

AVANT

AVANT CORPORATION

Analyst Meeting

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AVANT CORPORATION
(Code: 3836 TSE 1)
February 27, 2020

- I. Highlights of financial results for the first six months of the fiscal year ending June 30, 2020**
- II. Forecast for the fiscal year ending June 30, 2020**
- III. Update on Medium-term Management Plan of AVANT Group**

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I. Highlights of the financial results for the first six months of the fiscal year ending June 30, 2020

Results Highlights

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Positive growth momentum continued

- Both revenue and profit maintained positive growth momentum even against previous period when each business demonstrated high level of expansion, and overall business progressed in line with full year guidance
- We maintain full year guidance while we observe orders and sales during the second half

(millions of yen)

	FY19/06 Q2<YtD>	FY20/06 Q2<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	6,933	7,734	+ 801	+ 11.6%
Cost of Revenue	3,701	4,355	+ 653	+ 17.7%
SG&A expenses	2,216	2,290	+ 73	+ 3.3%
Operating Income	1,015	1,089	+ 73	+ 7.3%
OP Margin	14.6%	14.1%	-	△ 0.6 point
Ordinary Income	1,014	1,093	+ 79	+ 7.9%
Net Income	641	673	+ 32	+ 5.0%
EBITDA	1,091	1,178	+ 87	+ 8.0%

Positive growth against robust results last year

- In addition to the accumulation of new contracts, the company was able to record additional sales from existing large projects. These led to a higher revenue against record-breaking revenue during the same period last year
- Despite increased staffing and increased costs associated with new office and renovation, profit increased through project quality management. Outstanding orders improved to match previous year

(millions of yen)

	FY19/06 Q2<YtD>	FY20/06 Q2<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	4,008	4,165	+ 156	+ 3.9%
Operating income	607	709	+ 102	+ 16.9%
OP Margin	15.1%	17.0%		+1.9point
New Orders	3,501	3,901	+ 399	+ 11.4%
Outstanding Orders	1,927	1,910	△ 17	△ 0.9%

Robust growth thanks to IT investment boom

- Double-digit revenue growth continues as we receive orders including highly difficult projects reflecting clients' expectation for skilled engineers with us
- Prime order ratio continued to rise, leading to a double digit growth in operating income, but margins declined slightly due to enhanced compensation and increased costs associated with opening of a new office

(millions of yen)

	FY19/06 Q2<YtD>	FY20/06 Q2<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	2,430	2,870	+ 440	+ 18.1%
Operating income	313	352	+ 38	+ 12.5%
OP Margin	12.9%	12.3%		△0.6point
New Orders	2,459	2,912	+ 452	+ 18.4%
Outstanding Orders	958	1,245	+ 286	+ 29.9%

Revenue growth started to absorb expansion costs

- As governance enhancement and work style reform penetrate into corporations, both outsourcing of consolidated financial results and other sales such as cash management solutions recorded double digit growth
- The operating income margin deteriorated due to an increase in fixed costs due to an increase in office floor space which marginally improved in the second quarter

(millions of yen)

	FY19/06 Q2<YtD>	FY20/06 Q2<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	783	993	+ 210	+ 26.9%
Operating income	202	234	+ 32	+ 16.1%
OP Margin	25.8%	23.6%		△2.2point
New Orders	758	1,068	+ 309	+ 40.8%
Outstanding Orders	650	928	+ 277	+ 42.6%

