

AVANT
GROUP



September 26, 2024

To whom it may concern

Company Name: AVANT GROUP CORPORATION
Name of Representative: Tetsuji Morikawa,
President and Group CEO
(Code: 3836, TSE Prime Market)
Inquiries: Naoyoshi Kasuga, Director and Group CFO
(TEL: 03-6388-6739)

**【Delayed】 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 February 29, 2024, which is attached hereto.

Ends

3836 TSE Prime

AVANT GROUP

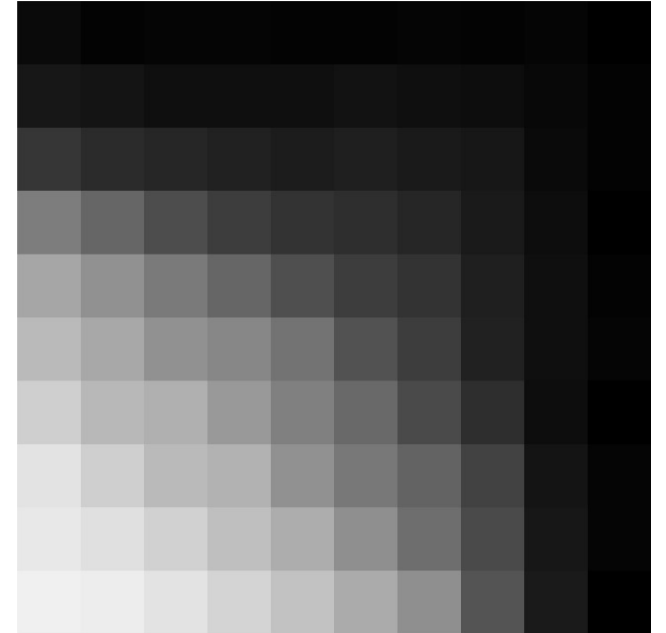
AVANT GROUP CORPORATION

www.avantgroup.com

Avant Group Corporation

Measures to achieve cost of capital and share price conscious management

September 26,2024



| 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

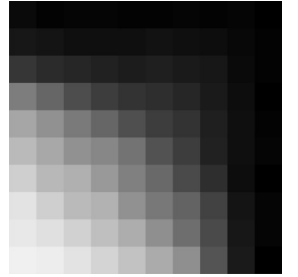
- Compared to our target P/B ratio of 8x and its components PER of 40x and ROE of 20%, the P/B ratio is at the 20x level, creating a gap with our target. On the other hand, ROE has remained around 20% compared to our assumed cost of equity range (3-9%), generating a sufficient equity spread.

■ Policies and Objectives

- There are indications that net profit is the index with the highest correlation to the company's share price over a 10-year span, and based on this, the medium-term plan BE GLOBAL 2028 sets a net profit growth multiple of 3x and an average growth rate of 25%. By achieving this, together with a business model change that promotes higher growth expectations and lower cost of capital, we aim to achieve a PER of 40x.
- Software gross profit measures the momentum of the business model shift, and this is driven by the software driven strategy. ¥15 billion of growth investment is planned to realise the strategy, and the level of shareholders' equity will be optimised through optimising capital allocation.

■ Efforts and implementation period

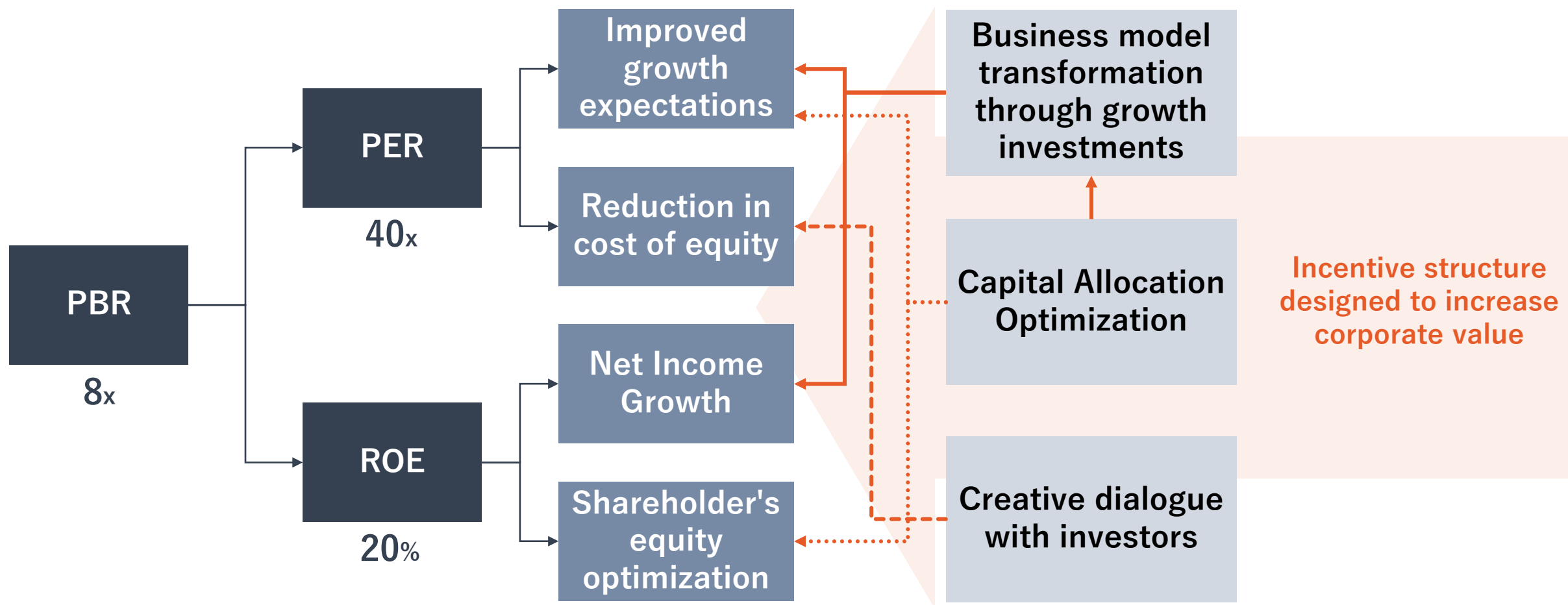
- The PBR is broken down to clarify the linkages with CSF/KGIs and strategies, and the board of directors monitors the implementation of each strategy.
- Creative dialogue with investors to refine their own strategies and reduce the cost of equity.
- With the intention of strengthening the momentum of the overall value creation spiral by extending to all employees a structure that enables them to enjoy the results of the spiral from human capital value creation to corporate value creation (introduced in FY24 for employees and others), a share-based compensation scheme has been established since FY24 for employees, Group Executive Officers and Group Directors, respectively. scheme changes for the others. The scheme was also changed to a restricted transfer scheme for Group Directors from FY25).



