AVANT

AVANT Corporation

Financial Results Briefing for Institutional Investors FY2019

August 6, 2019

Event Summary

[Company Name]	AVANT Corporation
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[Venue]	The National Museum of Modern Art, Tokyo 3-1 Kitanomaru Koen, Chiyoda-ku, Tokyo 102-8322
[Venue Size]	213 m^2
[Participants]	40
[Number of Speakers]	2 Tetsuji Morikawa President and Group CEO Naoyoshi Kasuga Director and Group CFO

Presentation

Nishimura: Hello, everyone. Thank you for coming together today despite being busy and the hot summer. We have just begun our Financial Results Briefing of the fiscal year ending June 30, 2019, for AVANT Corporation.

My name is Nishimura from the AVANT Corporation President's Office, and I'm in charge of moderating this briefing today.

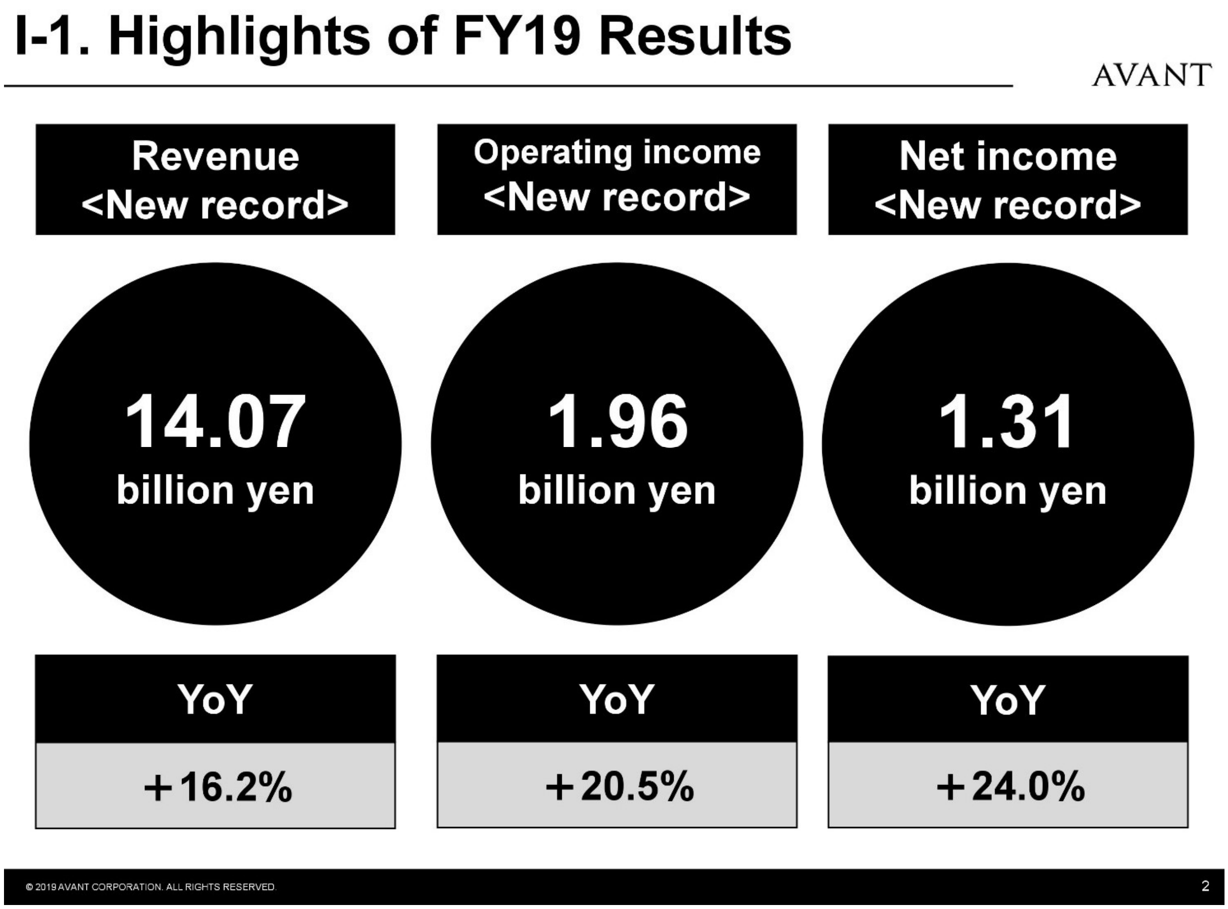
Today's briefing will be based on the materials given at the entrance, and we will have time for questions and answers at the end of the briefing. We also provided questionnaires at the same time as the materials. There are many items to be filled out, but I would like to reflect on opinions as much as possible. I would like to ask for your cooperation in filling out these items.

Now, I would like to introduce the participants today. The left side from the audience is Mr. Morikawa, President and Group CEO, and Mr. Kasuga, Director and Group CFO.

We will begin the presentation first. First of all, Kasuga, Director and Group CFO, will explain the outline of the financial results.

Kasuga: I am Kasuga, who is in charge of finance. Thank you very much.

I would like to briefly explain our financial results, which have just been completed.



As you can see here for the fiscal year ended June 30, 2019, although we will not read this report for the moment, net sales, operating income, and net income have all reached record highs.

I-2. Segment Results

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- **Consolidated Accounting Business:** Provided allowance for a large-scale project, but quality of other projects improved and both operating income and margin
- **Business Intelligence Business:** Received order for large projects. Increased high margin primary contract that absorbed increase in expenses related to personnel expansion
- **Outsourcing Business:** Diversified revenue base. Increased revenue absorbed expenses related to business expansion

(Millions of Yen)

		FY18/06	FY19/06	Year-on-Year	
				Variance	%CHG
Consolidated Accounting	Revenue	7,261	8,034	+ 773	+ 10.6%
	Operating Income	1,030	1,293	+ 263	+ 25.5%
	OP Margin	14.2%	16.1%	-	+ 1.9 point
Business Intelligence	Revenue	3,953	4,990	+ 1,036	+ 26.2%
	Operating Income	324	636	+ 311	+ 96.1%
	OP Margin	8.2%	12.8%	-	+ 4.5 point
Outsourcing	Revenue	1,313	1,629	+ 316	+ 24.1%
	Operating Income	213	318	+ 104	+ 48.9%
	OP Margin	16.3%	19.5%	-	+ 3.3 point

When looked at by company segment, each company was very good, and in the fiscal year just ended, the results were good. At the beginning of the period in particular, there was some concern about the extent to which the Business Intelligence Division would expand. However, the business intelligence area, in particular, was the driving force behind the results in the previous fiscal year.

I-3. Balance Sheet & Cash Flow

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Financial Status

(100 million yen)

Total Assets 104	Total Liabilities 45	
	Net Assets 59	

Equity Ratio

Cash Flow

(Millions of yen)

	FY18/06	FY19/06
Operating CF	1,159	1,320
Investment CF	(353)	(455)
Financial CF	(184)	(232)
Free CF	805	864

Key Factors for change

(millions of yen)

· Income before income taxes and minotiy interests	2,003
· Increase in account receivable	(512)
· Increase in provision	242
· Increase in deffered revenue	182
· Depreciation expense	167
· Income taxes paid	(792)
· Paid deposit	(215)
· Purchase of tangible fixed assets	(127)
· Payment of shareholder dividends	(225)

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As you can see, both the B/S ratio and the equity capital ratio have reached record highs, and operating cash flow is positive and very large.

On the other hand, regarding the accumulation of cash, investors, such as you, point out that it is a way to use cash, but this is currently being conserved as a strategic means for the future. If there is an opportunity, we would like to use this cash more effectively.

II. Forecast for the fiscal year ending June 30, 2020

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- **Both revenue and profit continue high growth**
- While revenue growth at Consolidated Accounting business should slow to single digits as we finalize large-scale projects, robust growth at Business Intelligence and Outsourcing business should continue and we expect double digit growth in revenue
- While investment for the future growth continues at each segment, we believe we could maintain OP margins compared to the previous fiscal year

Revenue	Operating income	Net income
15.48 billion yen	2.16 billion yen	1.35 billion yen
YoY +10.0%	YoY +10.1%	YoY +2.7%

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Our financial results close June, so we have already started the current fiscal year. We are presenting the results forecast as shown here.

As for sales mentioned in the materials, some of the business divisions involved in consolidated accounting had large-scale projects, but some of these projects are now converging in the current fiscal year. We have not yet seen a double-digit increase in this figure.

On the other hand, we expect growth in both the business intelligence and outsourcing businesses to be on par with the previous fiscal year. As a result, we expect to achieve double-digit growth in consolidated net sales for the Group as a whole.

As for operating profit, the ratio of operating profit to sales was 14% in the period just ended, but the ratio of operating profit would not be lowered unless the ratio of operating profit was lowered. We have set the operating profit at the level of 2.16 billion yen.

Compared to the previous fiscal year, the percentage of net sales is almost unchanged, so the rate of increase is the same. While the previous fiscal year saw considerable growth, each company and operating company in the fiscal year under review has controlled investment in some businesses, so we expect some investment to be made within the range that can be absorbed by each company. As a result, operating income is set at the level of 2.16 billion yen.

