



TETSUJI MORIKAWA

Representative Director, President,
and Group CEO

GROUP CEO

Please look forward to the fresh start of the Avant Group, as we become a software company that contributes to our customers enhancing their corporate value.

On September 29, 2022, we held a meeting of all employees of the Avant Group. Ahead of the forthcoming reorganization of the Group on October 1, it was only held in-person, as we wanted to directly convey the purpose of the reorganization.

As soon as I was on the stage, all over my body I felt the intense power of the assembled members. The five senses that had been corroded by regular online meetings were activated in an instant. "Ah, I am working for the people who are gathered here," I thought to myself. This may also be "creative dialog." Passion is the starting point of value creation.

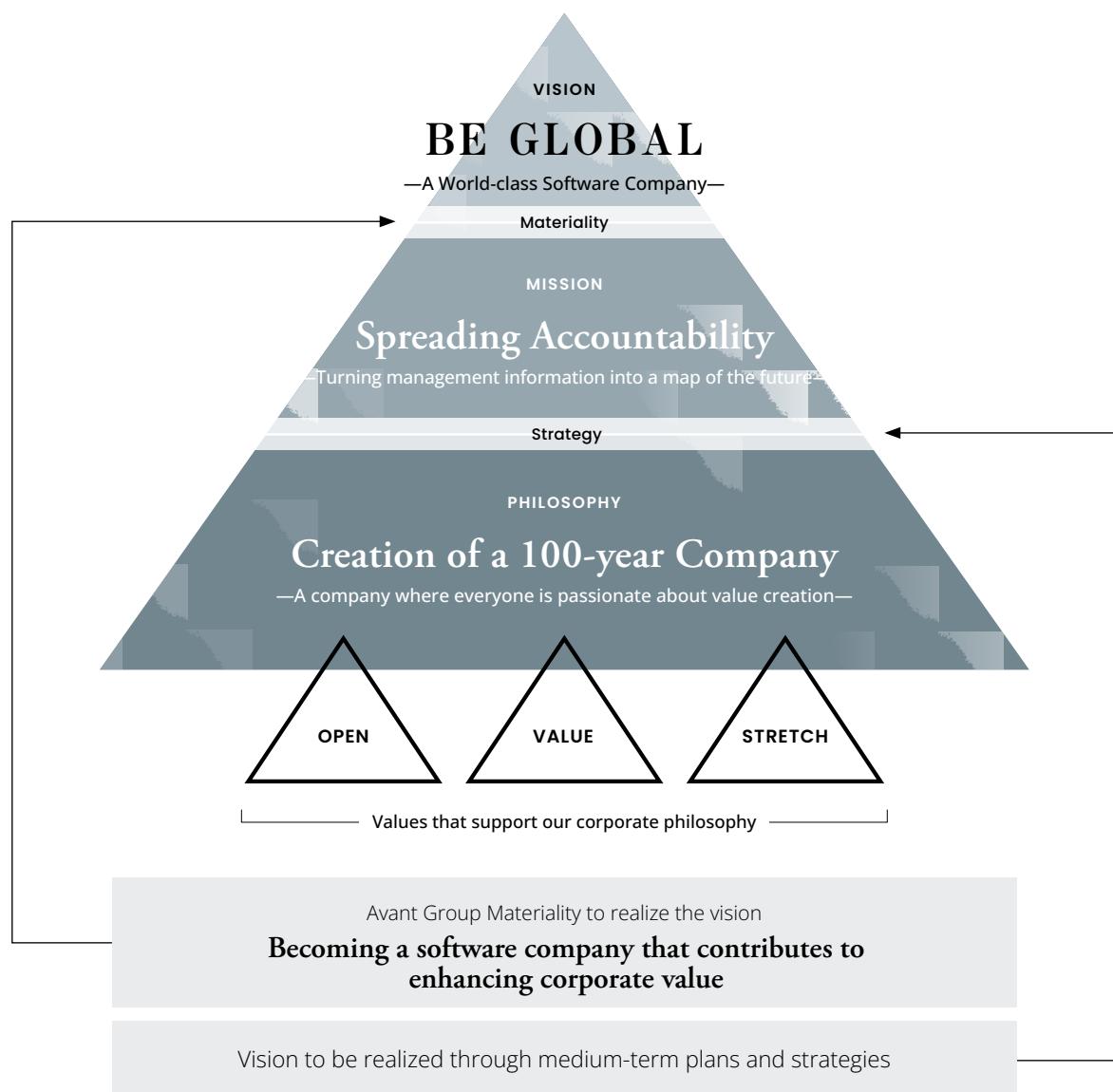
In the previous Integrated Report, we focused on the concept of "corporate value," and as the