Current Assessment

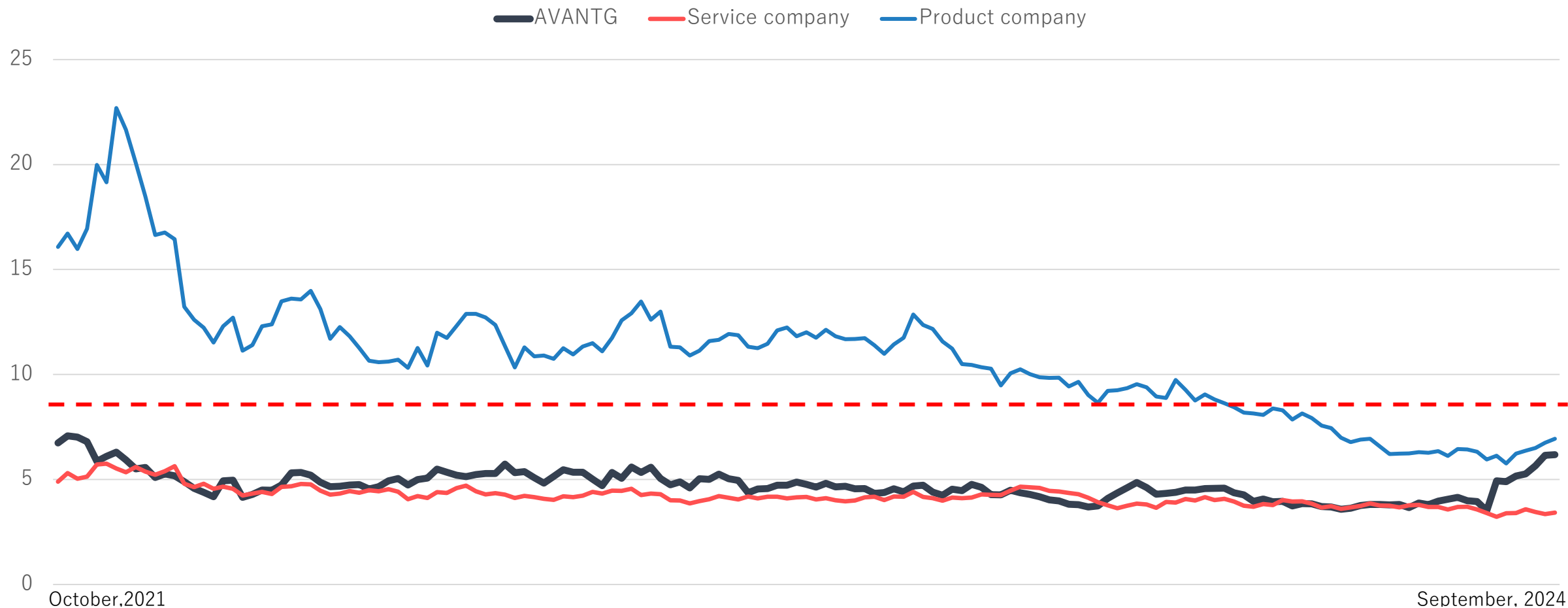
Overall policy and objectives

- As a discipline, ROE is targeted at an average of 20% throughout the medium-term plan period, and if PER reaches the 40% level due to the business model change, PBR will be at the 8x level.



Current assessment - PBR -

- Although the target P/B ratio of 8x has not been reached, it has remained in the range of 4x to 6x, which is close to the average of the product company comparator companies in recent times.