III. Shareholder Return Policy

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- For the fiscal year ended June 2019, the Group plans to increase 3 yen to 15 yen compared to last year, in line with initial forecast
- For the fiscal year ending June 2020, we plan to increase dividends in line with our policy of continuing stable dividends to 18 yen per share

Trends in Dividends per Share (adjusted for stock splits)

	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual
Dividends per share (yen)	1.0	2.25	6.75	4.5	5.5	8.0	12.0	15.0
DOE (AVANT)	1.30%	2.48%	5.84%	3.25%	3.41%	4.18%	5.20%	5.27%
DOE (TSE Average)	2.24%	2.28%	2.39%	2.43%	2.64%	2.78%	2.85%	2.94%

Source: JPX Group Statistics Monthly Report; DOE average of listed companies on TSE is calculated by 12 months from May 2018 to April 2019

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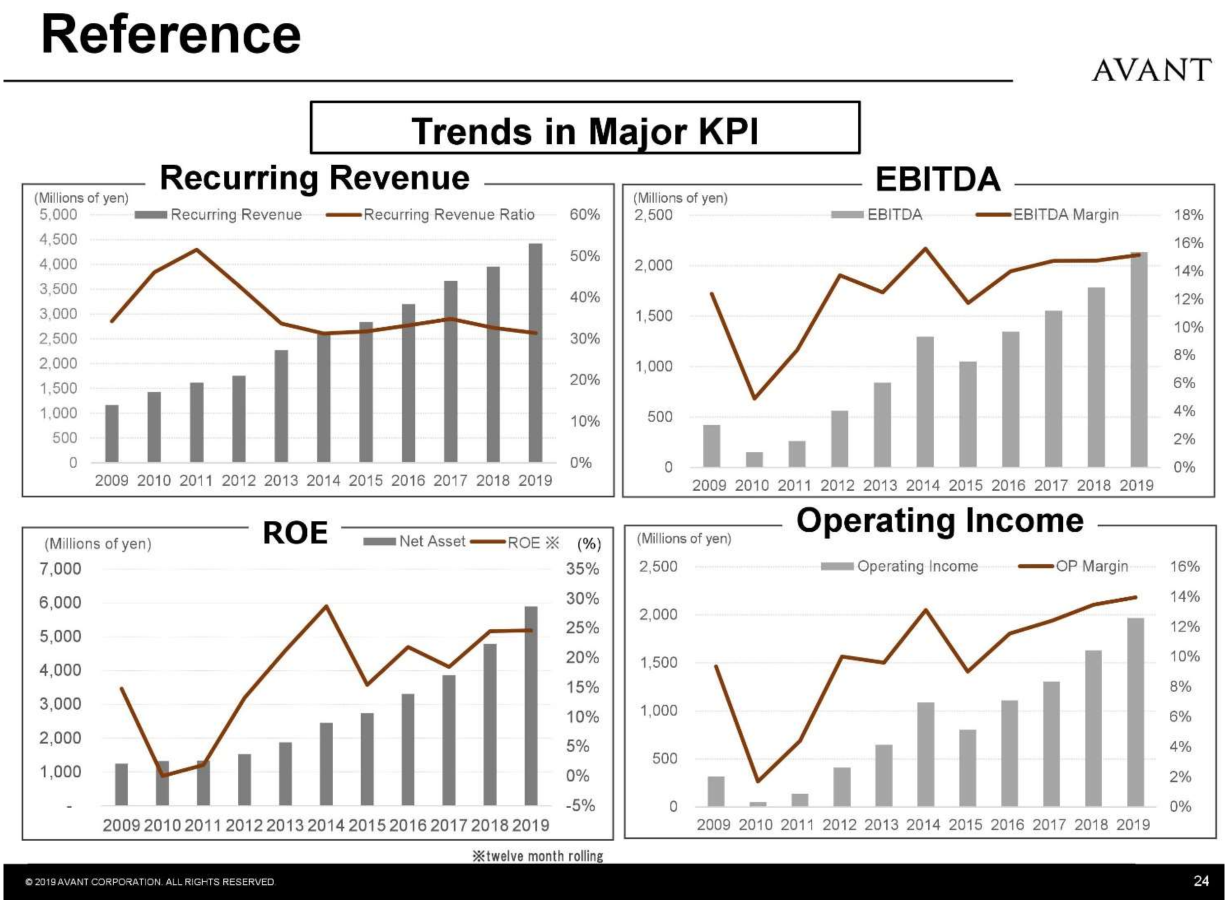
Our basic assumption is that we will continue to pay dividends in a stable manner. As far as we can secure a source of dividends, the absolute amounts of dividends per share will not fall below the previous year's level.

In this sense, we had a dividend of 15 yen per share in the fiscal year just ended, but our forecasts for the current fiscal year exceed the dividend of 15 yen per share.

We forecast 18 yen per share for the current fiscal year. Another important factor, that is KPI, is dividend on equity, which we consider to be a key indicator for returning profits to shareholders. This ratio is the average for companies listed on the Tokyo Stock Exchange (TSE). Currently, the average is about 3% below this level, but we are at a level exceeding 5% in our past performance. In the end, I would like to aim to increase this figure to about twice the average level of the TSE.



As I mentioned earlier, operating income has been regarded as an important indicator and will be regarded as an important indicator in the future. Please refer to page 24, which is the last page of the materials. We would like to emphasize the level of EBITDA in the future for reference.

There is no significant difference between the levels of operating income and EBITDA. Since we have not made any major acquisitions, we have not incurred depreciation. However, if there are any opportunities in the future, we will incur depreciation expenses in making strategic investments, particularly in the case of acquisitions.

Operating income is not the only level you can see, and in that sense, I would like you to see EBITDA with the same importance. As a result, although there is overlap, I would like to ask you to closely monitor the level of EBITDA in the future or to use it as a reference.

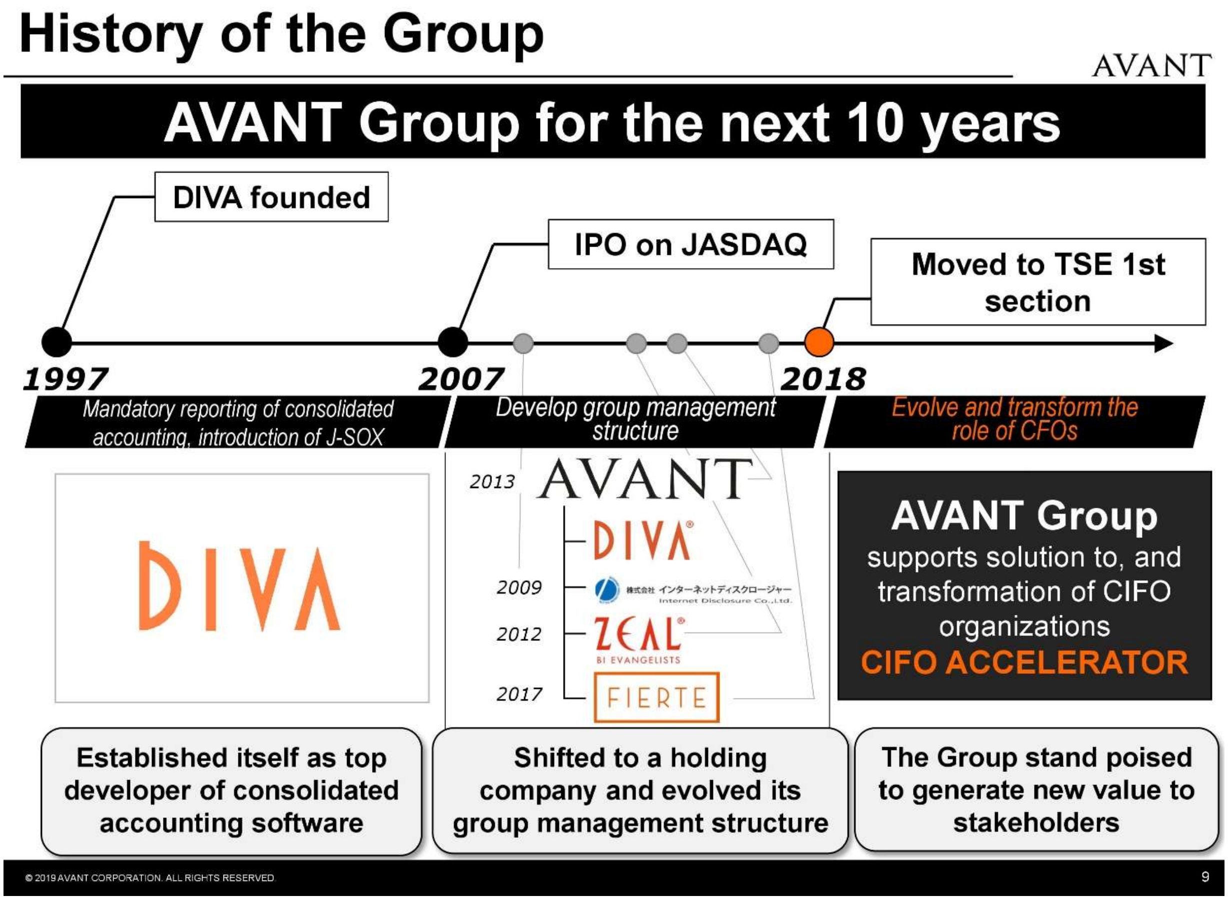
That is all from my explanation. Thank you.

Nishimura: Morikawa, President and Group CEO, will explain about the progress and update of the medium-term management plan.

Morikawa: Hello, I'm Morikawa. I would like to explain the progress of the medium-term management plan.

To begin with, our vision calls for the creation of a 100-year company. The starting point for our founding is the creation of a world-class software company from Japan, which we have been promoting so far.

Looking back at the previous fiscal year, external officers have been asked what to do in the future and whether we are going to realize this vision or not. We have been asked about this, and our preparations and requirements do not focus on “will” but “how”. In the previous fiscal year, we had been strongly urged to explain in concrete terms how we could achieve these objectives, and it took a considerable amount of time.



