

Financial Results Briefing

for the first quarter ended September 30, 2019

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

AVANT CORPORATION

(Code:3836 TSE1)

October 31, 2019

- I . Summary of financial results
for the three months ended September 30, 2019

- II . Earnings and Dividend Forecast

* Figures in this material are rounded down to the unit of display

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I. Summary of financial results for the three months ended September 30, 2019

Results Highlights

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Robust growth in revenue and profit

- Revenue grew steadily in each segment, partially absorbing costs associated with business expansion. And with a shift to highly profitable projects, first quarter results grew faster than usual seasonality
- We maintain full-year forecasts, as it is observing visibility, such as how orders accumulate toward the end of the year and progress of the large-scale projects.
- Announced two-for-one stock splits on December 1, 2019.

(Millions of Yen)

	FY19/06	FY20/06	Year-on-Year	
	Q1<YtD>	Q1<YtD>	Variance	%CHG
Revenue	3,180	3,714	+ 534	+ 16.8%
Cost of Revenue	1,772	2,149	+ 377	+ 21.3%
SG&A expenses	1,027	1,050	+ 22	+ 2.2%
Operating Income	380	514	+ 134	+ 35.3%
OP Margin	12.0%	13.8%	-	+ 1.9 point
Ordinary Income	380	520	+ 139	+ 36.6%
Net Income	237	334	+ 96	+ 40.7%
EBITDA	417	557	+ 139	+ 33.5%

Results by Business Segment

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(Millions of Yen)

		FY19/06	FY20/06	Year-on-Year	
		Q1<YtD>	Q1<YtD>	Variance	%CHG
Consolidated Accounting	Revenue	1,783	1,922	+ 139	+ 7.8%
	Operating Income	244	330	+ 85	+ 35.1%
	OP Margin	13.7%	17.2%	-	+ 3.5 point
Business Intelligence	Revenue	1,161	1,429	+ 267	+ 23.1%
	Operating Income	102	180	+ 78	+ 76.8%
	OP Margin	8.8%	12.6%	-	+ 3.8 point
Outsourcing	Revenue	380	504	+ 123	+ 32.6%
	Operating Income	101	118	+ 16	+ 16.1%
	OP Margin	26.7%	23.4%	-	3.3 point

Good Start

- Large-scale projects continue to contribute to revenue even as it peaked off, and sales of other projects also increased
- Increase in sale of cloud-based products led to rise in recurrent revenue ratio. OP margin also improved due to quality management
- Full-scale operation of large-scale projects postponed to 2H, but impact on earnings is limited
- In 2Q, we might see difficult comparison against previous year when business was strongly influenced by large-scale projects

(Millions of Yen)

	FY19/06 Q1<YtD>	FY20/06 Q1<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	1,783	1,922	+ 139	+ 7.8%
Operating Income	244	330	+ 85	+ 35.1%
OP Margin	13.7%	17.2%	-	+3.5point
Outstanding Order	2,261	2,143	△ 118	△ 5.2%

Ahead of expectation

- Reflecting strong demand for BI related investments, orders and sales including new large-scale projects steadily expanded
- In addition to the effect of increased sales, profit margins improved due to an increase in the ratio of primary contracts
- Cloud-based data analysis platform “ZEUSCLOUD” officially released

(Millions of Yen)

	FY19/06 Q1<YtD>	FY20/06 Q1<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	1,161	1,429	+ 267	+ 23.1%
Operating Income	102	180	+ 78	+ 76.8%
OP Margin	8.8%	12.6%	-	+3.8point
Outstanding Order	1,004	1,340	+ 336	+ 33.5%

Revenue grew ahead of plan and absorbed expansion costs

- Revenue increased due to growth in consulting and cash management solutions as well as consolidated accounting outsourcing.
- OP margin slightly declined due to increased fixed costs related to office expansion, etc., but operating income increased due to higher sales

(Millions of Yen)

	FY19/06 Q1<YtD>	FY20/06 Q1<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	380	504	+ 123	+ 32.6%
Operating Income	101	118	+ 16	+ 16.1%
OP Margin	26.7%	23.4%	-	△3.3point
Outstanding Order	734	948	+ 214	+ 29.2%