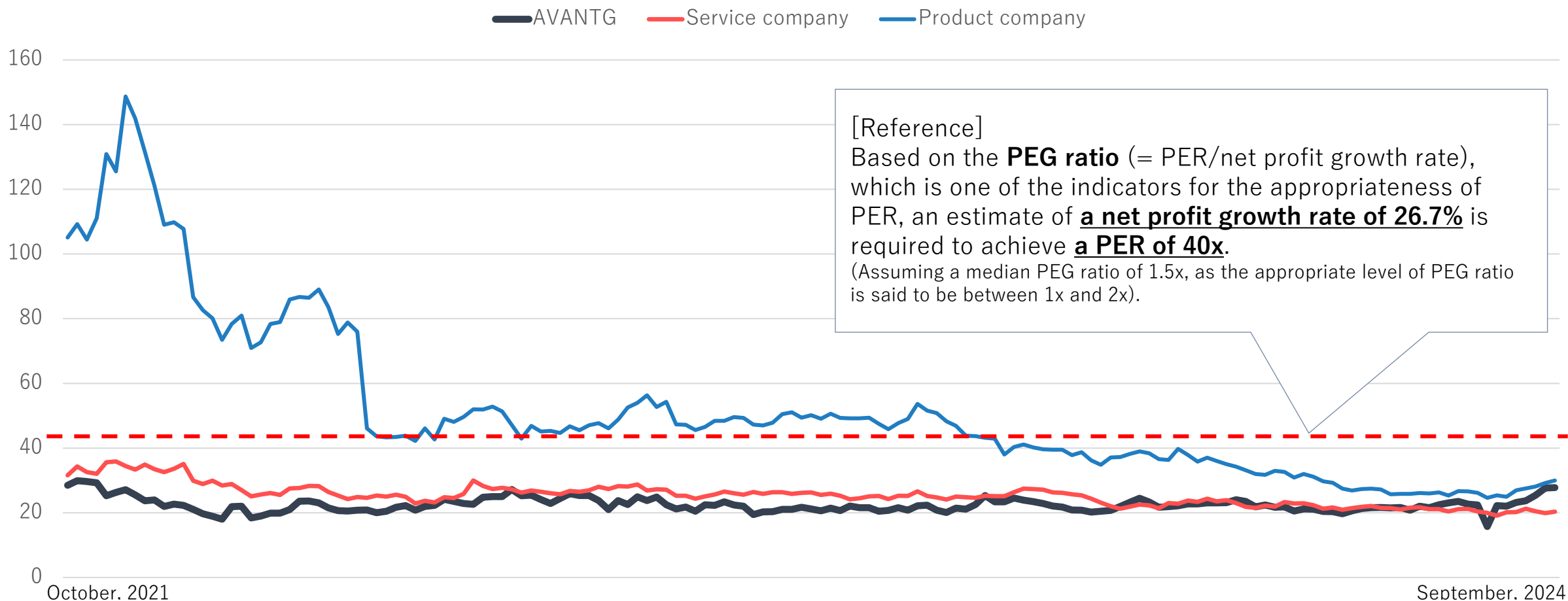
Source : Refinitive

©AVANT GROUP CORPORATION. All Rights Reserved.  AVANT GROUP

Service company comparator: average of three companies offering similar businesses to ours with a focus on services
Product company comparator: average of two companies offering similar businesses to ours with a focus on products

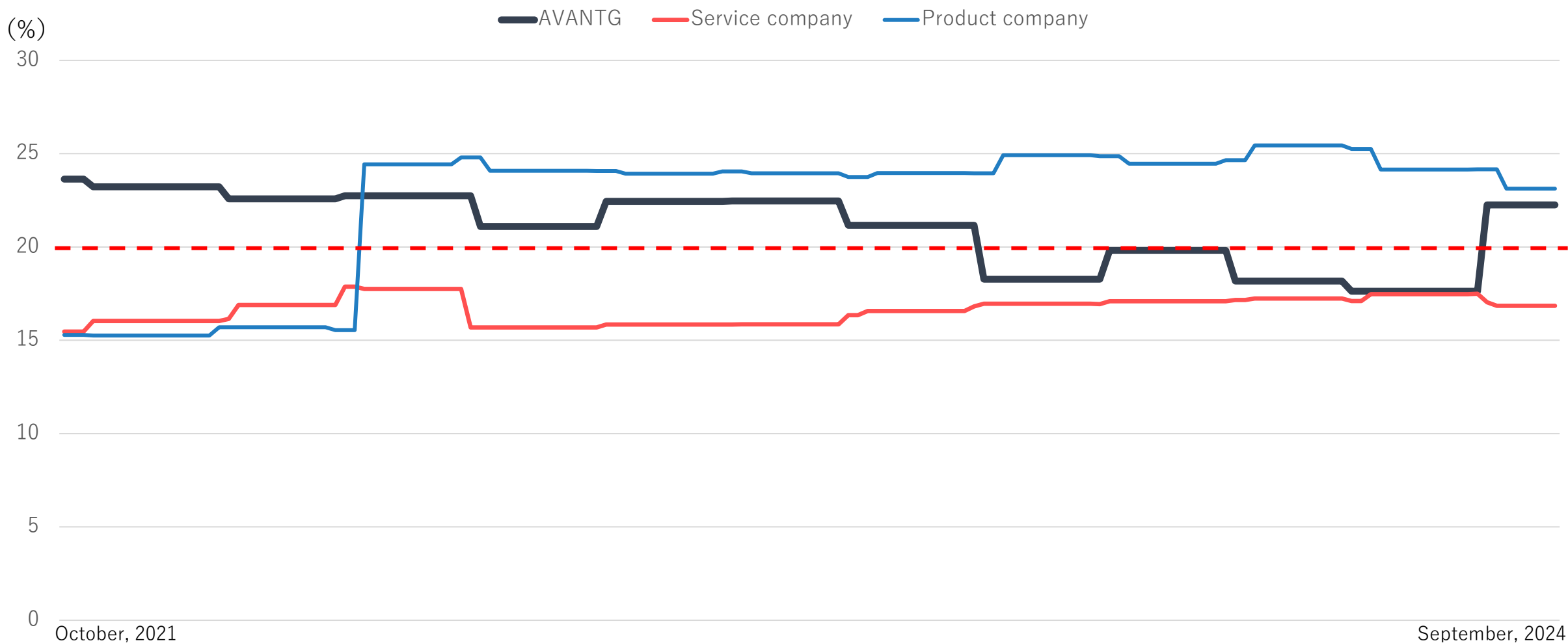
Current assessment - PER -

- It is hovering around 20x, which is a gap to the target PER of 40x. The product company comparator average has been affected by the fall in the product company comparator average, which is close to the recent level.



Current assessment - ROE -

- Maintains around 20%, while the product company comparator average is hovering around 25%.



Current assessment - Capital cost -

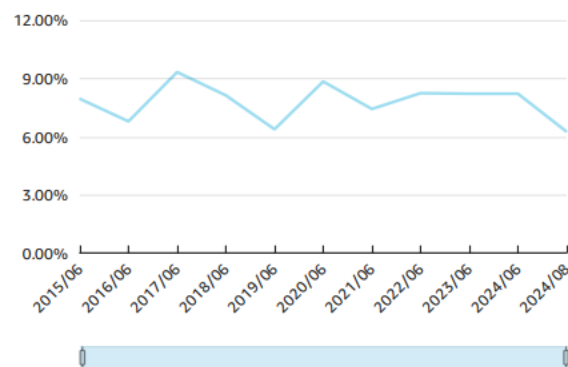
- The cost of shareholders' equity according to the CAPM is viewed as follows and is perceived to be in the range of 6-9%.

3-1. Identification of the cost of shareholders' equity through CPM

Check the theoretically calculated cost of equity.