There are a number of major turning points toward this vision. At the time of our founding, we began with a software company called DIVA, and we began with a consolidated accounting company DIVA, which truly aimed to become a global company.

However, after the bankruptcy of the Lehman Brothers, the market environment became extremely bad, and it was a matter of course that product manufacturers required continuous product development. From the viewpoint of cost reduction, we discontinued the development of new products, and this considerably shrank the growth itself. In the case of investment in product development, there is a considerable amount of investment required, and it has become extremely difficult to continue to invest in products that are not expected to be recovered.

At that time, we realized that it took a certain amount of scale to run the software. It's not about 3 billion dollars or 4 billion dollars to invest. The first is to build a scale of up to 10 billion so that a certain level of profit can be achieved and then to invest in product development where appropriate. In order to take time to achieve this level, we changed our business model from the management of DIVA alone to the management of the group company. In this business model, not only products but also services are included, and this change occurred from 2007 to 2018.

From around 2015, we have strengthened the capabilities of outside directors. By creating an environment in which the strategies themselves are asked, we continued to ask whether we will expand the next decade into a diversified way by expanding our services through group management or we will return to the origin and bring it to the world in the software business. In conclusion, we try to do the latter. For carrying out our original intention, we have begun to rebuild our business model with software from the previous fiscal year.

I believe that this is not only the fact that we have made such a change of intention but also that the Japanese Cabinet Office announced the Japan Revitalization Strategy in 2014 as a major background, and based on this, the Corporate Governance Code was issued in 2015. Our main customers are large listed companies, and we watched whether there is any impact or no significant social movement in response to this.

I'll get back to what I was saying earlier, and from 1997 to 2000, the establishment of DIVA itself is the theme of group management which was based on the assumption that there was a major paradigm shift. By narrowing this down to the consolidated accounts and having a large momentum, it was a very important growth point in the initial launch of DIVA itself.

Software will not expand without identifying and developing new momentum. While we have made a series of trial-and-error decisions regarding where to put these issues in themselves, reforms to corporate governance have a great impact on us.

I believe that management and artificial approaches, such as an ROE of 8.0 and external governance reforms, are much more likely to be taken. On the other hand, the practical issue is how to manage the Group's business portfolio and how to govern overseas subsidiaries amid the progress of global management. These areas are regarded as significant issues, including the question of how to construct the structure.

There are actual index numbers of the Corporate Governance System, which is compiled mainly by the Ministry of Economy, Trade, and Industry. The latest 2.0, that is Version 2, was issued and it says, in particular, defensive rather than offensive governance. Not only the offensive part of the business portfolio itself but also the other part of it, such as the internal control and the internal control system, has been focused to a considerable extent, and this has begun to clearly state that the company use IT for resolving it.

With regard to the number of companies with overseas subsidiaries and the actual number of overseas subsidiaries, approximately 4,000 Japanese companies had overseas subsidiaries as of 2006. At that time, the number of overseas affiliates was approximately 30,000. As of 2017, there were more than 5,800 companies with overseas subsidiaries and more than 47,000 subsidiaries. The number of customers that we are targeting and the number of their subsidiaries has increased considerably.

Risks for the cooperate governance are also rising, so if we can firmly create software and services on the theme of group management for this purpose, there is considerable room for growth.

Group Mission

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Spreading Accountability

CIFO ACCELERATOR

The Group believe our mission is to "Spread Accountability (to convert management information into a map for the future)", and we offer intellectual properties (software) to help achieve digital transformation of CFO (Chief Financial Officers) organization of our clients.

The Group defines the modern CFO who utilizes digitized information for executive decision as CIFO. We offer various solutions to help transform information digitally "visible," "usable" and "reliable" for decision-making and we call that pivotal role as a "CIFO ACCELERATOR".

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Today, the entire AVANT Group is working to grow its businesses by focusing on the markets in which it operates, using the word "CIFO ACCELERATOR," in an effort to integrate a variety of business models into software development as a software business.

This CIFO is somewhat misaligned with the idea that the term CFO is a Japanese organization that truly contributes to finance and aggressive governance as an image of the CFO itself. Since there is something that is approaching in the accounting and reporting sections, we added the word "I" and changed the way we call it as a CIFO.

Although this is also described in the Guidelines for Corporate Governance Systems, there are three layers: management business, CFO organization, and internal audit. The appropriate corporate governance model is defined as the development of each of these three strategies by taking full advantage of their respective leadership policies. In the second and third sections, we are committed to making a solid contribution. No company focuses on that part. We're trying to put effort into that part so that is why we name ourselves CIFO ACCELERATOR.

Against this backdrop, it is a crude expectation that we are currently working on creating business value as models that will contribute to CIFO organizations by providing integrated solutions to support corporate governance, rather than providing separate parts of outsourcing for each group, business intelligence, and the utilization of such information, as well as the provision of consolidated accounting systems.

Mid-term Management Plan: BE GLOBAL 2023

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AVANT Group target KPIs

	FY18		FY23
Revenue	¥12B	→	¥18 – 22B
Recurring revenue ratio	33%	→	70%
Operating income	¥1.6B	→	¥3.1 ~ 3.8B
Revenue growth + OP margins	28.5pt	→	Over 40pt
ROE	24.5%	→	Over 20%
Dividends	¥12	→	Over ¥30

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Here are the medium-term targets are FY2023, and there are a number of figures. The main point, that is KPI, is stock sales ratios. We will increase this from 33% to 70%. The aim is to significantly transform our business model.

As a result, we are aiming to double operating profit and raise the GPP figure, which is the sum of sales growth ratio and operating profit ratio, to 40 points more than ever before.

Although we have set fairly aggressive targets, we do not have to develop our business on the basis of our previous extensions, but rather need to set fairly high targets in order to change the business model itself while changing the awareness of the group as a whole and its members. This is the situation in which we are working together to set these targets.

Plan Update: First year achievement

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Recurring revenue ratio dropped but amount increased by 11.8% in this stocking period, on track to achieve target

	FY18 Actual	FY19 Actual	FY23 Target
Revenue	¥12.1B	¥14.1B	¥18-22B
Recurring revenue ratio	33%	31%	70%
Operating income	¥1.63B	¥1.97B	¥3.1-3.8B
GPP: Rev. growth + OP margin	28.5pt	30.2pt	Over 40pt
ROE	24.5%	24.6%	Over 20%
Dividends	¥12	¥15	Over ¥30