first action of the Avant Group, we defined the materiality of "becoming a software company that contributes to the enhancement of corporate value." Although we have a vision and a mission, we are faced with the fact that it is difficult to realize them, and we set it as our first step toward solving that problem.

Setting this materiality prompted a variety of actions. This time, I would like to touch on three of these topics: the business reorganization on October 1, 2022, the upgrading of group management, and visualization of the corporate value mechanism.

M E S S A G E

Group Philosophy, Materiality, and Strategy



Two Hurdles

Becoming a software company that contributes to enhancing corporate value

Our core business model

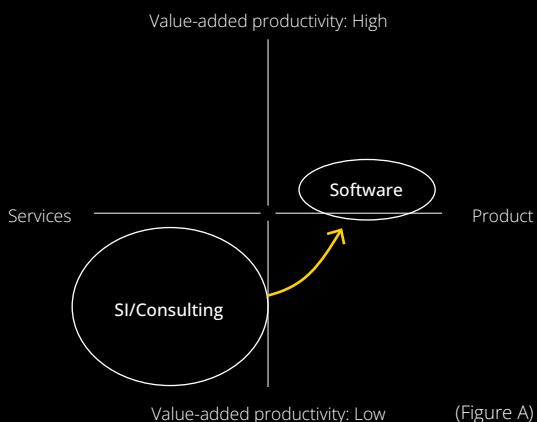
What we contribute to through DX
of management

Reorganization to Realize Materiality

This reorganization of the Group is the first step toward realizing the strategic materiality established in 2021 of “becoming a software company that contributes to the enhancement of corporate value.” We have set two hurdles to clear to realize the vision through the mission.

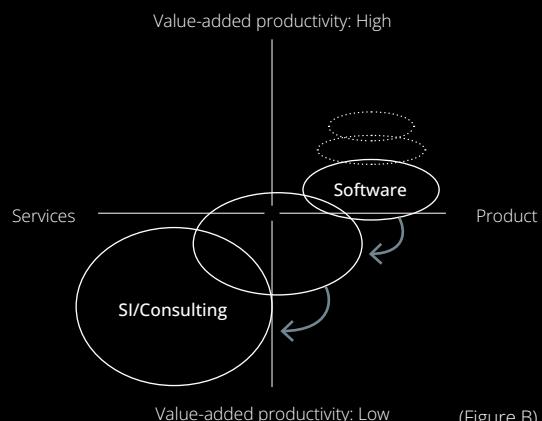
These two hurdles are not easy to overcome. The history of the Avant Group illustrates this difficulty. The dream we have had since our founding, “It can even be in any niche area. We will create a software company that will create a global de facto standard,” is still alive today with the vision of BE GLOBAL. But the actual activity may seem to be moving away from the vision.

On the left and right of the horizontal axis are the service business and the software business, and on the vertical axis is the level of value-added productivity. Our goal is to expand and replicate businesses on the upper right. However, the realistic process starts at the bottom left, which fosters ideas for the software business. In fact, DIVA's consolidated accounting system grew out of its consulting business. The resulting software business falls under the right middle section. (Figure A)



The standardization of software limits operations and functions. The trade-off between freedom and efficiency is unavoidable.