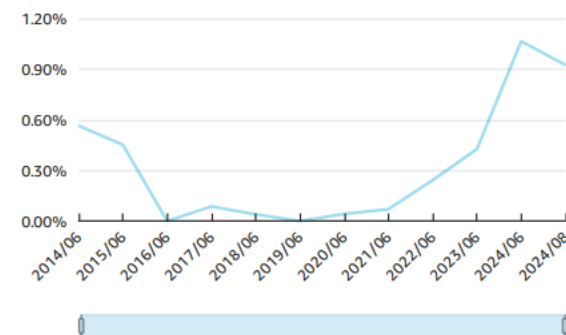
Cost of equity capital (CAPM) = Risk-free rate + β x Risk premium

Cost of equity capital (CAPM)



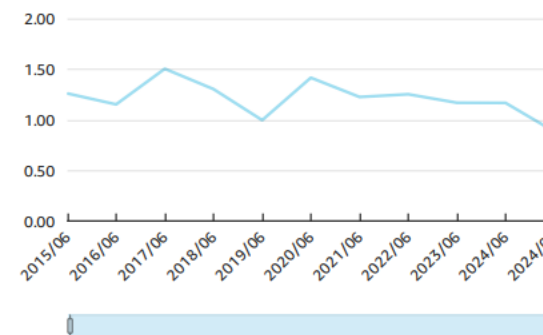
Risk-free rate

10-year government bond yields applied



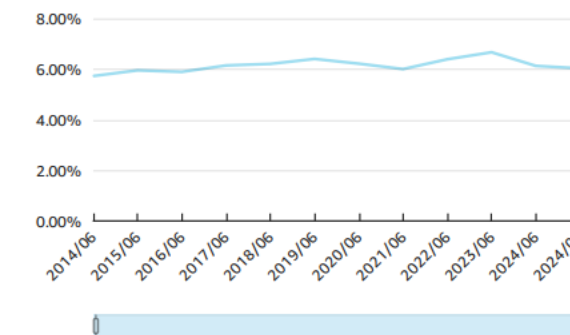
β

60-month historical data against TOPIX



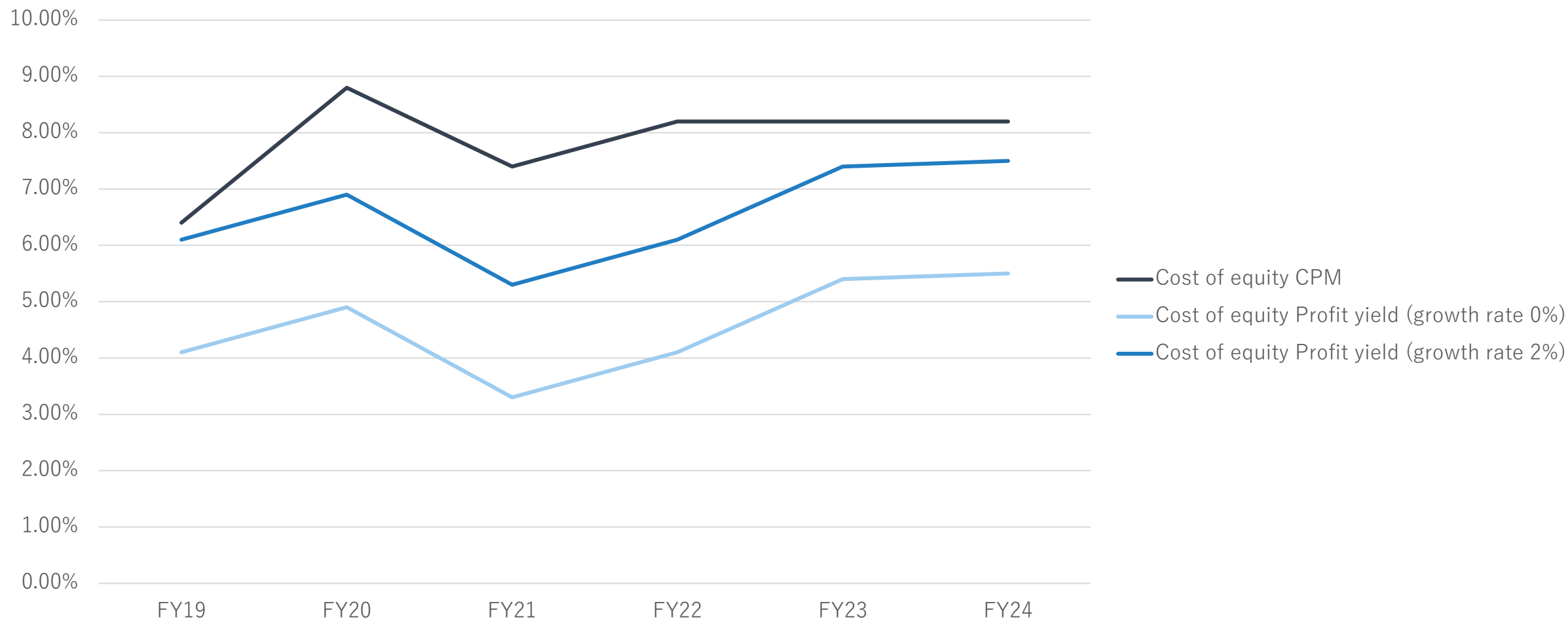
Risk premium

Average of historical and implied methods.



| Current assessment - Capital cost -

- The cost of equity is recognised not only in the CAPM but also in the profit yield, which is calculated from the inverse of the PER, and assuming a growth rate range of 0%-2%, the range is 3-8%.

