RE-ORGANIZATION

Business Restructuring

As a first step toward realizing the materiality of becoming a software company that enhances corporate value, the Group reorganized in October 2022.

By maximizing the potential of the four operating companies, the Group as a whole will contribute to enhancing the corporate value of our customers.

Before

Consolidated accounting / group management focused type software implementation consulting business

- Consolidated disclosure support system "DivaSystem LCA" "DivaSystem FBX", "DivaSystem Dx3-Advance" etc.
- Group management support systems "DivaSystem SMD," "DIVA Compass" and "DIVA Empower" etc.
- Timely disclosure information search service

DIVA®

1 Split

Change of trade name

1 Receive

After

DIVA

Supporting creative disclosure consolidated accounting and disclosure software and BPO

- Disclosure support systems "DivaSystem LCA", "DivaSystem FBX", and "DivaSystem Dx3- Advance" etc.
- Non-consolidated, consolidated settlement process BPO
- Cash management solutions BPO
- Timely disclosure information search service

AVANT

Consolidated settlement and disclosure focused BPO business

- Non-consolidated, consolidated settlement process BPO ④
- Cash management solutions BPO ⑤

Specialized SI business utilizing BI and data

- Data platform ⑥
- Business intelligence ⑦
- CPM ⑧

①
②
③

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Internet Disclosure Co., Ltd.

FIERTE

ZEAL
BI EVANGELISTS

Change of trade name

⑧ Divide

⑧ Receive

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Internet Disclosure Co., Ltd.

AVANT

ZEAL

Support to enhance corporate value implementation and operation of management content

- Group management support systems "AVANT SMD", "AVANT Compass", and "AVANT Chart" ②, CPM ⑧, etc.
- System implementation consulting ⑨

Development and operation of DX for accountability infrastructure

- Data platform ⑥
- Business intelligence ⑦

①
④
⑤
③

AVANT GROUP

DIALOG

Future Vision of the New Avant Group

How will we the reorganization of the Group realize synergies within the Group?
What role will the two newly appointed Group COOs play in driving the Group?
Group CEO Morikawa and Group COOs Okabe and Nagata talked about
the future vision of the new Avant Group.

TETSUJI MORIKAWA (Left)
Representative Director, President,
and Group CEO

TAKAHIRO OKABE (Middle)
Group COO
Representative Director and President, Avant Corporation
Representative Director and President, Zeal Corporation

GEN NAGATA (Right)
Group COO and CBO
Representative Director and President, Diva Corporation

COO: Chief Operating Officer
CBO: Chief Business development Officer

Innovation from New Integration through Group Reorganization

Morikawa The most important objective of the reorganization of the Group is to contribute to enhancing the corporate value of our customers. When customers are large companies, coordination among departments is particularly difficult, so the Avant Group is working to maximize its contribution to customers through the total coordination of products and services among its companies by taking an optimized approach for each department, such as Diva for the accounting and finance department, Avant for the corporate planning department, and Zeal for the information system department. First, Mr. Okabe, could you tell us about the policies of Avant and Zeal, of which you are President?

Okabe With the revision of the Corporate Governance Code in 2021, rather than focusing on financial information as in the past, companies have been required to disclose non-financial information such as the environment and human capital, so against this background, an increasing number of companies are trying to formulate purpose and vision, the materiality and various value drivers necessary for this, *Creating a system in which each company can cooperate and make maximum contributions to customers as a group*

TETSUJI MORIKAWA

and key performance indicators (KPIs). Avant aims to build a software process that uses these KPIs to implement the PDCA cycle for discussions at meetings of the Board of Directors and the Management Committee.

Until now, there have been cases in which the former Diva's in-house products could not solve customer needs. However, new Avant Corporation, which was created by taking over the group management business of the former Diva and Zeal, can contribute to a wider range of customers by providing Zeal's line-up of CPM (Corporate Performance Management) software which has a proven track record in the global market. Specifically, the Zeal team and the implementation team that handled in-house products have come together to propose new business management solutions. We have also established a development division in Avant to develop proprietary software for management and strengthen functions in the field of management simulation.

In addition, because many companies have not been able to make decisions on how to proceed with DX for management and have high expectations for external advisors, we have established a consulting division specializing in such upstream areas.