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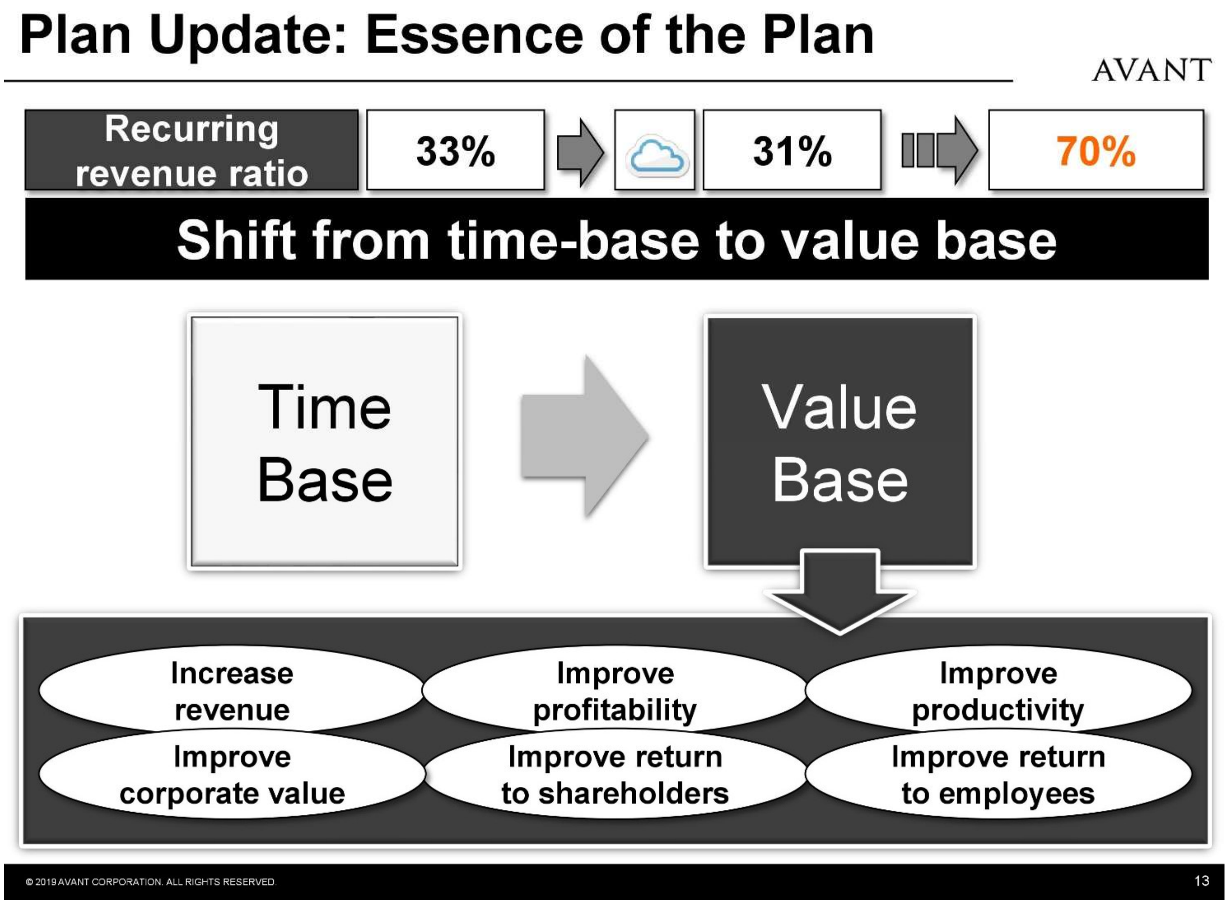
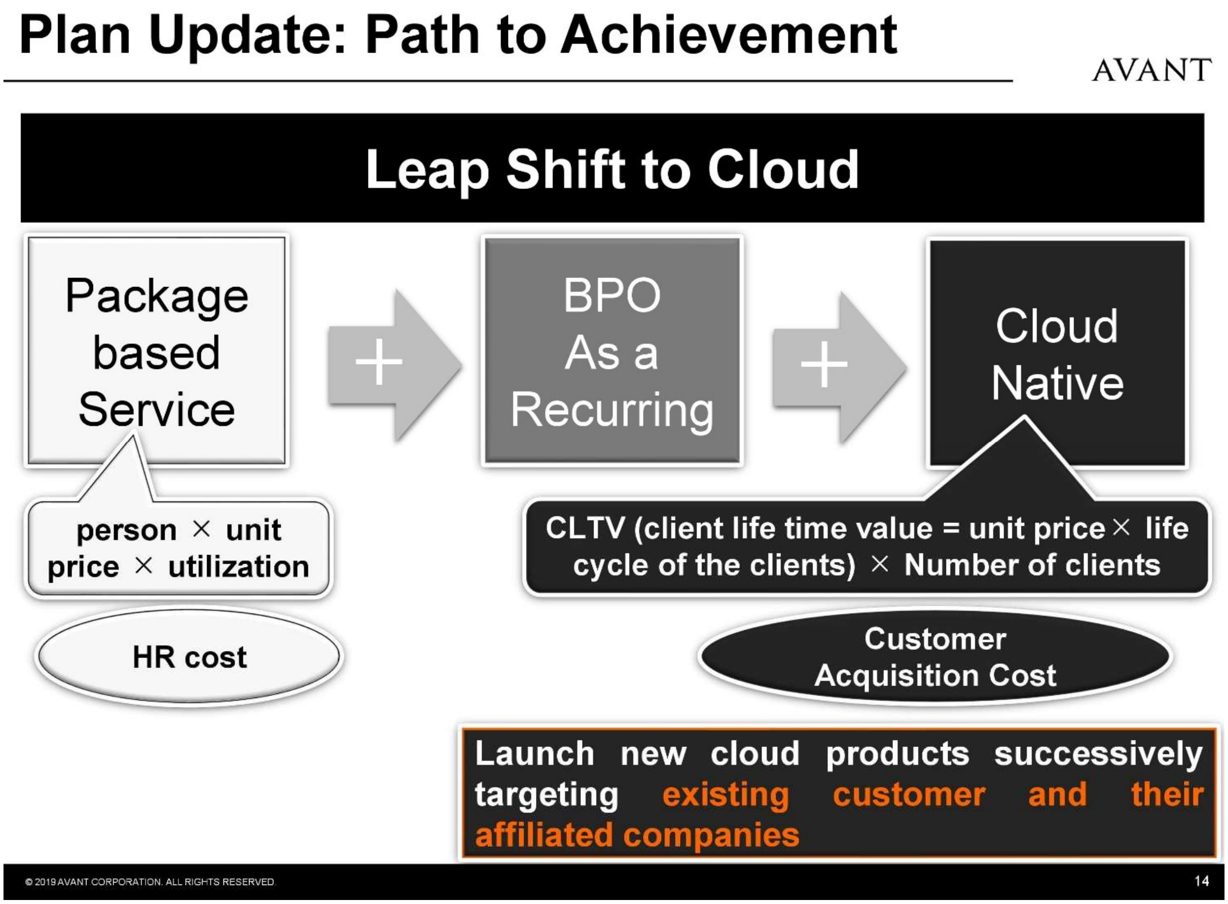
As for the progress, as mentioned earlier from Kasuga, our overall business achieved relatively smooth results in the previous fiscal year.



On the other hand, with regard to the stock sales ratio, it takes time to develop an environment in which the Group as a whole and members have a clear understanding of their intention to increase the stock sales ratio in the first place and create an environment to achieve this. We are still moving forward with some time lag in terms of the results of these efforts.

As a result, although the stock ratio has declined due in part to the faster growth of the overall sales scale of the business, the amount of stock itself has increased. I hope you understand that the business is not shrinking by any means and that the stock business is growing while following down, albeit with a little subordination.



The aim of raising the stock ratio is that it is now widely known in the world, so I think there is no need to explain it in such detail. The difference between stock and non-stock businesses is ultimately the unit price of people in popular business and service businesses. This is not a business model of the number of people multiplied by the unit price multiplied by the occupancy rate.

I hope you understand that our intention is to raise the percentage of business models that will allow customers to pay for IP, usage fees, and other items.

This is where we have the greatest innovation in transforming ourselves. In general, if a software vendor shifts from software to cloud-based software, I think it is common to adopt a new cloud-based model of the existing software vendor itself.

However, in our business, we are not providing an accounting system for small- and medium-sized enterprises

but a group management system for large enterprises, so we do not have the characteristics of being able to sell a large number of products. On the other hand, it is not easy to withdraw or replace. So, it has a fairly long lifecycle.

Therefore, we simply replaced this product with a new cloud-based product. It is difficult to change this product.

Given this situation, we expect to make the most of our existing businesses. While there are some businesses that are currently offered as cloud services, the actual business model is to sell licenses and support them as in the past. We are doing so by steadily expanding this type of model.

In the previous fiscal year, orders for large-scale projects and other projects were realized as an extension of the existing business model. It is never shrinking in the future, so we should keep it in mind. This is the first point.

On top of this, shifting to the cloud has the idea of creating new software as a technological one but from a different perspective, as I mentioned earlier in the business model section. Whether or not to adopt a stock-type business model can be considered. I think this is another important point.

From that point of view, we are not trying to use software to sell it but to create new businesses that are the most similar to the model. That's BPO. We do not adopt a model in which costs themselves are artificial and cost-consuming, while continually underwriting our business.

We suggest to our customers that this business is worth as much as this, and we can devise a breakdown of it. By adopting such a model, we are able to realize high profitability through BPO.

In general, BPO has a low-profit, low-margin, high-volume image, but among our group companies, businesses centered on BPO are the most profitable and achieving high growth. We are adding BPO as such a special business model. This is the second point.

On that basis, the third point is that we are committed to creating and developing real Cloud Native businesses and products. Therefore, we do not take a very large amount of risk to do so. Rather, we are aiming to develop a cloud shift, while taking such steps that will enable us to secure a solid growing concern for our businesses after carefully identifying the markets that have a large growth potential and without being greatly affected by the market itself, even if we do so as a whole.

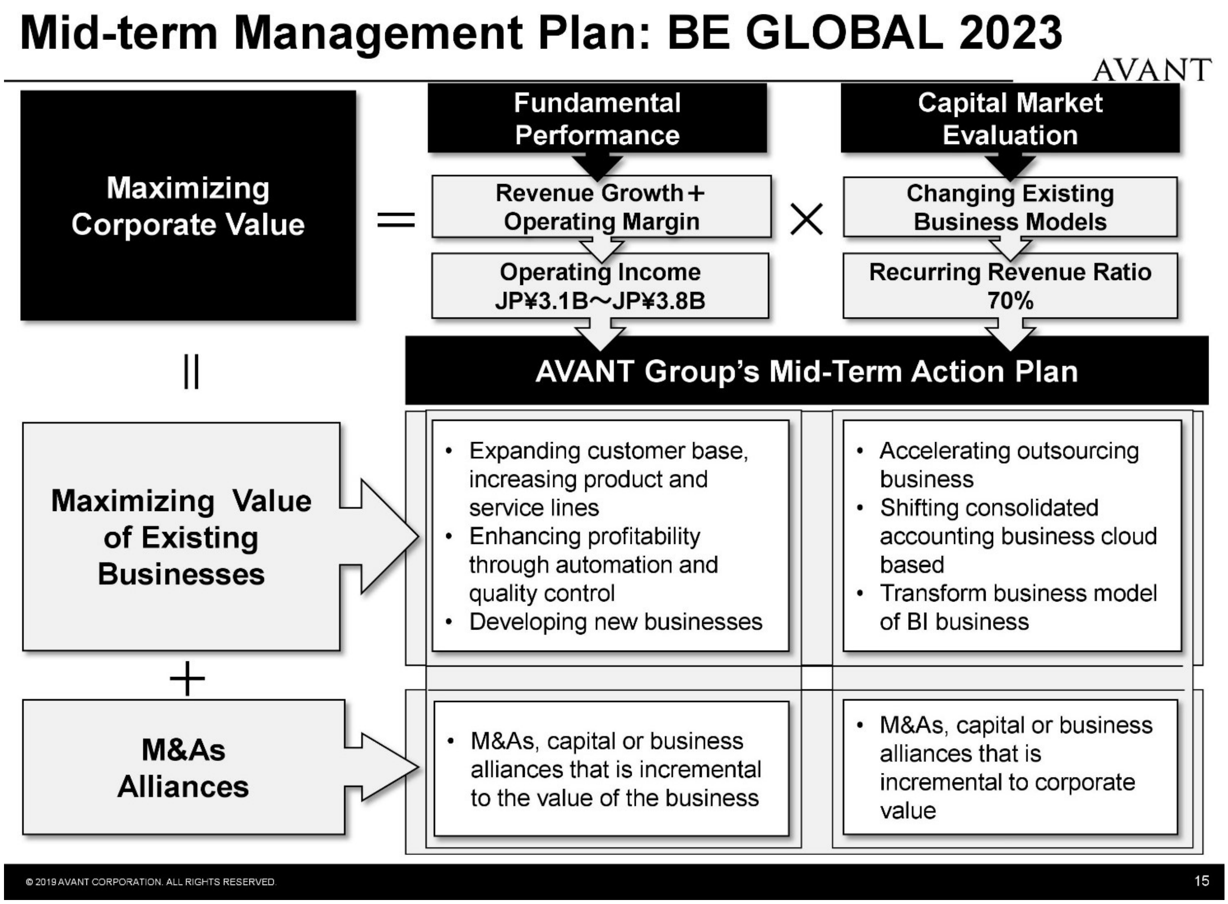
Over the past year, we have finally completed the software portion that will be the basis for the development of such cloud businesses and software. We were able to increase the sales volume of products that were produced on the basis of these efforts.

