

AVANT (3836)

Consolidated FY (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY06/2014		8,300	1,088	1,079	623	132.8	27.0	524.3
FY06/2015		8,928	805	795	402	85.7	18.0	583.6
FY06/2016CoE		9,600	935	925	572	121.9	22.0	-
FY06/2015	YoY	7.6%	(26.1%)	(26.3%)	(35.5%)	-	-	-
FY06/2016CoE	YoY	7.5%	16.1%	16.3%	42.3%	-	-	-
Consolidated Quarter (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY06/2015		1,944	132	130	84	-	-	-
Q2 FY06/2015		2,250	268	265	168	-	-	-
Q3 FY06/2015		2,237	216	213	123	-	-	-
Q4 FY06/2015		2,496	188	185	25	-	-	-
Q1 FY06/2016		2,175	197	196	130	-	-	-
Q1 FY06/2016	YoY	11.9%	49.2%	50.3%	54.5%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (17 December 2015)

Vertical & Horizontal

AVANT, whose core operation is the development and sales of consolidated management & accounting system and/or consulting services for Japanese major listed corporates, is planning to increase its long-term emphasis on outsourcing services associated with consolidated accounting and/or tax payment. To date, the Company has cultivated more than 850 corporate customers through the development and sales of the core DivaSystem, while also offering related services. Several dozen DivaSystem customers have contracted for outsourcing services, and new adoptions are likely to persist in the foreseeable future. At the same time, the breadth of outsourcing services the Company offers is likely to expand. This suggests that sales of outsourcing services are to benefit from vertical expansion on top of horizontal expansion, i.e., likely to expand in both of the respects, going forward. More importantly, the Company is likely to see new adoptions of outsourcing services by non-DivaSystem customers in time, implying significant potential for future horizontal expansion. In the midterm management plan, where this is the key growth driver, the Company is calling for CAGR of 9.6% for prospective sales and 19.1% for earnings, through FY06/2016 to FY06/2018.

In Q1 FY06/2016, sales came in at ¥2,175m (up 11.9% YoY), operating profit ¥197m (up 49.2%) and operating profit margin 9.1% (up 2.3% points). By business domain, sales of Licensing came in at ¥174m (up 4.7%), Consulting Services ¥1,230m (up 13.5%) and Support & Information Retrieval Services ¥770m (up 11.0%). Increasing customer demand associated with IFRS (International Financial Reporting Standards), as well as the increasing sophistication of group-wide governance, are steadily driving sales of diverse system integration in Consulting Services, including those relating to DivaSystem. These two trends have


been the most substantial driver for sales as a whole for the Company by business domain. Meanwhile, with respect to Support & Information Retrieval Services, which includes outsourcing services, sales of the mainstay operations, i.e., maintenance & services and version upgrades for DivaSystem, were stable. In regards to outsourcing services, while still small proportionately, sales surged over the year and appear to have accounted for almost all the net increases of sales for the business segment. In the Licensing segment, sales of the mainstay proprietary packaged software DivaSystem, were down marginally over the year, due mainly to intensifying competition. However, this was more than compensated for by increasing sales of 3rd party packaged software. Given sluggish sales of DivaSystem, which has high gross margins, we believe the sales mix as a whole must have deteriorated. However, it appears this was more than offset by the dropping out of one-time cost overrun from the previous fiscal year in Consulting Services. As a result, both gross profit and operating margin improved over the previous year.

FY06/2016 Company forecasts have remained unchanged, calling for sales of ¥9,600m (up 7.5% YoY), operating profit of ¥935m (up 16.1%), and operating profit margin of 9.7% (up 0.7% points). Meanwhile, the forecast dividend per share has also remained unchanged at ¥22.0, implying a payout ratio 18.1%. As far as we could gather, the Company forecasts assume sales growth rate by business segment as follows: up some 15% for Licensing, up some 8% for Consulting Services and up some 6% for Support & Information Retrieval Services. The results in Q1 suggest that recent sales activity is marginally better than assumed as a whole, as far as we could gather. Although Q1 sales of DivaSystem are falling short, this is being offset by better than expected sales in other business segments of the Company. The Company forecasts assume sales of DivaSystem to be concentrated in Q4, consistent with past years, which relates to the timing of budget spending by customers among other reasons. Thus, it will be important for the Company to see sales as expected for DivaSystem in Q2 and subsequent quarters for the full-year Company forecasts to be met.

IR Representative: Corporate Administration Department, Nobue Aoki (ir@avantcorp.com)

2.0 Company Profile

Providing Solutions with Consolidated Management & Accounting

Company Name	AVANT CORPORATION Company Website IR Information Share Price	
Established	26 May 1997	
Listing	8 February 2007: Tokyo Stock Exchange JASDAQ Growth (Ticker: 3836)	
Capital	¥288m (As of the end of September 2015)	
No. of Shares	4,694,000 shares, including 257 treasury shares (As of the end of September 2015)	
Main Features	<ul style="list-style-type: none"> ● Sales, introductions, maintenance & services for self-developed packaged software DivaSystem ● DivaSystem, adopted by more than half of top 50 market cap corporates in Japan ● Also involved with system integration services and outsourcing services 	
Businesses	I . Software Business	
Top Management	President & CEO: Tetsuji Morikawa	
Shareholders	Tetsuji Morikawa 36.2%, ESOP 11.2%, Tsuyoshi Noshiro 6.9% (As of the end of June 2015)	
Headquarters	Minato-ku, Tokyo, JAPAN	
No. of Employees	Consolidated: 560 (As of the end of September 2015)	