Morikawa By creating a complementary relationship between Zeal's line-up of global external products and former Diva's in-house products, Avant can contribute to customers with a wider range of services and products.

Okabe Yes. Recently, in addition to holding companies and parent companies, there has been an increase in the number of customers introducing various CPM products at the operating companies within their Groups because of the growing need for more sophisticated management. In addition to our CPM product "AVANT SMD," by handling widely distributed external CPM products, we will be able to contribute to the business management of more than 30,000 group subsidiaries beyond the original 1,100 customers. There are only a limited number of consulting firms in the Japanese market that are currently focusing on this field, and if we limit it to those who can also implement the number declines further, so we should be able to show a strong presence.

In response to the growing volume of non-financial data, we have adopted the concept of a management information platform that will become the information systems division of the corporate management planning division. By realizing a state in which management information is collected without requesting it from the information system department and necessary management information is always retained on the data platform, productivity can be improved, and data utilization can be made more efficient. We

The management information platform created by the partnership between Avant and Zeal has received positive feedback from many customers

TAKAHIRO OKABE

intend to develop new Avant products and services by bringing together the know-how that Zeal has developed.

Morikawa Both Avant and Zeal have highly specialized human resources, which I believe will be a major weapon. How do you plan to utilize these resources?

Okabe In terms of the quality and quantity of consultants specializing in the field of consolidated accounting or business management, Avant is without doubt number one in Japan. Another strength is that Zeal has more than 300 members who aim to forge their careers by specializing as data engineers or data scientists.

Both companies are making steady progress in building a framework for accumulating knowledge and in sharing implementation methods and procedures with customers. How to convert this into software is an issue for the future, and to enable the newly established development department to carry out its mission purposefully, Avant has newly established a CPO* as a development manager, and Zeal has newly established a CTO* and CSO* as managers responsible for developing solutions based on accumulated knowledge.

Morikawa You mean combining the strengths of both companies so that it can be connected to products. Can you please tell us more specifically how you intend to contribute to customers through the collaboration between Avant and Zeal?

Okabe First, the management information platform that I talked about earlier is a new proposal from Avant, and I feel that it is appreciated by many finance departments, business administration departments, and CFOs.

Furthermore, we believe that collaboration between the two companies will enable us to meet the needs for analyzing data at a more detailed level. For example, in the case of retail stores, there is an increasing need to analyze not only the summary level but also the detailed data such as “EC site or real store”, and this is a key to selecting CPM products. This is especially true for ERP (Enterprise Resources Planning: integrated backbone systems), and we believe that business management solutions in collaboration with Zeal, which specializes in BI, will be important for Avant.

Morikawa We expect that the reorganization will create the Group’s strengths as planned.

Next, let’s talk to Mr. Nagata. We expect that the new Diva will become a business model that promotes the entire Group by contributing to customers through software-based BPO (Business Process Outsourcing) that combines both products and services, rather than simply providing products or services. So to speak, a new fusion of different combinations it’s real innovation. Could you tell us about your aspirations and challenges?

* Chief Product Officer (CPO)
Chief Technology Officer (CTO)
Chief Solution Officer (CSO)

Nagata I think it will be almost 100% successful as a business. Generally, the most difficult thing for a software company is to create a product while searching for what will sell, but Diva already knows what to sell. Diva has taken over BPO functions from Fierte and is the only Japanese company to have data on the business flow of various customers. What we are trying to create using this data is a product with a completely new world view that exceeds customers' concepts, this idea is like Tesla's plan to eliminate steering wheels from cars and make them a means of transportation that doesn't require drivers. This is only possible thanks to Fierte's BPO expertise. By combining Fierte's know-how with its original business model and information, which were the only ones to keep track of business flows that customers didn't have, Diva can create software for fully autonomous driving, I would like to realize it in 5 years from now.

Morikawa This is possible because Fierte has the know-how of BPO for the settlement of accounts of more than 100 customers.

While I believe that your talk is focused on the disclosure of consolidated financial statements, I feel that the expansion of the scope of disclosure, including ESG information, for which demand has been growing recently, is also an opportunity for business expansion. How do you see it, Mr. Nagata?