Selected Quarterly Financial Data

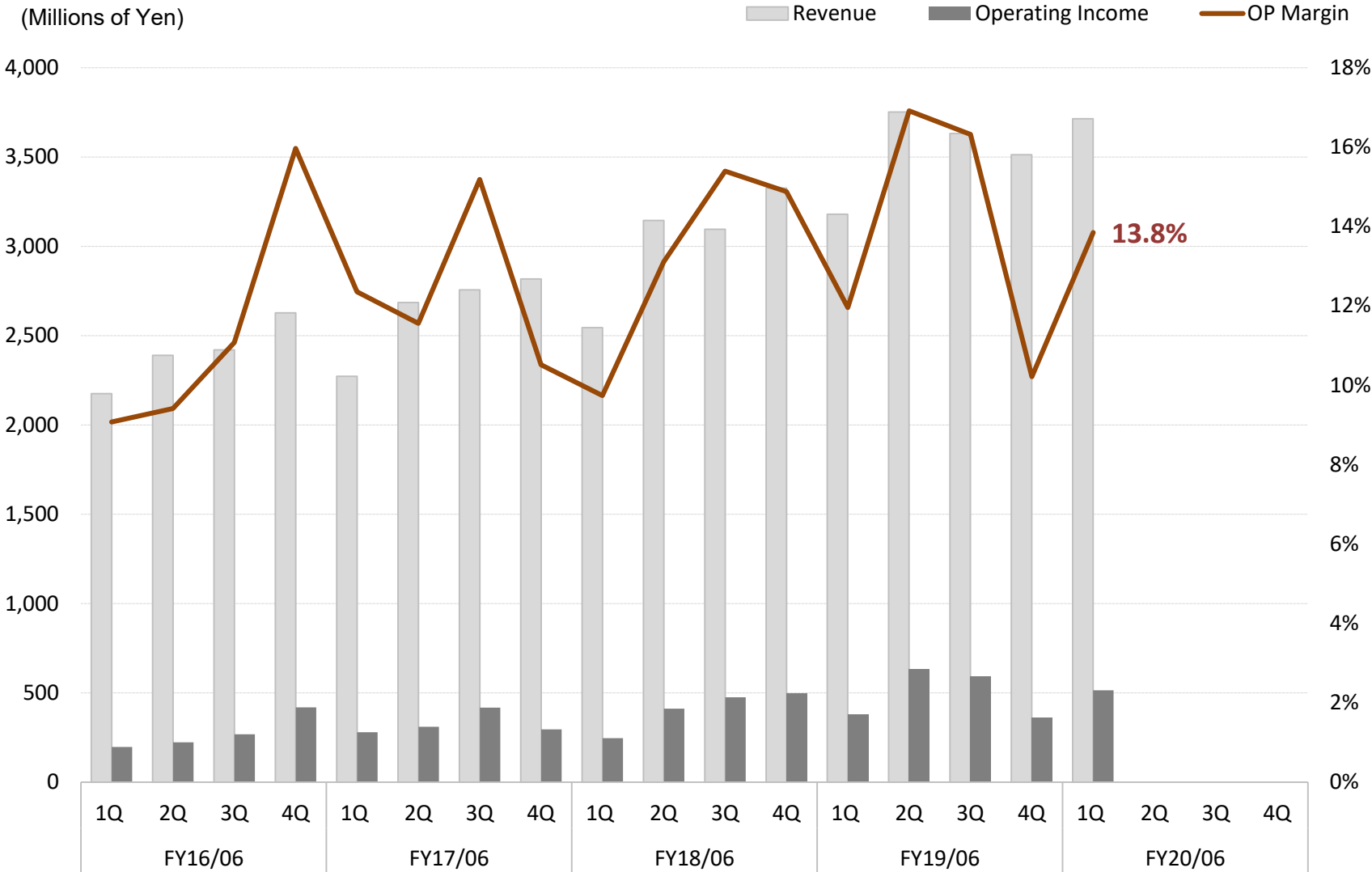
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■ Favorable level of revenue and net income for the first quarter of the year

(Millions of Yen)