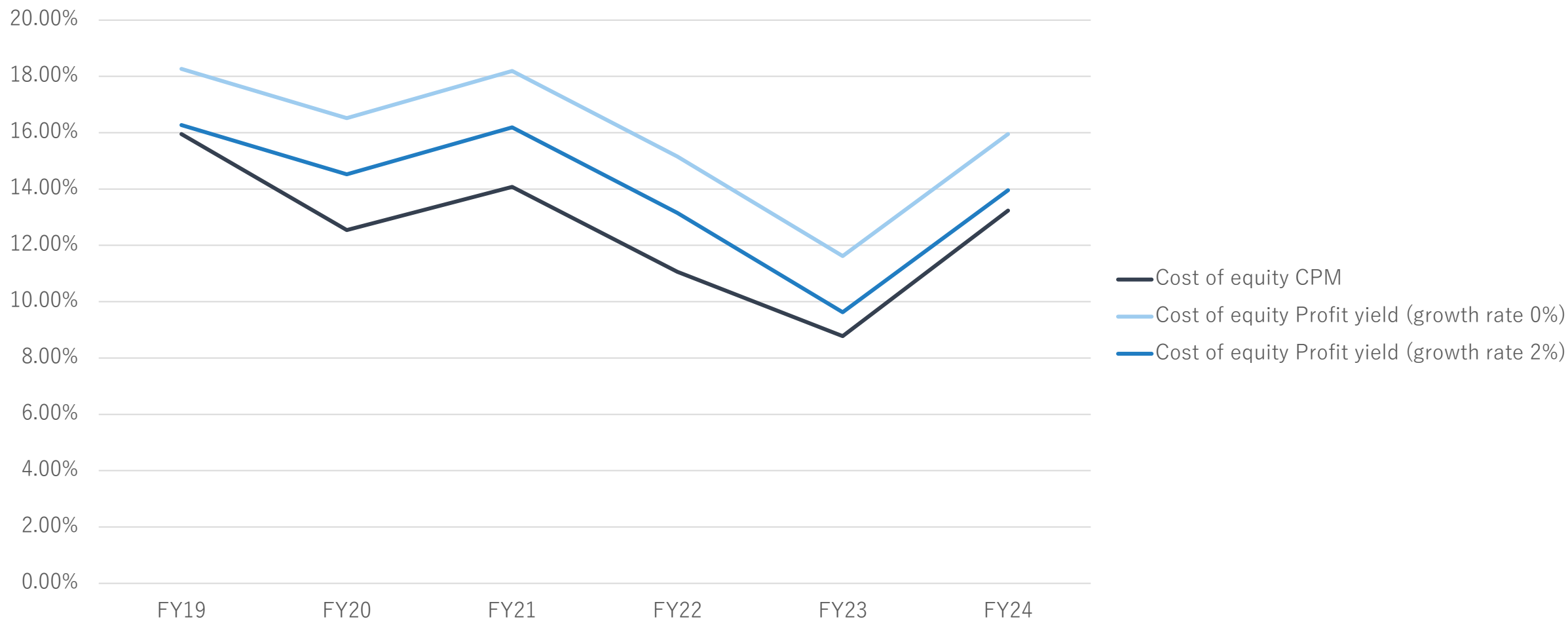


Source : Processing of extracted data from 'AVANT Compass Powered by NOMURA'.

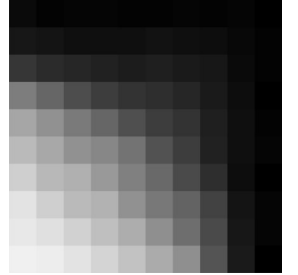
©AVANT GROUP CORPORATION. All Rights Reserved.  AVANT GROUP

Current assessment - Equity spread -

- The equity spread is always positive compared to the cost of shareholders' equity, which is recognised by several methods: the CAPM and the profit yield.



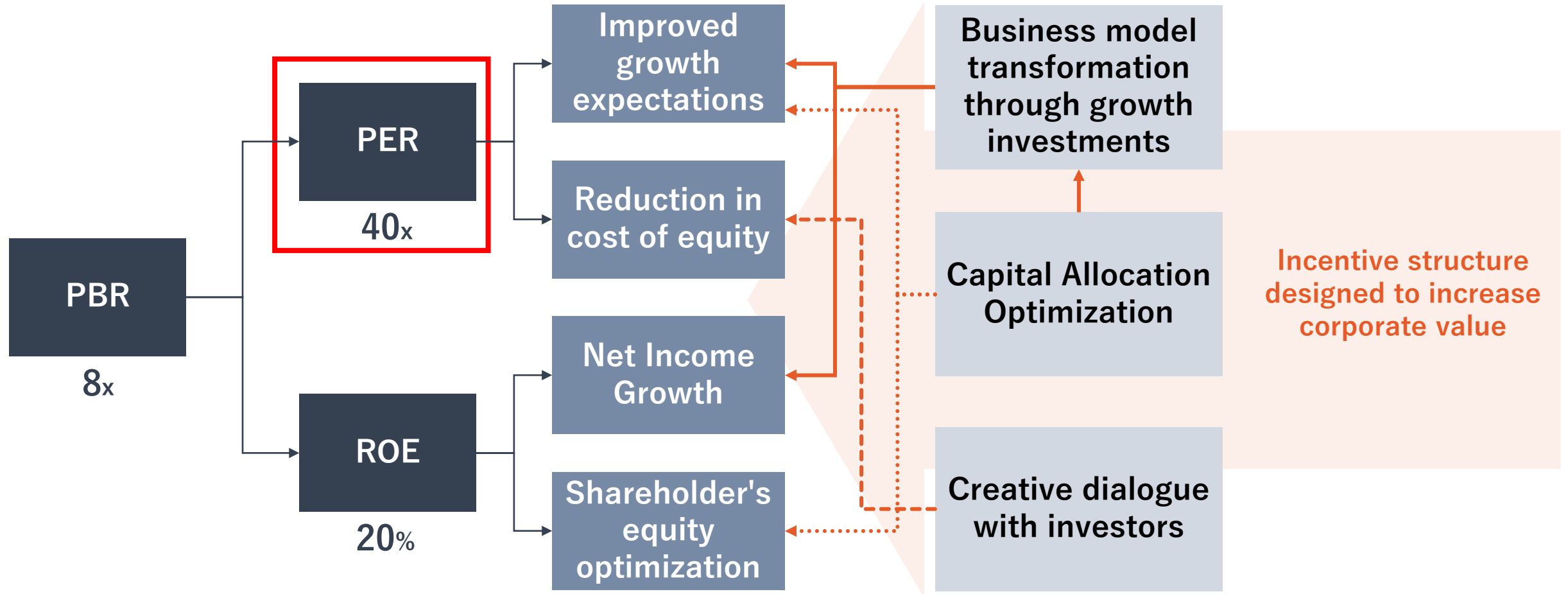
Source : Processing of extracted data from 'AVANT Compass Powered by NOMURA'.