Nagata As the need for accurate disclosure will always be required, we will continue to expand our service offerings by incorporating new concepts into our current Diva products and services.

At the present time, however, disclosure rules for environmental and other areas have not been established, and the future is not yet clear, so I think there are ways to partner with venture companies specializing in various strengths. From there, there is a pattern in which it becomes in the form of a complete OEM an in-house product, and there may be a form in which we become a platform by taking advantage of our well-established position in the market.

Morikawa Utilizing alliances may also be an effective way to respond to rapidly changing areas by. Whether you want to take advantage of new changes or focus first on areas where you can see clear winners there is probably no right answer, but in any case, it's important to have clear positioning.

In terms of incorporating state-of-the-art developments, the evolution of Zeal over the past few years may be a clue. Originally, the ratio of orders received for so-called secondary subcontracting was high, but we gradually expanded our relationship with end users, and the number of advanced projects increased by riding the tide of data driven management. By taking advantage of this experience of projecting customer trial and error directly into services, we believe that synergies can be created through collaboration among Group companies. For example, Zeal understands customer demand for cutting-edge products such as ESG, Avant manufactures software in that area, and Diva provides software based BPO.

How to Reflect Group Strategy in the Execution of Operating Companies

Morikawa As the Group CEO, I would like to hear your recognition of the challenges that the two COOs will face in promoting Group strategies based on the materiality of the management strategy of "becoming a software company that helps to enhance corporate value."

Okabe Although we recognize that it is the responsibility of the Group COOs to incorporate materiality into specific operations, the biggest challenge for Avant and Zeal is to create a path to becoming a software company. As for Avant, as I mentioned earlier, the sharing of the image of the software to be developed is progressing. What else do we do when dealing with other companies' products? We need to consider whether we can incorporate specific IP (Intellectual Property), but I think we have gotten off to a good start.

On the other hand, Zeal partly because it was originally a SIEr, has only a limited amount of in-house IP. However, we plan to remodel and expand sales of ZEUSCloud, a corporate analytics platform that can integrate and analyze corporate data in the cloud and expand e-learning business in the field of data driven. In the next fiscal year, we plan to create a joint product with Avant, not exclusive to Zeal, for business management solutions with detailed management functions that I mentioned earlier.

Nagata For the next 20 or 30 years, I believe that DivaSystem, which is the biggest driver of growth within Diva, which was the origin of our company,

By transforming products that have been our biggest growth drivers into new concepts to create the future of Diva.

GEN NAGATA

has been able to grow to this level, must be changed from a simple version upgrade to a new concept. There are a lot of software that will be useful if you install it, but there is probably no software with the concept of if you install it, work disappears. Therefore, we will focus our efforts with the spirit that creating products based on that worldview will be as valuable as creating products for the next 20 or 30 years.

Morikawa Both of you have a product theme, but the content of your assignments is different. Mr. Okabe, how will you accumulate IP and apply leverage to the Avant and Zeal businesses, which are currently centered on services? Mr. Nagata, your idea is to renovate what you have in Diva and connect it to the future.

Okabe Also, I still have work to do with Mr. Nagata to organize the functions at Avant and Diva that have not yet been separated.

Morikawa I sincerely hope that the Group COOs will work together. While it is important to organize the functions of each company, the future theme will be to promote mobility within the Group to promote the strategy of the Group as a whole. It is a truly strong corporate group that can form an organizational culture in which a unit can be replaced, and we hope to achieve that.

Nagata We have put into practice something close to that in this reorganization of the Group, and I think we can fully realize it.

Morikawa With this in mind, from this fiscal year we have changed the system so that discussions on the Group's medium- to long-term strategies will be led by the Group Management Committee, which is the executive side, rather than by the Board of Directors. All members of the Group Management Committee will participate in meetings of the Board of Directors of each operating company. Until now, only I and CFO Kasuga participated in each company's Board of Directors meetings, but I believe that this system will close the information gap at the management level and synchronize the strategies of the Group as a whole and each company. The COOs' ability to act and their roles are extremely important, and I have high expectations for them.

