

AVANT
GROUP



February 29, 2024

To whom it may concern

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Name of Representative: Tetsuji Morikawa,
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(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 measures to achieve cost of capital and stock price conscious management, and have updated our policy for future efforts toward improvement from that disclosed on December 28, 2023, which is attached hereto.

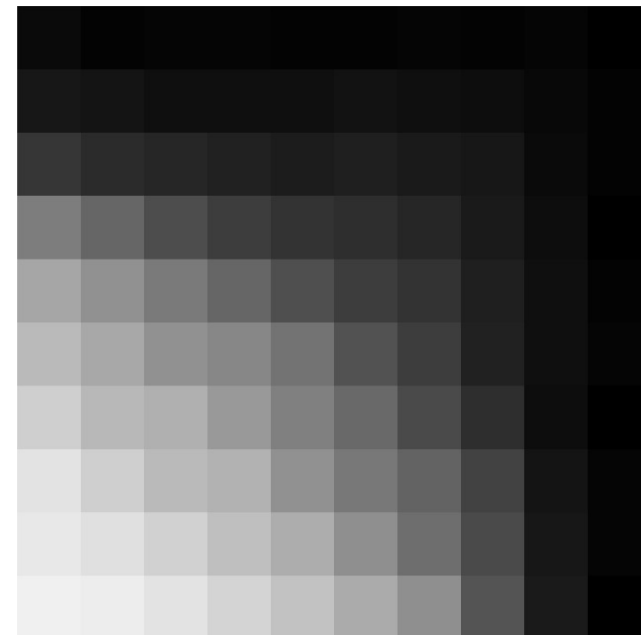
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3836 TSE Prime

Avant Group Corporation

Measures to achieve cost of capital and share price conscious management

February 29, 2024



This is an unofficial translation. In the event of any discrepancy between the original Japanese text and this English translation, the Japanese text shall prevail.

Executive Summary

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

■ Current Assessment

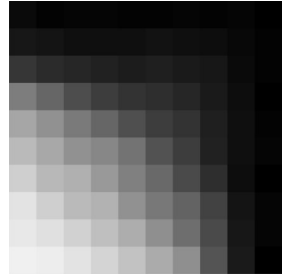
- Our ROE is hovering around 20%, which is well above our expected cost of equity range (around 7%)

■ Policies and Objectives

- For PER, the company aims to achieve a business model transformation and reach the 40x level, and for ROE, the company aims to achieve a 20% average throughout the medium-term management plan period. This will bring PBR to the 8x level.
- We will transform our business model and plan to invest in growth to achieve high growth potential: increase the composition of our SaaS-type business to achieve low volatility and high profit growth. Through optimization of capital allocation, the level of shareholders' equity will also be optimized.
- Refine our own strategy and reduce the cost of equity through creative dialogue with meaningful institutional investors.

■ Efforts and implementation period

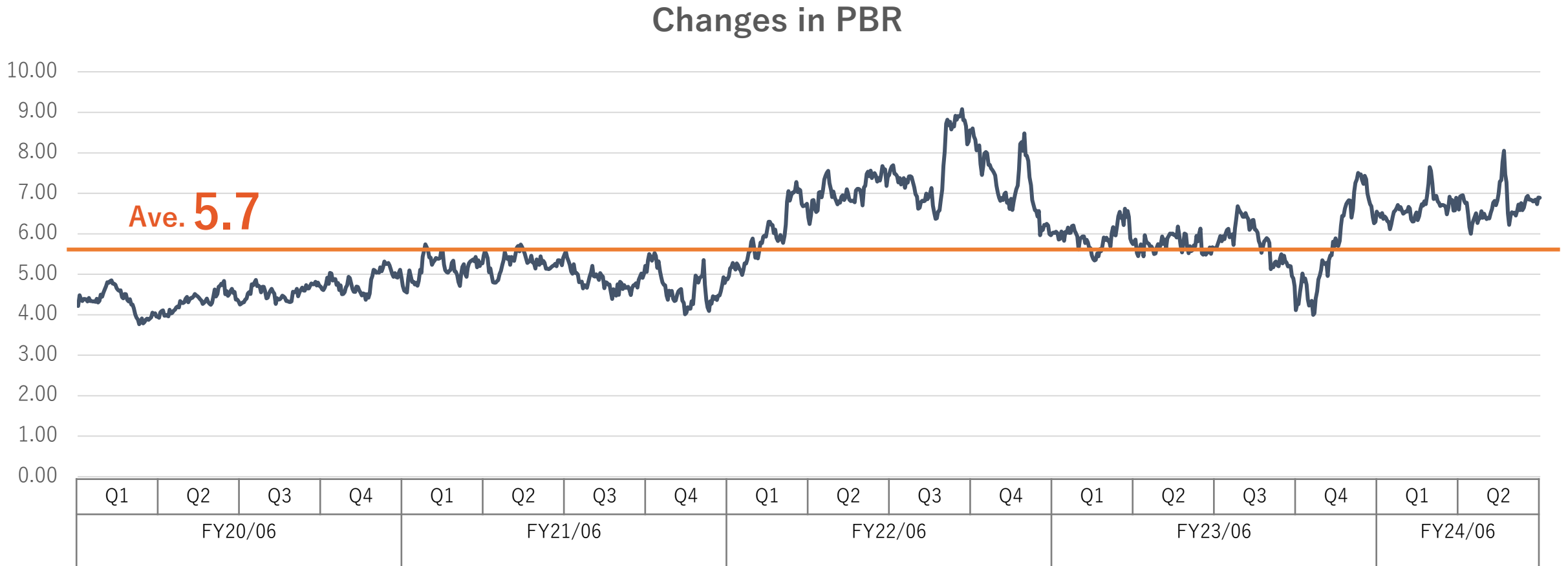
- Refine the own strategy and reduce the cost of shareholders' equity through creative dialogue with investors. (Also implemented in FY23 + 1H FY24)
- To strengthen the overall moment of the value creation spiral by expanding the structure that enables all employees to enjoy the results of the spiral from the creation of human capital value to the creation of corporate value, and to establish stock compensation for employees, group executive officers, and group directors, respectively, starting in FY24. (The scheme will be introduced from FY24 for employees, while others will be changed)