Policies and Objectives

| Challenges

- ROE has reached the target level and the challenge is to raise PER.



Factor analysis of PER improvement

- Suggestion that changes in net income are a contributing factor to share price appreciation (for a measurement period of 10 years).

5-1. Analysis of share price formation factors

Understand the financial indicators of your company that the stock market is paying attention to, based on the correlation between past share prices and financial indicators.
Consider using the financial indicators that the stock market is paying attention to in your IR strategy, for example by setting them as KPIs.

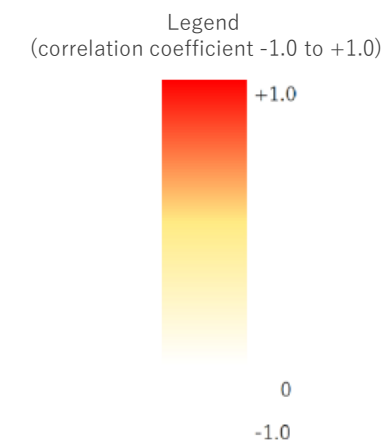
Leading period: the period (n months) during which the share price precedes the main closing.

Measurement period [years]

10

Correlation between share price and financial indicators (correlation coefficient -1.0 to +1.0)

	Preceding period [months]												
	0	1	2	3	4	5	6	7	8	9	10	11	12
Net sales (% change)	-0.04	0.08	-0.21	-0.19	0.03	0.17	0.28	0.49	0.46	0.45	0.45	0.34	0.26
Operating profit (% change)	0.12	0.11	-0.01	0.14	0.06	0.14	0.41	0.59	0.14	0.16	0.05	-0.08	-0.18
EBITDA (% change)	0.12	0.09	0.02	0.09	0.00	0.16	0.34	0.47	-0.07	-0.04	-0.14	-0.29	-0.36
Ordinary profit (% change)	0.13	0.11	0.04	0.15	0.11	0.25	0.42	0.56	0.07	0.11	-0.01	-0.16	-0.26
Net profit for the year (% change)	-0.12	-0.09	-0.14	0.13	0.21	0.31	0.53	0.70	0.37	0.42	0.32	0.21	0.09
Operating profit margin on sales (% change)	0.18	0.14	0.13	0.28	0.11	0.12	0.34	0.45	0.03	0.07	-0.04	-0.13	-0.20
Ratio of ordinary profit to sales (% change)	0.21	0.16	0.20	0.31	0.19	0.26	0.36	0.43	-0.05	-0.00	-0.13	-0.24	-0.31
ROE (% change)	-0.08	-0.06	-0.12	0.10	0.16	0.27	0.48	0.65	0.26	0.32	0.20	0.10	-0.03
ROA (% change)	0.27	0.25	0.16	0.18	0.16	0.33	0.45	0.52	-0.02	0.01	-0.14	-0.27	-0.34
ROIC (% change)	-0.12	-0.16	-0.29	-0.25	-0.32	-0.13	0.08	0.20	-0.27	-0.25	-0.30	-0.43	-0.49
Net asset turnover (% change)	0.07	0.13	-0.04	-0.31	-0.12	-0.06	-0.18	-0.33	-0.01	-0.08	-0.01	0.08	0.16



06/2015 - 06/2024

Outlook for the medium-term management plan BE GLOBAL 2028 (BG28)

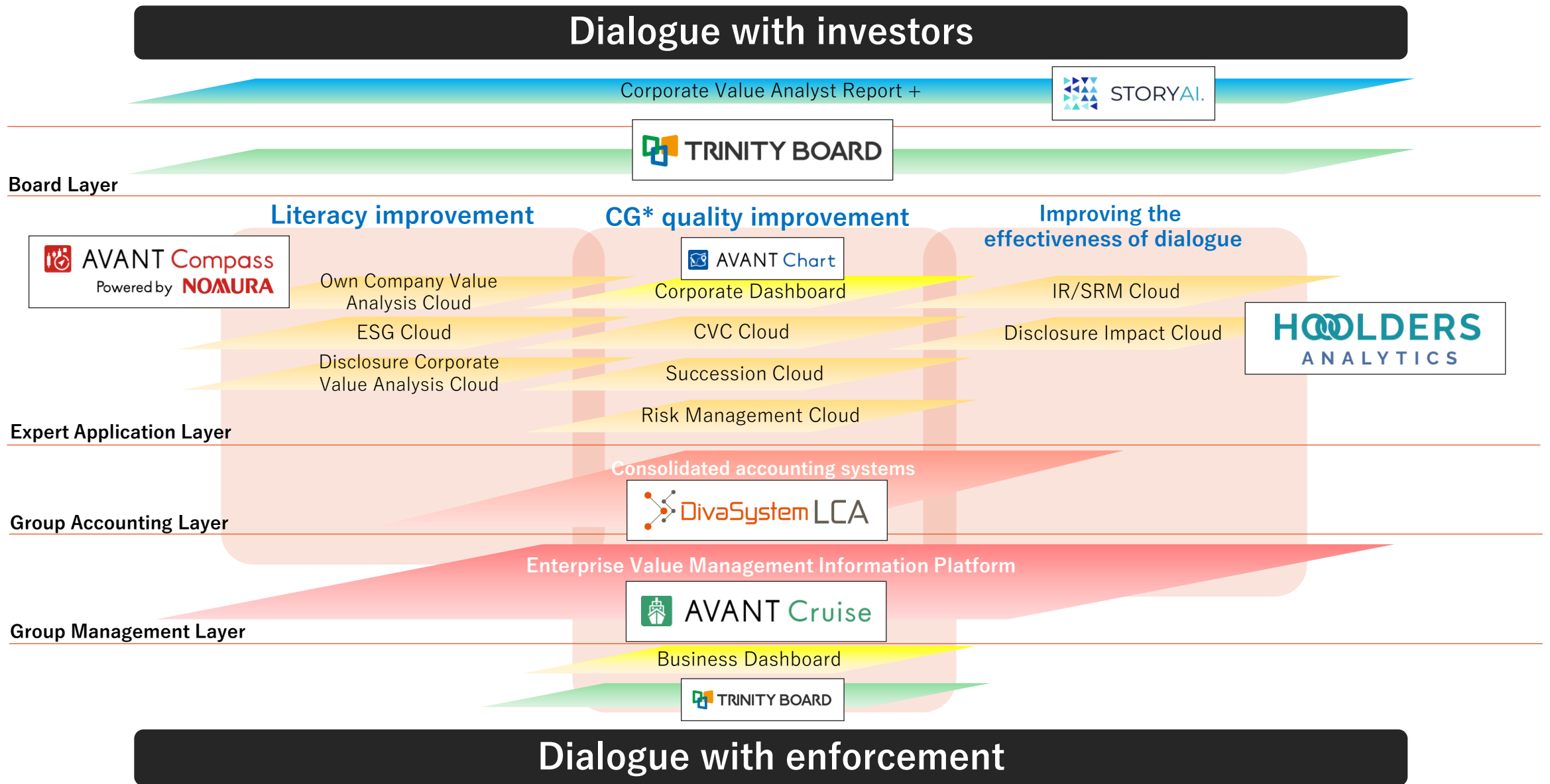
- Based on factor analysis, the plan is for net profit to triple over the five-year period of the medium-term plan, with a CAGR of 25%.
- In order to improve PER, it is also necessary to improve growth expectations and reduce capital costs through business model transformation, and this momentum is measured in terms of software gross profit. This momentum is also generated by the software-driven strategy.