NAOYOSHI KASUGA (Left)
Director and Group CFO

MAKOTO NAKANO (Right)
Director (Audit Committee Member)
(Outside, Independent Director)

DIALOG

To Link the Awareness of Each Group Employee to Corporate Value

In November 2022, Group CFO Kasuga and Director Nakano, an expert in business administration and corporate finance, exchanged views on the Value Tree, a mechanism for improving the corporate value of the Group.

See the next page for a diagram of the value tree.

Value Tree: TSR and Cost of Equity

Kasuga While the Group has formulated its strategic materiality of becoming a software company that enhances corporate value, we have also decided to create a Value Tree to clarify the mechanism by which corporate value is maximized. As the Group CFO, after repeated discussions with the CFOs of each operating company at weekly meetings, I named the spread between Total Shareholder Return (TSR) and the cost of equity Net Shareholder Return (NSR) and selected it as the final indicator for measuring the Company's ability to create corporate value.

Although we are aware that methods such as DCF are used to calculate corporate value, I believe there are several other indicators of corporate value that shareholders and investors attach importance to. Among them, TSR is also used in determining the remuneration of executive directors, Group CEO Morikawa and I, and this convergence of our goals and interests is why I chose it. In addition, the Company has long considered reflecting TSR in the renumeration structures for non-Directors, and if this is realized, officers and employees can pursue the enhancement of corporate value from the same viewpoint as shareholders and investors. On the other hand, the Company believes that it is appropriate to calculate TSR over a five year period in line with the period of the Group's medium-term management plan because there is a possibility of temporarily increasing TSR in a very short period of time.

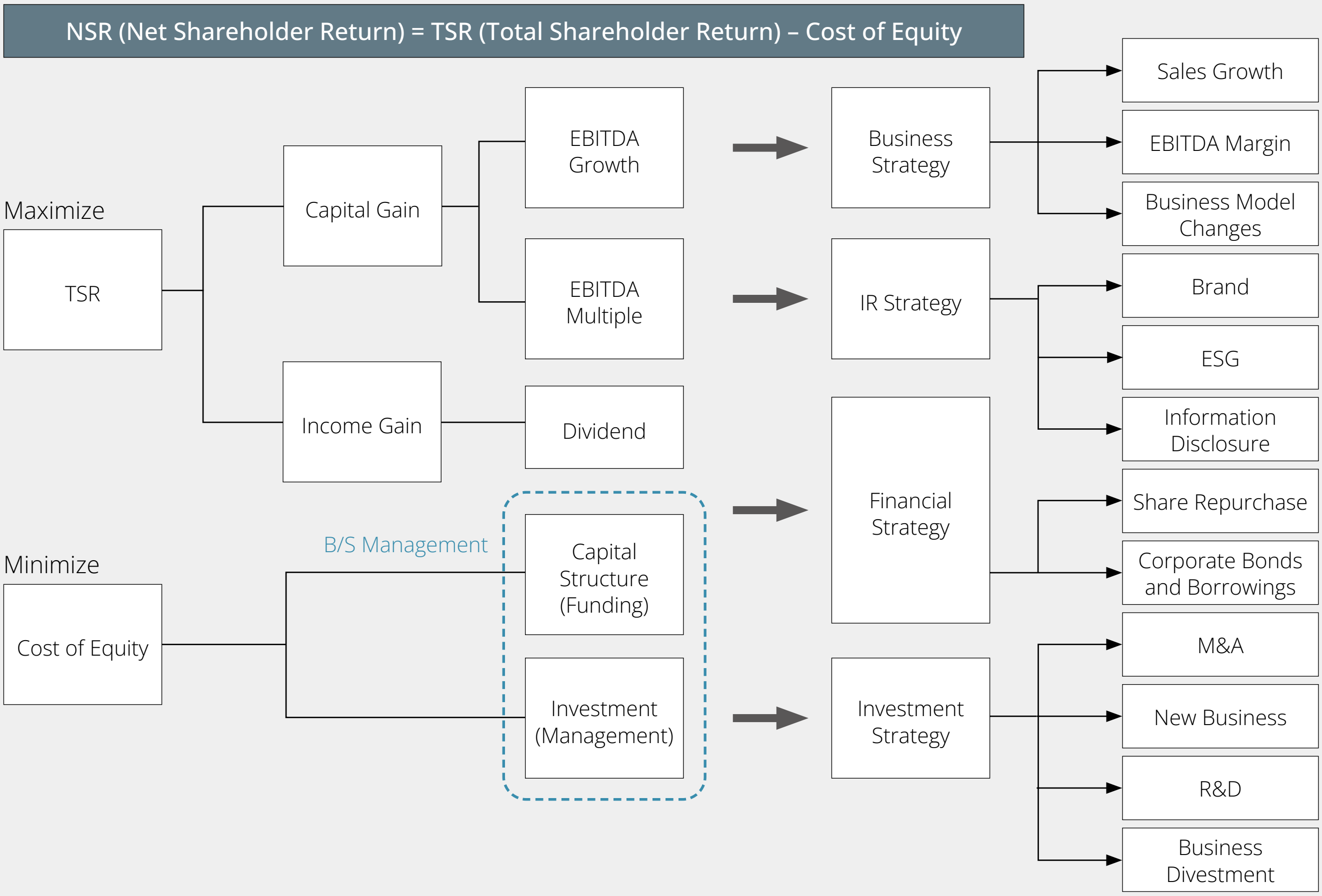
As I mentioned earlier, we initially regarded TSR as the only important management indicator. However, because TSR is a ratio, it is difficult to determine whether value is created. Therefore, we ultimately chose the spread between TSR and the cost of equity as the indicator. Another reason for this is to raise awareness of the cost of equity throughout the Group. The concept of subtracting the cost of equity from TSR is based on the Wealth Added Index (WAI™)*.