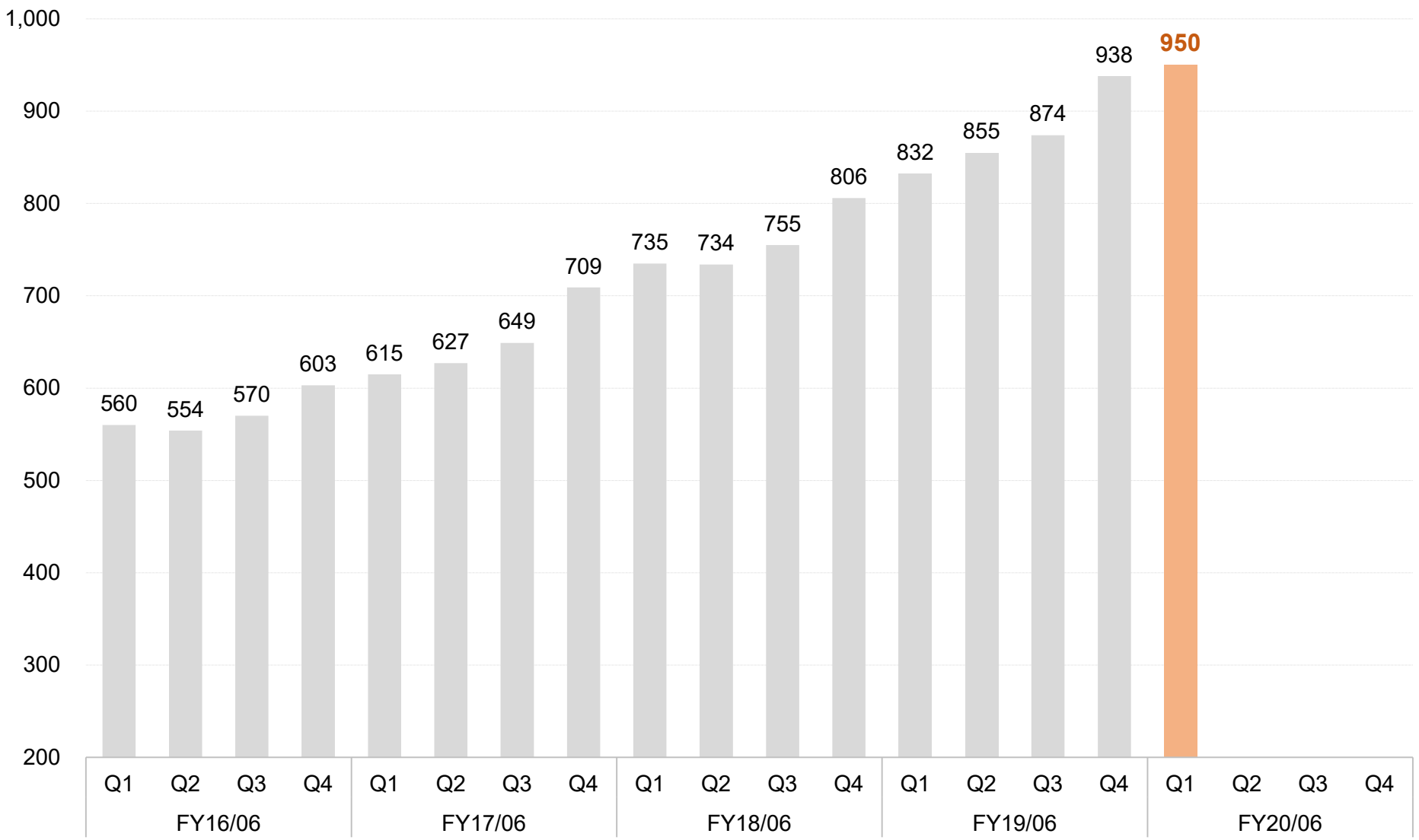
	FY16/06				FY17/06				FY18/06				FY19/06				FY20/06				
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
Revenue	2,175	2,389	2,420	2,627	2,272	2,685	2,756	2,817	2,544	3,144	3,095	3,326	3,180	3,752	3,631	3,512	3,714				
Cost of Revenue	1,233	1,341	1,454	1,423	1,288	1,444	1,490	1,610	1,514	1,866	1,720	1,845	1,772	1,929	2,057	2,020	2,149				
Gross Profit	941	1,047	966	1,204	984	1,241	1,265	1,206	1,029	1,277	1,374	1,481	1,408	1,823	1,574	1,492	1,565				
SG&A expenses	744	822	698	784	703	930	847	910	781	865	898	986	1,027	1,188	982	1,133	1,050				
Operating Income	197	224	268	419	280	310	418	296	247	412	476	494	380	634	592	358	514				
OP Margin	9.1	9.4	11.1	16.0	12.4	11.6	15.2	10.5	9.7	13.1	15.4	14.9	12.0	16.9	16.3	10.2	13.8				
Ordinary Income	196	222	268	425	280	315	416	296	248	415	472	495	380	633	593	364	520				
Net Income	130	118	118	293	183	-0	250	230	162	269	311	318	237	403	389	286	334				
EBITDA	251	283	328	483	341	370	481	359	300	436	514	534	417	673	634	408	557				
EBITDA Margin (%)	11.5	11.9	13.6	18.4	15.0	13.8	17.5	12.8	11.8	13.9	16.6	16.1	13.1	17.9	17.5	11.6	15.0				

Quarterly Trends in Major KPIs



Total Number of Group Employees

(Person)