	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

| Aims of the software driven strategy

Management information from the investor's perspective through
the **Corporate Value Management SaaS-Suite** Direct delivery to top management

Enterprise Value Management SaaS-Suite Conceptual diagram



Capital allocation results and plans

- Internal investment is the highest priority and is planned to be increased within the first growth investment framework.
- No change in shareholder returns, as the company plans to use the shares gained from the 1 billion share buyback to return profits to employees and through M&A, etc.

Cash in

Surplus cash and cash equivalents
at end of FY6/23

¥7.25bn

Free cash flow
Total cumulative forecast

¥19.3bn

FY6/24: operating CF ¥3.68bn +
investment CF -¥0.63bn =
¥3.05bn.

Cash out

(¥20bn investment in growth, ¥5bn in shareholder returns)

First Growth Investment (~FY6/26)

¥5.0bn

Priority

¥2.0-3.0
bn

Internal investment =
investment in human capital
FY6/24: ¥0.45bn

¥1.5-2.5
bn

Business and capital alliances,
etc.
FY6/24: ¥0.22bn

¥0.5
bn

Reserve funds

Second Growth Investment (FY6/27~)

¥15.0bn

Priority

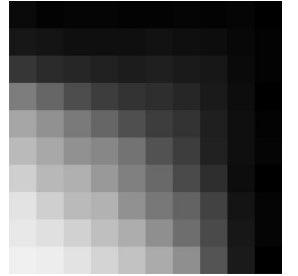
Internal investment =
investment in human capital

Business and capital
alliances, etc.

Source code purchase,
M&A

Shareholder Returns ¥5.0bn (5-year total)

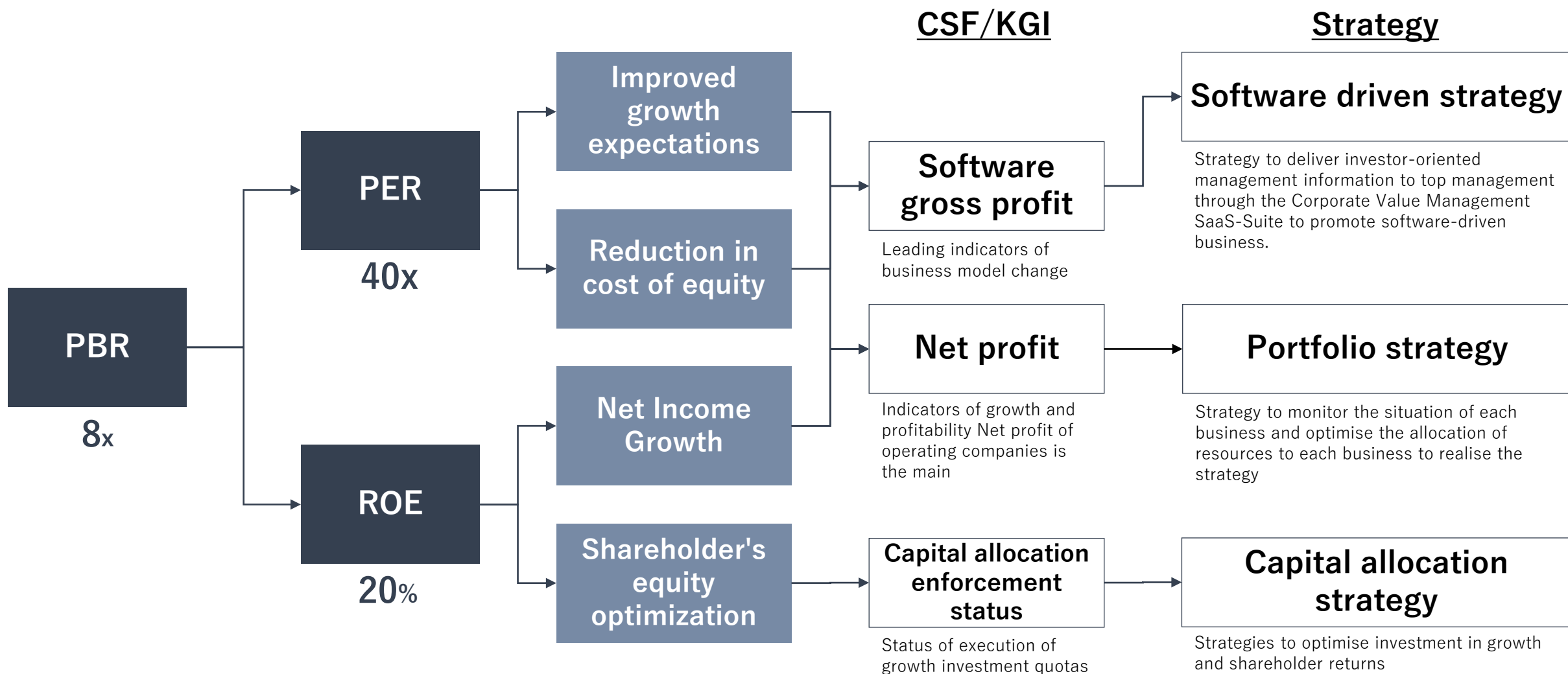
FY6/24 Dividend: ¥0.71bn



Initiatives/implementation period

Strategy execution monitoring using the PBR tree

- PBR is broken down, CSF/KGI and linkages to strategy are clarified, and the implementation of each strategy is monitored by the board of directors.