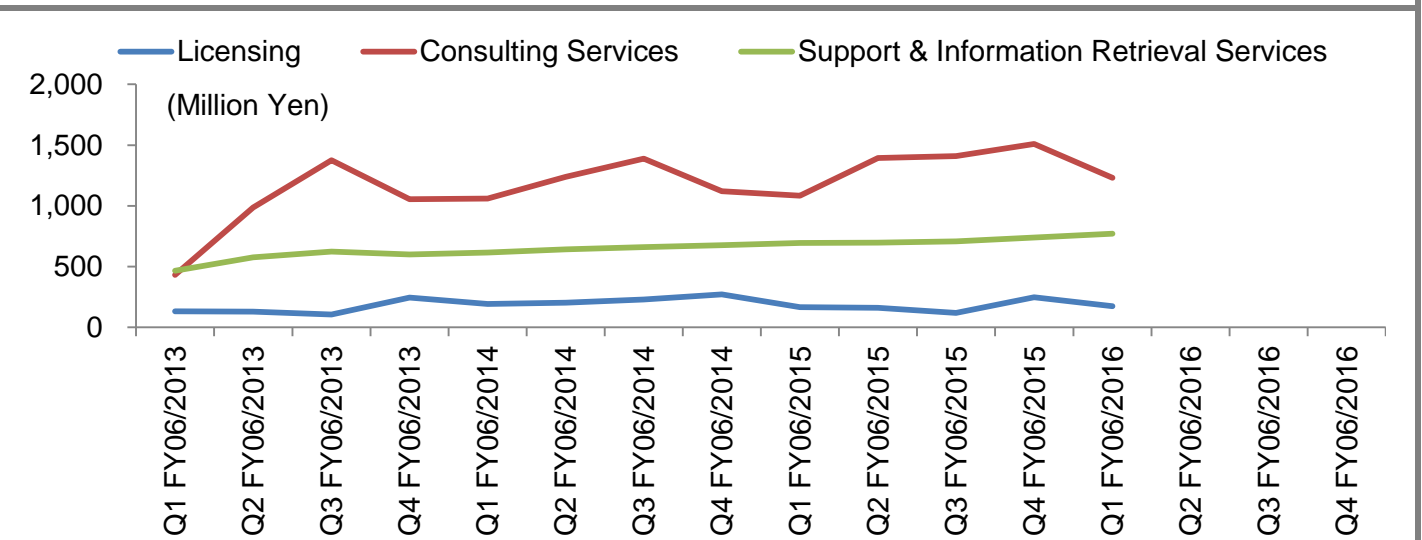
Source: Company Data

3.0 Recent Trading & Prospects

Q1 FY06/2016 Results

In Q1 FY06/2016, sales came in at ¥2,175m (up 11.9% YoY), with operating profit of ¥197m (up 49.2%), recurring profit of ¥196m (up 50.3%) and net profit of ¥130m (up 54.5%), resulting in an operating profit margin of 9.1% (up 2.3% points). As a proportion of the full-year Company forecasts, the Company has achieved 22.7% of sales and 21.1% of operating profit, versus 21.8% and 12.2%, respectively, for Q1 FY06/2015. Thus, Q1 FY06/2015 achievement ratio is 0.9% higher than the previous period for sales and 9.0% higher for operating profit, suggesting that the assumptions of Company forecasts were marginally exceeded in Q1.

Sales (by Business Domain, Quarterly)



Source: Company Data, WRJ Calculation

Earnings of the Company hinge on the core operations of developing and selling DivaSystem, a consolidated management & accounting packaged software, and related support services. DivaSystem business operations include the following activities a) sales of packaged software, b) system integration services and c) maintenance & services including version upgrades. The major listed corporates who are DIVA's primary customers typically utilize all of the above services.

Within the Licensing domain, their proprietary DivaSystem accounts for more than 90% of sales, while it appears that this accounts for almost all of gross profit. At present, sales are not inspiring due mainly to intensifying competition with a major competitor. However, the Company is aggressively pursuing a new long-term growth driver, i.e., outsourcing services associated with consolidated accounting and/or tax payments. Sales of outsourcing services are taking off well, and are expected to more than compensate for existing weak conditions over the long-term.

With respect to Consulting Services domain, sales are comprised of various system integration services, though we believe the key earnings driver is, again, from services relating to DivaSystem. Specifically, we estimate more than half of gross profit in this business domain is accounted for by implementations (producing and/or modifying hardware and software in order to realize intended functions in computers, etc.) for customers who have newly licensed DivaSystem, as well as related services. Given that only the Company has the necessary expertise to perform such implementations, we believe gross margins for implementations are also quite high, though not at the same level as DivaSystem license sales.

