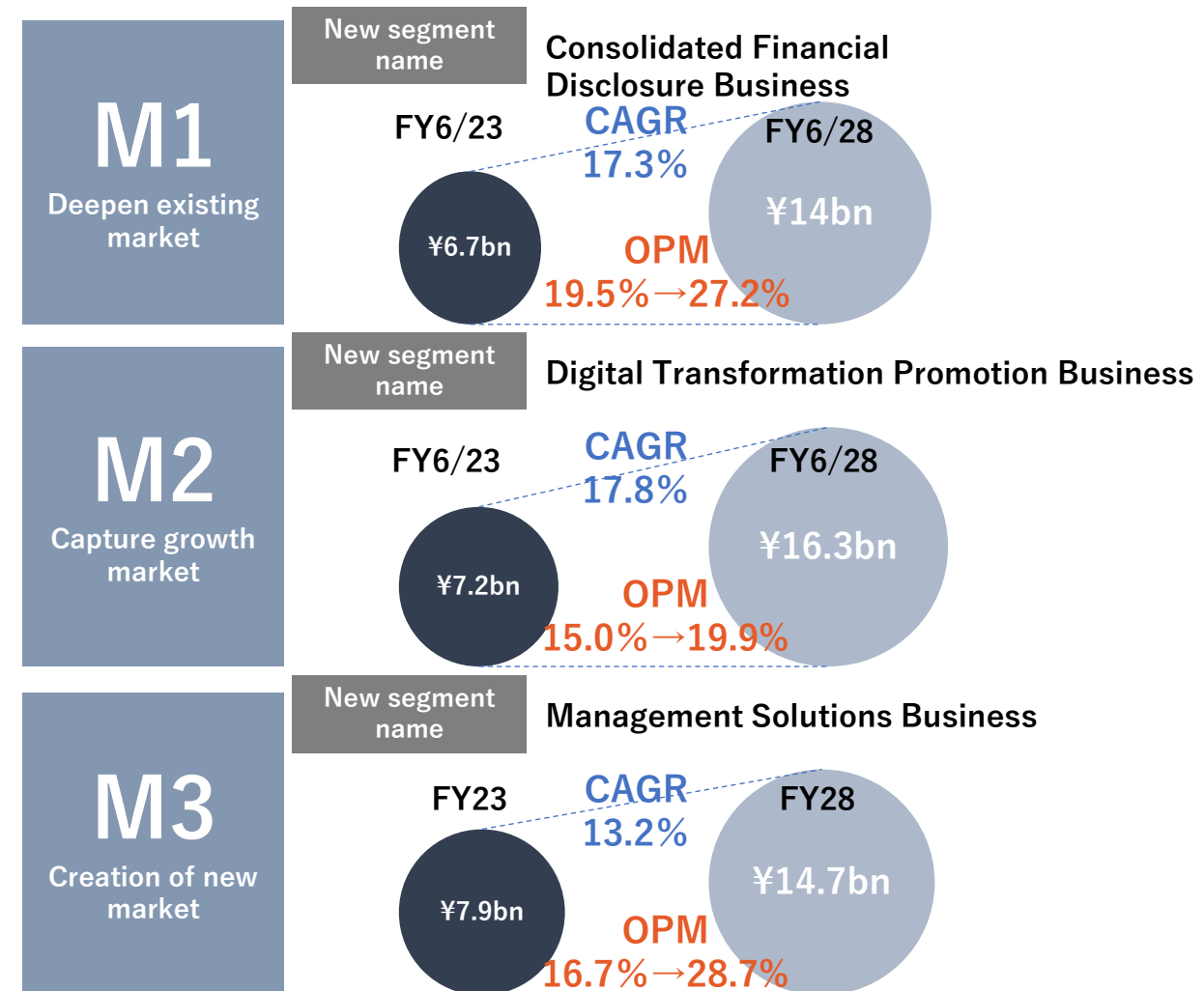
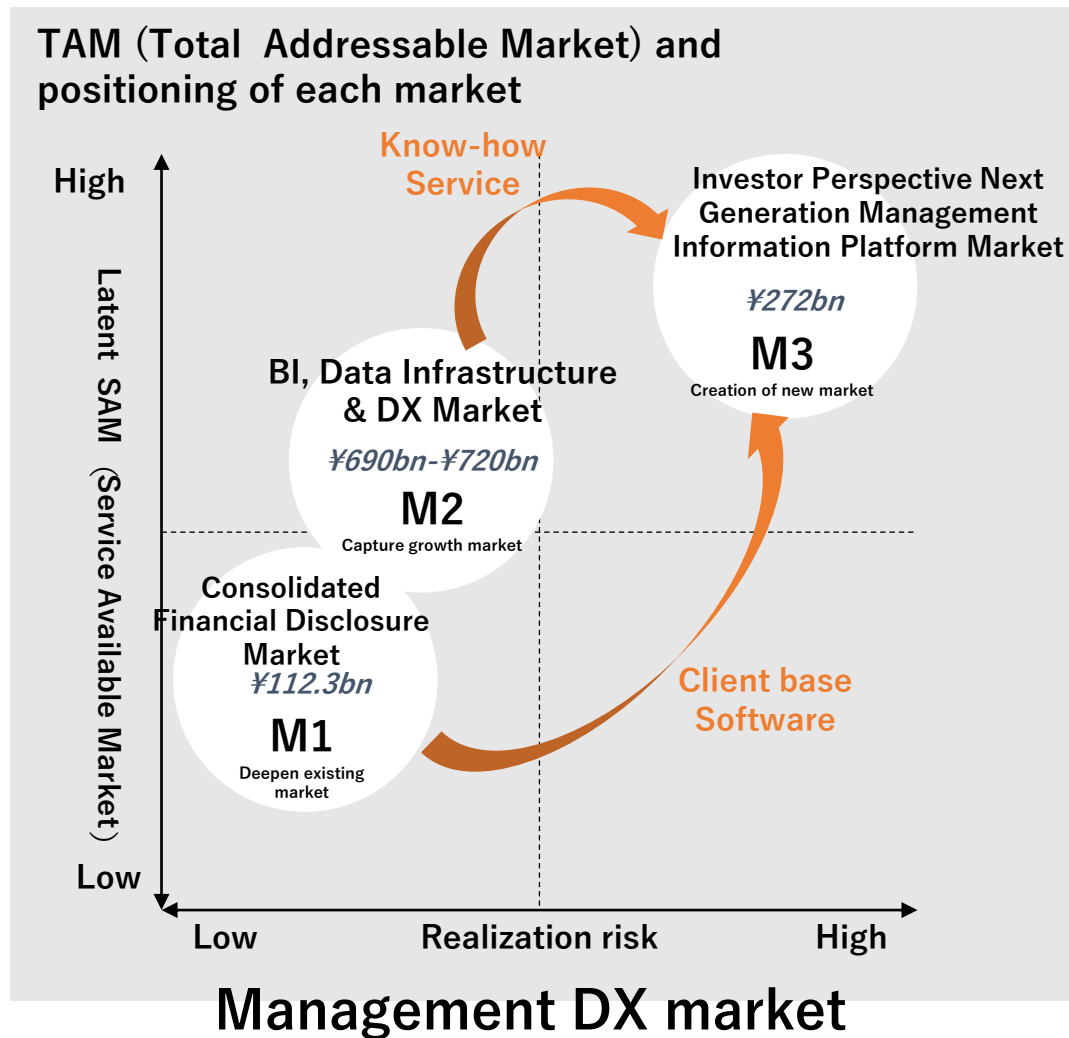
# Medium-term management plan BE GLOBAL 2028 (BG28) Outlook