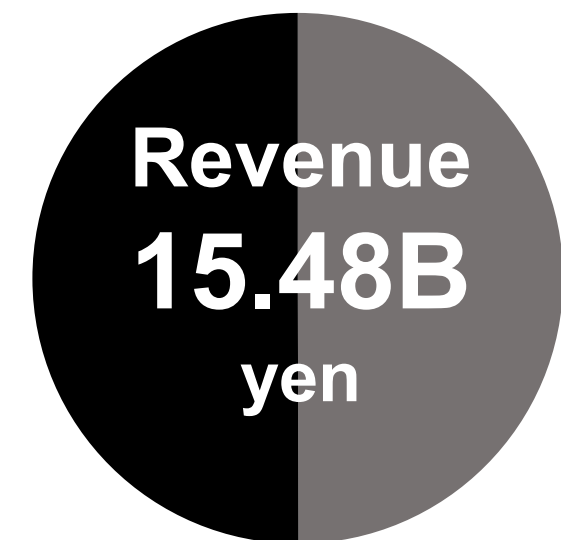
II . Earnings and Dividend Forecast

Earning forecast for FY June 2020

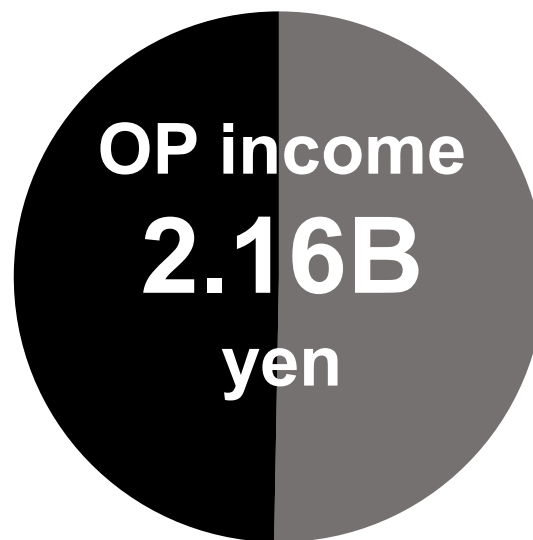
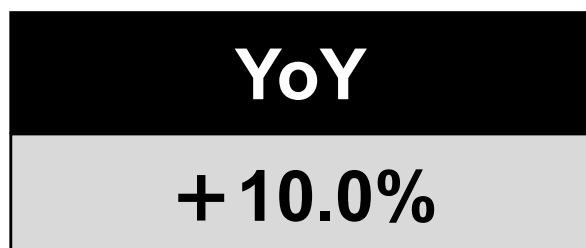
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Both revenue and profit continue high growth

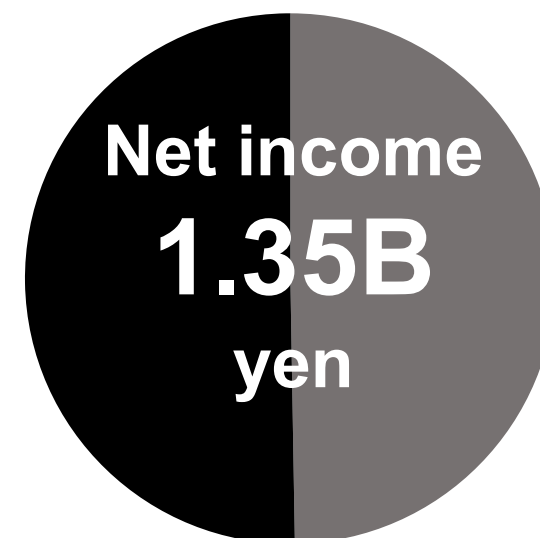
- While revenue growth at Consolidated Accounting business should slow to single digits as we finalize large scale projects, robust growth should continue at Business Intelligence and Outsourcing business and we expect double digit growth in revenue. We believe we could maintain OP margins.
- While investment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