From that perspective, we believe that we are finally in a position to develop our business in this third area. We are entering a phase in which we will continue to implement the process to expand the scope of our activities over the next few years.

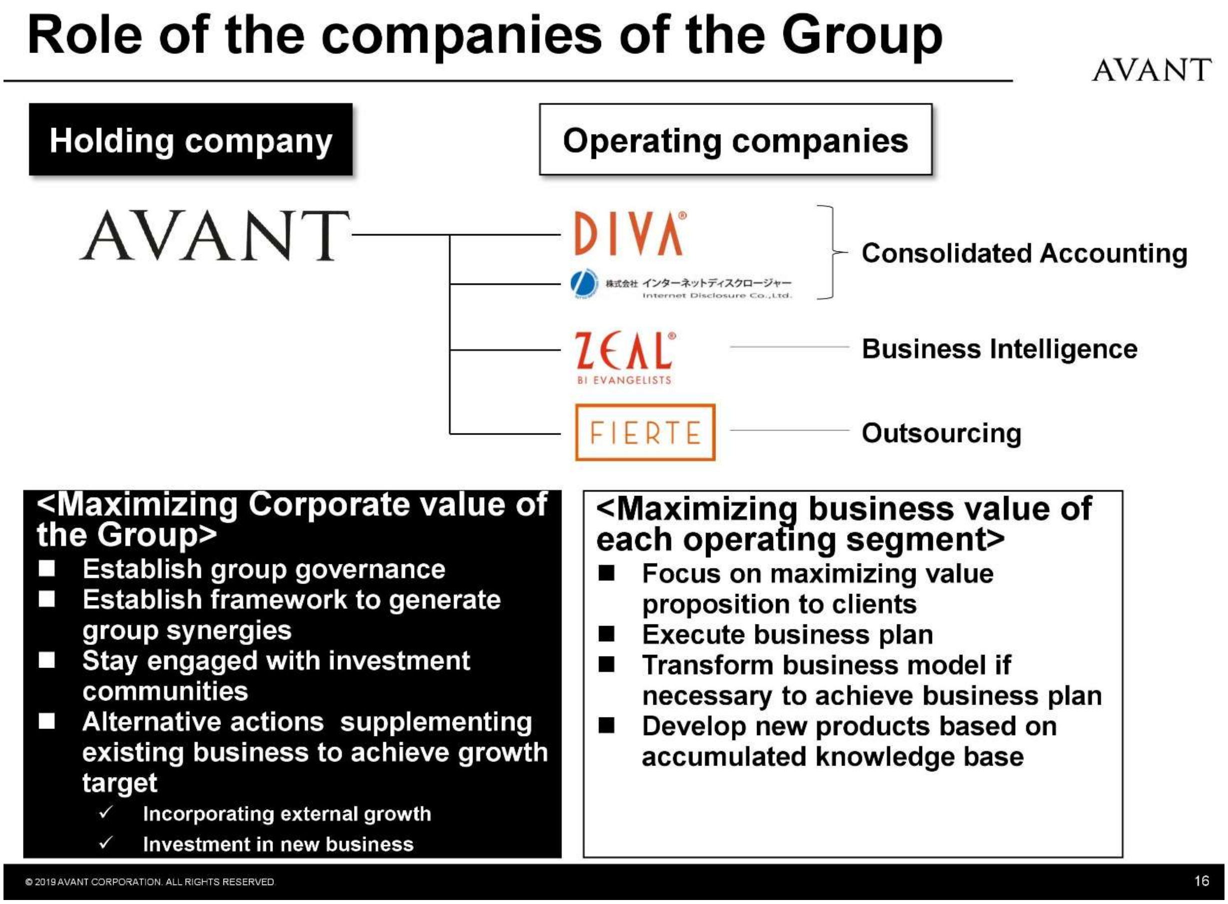
This is why we are going ahead with the business mixing of the three businesses: package-based service model and the BPO as a Recurring, the Recurring BPO, and Cloud Native, which has very high growth potential.

In addition, in terms of the Cloud Native, we focus on group management, but in the case of group management, the parent company is the main provider of services.

The number of subsidiaries that belong to these subsidiaries is currently 35,000 for our customers alone. To address this issue, we are taking on the challenge of developing new products that are more lightly weighted than in the past and truly appropriate for Cloud Native. We are vigorously and steadily promoting these efforts.

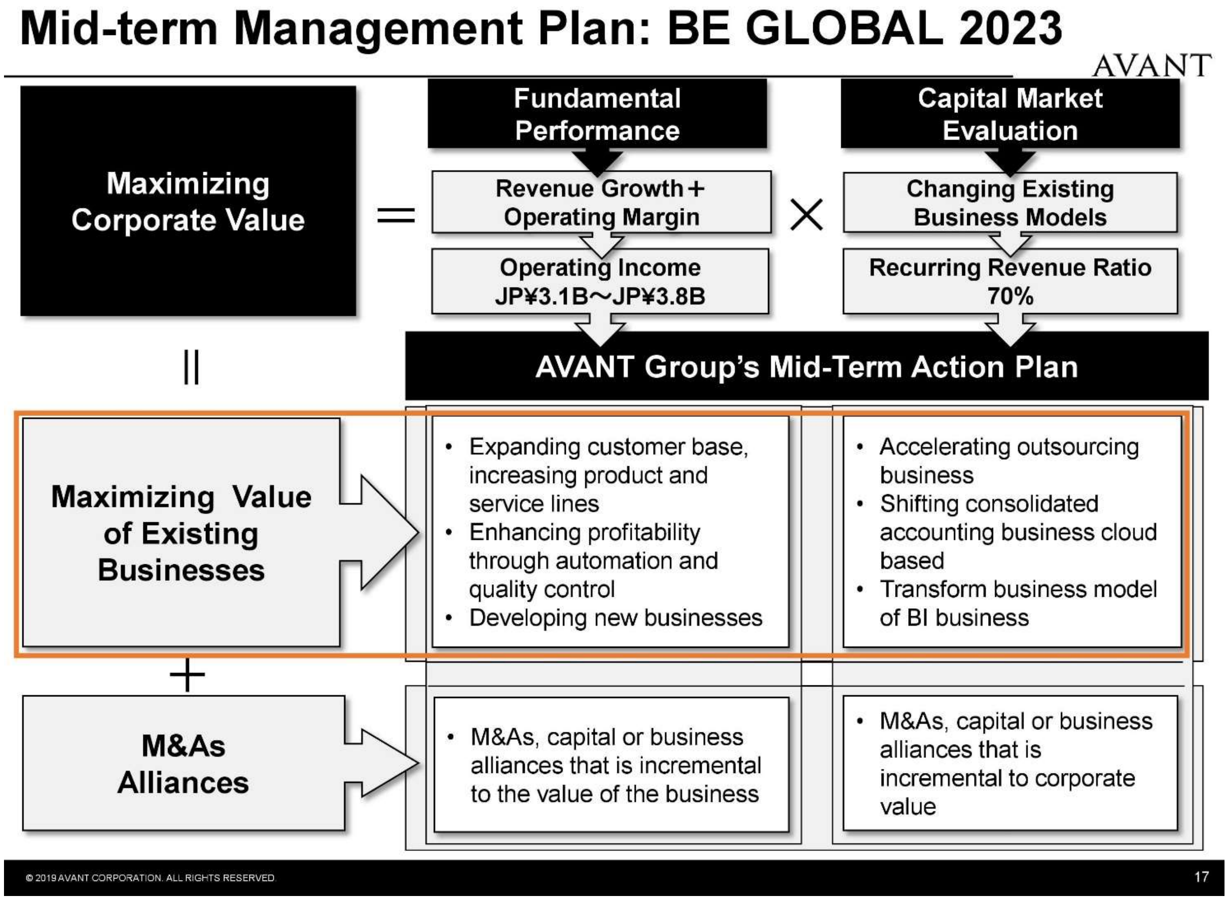


In order to realize this medium-term management plan, we will generate business results and market evaluations. These two categories have been separated: maximizing the value of existing businesses and M&A and capital and business alliances. We have divided these into four quadrants and have taken their respective actions.



The division of roles is carried out. If the business company takes financial part as an extension of their business, the financing side slows down or the development of the business is not progressing due to the financing side, and this happens when the scale of the business is small.