Current Assessment

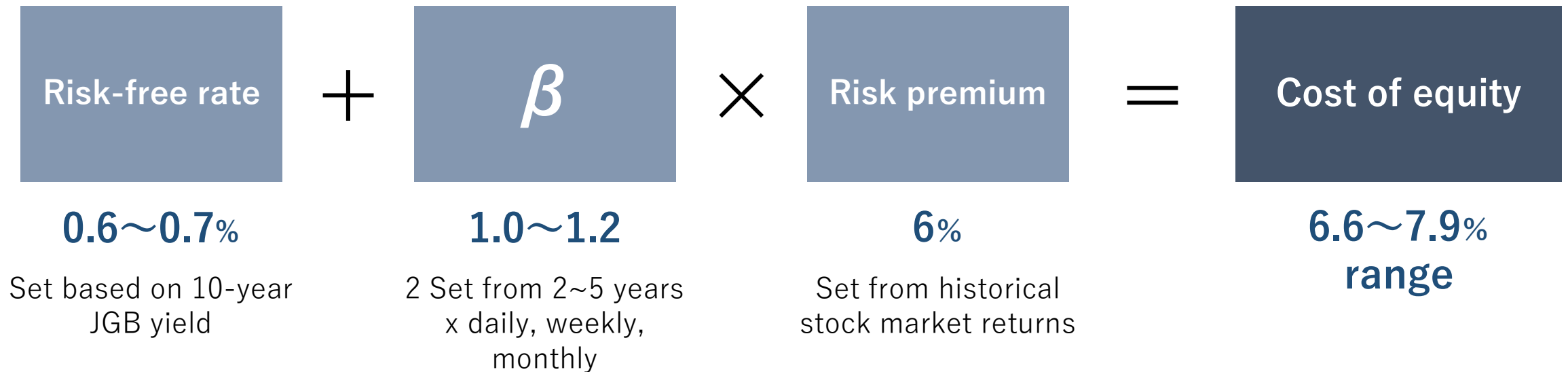
Current Assessment ~ PBR ~

- P/B ratio averaged 5.7x from FY6/2020 to the most recent 2Q FY6/2024, a level that suggests growth potential is valued by investors.