1H progress: 50.0%



1H progress: 50.3%



1H progress: 49.7%



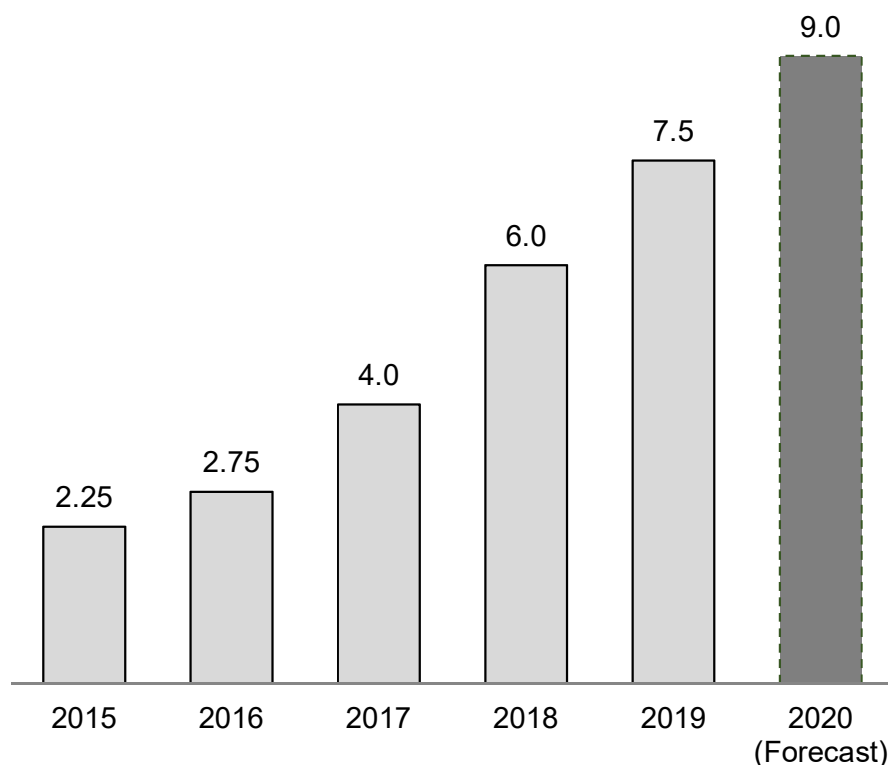
Dividend Forecasts

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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 two-for-one stock splits on December 1, 2019

(yen per share)



(Adjusted for stock splits)