Within the same Consulting Services domain, the Company also offers BI & ERP-related system integration services. Typically, system integration work for both areas are niche domains in which the Company is sub-contracted by major system integrators. BI-related system integration services are literally those related to BI (Business Intelligence), meaning a method for users to facilitate corporate decision-making, by means of analyzing and processing vast in-house data, accumulated by business systems, etc. In this area, the Company has reasonable area expertise, and as a result earns reasonably high gross margins, despite its role as a subcontractor. On the other hand, our understanding is that the Company's ERP business consists of low-margin subcontracted implementation and services relating to Microsoft's Dynamics AX.

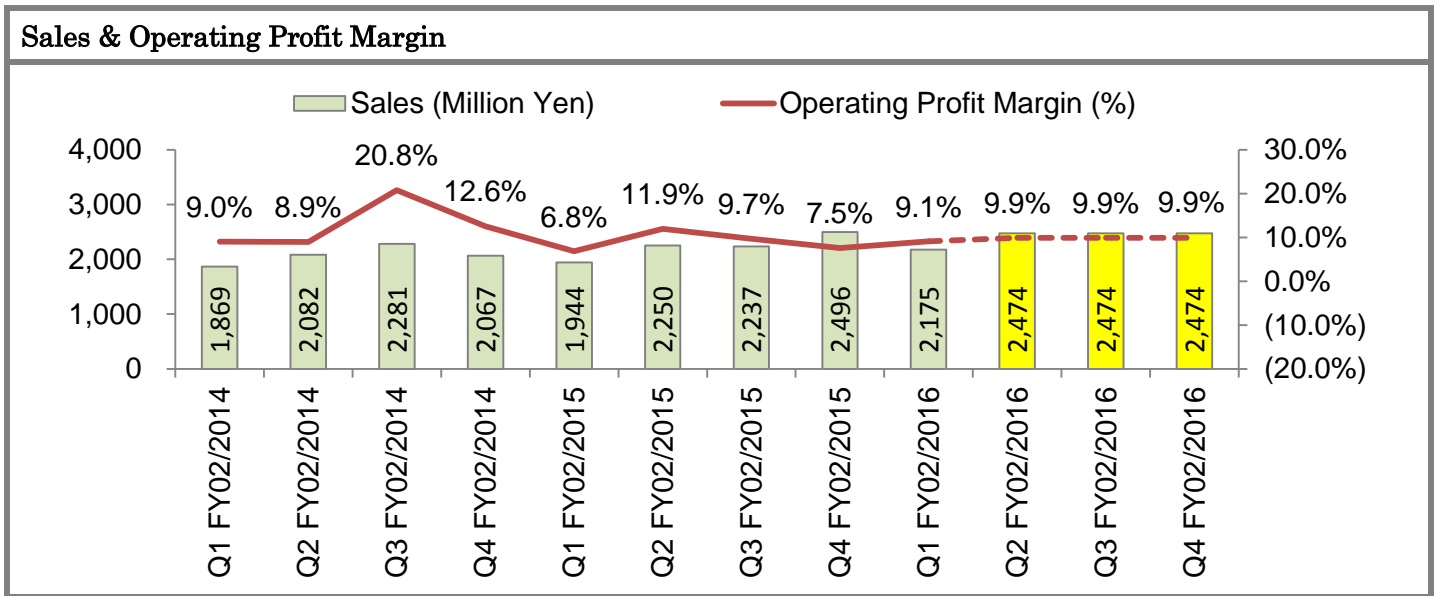
In Q1 FY06/2015, the Company experienced cost overrun with a BI-related system integration project, followed by similar overrun with an ERP-related project in Q4. The Company took aggressive measures to control the respective overruns, and the effect of those costs dropping out boosts gross margin for both Q1 and Q4 of FY06/2016.

Within the Support & Information Retrieval Services domain, sales are comprised of three categories: a) maintenance & services including version upgrades for DivaSystem licenses already up and running, b) outsourcing services associated with consolidated accounting and/or tax payment and c) information retrieval services. Within this business domain, the bulk of sales derives from maintenance & services and version upgrades. While sales of Licensing and Consulting Services are rather volatile on a quarterly basis, affected by the timing of customer budget spending and other seasonal factors, sales of Support & Information Retrieval Services are increasing steadily.

The gradually increasing number of DivaSystem customers explains much of this steady growth over time, combined with the surging growth in outsourcing services of consolidated accounting and/or tax payment on behalf of customers. Sales in outsourcing remain small at present, but the Company is looking for strong growth to persist going forward.

Information retrieval services represent operations where the Company offers ASP services for users, effectively all auditing firms, to comprehensively retrieve timely disclosure information based on the Financial Instruments and Exchange Act, including any word in the texts, etc. To date, some 20,000 to 30,000 CPAs (Certified Public Accountants) have already adopted the services for their regular use and thus sales in here are likely to remain stable. However, the Company has launched new services leveraging the disclosure information to produce and offer diverse reports, as well as introducing systems for major auditing firms, to drive further growth in this business domain.

On the earnings side, gross profit margin came in at 43.3% (up 4.1% points) and the ratio of SG&A expenses to sales at 34.2% (up 1.9% points), resulting in the operating profit margin rising to 9.1% (up 2.3% points). As mentioned earlier, the sales mix likely deteriorated for the Company, but the non-reappearance of cost overrun, etc. more than offset this, resulting in gross profit margin improving over the previous year. The improvement was also substantial enough to offset increasing SG&A expenses due to net increases of depreciation charges stemming from IT investments in FY06/2015, as well as increasing personnel expenses. Thus, the operating profit margin improved over the previous year.