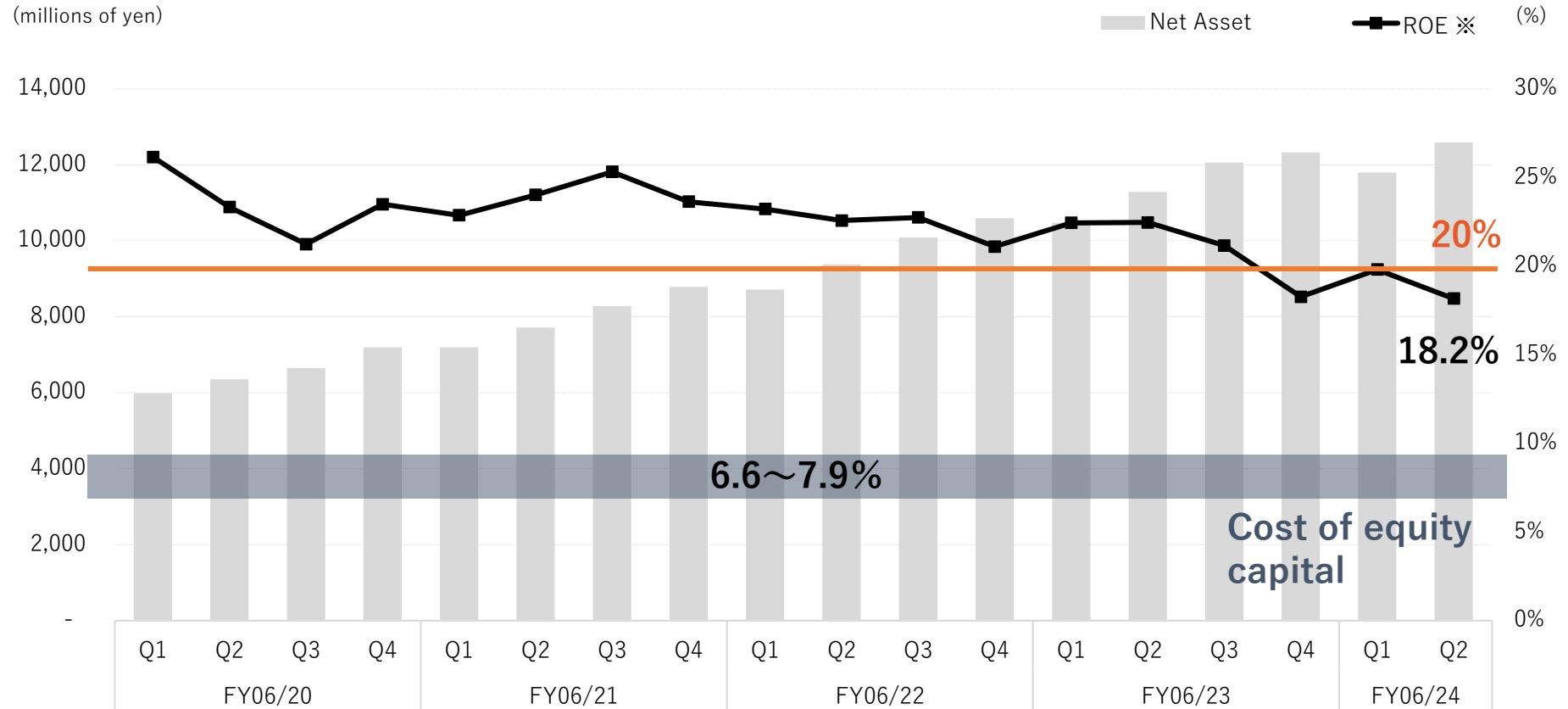
Current Assessment ~ Cost of Capital Approach ~

- We have no debt, so our cost of capital \approx cost of equity, and we assume a range of 6.6-7.9



Current Assessment ~ ROE ~

- ROE has been averaging at 20%, which is well above our expected cost of equity range (around 7%)



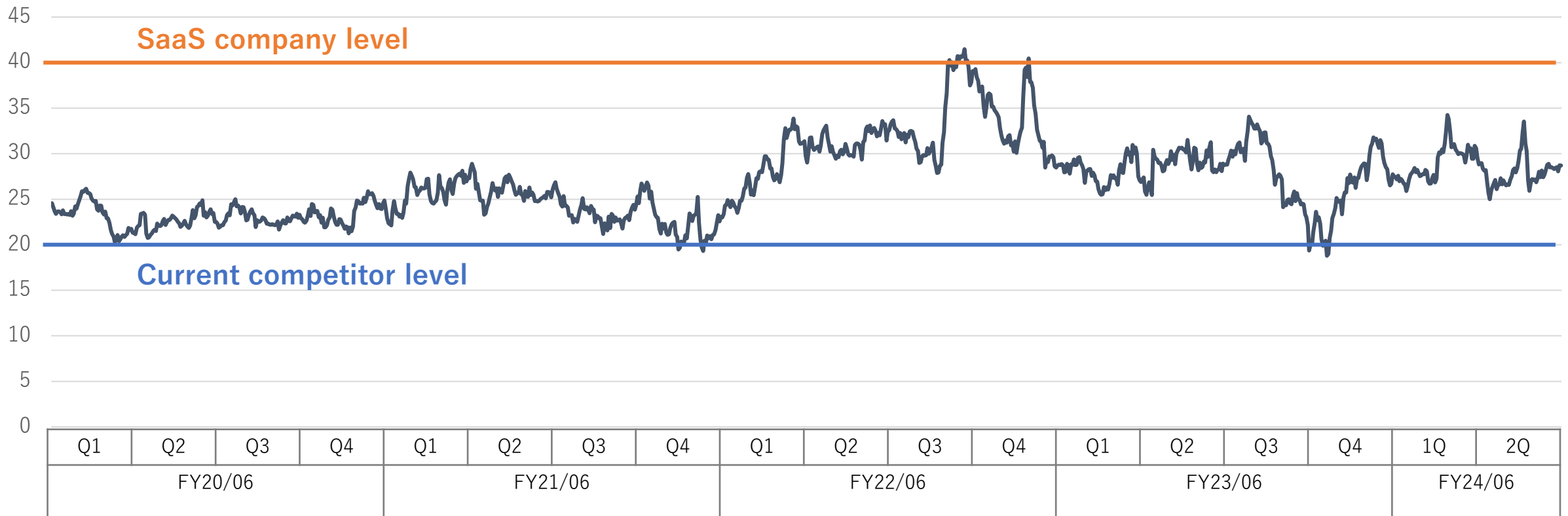
※Figures are calculated based on the past four quarters.