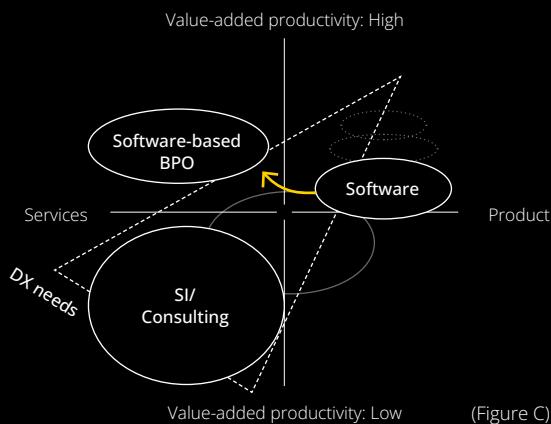
Therefore, when we try to respond to the individual needs of our customers, it is easy for our business to expand to the lower left, and our business has actually become like that. On the other hand, the new software business didn't really take off due to the lack of opportunity experiences to grasp serious issues and combine them with technologies. (Figure B)



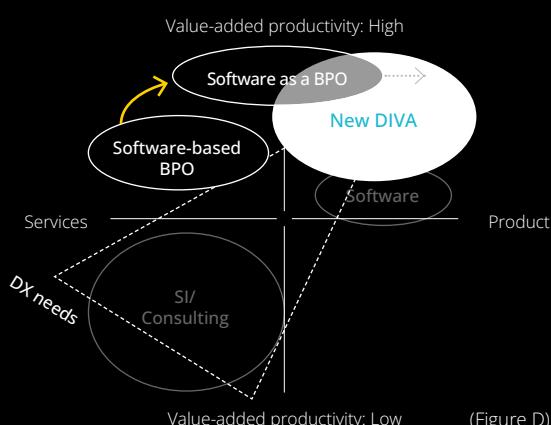
To solve this problem, we entered the software-based business process outsourcing (BPO) business. This is because we have the opportunity experiences from the business pane and accumulated know-how necessary for the growth of software. By launching a new business model similar to contemporary SaaS for software-based BPO, we aim to expand our software business beyond system integration (SI).

As another business environment creation measure, businesses on the lower left are also included in the Group. Our goal is to enhance our ability to explore new software businesses by leveraging our project opportunity experience

from the SI business, and our various software and technologies that support data driven business management. The acceleration of today's DX needs has opened various opportunities. (Figure C)

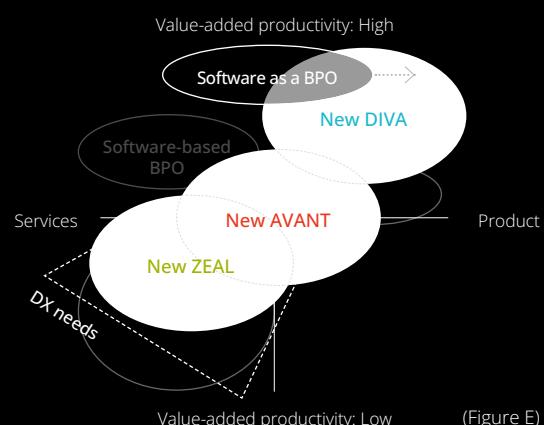


We reviewed the Group that has been formed through these processes from the viewpoint of materiality. First, we decided to create a business in the upper right, which is our goal, by reorganizing our current business. That's the new Diva. We will complete the SaaS business model by integrating software-based BPO and software development. (Figure D)



Next, we also decided to launch the new Avant, which is a software-based consulting business specializing in group management and group governance, where we have high expectations for a SaaS business contribution. This business is directly linked to the theme of enhancing corporate value. Avant handles various software, including external products, with a product development team to develop complementary in-house products.

As a promoter of corporate DX, Zeal's business not only utilizes information but is also looking to raise its expertise in the development of infrastructure for utilizing information, and by training more engineers. As this business is always able to capture cutting-edge DX needs, it will have opportunities to explore new business themes. (Figure E)



This reorganization is poised to become the prototype for the expansion and replication process of our software business.

Governance to Realize Materiality

The second is to upgrade the Group's management model that we have been promoting in parallel with the reorganization. We are no exception to the management silo effect that often occurs in Group management. Silo effect is not a matter of right or wrong, it is a matter of management model.

The current Medium-Term Management Plan consists of three main pillars. Operational KPIs based on net sales and operating income, which are the sum of the performance of each business; strategic KPIs based on the ratio of recurring sales ratio, which drives the model shift to the software business, and the sales growth rate + operating income margin viewed by performance; and financial KPIs based on capital efficiency and dividends.

In particular in the Strategic KPIs, little progress has been made with regard to the recurring sales ratio. Although this business has grown, our business structure is almost the same.