Source: Company Data, WRJ Calculation (Q2 to Q4 FY06/2016: Company forecasts during the same periods, pro rata)

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
	06/2015	06/2015	06/2015	06/2015	06/2016	06/2016	06/2016	06/2016	06/2016	
Sales	1,944	4,194	6,431	8,928	2,175	-	-	-	-	+231
Cost of Sales	1,183	2,388	3,677	5,133	1,233	-	-	-	-	+50
Gross Profit	761	1,805	2,754	3,795	941	-	-	-	-	+180
SG&A	628	1,405	2,137	2,990	744	-	-	-	-	+115
Operating Profit	132	400	616	805	197	-	-	-	-	+65
Non Operating Balance	(1)	(4)	(7)	(9)	(1)	-	-	-	-	0
Recurring Profit	130	396	609	795	196	-	-	-	-	+65
Extraordinary Balance	0	0	0	(5)	0	-	-	-	-	0
Pretax Profit	130	396	609	790	196	-	-	-	-	+65
Tax Charges, etc.	45	143	233	388	65	-	-	-	-	+19
Net Profit	84	253	376	402	130	-	-	-	-	+46
Sales YoY	+4.0%	+6.2%	+3.2%	+7.6%	+11.9%	-	-	-	-	-
Operating Profit YoY	(21.6%)	+13.0%	(25.6%)	(26.1%)	+49.2%	-	-	-	-	-
Recurring Profit YoY	(21.6%)	+13.2%	(25.9%)	(26.3%)	+50.3%	-	-	-	-	-
Net Profit YoY	(15.3%)	+37.3%	(8.0%)	(35.5%)	+54.5%	-	-	-	-	-
Gross Profit Margins	39.2%	43.1%	42.8%	42.5%	43.3%	-	-	-	-	+4.1%
SG&A / Sales	32.3%	33.5%	33.2%	33.5%	34.2%	-	-	-	-	+1.9%
Operating Profit Margins	6.8%	9.6%	9.6%	9.0%	9.1%	-	-	-	-	+2.3%
Recurring Profit Margins	6.7%	9.4%	9.5%	8.9%	9.0%	-	-	-	-	+2.3%
Net Profit Margins	4.4%	6.0%	5.9%	4.5%	6.0%	-	-	-	-	+1.7%
Tax Charges, etc. / Pretax Profit	35.2%	36.1%	38.3%	49.1%	33.3%	-	-	-	-	(1.8%)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
	06/2015	06/2015	06/2015	06/2015	06/2016	06/2016	06/2016	06/2016	06/2016	
Sales	1,944	2,250	2,237	2,496	2,175	-	-	-	-	+231
Cost of Sales	1,183	1,205	1,289	1,455	1,233	-	-	-	-	+50
Gross Profit	761	1,044	948	1,041	941	-	-	-	-	+180
SG&A	628	776	732	852	744	-	-	-	-	+115
Operating Profit	132	268	216	188	197	-	-	-	-	+65
Non Operating Balance	(1)	(2)	(2)	(2)	(1)	-	-	-	-	0
Recurring Profit	130	265	213	185	196	-	-	-	-	+65
Extraordinary Balance	0	0	0	(5)	0	-	-	-	-	0
Pretax Profit	130	265	213	180	196	-	-	-	-	+65
Tax Charges, etc.	45	97	90	155	65	-	-	-	-	+19
Net Profit	84	168	123	25	130	-	-	-	-	+46
Sales YoY	+4.0%	+8.1%	(1.9%)	+20.7%	+11.9%	-	-	-	-	-
Operating Profit YoY	(21.6%)	+44.4%	(54.5%)	(27.5%)	+49.2%	-	-	-	-	-
Recurring Profit YoY	(21.6%)	+44.8%	(54.8%)	(27.7%)	+50.3%	-	-	-	-	-
Net Profit YoY	(15.3%)	+99.5%	(45.2%)	(88.0%)	+54.5%	-	-	-	-	-
Gross Profit Margins	39.2%	46.4%	42.4%	41.7%	43.3%	-	-	-	-	+4.1%
SG&A / Sales	32.3%	34.5%	32.7%	34.2%	34.2%	-	-	-	-	+1.9%
Operating Profit Margins	6.8%	11.9%	9.7%	7.5%	9.1%	-	-	-	-	+2.3%
Recurring Profit Margins	6.7%	11.8%	9.5%	7.4%	9.0%	-	-	-	-	+2.3%
Net Profit Margins	4.4%	7.5%	5.5%	1.0%	6.0%	-	-	-	-	+1.7%
Tax Charges, etc. / Pretax Profit	35.2%	36.6%	42.3%	85.9%	33.3%	-	-	-	-	(1.8%)

Source: Company Data, WRJ Calculation

Sales by Business Domain (Cumulative, Quarterly)