- As for ROE, the aim is to achieve an average of 20% throughout the medium-term plan period.

	FY6/23	FY6/24	FY6/28	5yr chg/avg
Net Sales	¥21.4bn	¥24bn	¥40-45bn	2x
Operating Income (OI)	¥3.28bn	¥3.85bn	¥9-11bn	3x
OPM	15.4%	16.0%	20-24%	+5-9pts
Net Income	¥2.09bn	¥2.5bn	¥6-7bn	3x/CAGR 25%
OI/person	¥2.4mn	¥2.4mn	¥3.5-4.3mn	1.5x
Software Gross Profit	¥2.13bn	¥2.17bn	¥6.0-6.5bn	3.0x
<b>ROE</b>	18.3%	19.3%	20% or more	Avg 20%
DOE	4.9%	5.3%	8% or more	Avg 7%
Dividend	¥15	¥19	¥51 or more	3.4x

# BG28 Focus Markets

- Position self in management DX market for companies where enhancing corporate value is a serious issue



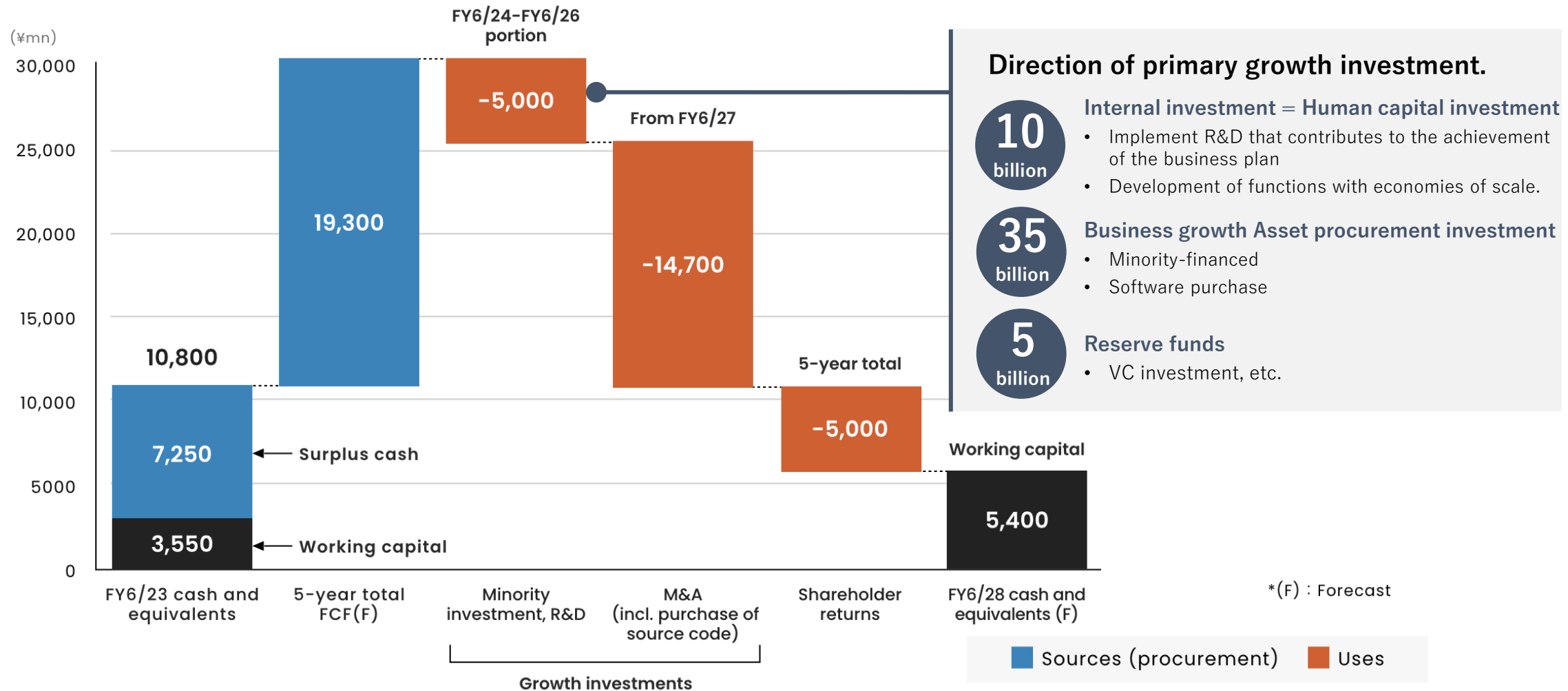
# Business model transformation targeted by BG28

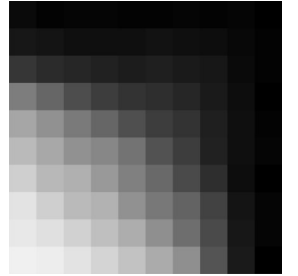
- Investment in growth to transform the business model and improve PER.

	Business Model	Current Status/ Issue Recognition	Growth Investment
<b>M1</b> Deepen existing market	<b>BPO SaaS</b>	<ul style="list-style-type: none"> <li>Comprised of outsourcing and software businesses, the ratio of recurring sales is high and comparable to SaaS companies.</li> <li>The company has identified the difference in gross profit margins compared to SaaS companies, which is a target for business model change, as an issue.</li> </ul>	<b>New cross-selling products</b>  <b>AI-based research on models for automating the financial disclosure process</b>
<b>M2</b> Capture growth market	<b>SI</b>	<ul style="list-style-type: none"> <li>The company has achieved stable growth in a growing market with strong demand in the SI business specialising in data platforms and BI.</li> <li>The level of headcount growth is perceived as a challenge compared to companies that have achieved the same level of headcount growth as sales growth and whose growth potential is also highly regarded by the market.</li> </ul>	<b>Establishment of recruitment and training processes to achieve higher-than-planned headcount growth</b>
<b>M3</b> Creation of new market	<b>SI + Consulting</b> ↓ <b>Consulting SaaS</b>	<ul style="list-style-type: none"> <li>In the business management market, the company handles not only its own products but also those of other companies and has achieved growth mainly in the flow business of SI+Consulting.</li> <li>Compared with companies that have achieved a high level of growth in the recurring business, mainly in software, the company has identified lower sales growth and a lower proportion of software sales as a challenge.</li> </ul>	<b>Development and market success of own products as growth drivers</b>

# Capital Allocation

- A total of JPY 20 billion will be invested in growth investments over the five-year period of the mid-term plan to achieve the business model transformation.