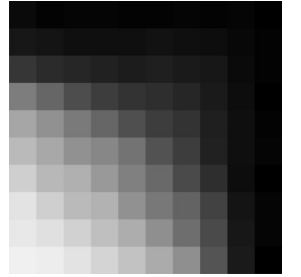
Effective from the beginning of the first quarter of FY6/22, the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and others have been applied.

Current Assessment ~ PER ~

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

Changes in PER

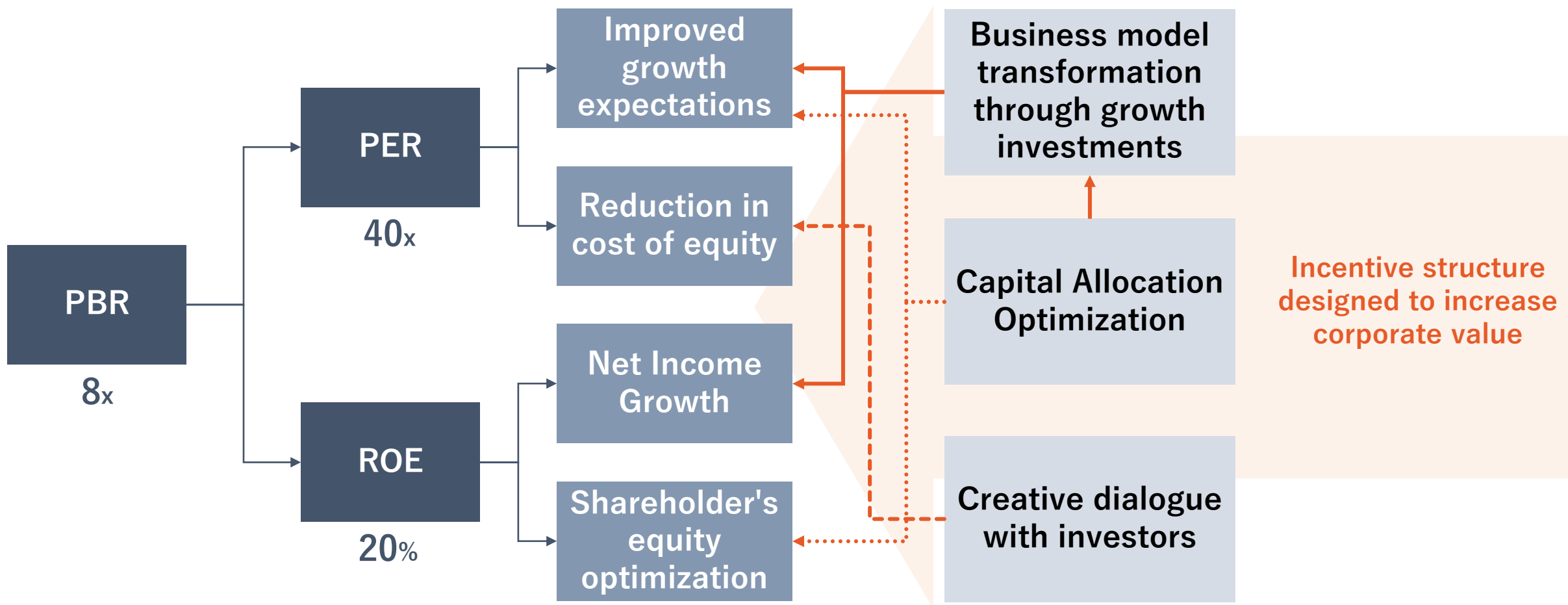




Policies and Objectives

Overall Policies and Goals

- As a discipline, the company aims to achieve an average ROE of 20% throughout the medium-term management plan period, and if PER reaches the 40% level due to the change in business model, P/B ratio will be at the 8x level.