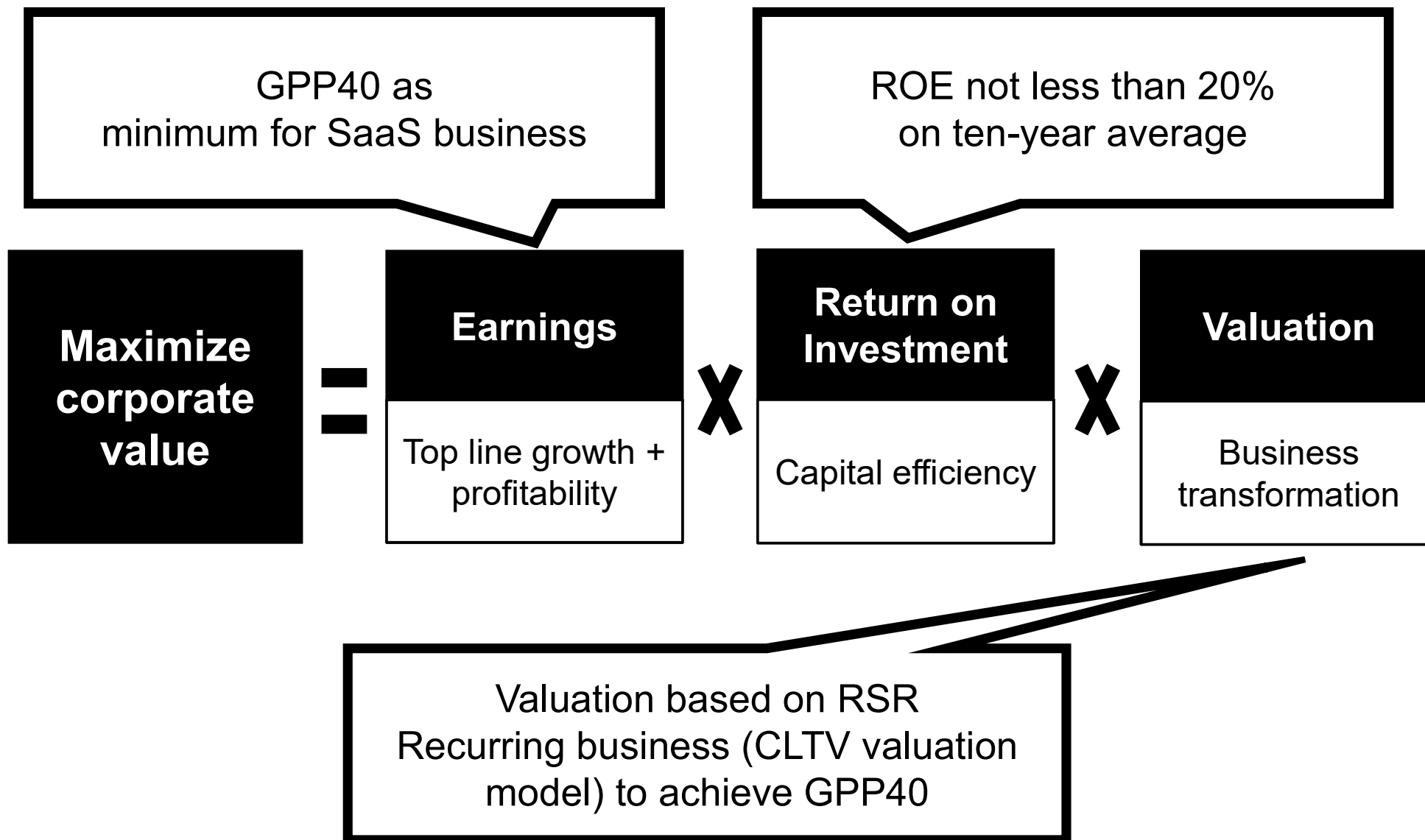
<AVANT's shareholder return policy>

- 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

III. Update on Medium-term Management Plan