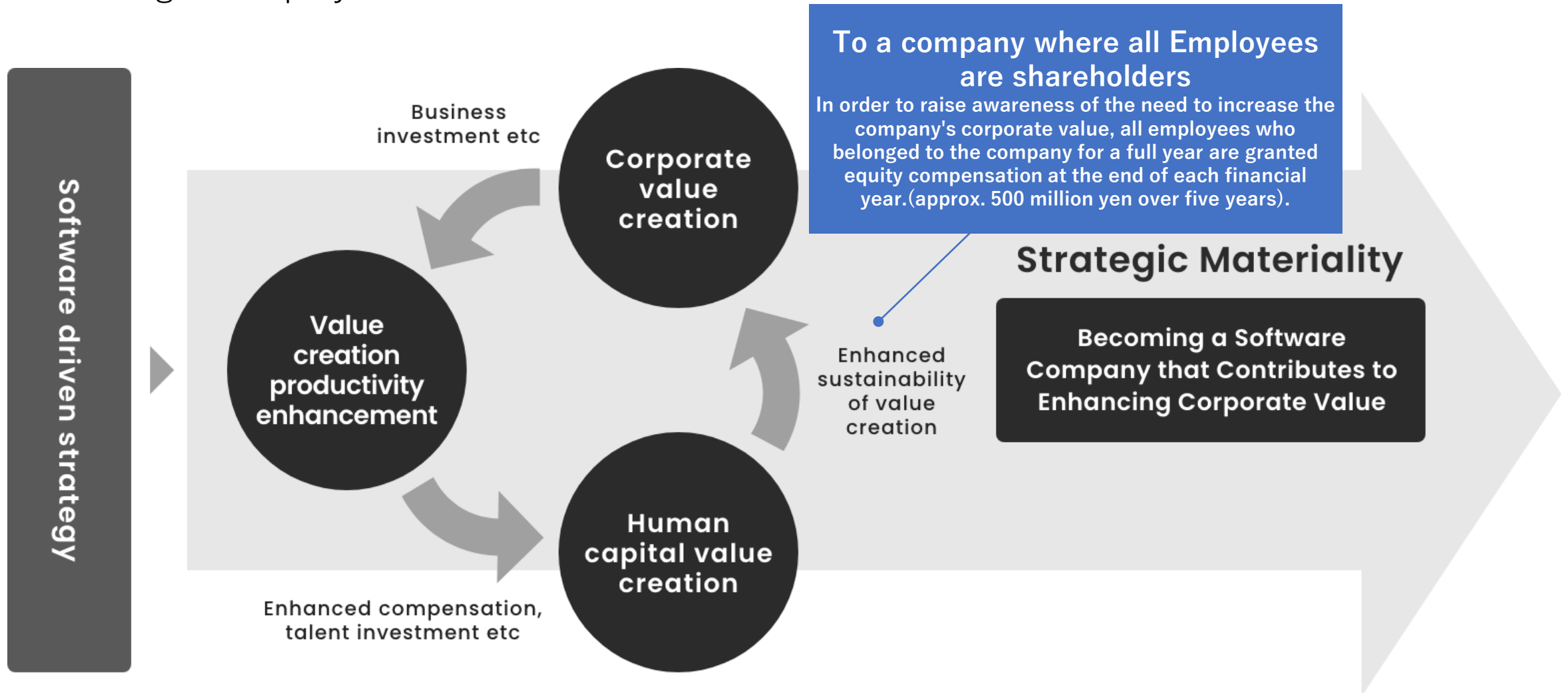


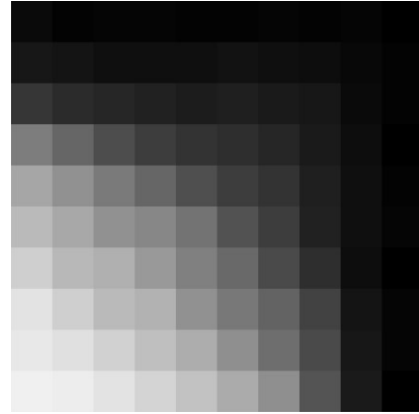


## Efforts/period of implementation

# Introduction of a restricted share grant scheme for employees (RS Trust)

- Strengthen the spiral from human capital value creation to corporate value creation by making all employees shareholders.





AVANT GROUP

SUSTAINABILITY IS VALUE