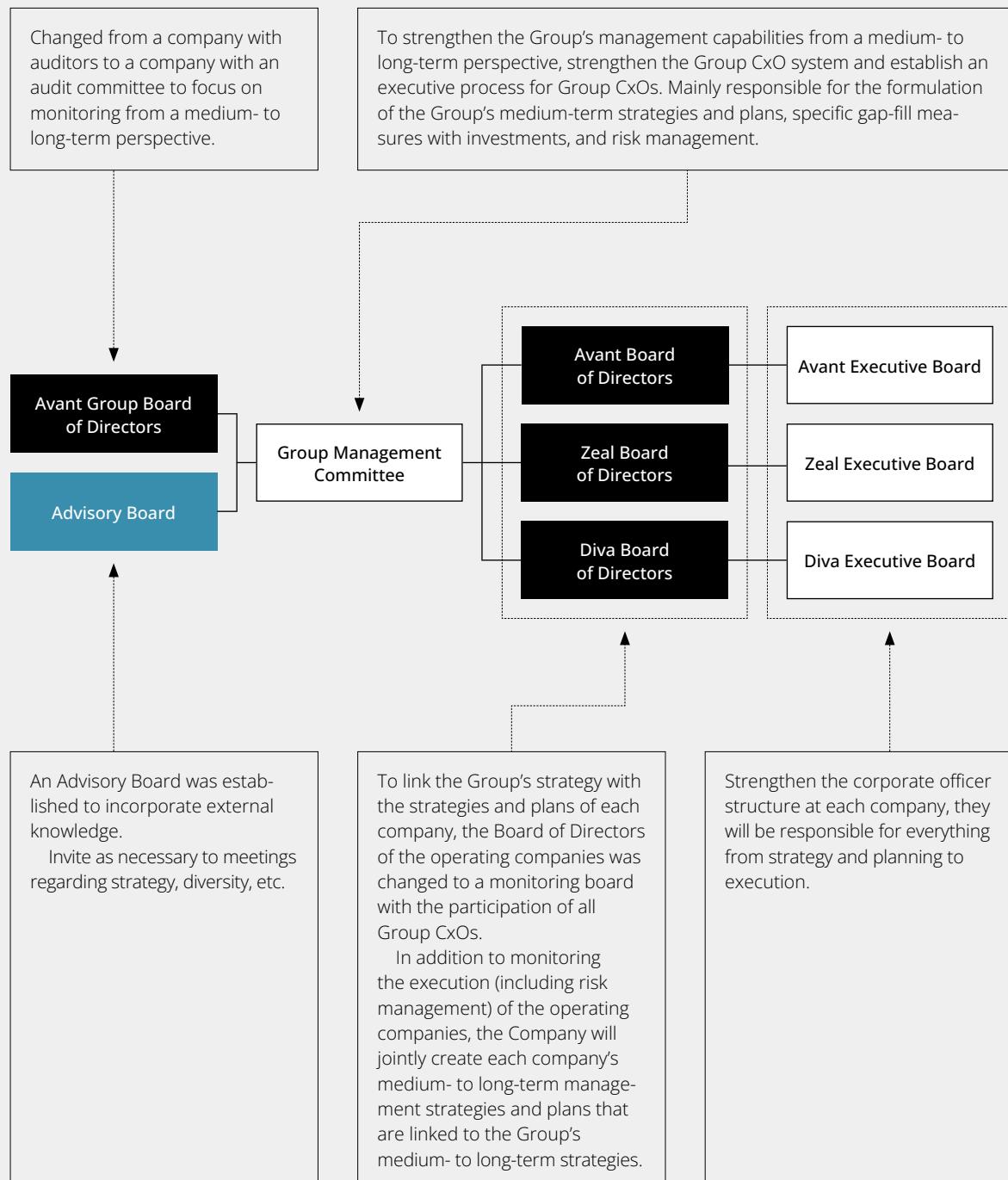
As Group CEO, I was the one person who took responsibility for this KPI as an evaluation indicator. In spite of the extremely difficult action of structural reform, due to poorly completed strategy we could not turn it a common theme as a management team, and as a result, the effectiveness was almost zero. Without thinking I controlled the strategic direction, and it became dysfunctional.