Sales by Business Domain	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
	06/2015	06/2015	06/2015	06/2015	06/2016	06/2016	06/2016	06/2016	06/2016	
Licensing	166	327	446	694	174	-	-	-	-	+7
Consulting Services	1,083	2,476	3,885	5,395	1,230	-	-	-	-	+146
Support & Information Retrieval Services	693	1,390	2,099	2,838	770	-	-	-	-	+76
Sales	1,944	4,194	6,431	8,928	2,175	-	-	-	-	+231
Licensing	(13.6%)	(17.3%)	(28.7%)	(22.6%)	+4.7%	-	-	-	-	-
Consulting Services	+2.2%	+7.7%	+5.4%	+12.2%	+13.5%	-	-	-	-	-
Support & Information Retrieval Services	+12.7%	+10.7%	+9.4%	+9.4%	+11.0%	-	-	-	-	-
Sales (YoY)	+4.0%	+6.2%	+3.2%	+7.6%	+11.9%	-	-	-	-	-
Licensing	8.6%	7.8%	6.9%	7.8%	8.0%	-	-	-	-	(0.6%)
Consulting Services	55.8%	59.0%	60.4%	60.4%	56.6%	-	-	-	-	+0.8%
Support & Information Retrieval Services	35.7%	33.1%	32.6%	31.8%	35.4%	-	-	-	-	(0.3%)
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	+0.0%

Sales by Business Domain	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
	06/2015	06/2015	06/2015	06/2015	06/2016	06/2016	06/2016	06/2016	06/2016	
Licensing	166	161	119	247	174	-	-	-	-	+7
Consulting Services	1,083	1,392	1,408	1,510	1,230	-	-	-	-	+146
Support & Information Retrieval Services	693	696	708	739	770	-	-	-	-	+76
Sales	1,944	2,250	2,237	2,496	2,175	-	-	-	-	+231
Licensing	(13.6%)	(20.7%)	(48.2%)	(8.6%)	+4.7%	-	-	-	-	-
Consulting Services	+2.2%	+12.4%	+1.5%	+34.7%	+13.5%	-	-	-	-	-
Support & Information Retrieval Services	+12.7%	+8.7%	+7.1%	+9.3%	+11.0%	-	-	-	-	-
Sales (YoY)	+4.0%	+8.1%	(1.9%)	+20.7%	+11.9%	-	-	-	-	-
Licensing	8.6%	7.2%	5.3%	9.9%	8.0%	-	-	-	-	(0.6%)
Consulting Services	55.8%	61.9%	63.0%	60.5%	56.6%	-	-	-	-	+0.8%
Support & Information Retrieval Services	35.7%	31.0%	31.7%	29.6%	35.4%	-	-	-	-	(0.3%)
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	+0.0%

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative, Quarterly)

Cash Flow Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
	06/2015	06/2015	06/2015	06/2015	06/2016	06/2016	06/2016	06/2016	06/2016	
Operating Cash Flow	(570)	(618)	(287)	471	(320)	-	-	-	-	+250
Investment Cash Flow	(72)	(123)	(141)	(146)	(27)	-	-	-	-	+44
Operating CF & Investment CF	(643)	(741)	(429)	324	(347)	-	-	-	-	+295
Financing Cash Flow	(158)	(215)	(253)	(315)	(116)	-	-	-	-	+42

Cash Flow Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
	06/2015	06/2015	06/2015	06/2015	06/2016	06/2016	06/2016	06/2016	06/2016	
Operating Cash Flow	(570)	(47)	330	759	(320)	-	-	-	-	+250
Investment Cash Flow	(72)	(50)	(18)	(5)	(27)	-	-	-	-	+44
Operating CF & Investment CF	(643)	(98)	312	753	(347)	-	-	-	-	+295
Financing Cash Flow	(158)	(57)	(38)	(62)	(116)	-	-	-	-	+42

Source: Company Data, WRJ Calculation

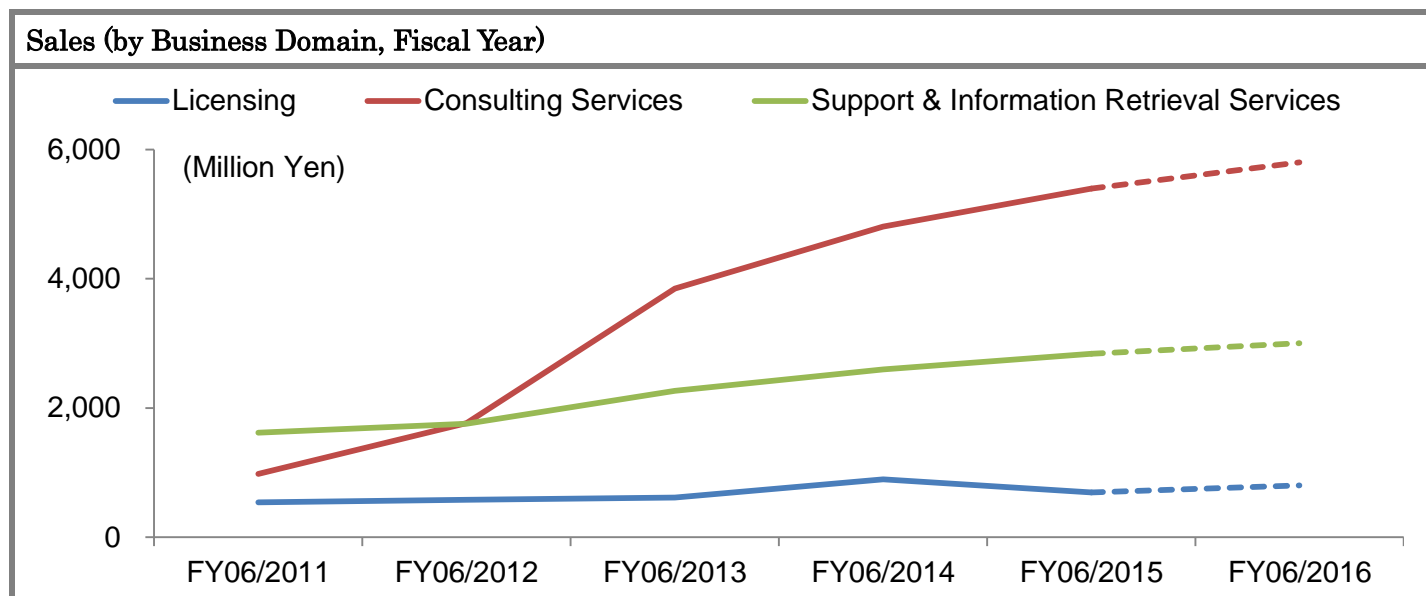
Balance Sheet (Quarterly)