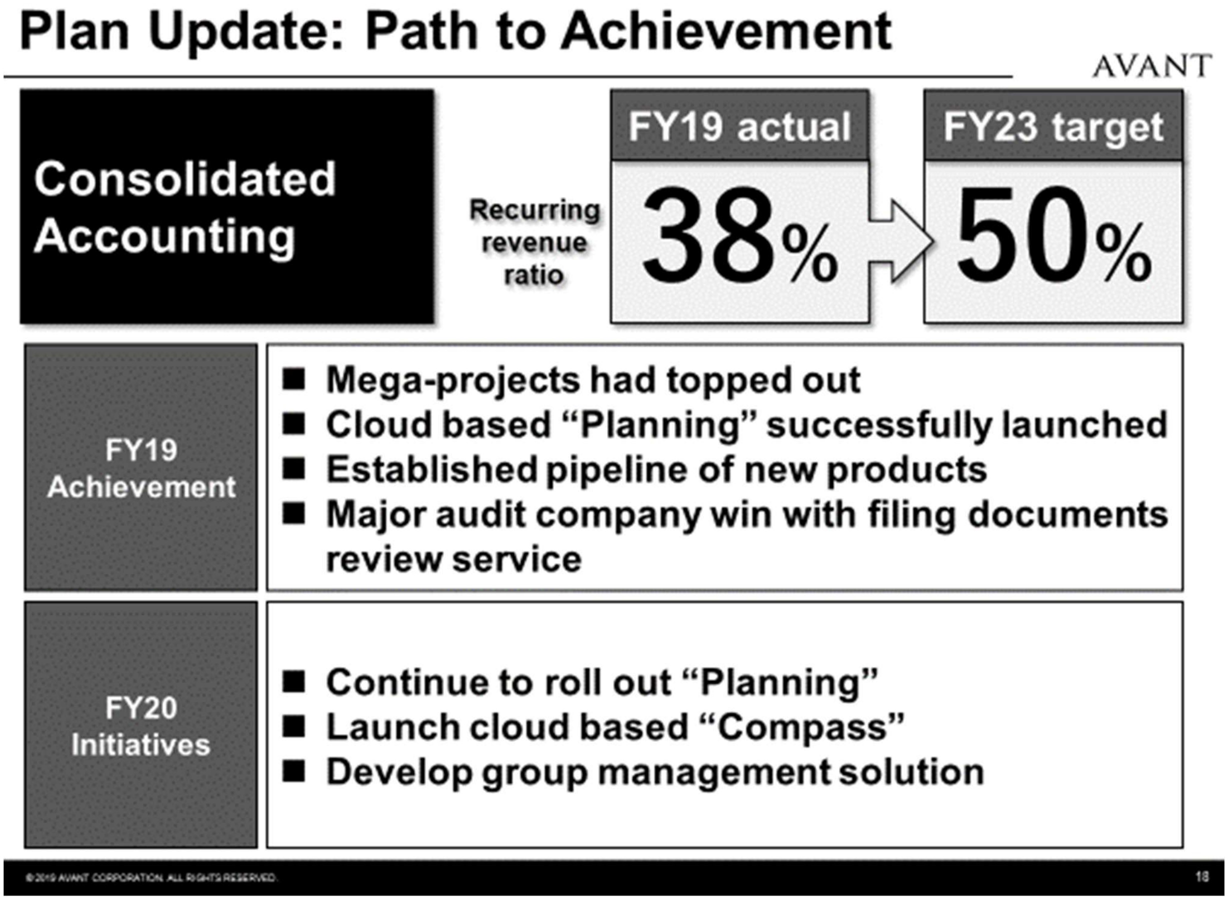
In our case, the AVANT Group is divided into the holding company AVANT and the operating companies, and the AVANT will focus on actions including M&A. Operating companies focus on maximizing the value of their businesses. We are promoting this type of formation.



Regarding the maximization of the value of existing businesses, the most focused area for companies that provides consolidated accounting systems centered on DIVA is the conversion of the stock sales ratio. We are currently setting a target of raising 35% to 50%. As a company with products, this is the most important point.

Until last fiscal year, large-scale projects and so-called systems integration businesses based on packages occupied an extremely large part of the business, and the ability to devote themselves to new product development was limited.

Considering the Company's overall strategy, we have decided to allocate the Company's resources to new businesses and new product development as much as possible. Therefore, we have been taking steps to allocate a certain number of people and even investment to product development while controlling large-scale orders to a certain extent.



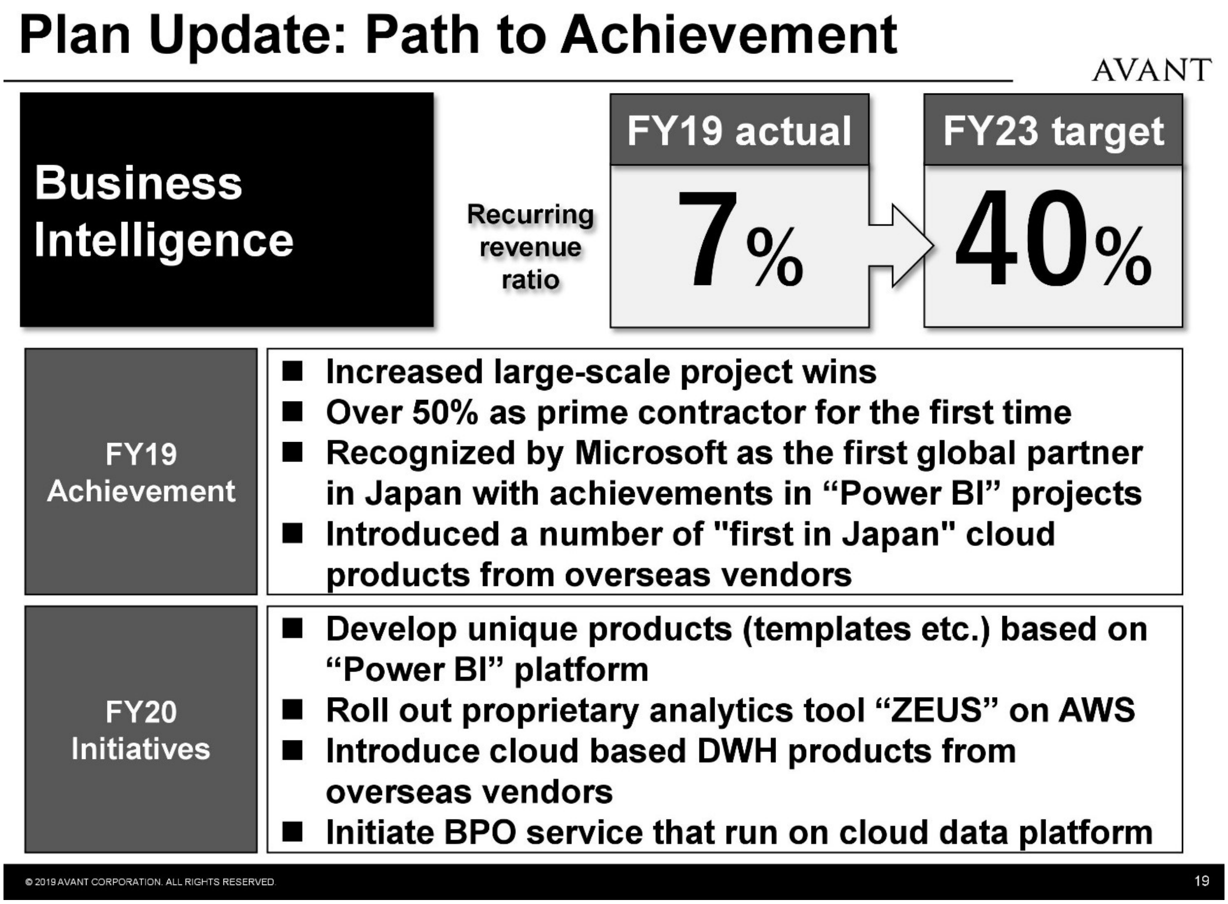
In the midst of this, the busy season of the super large-scale projects was finished, and sales of a new cloud product, Planning, which is used for developing of business plans, have also begun to grow favorably.

Other new product development pipelines have been established, and although they have not yet been launched in large quantities, they have come to be realized as pipelines that produce even more new products.

Although the company is separated later, there is an Internet disclosure company, which also possesses products. A new document checking service, which is also Cloud Native's product, has been decided that this service will be adopted by the major auditing firms. Each is small, but we are making progress in new initiatives such as Cloud Native, which has the potential to sell a certain number of items.

This fiscal year's initiatives include further sales expansion of Planning and a new cloud product named Compass. This is a tool for CFOs to look at other companies' benchmarks and to do so when they make decisions. We will create new products and develop them in the future.

In addition, as regards to Group management solutions, we are currently working to expand our product lineup so that we can contribute to governance in a manner consistent with the national strategy mentioned at the beginning.



Following this, it is about the Business Intelligence Division. This is the existing SI business, and Recurring so-called stock-type business is almost zero. The stock sales ratio is currently 7%.

At first glance, it is very difficult to shift to this Recurring model, but we will also talk to the heads of the various businesses and begin by changing the model, a model that assumes a certain type of business on an ongoing basis rather than a so-called contract-based business process outsourcing system. We are strong in business intelligence, so we will ask our customers about what kind of data they want to see, and we will continue to produce those data through our output.

We will focus on this BPO model because it is not the end of a single release, so we may be able to deliver such services on an ongoing basis. We aim to raise the stock sales ratio to around 40% by the end of this period, and we are currently in the process of transforming our model.

The FY2019's main achievements include the increase of the orders for large-scale projects. This indicates that, as awareness of data utilization is becoming increasingly prevalent, projects themselves are becoming increasingly widespread, and the scale of these projects is growing as well.