Reflecting on these results, we have decided to significantly strengthen our group management team. The purpose of this is to raise our strategic execution capabilities, which is the most important issue, through division of roles by our management members who have accumulated achievements in the operating companies. Our primary focus was to eliminate as much asymmetry in management information as possible among management team members. For themes where asymmetry cannot be resolved, by actively delegating authority at each management layer, we aim for the division of roles and monitoring to function.

This management model reform extends from the Board of Directors at the holding company

		19/6	20/6	21/6	22/6	23/6 (Goal)
Operational KPIs	Net Sales (¥ billion)	14.07	15.69	16.23	18.70	18.0–22.0
	Operating Income (¥ billion)	1.96	2.27	2.79	3.24	3.1–3.8
Strategic KPIs	Recurring Sales Ratio (%)	31.4	32.6	36.0	34.6	70
	Sales Growth Rate + Operating Profit Margin (Point)	30.2	26.0	20.7	32.6	40 or more
Financial KPIs	ROE (%)	24.6	23.5	23.6	21.1	20 or more
	Dividend (¥)	7.5	9.0	11.0	13.0	15 or more

Separation of Execution and Management and Reinforcement of Medium- to Long-Term Perspective



to the Executive Boards of each operating company. As the role of the holding company is to monitor the implementation of the strategy, the Company has delegated a significant amount of authority to execute our strategy. Accordingly, the Company changed its organizational structure to a company with an Audit Committee.

The Group Management Committee was newly established on the group executive side to create an environment in which the group management team can continue to talk about the Group's medium- to long-term growth. In addition, the Boards of Directors of each operating company, which has so far focused on reporting, has increased the discussion of medium- and long-term strategies as well as reporting and resolutions, creating an environment that facilitates coordination with the Group's strategies. In particular, the asymmetry of information among members of the management team significantly impairs the efficiency of discussions and execution. Therefore, all members responsible for group management try to resolve issues by participating in the meetings of the Board of Directors of major operating companies.

This is possible because the Group is still small in scale, but in preparation for future expansion, we are also developing a DX platform to promote information sharing among the board of directors and management teams of each company. In this way, we will continue to upgrade our Group management capabilities.

Visualization of Corporate Value Mechanism to Realize Materiality

The third is to visualize the mechanism for increasing corporate value as a whole by linking activities of the Group as a whole to the business divisions of each company.

The strategic KPIs of the current Mid-term Management Plan were difficult to link to on the ground activities. For the strategy to work, it is necessary to visualize how awareness of the KPIs on a day-to-day basis interacts with the strategy. But this is not an easy task. Far from linking the KPIs of each layer, it is not uncommon to be difficult to grasp even income statement figures by business due to changes in accounting standards or organizational changes.

Considering the burden on the ground, it is understandable, and it is true that we have prioritized available operational based management information as the basis for execution of operations. As a result, the operational KPIs worked, but the strategy KPIs for building the future were up in the air. In addition, the meaning and weight of the strategy KPIs was ambiguous, which caused confusion in business activities on the ground.

This time, therefore, we created a Value Tree before formulating our business plan and started with visualization of measurable value creation mechanisms.