Goals for Medium-term Business Plan

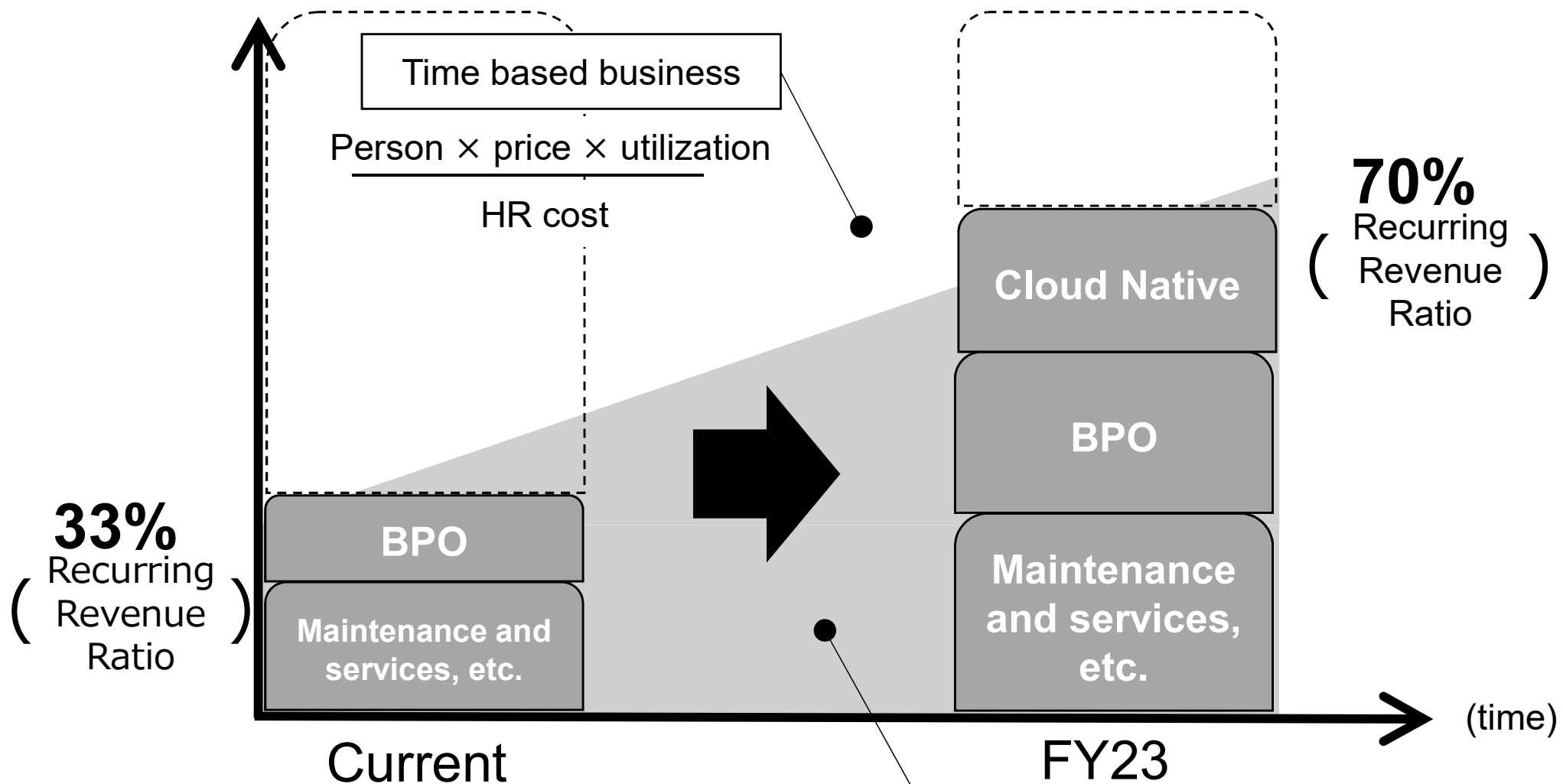
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CLTV: Customer Life Time Value