Financial Condition & Cash Flows

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Financial Status

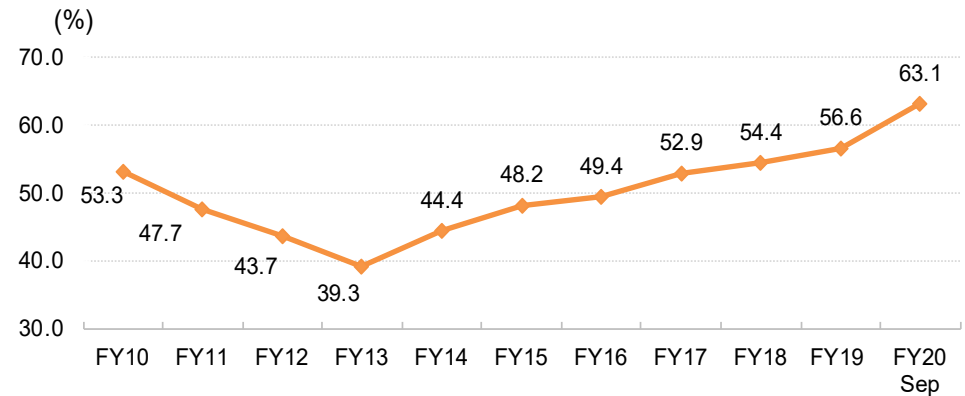
Sep 2019

Total Assets
9.4
billion yen

Total Liabilities
3.5
billion yen

Net Assets
5.9
billion yen

Equity Ratio



Cash Flow

(Millions of yen)

FY19/06

Q1

FY20/06

Q1

Operating CF

(450) **(941)**

Investment CF

(52) **(108)**

Free CF

(502) **(1,049)**

Financial CF

(226) **(283)**

Key Factors for change

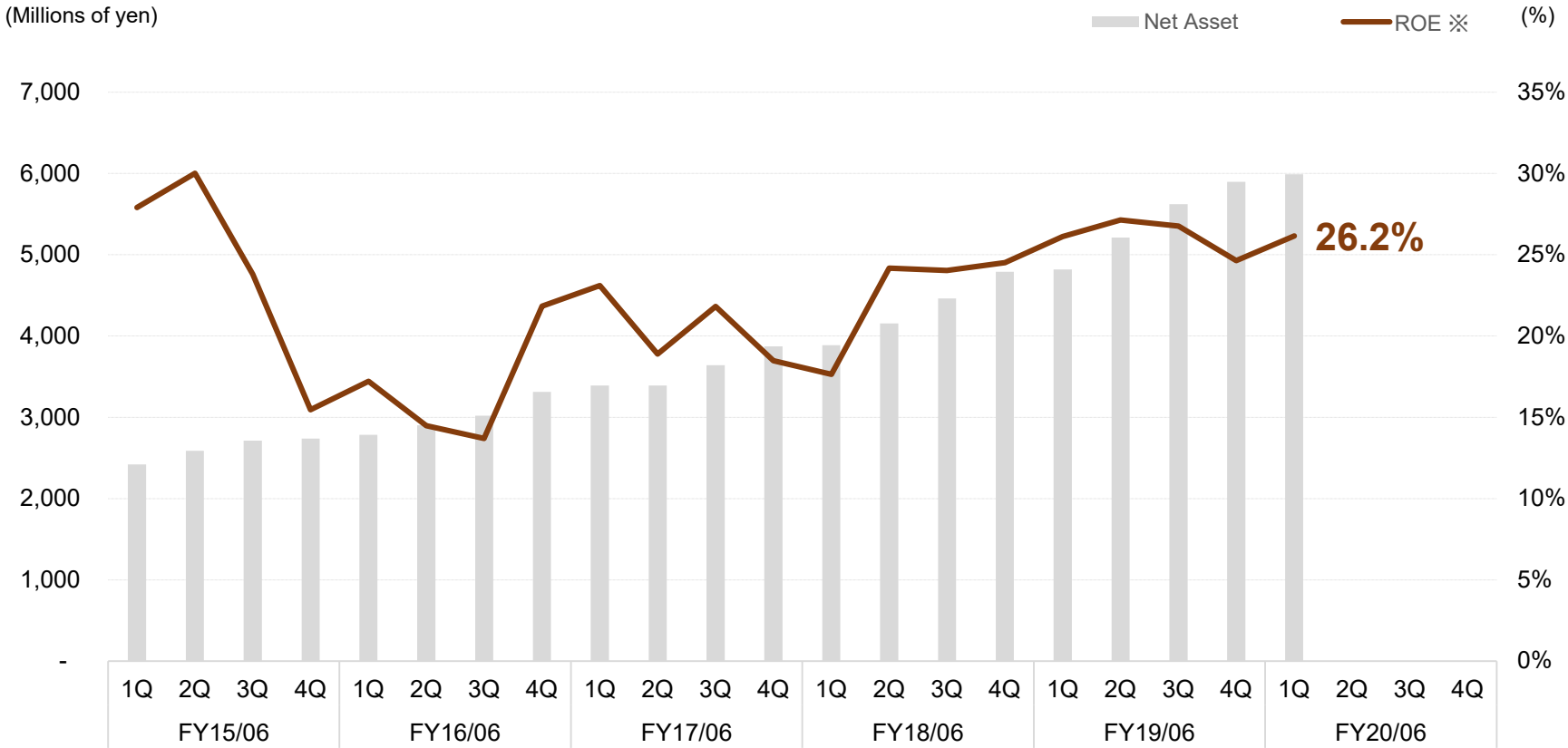
(millions of yen)