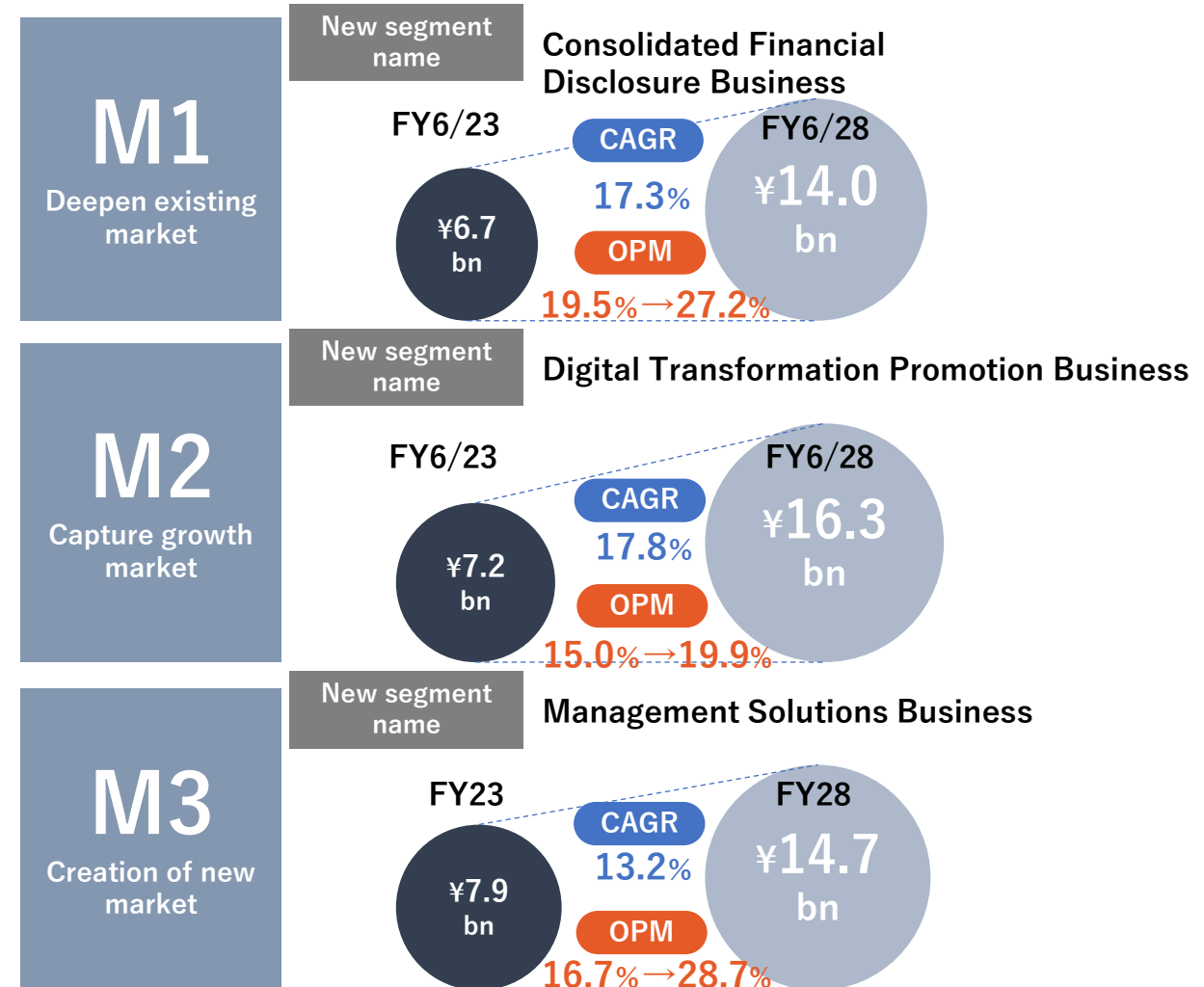
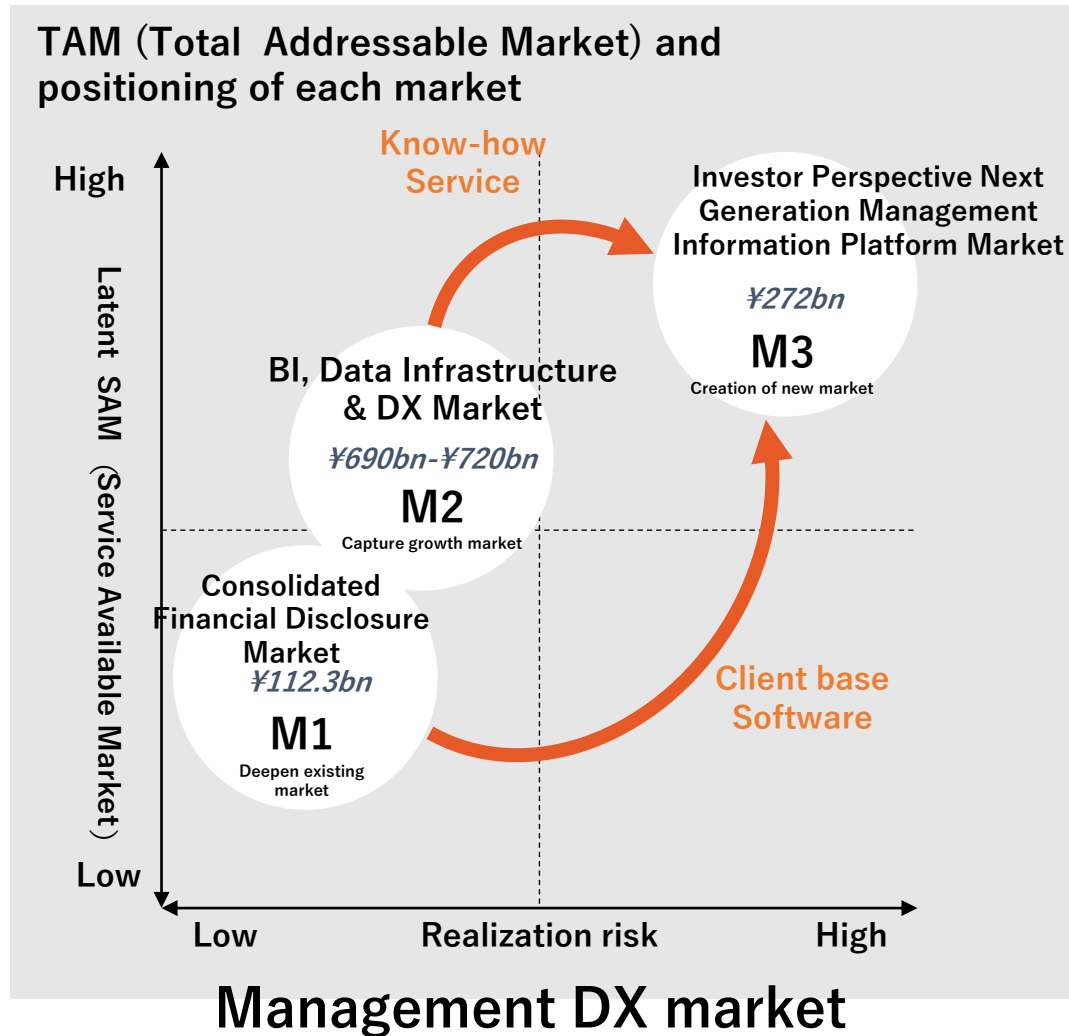
Medium-term management plan BE GLOBAL 2028 (BG28) Outlook