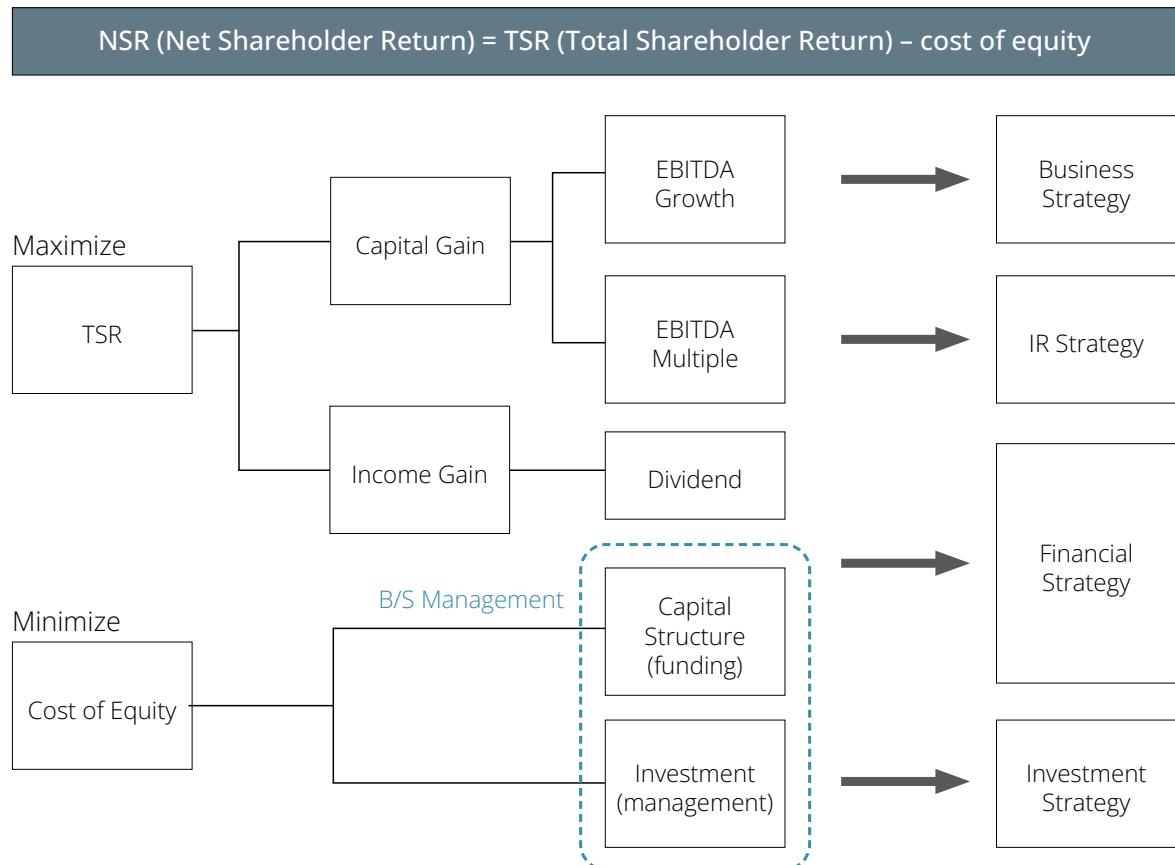
The Group's "BE GLOBAL" vision aims to significantly raise the value of human assets, which are significantly inferior to global levels, by benchmarking the global software industry and utilizing software. I am convinced that a sincere pursuit of these activities will lead to enhancement of our corporate value.

Based on this belief, we have decided to set our ultimate KPI as Net Shareholder Return (NSR), which is the degree to which Total Shareholder Return (TSR) exceeds the cost of equity. In addition to the EPS growth rate and P/E ratio (PER), which is the basis of capital gains, which indicate the future potential of the business, we are also conscious of the balance with income gains. In addition, we aim to position capital, which has not been actively utilized so far, but with an eye on future structural changes, at a higher level in the tree to avoid undisciplined investment.

On the other hand, each company's tree consists of more specific activity KPIs, such as software sales, employee satisfaction, unit revenue per customer, and sales per person. We have developed a system to integrate each company's detailed operating KPI tree into the overall tree.

This initiative is at the core of the "Spreading Accountability" and represents the materiality of "becoming a software company that contributes to the enhancement of corporate value" by accelerating it with software. In the next Medium-Term Management Plan, we will put our mission into practice and move forward with preparations and activities to realize our vision.

Value Tree with NSR as Top KPI



For more information on the Value Tree, see the dialog 'Linking the awareness of each and every Group employee to corporate value', starting on page 44.

The Ability to Price a Firm is Essential to Enhancing Corporate Value

Finally, I would like to talk about what I have noticed since the release of the last Integrated Report.

The theme of the previous Integrated Report was corporate value. Since then, we have been discussing corporate value with a variety of people. Through these discussions, I realized one point of view that was definitely missing. It is the perspective of "corporate pricing."

Until now, there has been a sense that a company is not a product, and therefore it is not an object of pricing. However, companies whose stocks are traded in the market are commodities. Now I have come to think that if the manager who sells the product is indifferent to its pricing, it is the same as not running the business.

We will increase corporate value by building our own pricing power. I would like to contribute to the increase of such companies through the mission of "Spreading Accountability."



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