Balance Sheet	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	06/2015	06/2015	06/2015	06/2015	06/2016	06/2016	06/2016	06/2016		
Cash & Deposit	2,005	1,850	2,124	2,816	2,351	-	-	-	-	+346
Accounts Receivables	1,250	1,644	1,390	1,543	1,538	-	-	-	-	+288
Inventry	174	143	151	53	184	-	-	-	-	+9
Other	461	304	385	366	568	-	-	-	-	+106
Current Assets	3,891	3,943	4,052	4,780	4,642	-	-	-	-	+750
Tangible Assets	246	249	225	199	245	-	-	-	-	0
Intangible Assets	395	362	329	301	271	-	-	-	-	(124)
Investments & Other Assets	387	389	404	398	400	-	-	-	-	+12
Fixed Assets	1,028	1,001	958	900	916	-	-	-	-	(112)
Deferred Assets	1	1	-	-	-	-	-	-	-	(1)
Total Assets	4,921	4,946	5,012	5,681	5,559	-	-	-	-	+637
Accounts Payables	267	304	345	408	272	-	-	-	-	+5
Corporate Bond (Less Than 1 Year)	60	60	60	30	30	-	-	-	-	(30)
Short Term Debt	122	129	122	122	122	-	-	-	-	0
Other	1,663	1,528	1,468	2,109	2,103	-	-	-	-	+440
Current Liabilities	2,113	2,022	1,996	2,670	2,528	-	-	-	-	+415
Corporate Bond	30	-	-	-	-	-	-	-	-	(30)
Long Term Debt	243	212	181	151	120	-	-	-	-	(122)
Other	115	121	120	120	124	-	-	-	-	+8
Fixed Liabilities	388	333	302	271	245	-	-	-	-	(143)
Total Liabilities	2,502	2,356	2,299	2,942	2,773	-	-	-	-	+271
Shareholders' Equity	2,418	2,587	2,710	2,735	2,782	-	-	-	-	+363
Adjustments	1	2	2	3	2	-	-	-	-	+1
Total Assets	2,419	2,589	2,713	2,739	2,785	-	-	-	-	+365
Total Liabilities & Net Assets	4,921	4,946	5,012	5,681	5,559	-	-	-	-	+637
Equity Capital	2,419	2,589	2,713	2,739	2,785	-	-	-	-	+366
Interest Bearing Debt	455	401	364	303	273	-	-	-	-	(182)
Net Debt	(1,549)	(1,448)	(1,760)	(2,513)	(2,078)	-	-	-	-	(528)
Equity Capital Ratio	49.2%	52.4%	54.1%	48.2%	50.1%	-	-	-	-	+0.9%
Net-Debt-Equity Ratio	(64.1%)	(56.0%)	(65.0%)	(91.9%)	(74.7%)	-	-	-	-	(10.6%)
ROE (12 months)	27.9%	30.0%	23.8%	15.5%	17.2%	-	-	-	-	(10.7%)
ROA (12 months)	22.1%	23.1%	17.2%	14.2%	16.4%	-	-	-	-	(5.7%)
Total Assets Turnover	158%	182%	179%	176%	157%	-	-	-	-	(1%)
Quick Ratio	154%	173%	176%	163%	154%	-	-	-	-	(0%)
Current Ratio	184%	195%	203%	179%	184%	-	-	-	-	(1%)

Source: Company Data, WRJ Calculation

FY06/2016 Company Forecasts

FY06/2016 initial Company forecasts have remained unchanged, calling for sales of ¥9,600m (up 7.5% YoY), operating profit of ¥935m (up 16.1%), recurring profit of ¥925m (up 16.3%) and net profit of ¥572m (up 42.3%), with operating profit margins rising to 9.7% (up 0.7% points). Meanwhile, forecast dividend per share has also remained unchanged at ¥22.0, implying a payout ratio of 18.1%. Compared with ¥18.0, implying a payout ratio 21.0%, in FY06/2015, this is up ¥4.0 over the year but the payout ratio is to come down.