- 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
ROE	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



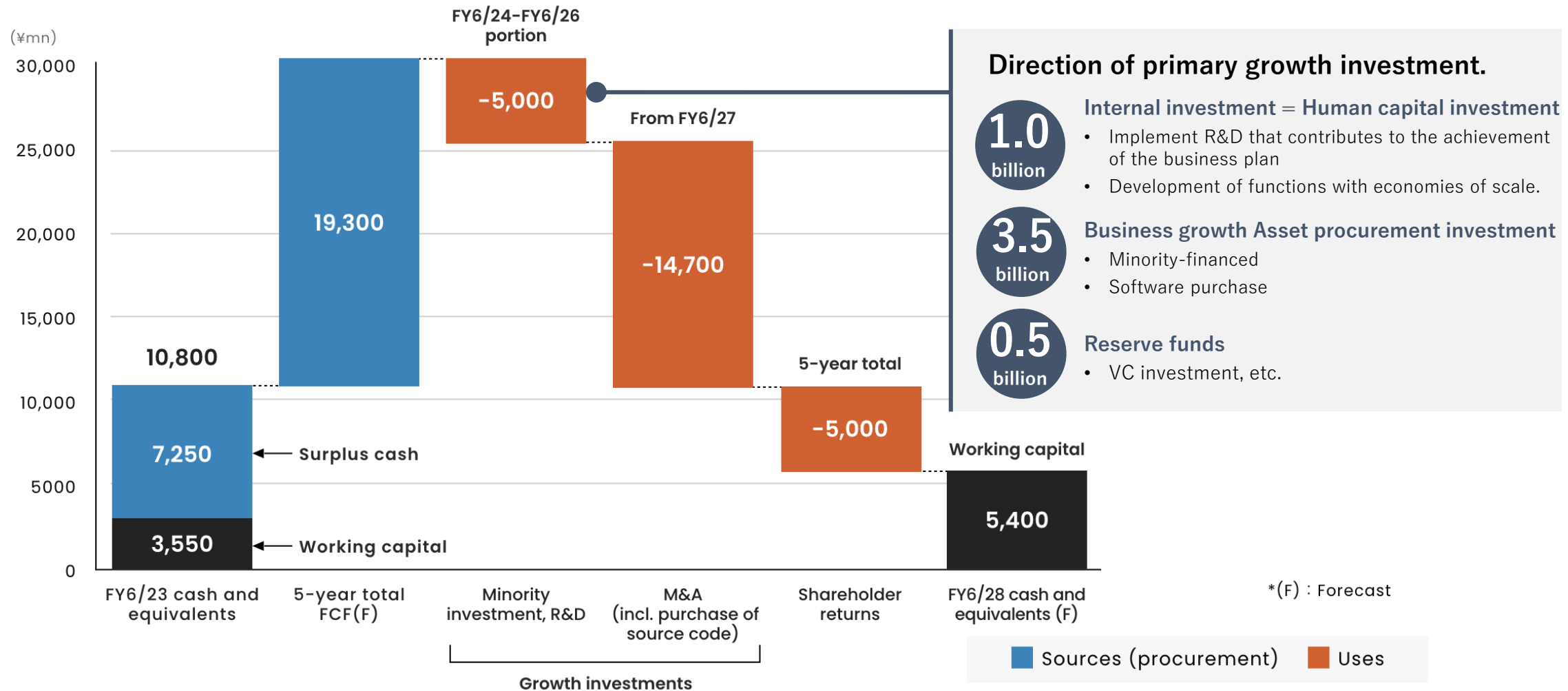
Business model transformation targeted by BG28

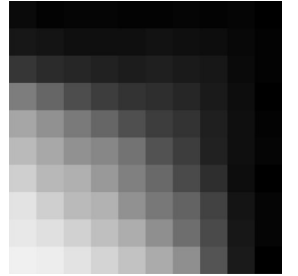
- We are aiming to change our business model by investing in growth and increase the composition of our SaaS-type business, which consists mainly of recurring sales, to improve our PER.