• Income before income taxes and minority interests	520
• Depreciation expense	42
• Decrease in provision	(766)
• Increase in account receivable	(153)
• decrease in deferred revenue	(137)
• Increase in notes and accounts payable – trade	33
• Income taxes paid	(627)
• Purchase of tangible fixed assets	(61)
• Deposit paid	(33)
• Payment of shareholder dividends	(281)

Return on Equity (ROE) trends

Our goal is to maintain over 20% on average in the mid- to long-term

- We aim to improve ROE, while maintaining the Group's management principles, by enhancing profitability further and managing assets more efficiently



※twelve month rolling

II . Earnings and Dividend Forecast

Earnings 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 should continue at Business Intelligence and Outsourcing business and we expect double digit growth in revenue. We believe we could maintain OP margins.
- As 1Q progressed in line with expectation, we maintain current guidance

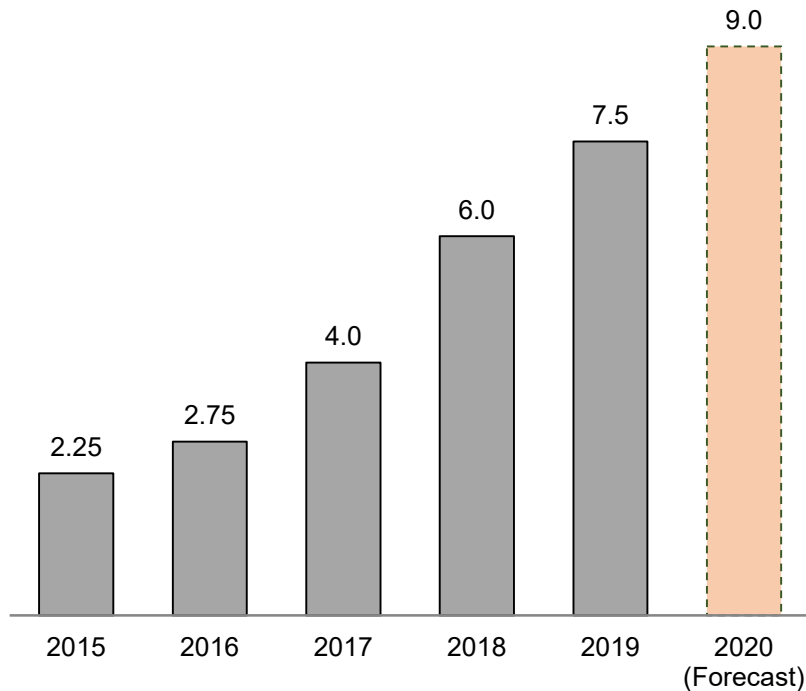
(Millions of Yen)

	FY19/06 Full-Year (Actual)	FY20/06 Full-Year (Forecast)	Variance (FY19 vs FY20)	% CHG (FY19 vs FY20)
Revenue	14,077	15,480	+ 1,402	+ 10.0%
Operating Income	1,966	2,165	+ 198	+ 10.1%
OP Margin	14.0%	14.0%	—	+ 0.0 point
Net Income	1,317	1,353	+ 35	+ 2.7%

The FY 2020 dividend forecast is 9 yen per share

- In the fiscal year ending June 2020, we plan to increase dividends in line with our policy of continuing stable dividends
- Per share data adjusted for proposed two-for-one stock splits

(yen per share)



(Adjusted for stock splits)

<AVANT's shareholder return policy>

- Cash dividends are an important part of shareholder return policy
- AVANT plans to maintain sustainable growth in dividends, and rely on dividends on equities (DoE) rather than cash income which could fluctuate and unpredictable
- DoE ratios for AVANT should improve over time and always exceed average of all listed companies of Tokyo Stock Exchange

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