Changing Existing Business Model

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$$\frac{\text{Client life-time value (client value x life cycle) x number of clients}}{\text{Customer acquisition cost}}$$

Change in Recurrent Revenue Ratio

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	FY19		FY20 1H
Consolidated Accounting	38%	➔	39%
Business Intelligence	7%	➔	8%
Outsourcing	94%	➔	88%
Consolidated	32%	➔	32%

Progress during first six months

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Consolidated Accounting

- While mega-projects are nearing closing, we are encouraged by favorable new sales
- Strengthened cloud-based products and services offering centering on management accounting system (SMD)

Business Intelligence

- Continue to see a strong demand for investments in digital transformation. Posted high growth as we are recognized as Dx specialist and receive complicated projects
- Prime contracts accounted more than 60%
- Strong interest in formally released ZEUSCLOUD

Outsourcing

- Both outsourcing and treasury management solution gained new customer. Increased orders from existing customers
- Concluded a number of contracts with clients on pipeline

Cloud Native

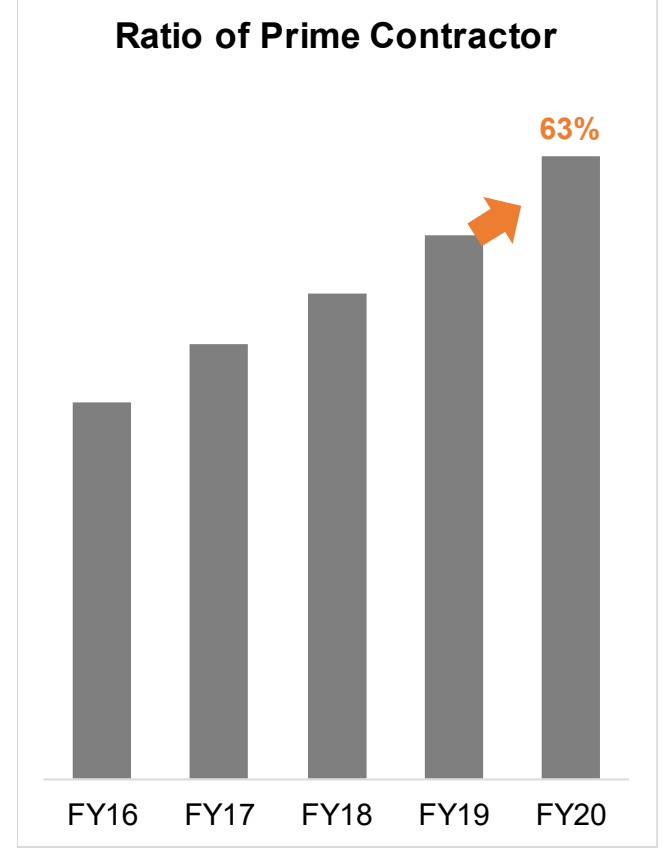
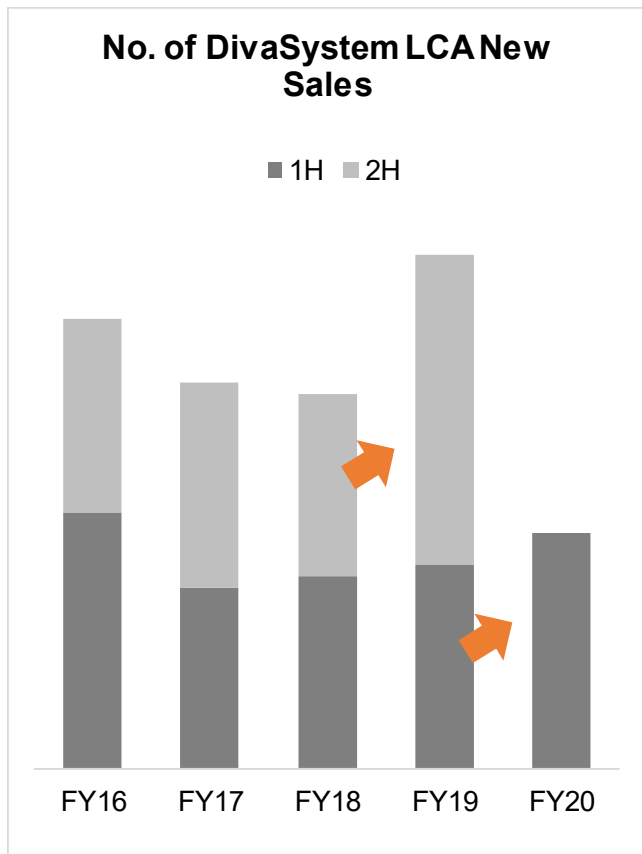
- Holding company studied a target company with cloud native products through alliances, mergers or acquisition

Progress during first six months

Consolidated Accounting

Business Intelligence

Outsourcing



Mega-projects that had taken up bulk of resources has topped out, and we are seeing improvements in new sales

We are widely recognized as business intelligence specialist and ratio of prime contracts continue to rise

We are expanding solutions including outsourcing of DivaSystem and treasury management solutions

Challenges during second half

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Consolidated Accounting	<ul style="list-style-type: none">■ Studying development of cloud-based DivaSystem■ Refining SaaS products such as Compass and Planning to compliment SMD, and offer them as comprehensive solutions suite
Business Intelligence	<ul style="list-style-type: none">■ Focus on sales of ZEUSCLOUD■ Develop templates for manufacturers to control integrated process of demand forecasting, production and sales■ Stay on introducing state-of-the-art Dx products from software vendors
Outsourcing	<ul style="list-style-type: none">■ Focus on increasing new customers for outsourcing and treasury management solutions■ Search opportunities for new business partners to expand outsourcing solutions■ Launch outsourcing RPA pilot program for actual deployment
Cloud Native	<ul style="list-style-type: none">■ Group companies study opportunities for making alliances with, merge with or acquire a company with cloud native products

Mid-term Management Plan: KPIs

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	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	¥6	➔	Over ¥15

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