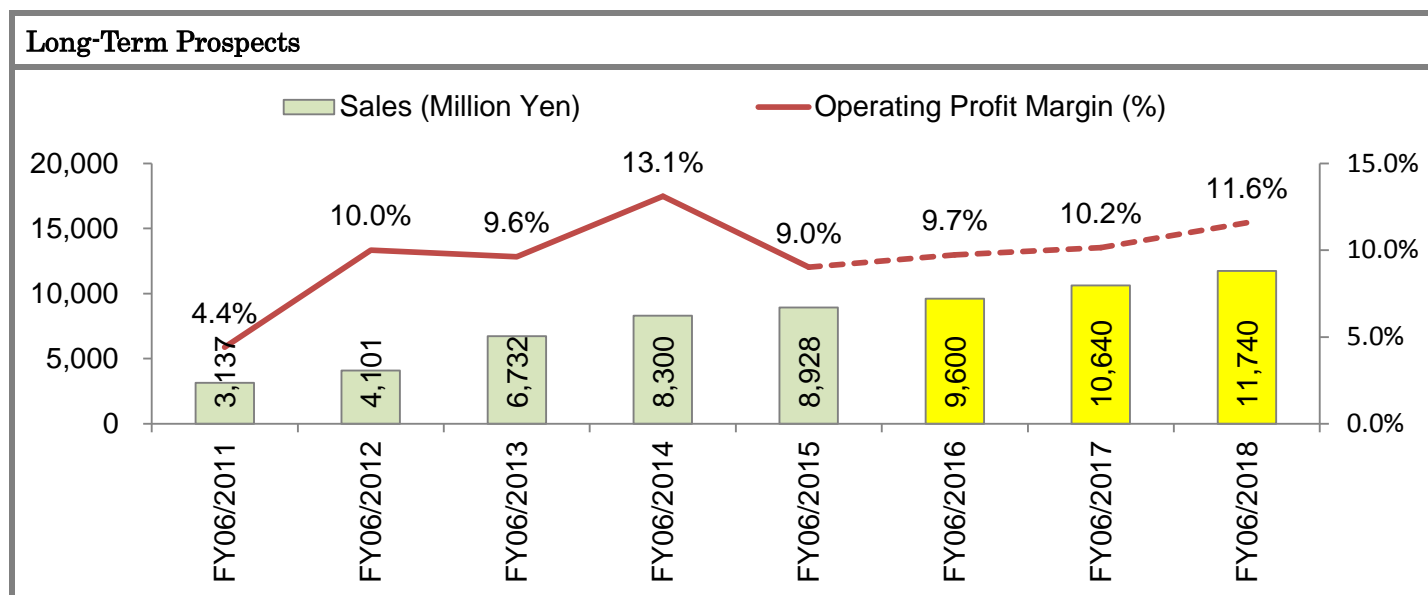
Source: Company Data

For the Company to achieve full-year forecasts, we believe it is critical that targets for DivaSystem licensing proceed according to plan. Although sales are proportionately small, high gross margin mean any shortfall in sales can have an adverse effect on profitability. In FY06/2015, the Company failed to close on an anticipated large-sized project, due to intensifying competition, resulting in a significant shortfall relative to FY 06/2014, when a similar sized project was successfully completed. Meanwhile, net profit is to surge over the previous year, which is primarily the result of the normalization of the corporate tax rate. The rate was temporarily high in the previous year, which also accounts for increasing dividend per share and lowering payout ratio, as discussed above.

Meanwhile, at the release of the midterm management plan, the Company made a change to its stated dividend policy. The existing dividend policy is based on earnings in an accounting period, which can be highly volatile. Going forward, the Company is prioritizing “Stability and Continuity” as the basic measure of dividend policy, suggesting dividend on equity will be one of the key indicators. This is based on net assets, which are very stable relative to prospective earnings in a specific accounting period, enabling the Company to reliably pay a steady dividend. Forecast dividend per share ¥22.0 in FY06/2016 implies dividend on equity of 3.8%, when based on net assets per share of ¥583.64 as of the end of FY06/2015.

Long-Term Prospects

On 21 August 2015, the Company released its latest midterm management plan (FY06/2016 to FY06/2018), calling for sales of ¥11,740m, operating profit of ¥1,360m and an operating profit margin of 11.6% in FY06/2018, i.e., the last year of the plan. In other words, through FY06/2016 to FY06/2018, the Company is targeting CAGR of 9.6% for sales and 19.1% for earnings, with the operating profit margin rising 2.6% over the three-year period. The plan does not assume any new acquisitions.



Source: Company Data, WRJ Calculation

In FY06/2014, the Company achieved an operating profit margin of 13.1%, driven by surging sales of high-gross-profit-margin Licensing sales, up 45.7% YoY to ¥897m, in line with booking of sales for large-sized projects for the mainstay DivaSystem. It appears, based on forecast operating margin within the current midterm plan, that the Company is not anticipating the booking of large-sized projects for DivaSystem in Licensing sales. Meanwhile, the write-off of goodwill (¥113m pa), associated with the acquisition in Q1 FY06/2013 of ZEAL CORPORATION, will finish in Q1 FY06/2018. Consequently, expenses are to see net decreases of ¥84m over the year, in FY06/2018, equating to 0.7% of sales. Thus, the Company will see a corresponding rise in operating margin for FY06/2018 over FY06/2017.