	Business Model	Current Status/ Issue Recognition	Growth Investment
M1 Deepen existing market	BPO SaaS	<ul style="list-style-type: none"> • Comprised of outsourcing and software businesses, the ratio of recurring sales is high and comparable to SaaS companies. • 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. 	New cross-selling products AI-based research on models for automating the financial disclosure process
M2 Capture growth market	SI	<ul style="list-style-type: none"> • The company has achieved stable growth in a growing market with strong demand in the SI business specialising in data platforms and BI. • 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. 	Establishment of recruitment and training processes to achieve higher-than-planned headcount growth
M3 Creation of new market	SI + Consulting ↓ Consulting SaaS	<ul style="list-style-type: none"> • 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. • 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. 	Development and market success of own products as growth drivers

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 and implementation period

Major IR activities (FY6/2023 + 1H FY6/2024)

- Targeting and conducting IR activities for creative dialogue

Number of financial results briefings

3 times

Held for analysts in the first half and full year

Number of individual meetings with institutional investors

146 cases

Conduct individual interviews online and in person

Number of overseas roadshow interviews

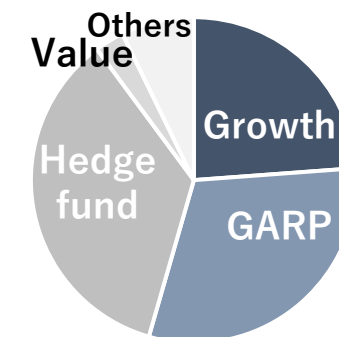
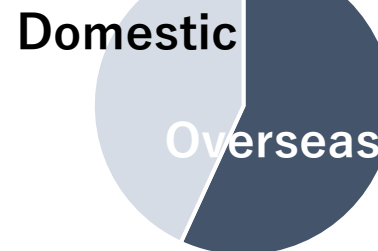
31 cases

Conducted in the U.S., Singapore, and Europe by Group CEO and IR Office Manager

Targeting Concept

- The main target will be foreign growth-style investors. In addition, we will also interact with GARP and hedge funds, taking into account the diversity of their investment perspectives.
- Local interviews will be set up, taking into consideration the influence of each investor in the U.S., Europe, and Hong Kong/Singapore, respectively.
- In addition to on-site interviews, a combination of online interviews will be planned.