Nakano Indeed, it's a very easy to understand tree. The breakdown of TSR into capital gains and income gains, were easy to understand, as is the breakdown of capital gains into EBITDA growth and EBITDA multiple. If you increase EBITDA or the multiple, the share price rises. And EBITDA will increase as EBITDA margin or revenue grows. It's clear.

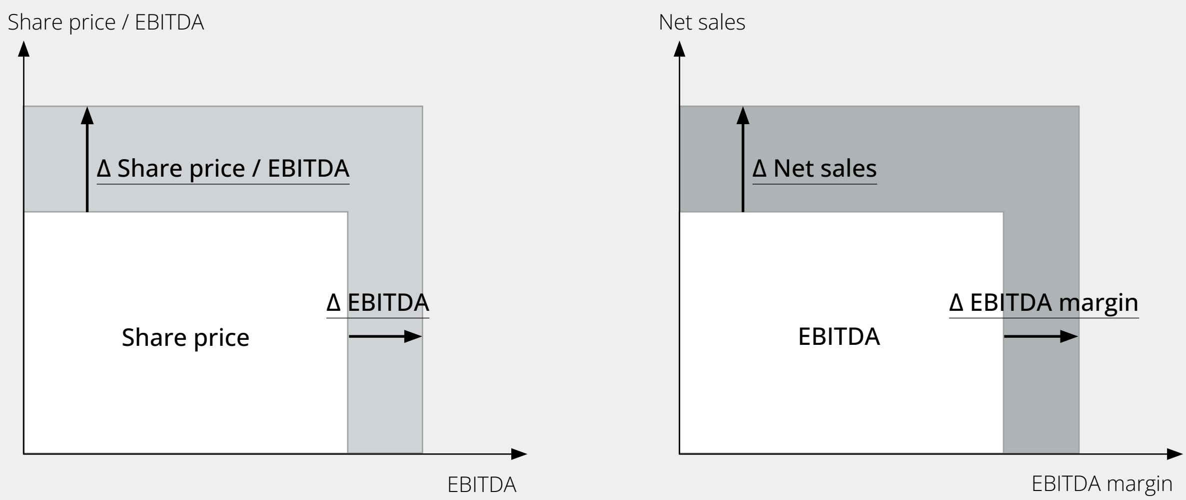
Kasuga Following the example of SaaS companies in the United States, the Group has emphasized Growth and Profit Point (GPP), which is the sum of sales growth rate and operating profit margin. Therefore, we thought that sales growth and EBITDA margin would be more familiar to operating companies than net income. With the intention of linking them with indicators actually used in the field, we intentionally broke down into EBITDA and linked it with stock prices. In the future, we will consider how to improve sales growth and EBITDA margin for each operating company, and expand it to divisions, units, and ultimately individuals. In addition to the cost of shareholders' equity I mentioned earlier, I believe that it is important to spread awareness among employees on the ground.