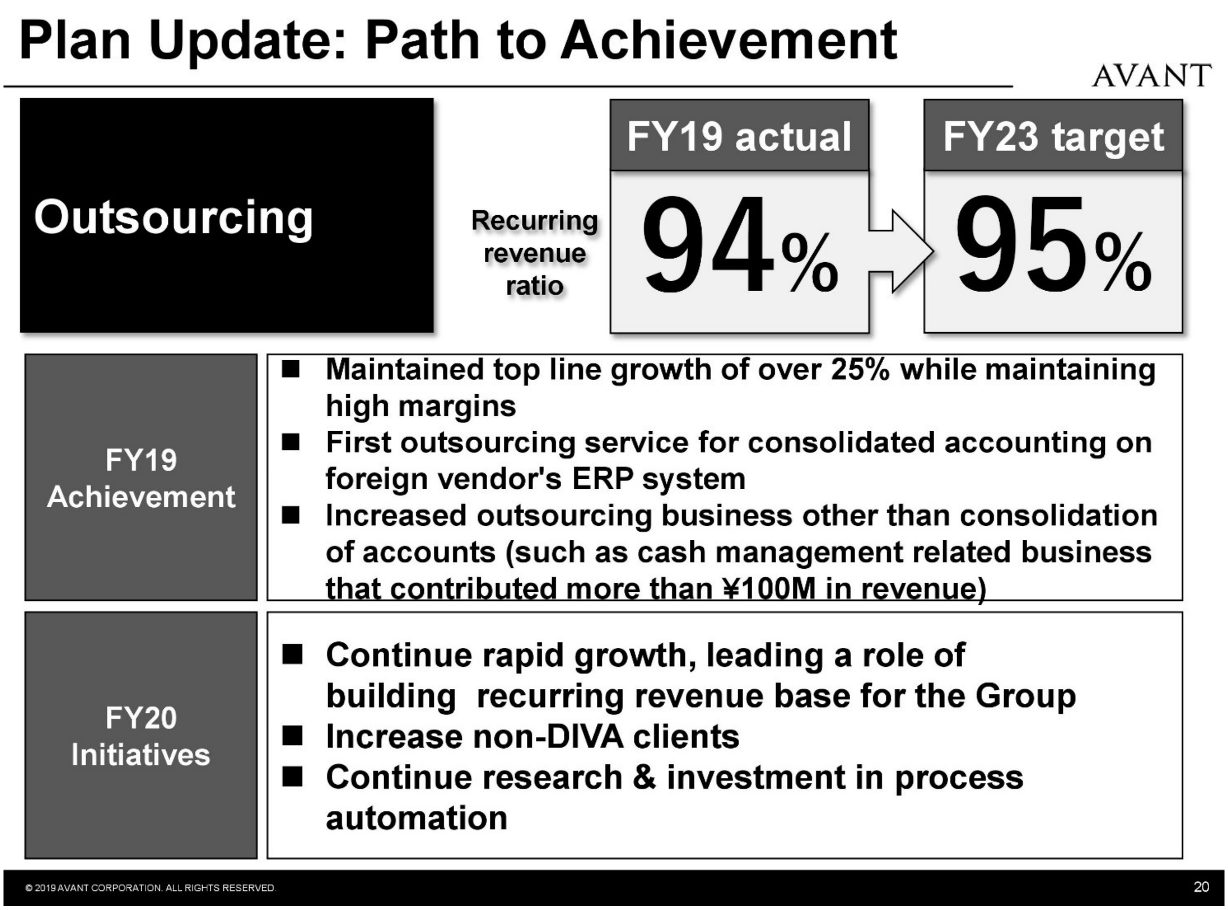
In addition, the percentage of prime projects has also increased. In order to eventually become a BPO-type company, it is necessary to have direct contact with customers, and it is impossible to do so if we are under a SIer company. As a first step, therefore, we have been expanding prime businesses that allow us to have direct contact with customers, and this is now accounting for more than 50%.

We are also strengthening our collaboration with Microsoft. This is the first global partner in Japan, and we are taking an extremely high position in the area of utilization of BI. Through these efforts, we are promoting collaboration with Microsoft.

In addition, we are promoting the discovery of overseas cloud-related products on our own and bringing them to the domestic market.

In terms of our FY2020 initiatives, we will take a step further and develop models that take advantage of our proprietary applications and sell them as products, rather than simply sharing them in our efforts with Microsoft.

In addition to Microsoft, if the company uses Amazon's AWS, we will provide the customer our own AWS-based products by using cloud products from other vendors manufactured overseas. In any case, the company's know-how is added to these products and provided to customers as products that include these products. This is a very distinctive aspect of the shift to this type of business.



The following is the outsourcing business. This is almost a stock business from the outset, so it currently stands at 94%. We will continue to maintain this situation, and we are currently moving forward with no particular model changes.

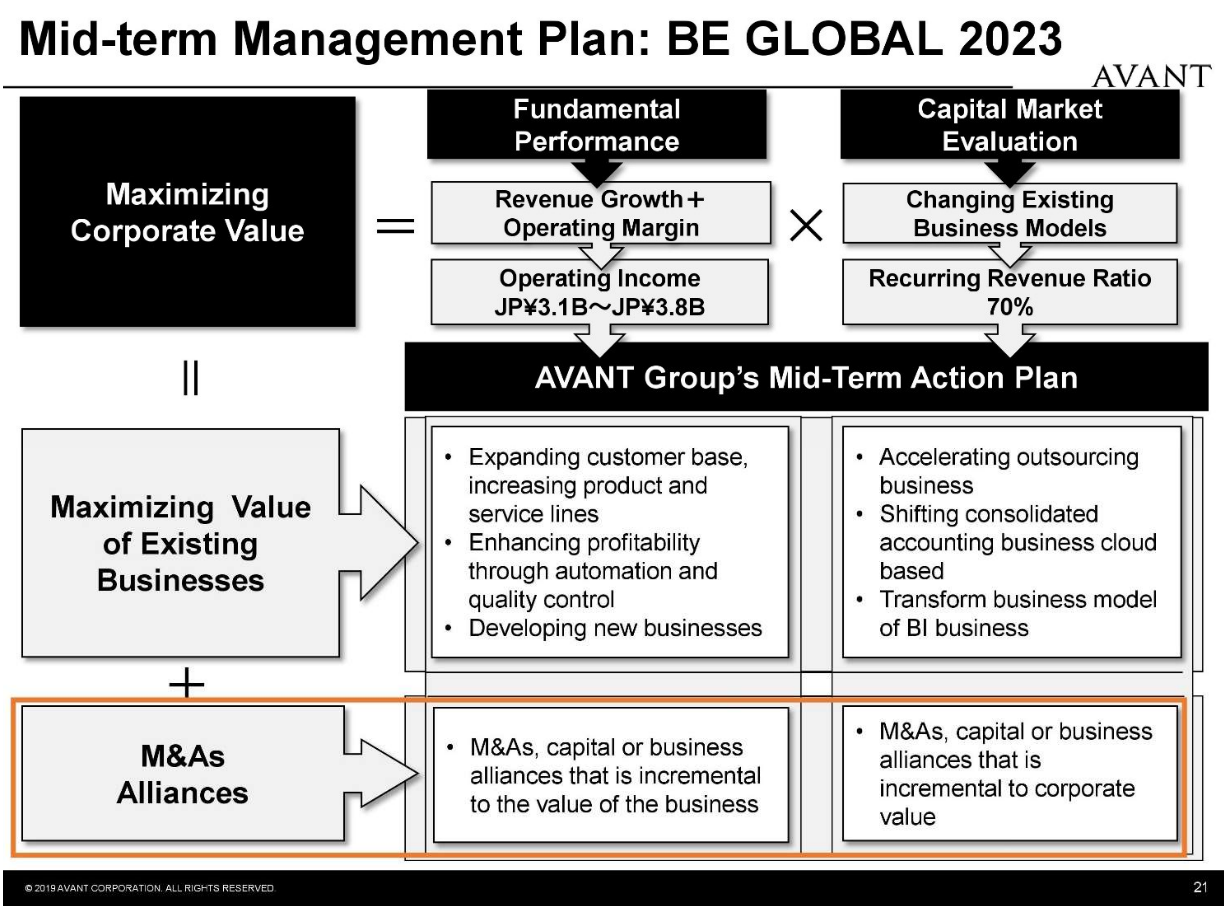
The FY2019's main achievements are maintaining high profitability and maintaining a high level of 25% in terms of sales growth.

At the start-up stage, DIVA's DivaSystem was the source of its strengths. However, depending on the circumstances of the customer, we have been asked to go beyond DivaSystem to include SAP or to outsource the consolidated parts of other companies' products. We have also begun to actively underwrite these areas.