As stated earlier, the Company is looking to outsourcing services to become the major growth driver over the long-term. Given that sales for outsourcing services are still small on an absolute basis, the Company has yet to break them out from Support & Information Retrieval Services into a separate category, but has indicated that eventually it will do so. More importantly, the Company's strategy is to become the de facto standard for outsourcing services by leveraging automation to drive cost efficiency and productivity gains, freeing up employees to focus on higher value added activities rather than labor intensive manual ones.

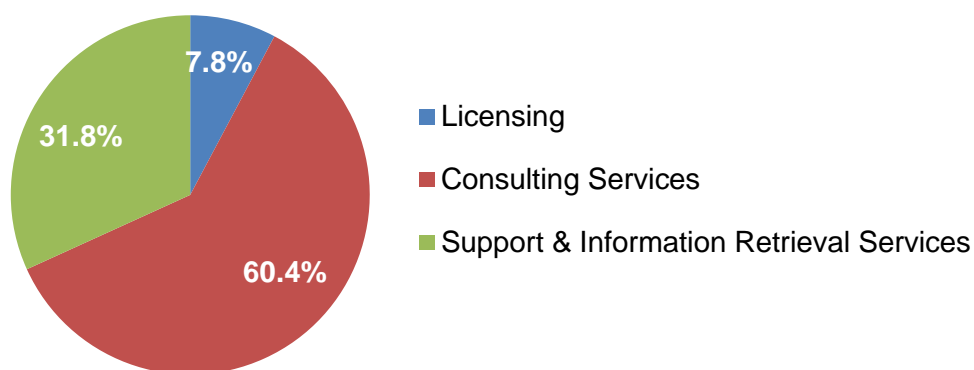
The Company has recently been allocating increasing internal human resources to the outsourcing services to respond to the ongoing strong growth. They are also now trying to increase capacity by means of strengthening mid-career recruitment.

4.0 Business Model

Providing Solutions with Consolidated Management & Accounting

On 1 October 2013, the Company converted to a holding company consisting of five operating entities (100% subsidiaries), with the newly established DIVA CORPORATION continuing DIVA-related operations as a subsidiary of the AVANT CORPORATION holding company, which was implemented through an incorporation-type company split. Sales across all operating entities can be broken down by business domain as follows:

Sales Composition Ratio (by Business Domain, FY06/2015)



Source: Company Data, WRJ Calculation

Within the licensing domain, a) DIVA CORPORATION develops and sells DivaSystem to provide consolidated management & accounting solutions. Meanwhile, b) ZEAL CORPORATION sells 3rd party packaged software, but sales of licensed 3rd party software are small and gross profit margin low. In the Consulting Services domain, DIVA CORPORATION is in charge of implementation for customers who have newly licensed DivaSystem, while ZEAL CORPORATION and c) DIVA BUSINESS INNOVATION CORPORATION are responsible for BI-related and ERP-related system integration services, respectively. Within the Support & Information Retrieval Services domain, DIVA CORPORATION operates activities, including services & maintenance, as well as DivaSystem version upgrades and outsourcing services. On top of this, d) INTERNET DISCLOSURE Co., Ltd. is in charge of information retrieval services utilized by Japanese CPAs. To add to all those operations, the Company runs operating entity e) DIVA CORPORATION OF AMERICA, which is focused on future business development overseas, with an emphasis on the U.S.

DivaSystem (Image Pictures)

データ区分	勘定科目(統一)	原料小分類							
製品大分類	データ区分		108損益計算書						
製品中分類	勘定科目(統一)		+ 8100000売上高 + 8200010VC + 8200020FC + 8400010販売費 + 8400020一般管 + 9792000営業利						
製品小分類	製品大分類	製品中分類	製品小分類	連結通貸金額	連結通貸金額	連結通貸金額	連結通貸金額	連結通貸金額	連結通貸金額
品目(統一)				合計	合計	合計	合計	合計	合計
会社				値	値	値	値	値	値
受注先				692,950	79,880	0	35,776	121,205	455,489
仕向地				43,992,258	26,270,857	26,985,943	2,940,492	10,843,409	-3,158,463
				16,595	174,502,259	126,888,219	21,090,522	81,957,507	86,878,054
				10,557	95,719,858	49,382,380	10,974,701	40,128,800	39,514,799
				338,105,440	84,509,349	129,742,267	16,861,845	58,615,818	48,376,074
				4534,380	1,036,565	1,844,681	95,220	596,265	21,653
				1,227,653	4,242,333	418,806	2,237,679	5,713,481	
				1,145,440	1,000,000	32,057,714	2,048,841	10,955,979	7,760,660
				4,448,800	4,723,000	0	66,016	371,808	-3,134,321
				0	0	0	0	0	0
				0	0	0	0	0	0
				624,185,734	942,751,036	60,125,381	55,593,475	242,759,075	-76,983,295
				0	48,043,316	19,747,558			-67,790,874
	合計			1,845,947,913	794,239,773	455,466,460	110,068,694	448,527,545	37,653,207



Source: Company Data

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

Company Name: Walden Research Japan Incorporated

Headquarters Office : #1110 4-12-4 Hatchobori, Chuo-ku, Tokyo 104-0032, JAPAN

URL: www.walden.co.jp

E-mail: info@walden.co.jp

Phone : +81 3 3553 3769