Major IR activities (FY06/2024)

■ Targeting and conducting IR activities for creative dialogue

Number of financial results briefings

2 times

Held for analysts in the first half and full year

Number of individual meetings with institutional investors

99 cases

Conduct individual interviews online and in person

Number of overseas roadshow interviews

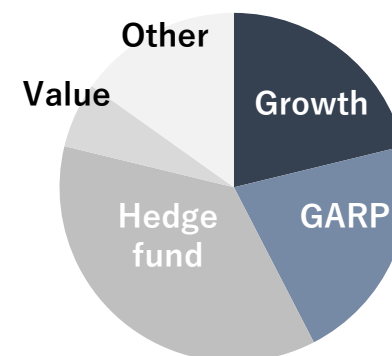
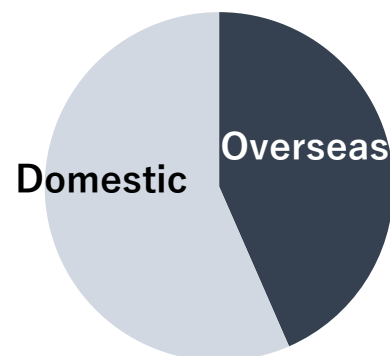
26 cases

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



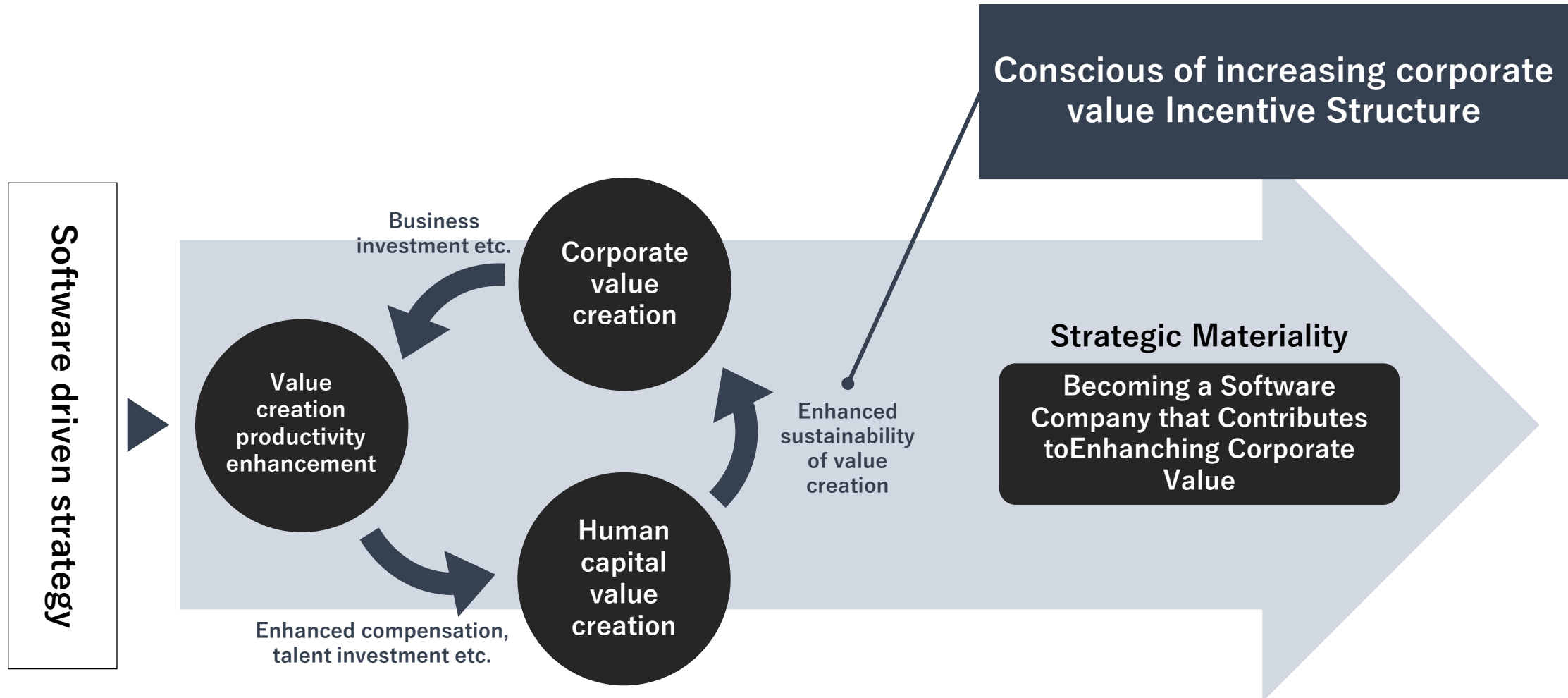
| Creative Dialog with Investors

- 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

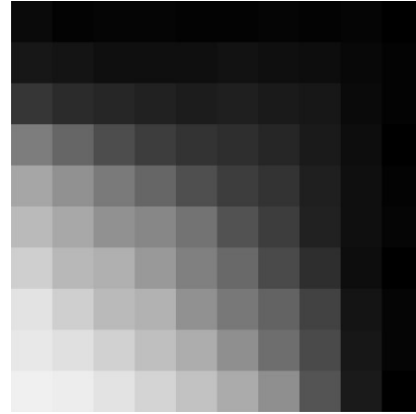
- Strengthen the moment of the overall value creation spiral by expanding the structure that enables all employees to enjoy the results of the spiral from human capital value creation to corporate value creation.



| 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 compensation1. 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)			



AVANT GROUP

SUSTAINABILITY IS VALUE