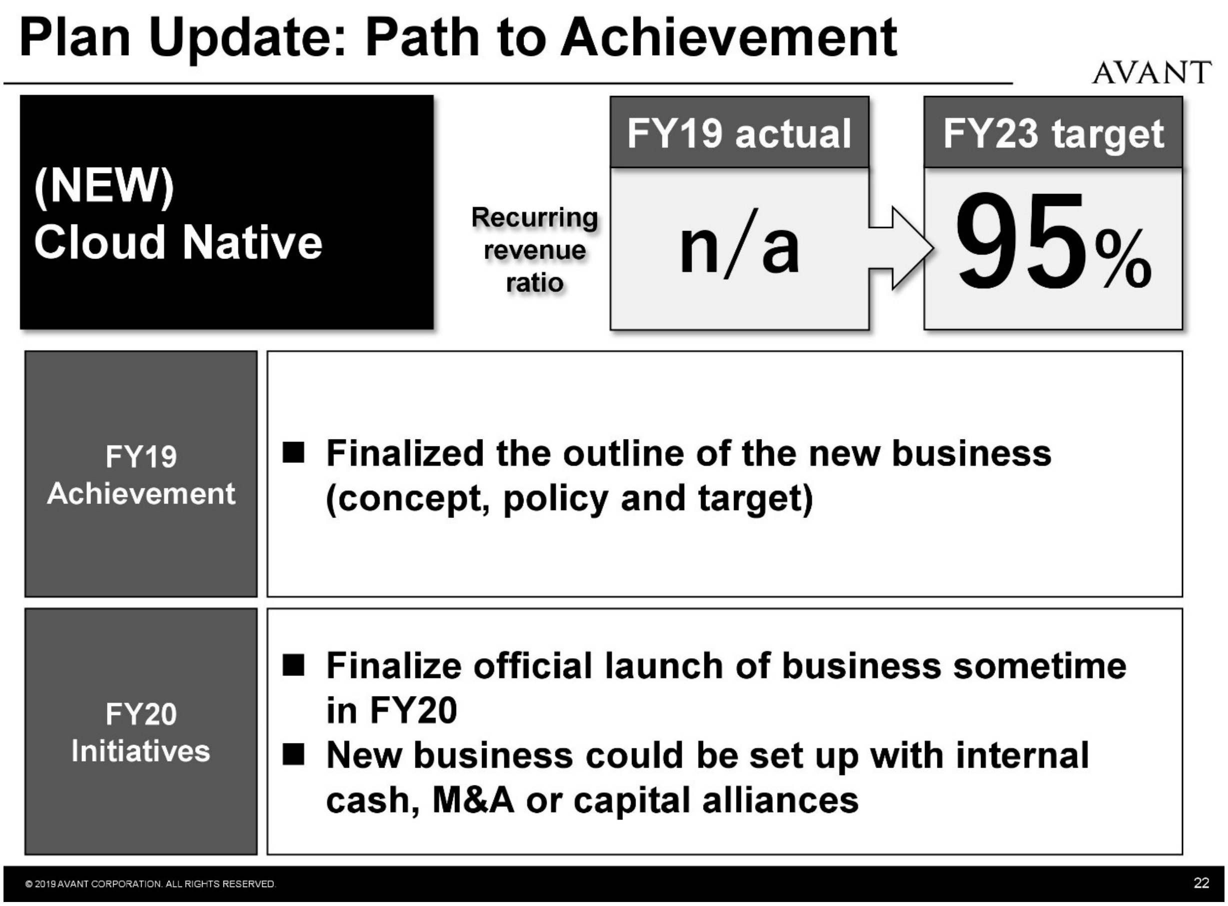
In addition to the consolidated financial statements, this is a BPO that assumes CFO operations. Therefore, we are steadily increasing the number of customers in areas other than consolidated financial statements, such as fund management. We are finally moving ahead with the introduction of cash management systems, mainly for large-scale customers.

As for FY2020, our biggest initiative is the automation research described in the third section. Currently, it is based on the original package, so it is not really a service business, but it is also automated and RPA. Using such things will reduce manual work more and more. In fact, we are working to raise the productivity of our services more dramatically.

Although outsourcing may seem quite broad, we are focusing on areas where we can automate using systems. We have narrowed its focus to more specialized areas. That's why we don't go to zero in the end, but we're underwriting outsourcing in areas where we can automate at a fairly high rate.



Finally, M&A and capital and business alliance will be implemented, but to date, all of these have been organic growth. We are basically moving forward with these initiatives in our current organizational structure.



As the third pillar, I mentioned that we will add this Cloud Native business. This is not simply a matter of buying, so we are building a base centered on DIVA, in which the development of platforms to enable the realization of new cloud businesses is over and proceeding and in which new products are being created. We consider how we can accelerate this process.

From venture businesses to companies of a certain scale, we are promoting considerable communication in the previous fiscal year, including business tie-ups and capital alliance. There have been a number of decisions that we have made in practice that we will not do so as a result of a thorough discussion. This is not a simple weighting but a rough estimate of how we could actually achieve this Cloud Native by narrowing down our own domains, promoting direct conversations with them, and taking a true approach to which side of the market we should be able to do so in the previous fiscal year.

Therefore, from this fiscal year onwards, we will actually conduct M&A and take actions that will make a considerable contribution to the promotion of this Cloud Native. Regarding how this has an impact on financial performance, there will be a gap depending on the project. However, we are aware of the importance of ROE20 and other issues as disciplines, and we are taking a cautious stance in promoting capital alliance and other initiatives to prevent bankruptcies as a whole.

However, we are not overly cautious, and we are committed to striving with other companies that will ultimately produce business results.

The above is a rough overview of the current mid-term targets.

This time, we announced our medium-term targets, and basically there will be a variety of fluctuations in annual growth, especially if we assume that we will incorporate growth from outside the company. In consideration of the impact of this, we will focus on how we achieve the medium-term target set in five years rather than on a single-year basis and take action for this.

In the first year of the fiscal year under review, we achieved a certain level of results as a whole. In the next four years, there is a way of achieving these targets, and we have concluded the previous fiscal year by saying that we have taken a path toward achieving them.

As a whole, I would like to conclude my explanation. Thank you for listening.

Question & Answer

Nishimura: We will have time for questions and answers now. During the session of questions and answers, we will remain seated.

If you have any questions, the person in charge will bring a microphone. Before asking questions, please let us know your company name and your name. Please put your hand up if you have any questions.

Participant: Thank you for your explanation. There are roughly two questions.

The first is the forecast for the current fiscal year, and there were some qualitative comments. What are the numbers for the three segments? The Cloud Native of new businesses was mentioned earlier, but is this a new business to be launched this fiscal year? This is the first question.

Kasuga: Regarding sales by segment, as I mentioned earlier, we anticipate double-digit growth in the business intelligence and outsourcing areas. Even in the double-digit range, I believe it is probably about the same level as the end of the previous fiscal year.

As for consolidated accounting-related businesses, we will repeat this process, but as large-scale projects are expected to converge, we will have to take on projects that will replace them in the future.

This is something we don't think will actually be in the current fiscal year because the pipeline is not accumulating up to that point. In this sense, we do not yet expect double-digit growth.

Participant: Do you think there is a case for sales to be flat, or is there a possibility of a decline in revenue if there is no project?

Kasuga: I think there is a possibility of this, but within the current plan, we do not anticipate a decline in revenue.

Participant: I see. The profit will grow under the given condition that the sales will increase, so can I look at it in this way?

Kasuga: What we are saying from our holding company to each operating company is that one of the growth indicators mentioned above is to aim for a combined sales growth rate and operating profit margin of 40%. I think that profits can be sacrificed to the extent that we can expect sales growth, though it's not good to say.

On the other hand, if there is little prospect for growth, we instruct them to raise the profit margin.

In reality, this point is the incentives of each director, so we basically have a formula in which short-term incentives are determined based on the sales growth rate plus the operating profit margin. They are aware of this, and if they do not have a sales growth rate, I believe that they will move toward raising its operating profit margin.

Participant: Understood. Second, although there have been several listed companies in Cloud Native in recent years, which cloud platforms do you plan to build your Cloud Native software? Is it AWS, which you mentioned earlier, or Salesforce? There are many other companies today, but what do you basically think about this?

Naturally, this will change the development method, and you will have the way to develop software while running it. In your company, DIVA, whose engineers in the past focused on the development of on-premise packaged software, are there enough people to work for this? Will you hire people?

As you mentioned M&A earlier, such resource will be added after M&A, but I'm going to ask you about the resource side and the forecast of the cloud platform. Could you tell us about it?

Morikawa: As for platform, it's basically a multi-platform, but the basis is Azure. This involves relationships with Microsoft, affinity with the products we use, and so on. From this perspective, Cloud Native's business-related directions will be focused primarily on Azure.

As for the manning, I hired the person who could do this business as the head of the business four years ago. We have continued to build the manning system that involves not only those who already work in our company but also newly hired people.

Although there are not many people, there are about 10 members in this business. In such scale, they firstly considered how to develop our products by using a solid micro-service architecture.

This is a perfectly different culture, and it took me a lot of time to understand it. We need to decide whether it is an extension of the current business or it is quite different. If it is different, we need to know how to develop it into a business. Not only the development team but also the management team have worked together to gain an understanding of it, and we have finally decided to divide it into three categories.

In this regard, we have established a system that enables us to firmly realize the third point, and we are able to secure our core in-house production. In addition, there are not only internal but also overseas subcontractors, and the number of people who can take a considerable scale by themselves has been moving forward with preparations for collaboration four years ago.

In terms of our organizational structure, we have already secured a minimum portion.

Participant: I understand that agile development can be used internally. Thank you very much.

Morikawa: Let me add my comments to this. We have now created the basis of the manning structure to build the parts of Cloud Native by using the agile development. It's not like the Salesforce.com, but we will focus more attention on our PaaS. For the next step, the members on the business side will develop the application itself. This is the biggest challenge.

We have a clear idea of PaaS, but we still put an application that gets a lot of ideas on the table. The very big issue is how to develop this and how to train up the members, and there is still no way to finalize this issue.

The fact that only two outputs are actually produced is because the actual situation is limited to the development team.

Nishimura: Are there any other questions?

If there are no other questions, I would like to complete the briefing today. Thank you for your participation today.

In addition, the AVANT Group supports arts as part of our CSR activities. We have been providing support to this museum through the MOMAT Support Circles, so we offer you visits to this museum if you want.

Thank you for attending today.

[END]

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Document Notes

1. *Portions of the document where the audio is unclear are marked as follows: [Inaudible].*
2. *This document has been translated by SCRIPTS Asia.*

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