Domestic and international classification / style of investors interviewed



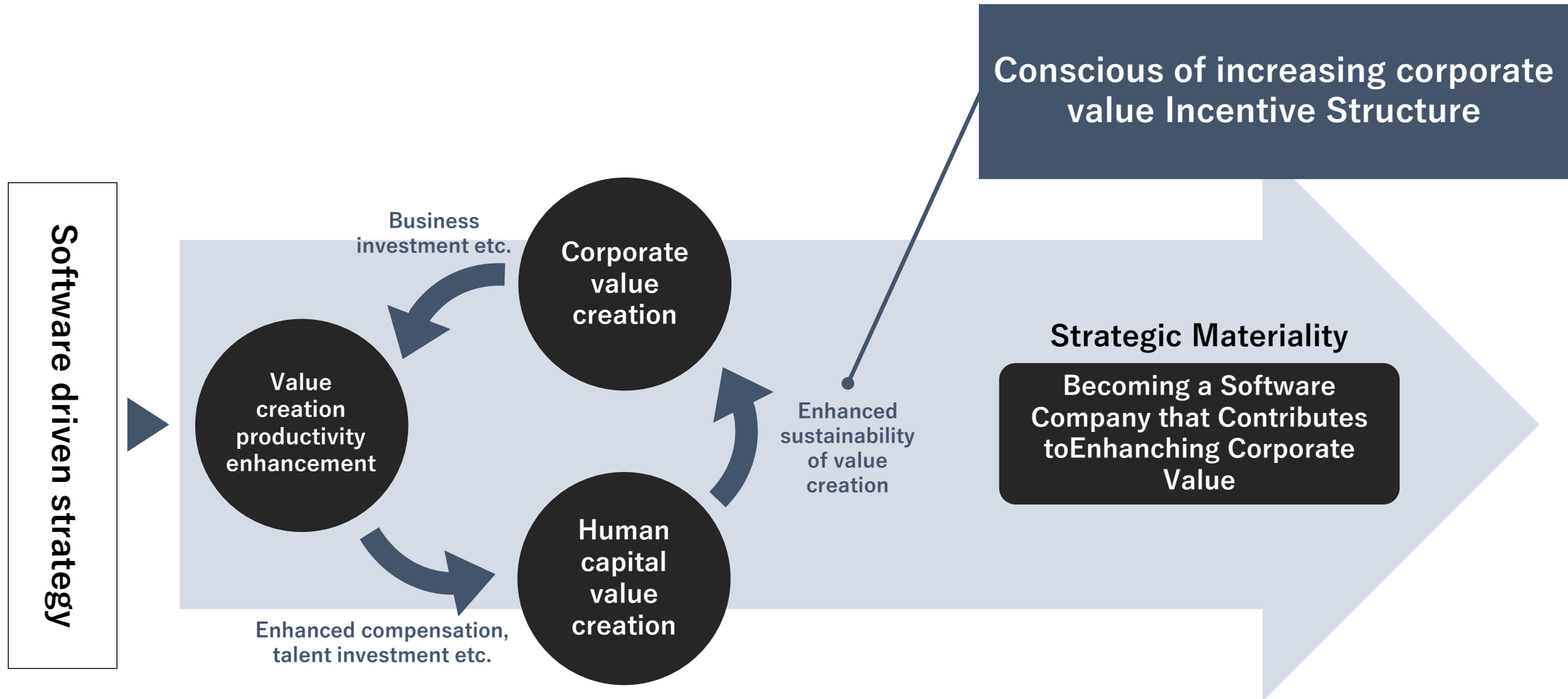
Creative Dialog with Investors

- We gain insights from our dialogue with investors and reflect them in our strategic considerations.

Institutional Investor Comments	Status of Response
<ul style="list-style-type: none">I think an important part of the mid-term business plan is the M3 that the Business Management Solutions business faces. I would like to understand more about how the Avant Group's products work, their strengths and weaknesses, and the specific benefits of using their customers. I think such an explanation would tell more of the Avant Group's growth story.	<ul style="list-style-type: none">The situation of low resolution of specific solution images is once again recognized, and is being studied and addressed internally.Whenever concrete developments are made, they are disclosed as necessary. At the Q2 FY6/2024 financial results meeting, a TRNITY BOARD demonstration and an AVANT Cruise product description were given.
<ul style="list-style-type: none">We feel it is important to have a more focused dialogue with investors about the drivers of Avant Group's growth, rather than projections of future performance.We wanted to better understand what leading indicators point to the progress of growth.	<ul style="list-style-type: none">The Group Management Committee (a forum for discussion by Group CxOs) and other groups are discussing and brushing up the drivers of sales growth and margin improvement, and the critical success factor (CSF) that are highly important for achieving the mid-term plan.Strengthening numerical control to withstand continuous disclosure.
<ul style="list-style-type: none">We believe that share buybacks are a rule that can send a message that the stock price is undervalued. If more share repurchases are made, we believe the value of the transaction will increase. If we can show more clearly how the cash is being used, taking this into account, I think the market will change its perception and understand that management resources are being directed toward growth.	<ul style="list-style-type: none">Specify the capital allocation and present to investors the scale of shareholder return through investment in growth and dividends. We will then consider purchasing treasury stock from the market as appropriate, not only as an additional return to shareholders, but also with the benefit of being able to use it as incentive compensation for employees or as a supplemental payment instrument in mergers and acquisitions.

Intention to introduce an incentive structure with an eye to increasing corporate value

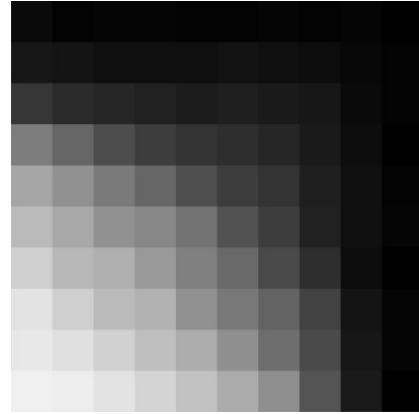
- Strengthen the moment of the overall value creation spiral by expanding the structure that enables all employees to enjoy the results of the spiral from human capital value creation to corporate value creation.



Incentive structure designed to increase corporate value

- Provide equity compensation to all layers to raise awareness of the need to increase corporate value.

	Employees	Group Executive Officer, Avant Group	Director, Avant Group
Installation Status	FY24~ Introduction	FY24~ Scheme Change	FY24~ Scheme Change
Stock Compensation Details	<ul style="list-style-type: none"> · Restricted stock grant equivalent to 50 thousand yen per person per year * Must be enrolled for 1 year (July-June) 	<ul style="list-style-type: none"> · Restricted stock grants of 15% of total compensation * Must be enrolled for 1 year (Oct-Sep) 	<ul style="list-style-type: none"> · Equity grants of 35% of total compensation 1. avant group share price up or down (50%) 2. relative TSR (50%) * Both 1&2 shall be compared to the previous year Achievement of the indicator of the Avant Group stock price increase is a condition for payment.
	Restricted for transfer upon retirement (resignation)		FY25 Considering transition to restricted stock



AVANT GROUP

SUSTAINABILITY IS VALUE