* WAI™ and Wealth Added Index are registered trademarks of Stern Stewart & Co., a consulting firm.

Value Tree with NSR as Top KPI



Breaking Down Capital Gains



Nakano The Avant Group has almost no interest-bearing debt, so we can say that corporate value equals shareholder value and WACC equals cost of equity. At the end of the fiscal period ending June 30, 2022, assuming a market capitalization of ¥50.5 billion and a CAPM cost of equity of approximately 8%, this is a weighted average including ¥9.4 billion in cash and deposits. Assuming a 1% yield on cash, the cost of capital for business assets corresponding to the remaining ¥41.2 billion at market value, in other words, the expected return from the market, is approximately 9.6%. It can be said that WACC has been kept at about 8% due to the risk reduction effect of holding cash and deposits.

Kasuga The market's expected return of 9.6% is an indication that the current corporate value will be damaged unless the investment can increase the return more than that. Although some shareholders may wish we return surplus funds to them, the Company will continue to invest in business growth and increase corporate value by achieving business returns that exceed market expectations.

Nakano 9.6% is high enough compared to mature companies, so I think the market expects our growth to that extent. In addition, dividends and share buybacks essentially reduce the value of the company itself because they transfer value to shareholders. Dividends are returns to all shareholders, but share buybacks are limited to certain shareholders.

Kasuga At Board of Directors, the opinion has been expressed that as we have a large amount of cash and deposits, if we leave it as it is, we may be targeted by activists. Although I don't think it would be that easy given our shareholder structure, and I don't know what measures they would take, for example buying a large amount of our stock in the market.

Nakano If your price book-value ratio (PBR) is low and you have a large amount of cash and deposits, you are more easily targeted, but I don't think this is our case because our PBR is about 5 times. However, when a company has cash and can create value through its business, if it is small in scale, it may be targeted. In that sense, to maintain our current structure it would be reassuring if we could further increase our market capitalization. Or maybe you don't need to worry about it if you have the kind of high-quality management that makes activists think they can't improve their management any more even if they join.

EBITDA Growth and Multiples Are Key to Enhancing Corporate Value

Kasuga I recognize that within the Value Tree, my role as CFO will be centered on IR strategy, financial strategy, and investment strategy. Although IR activities alone may not be able to raise the EBITDA multiple, I think it is possible for IR activities to have an impact. In terms of financial strategy, now I don't feel it is so important. Although we have established commitment lines for emergencies, we have sufficient internal reserves, and if we do not make large-scale investments, including M&A, as things stand, we will not need to raise funds, including borrowing. I am aware of the technique of raising ROE by increasing borrowing and the leverage ratio, but I don't think it is the essence of financial strategy. As for our investment strategy, I am aware that I will play a role as a gatekeeper in implementing it.

Nakano What I felt when I looked at the decomposition chart of capital gains mentioned earlier was that the P/L (Consolidated Profit and Loss Statement) and stock prices were the main factors, so I wondered if the B/S (Consolidated Balance Sheet) could be factored in. The idea of using assets to increase sales, or investing, could be added to this diagram.

Kasuga As you say, business tie-ups by acquiring companies or businesses, or investing capital can be effective measures. However, rather than being driven by the Group holding company, the needs of the operating companies are the starting point for such investment.

There are various indicators to look at, but I feel that the one that ultimately has the greatest impact on corporate value is business strategy, especially the absolute growth of EBITDA. In fact, a sensitivity analysis of various companies shows that EBITDA growth as the driver of capital gains is overwhelmingly large.

I understand that the influence of growth is big.

Nakano To achieve EBITDA growth, simultaneously increasing both sales and margins may not be easy, but Group CEO Morikawa, is thinking that we must further enhance our growth potential. I think the best way to achieve this is to invest more in high margin businesses. What do you think?

Kasuga I think so. At the same time, currently there are no notably high margin businesses within the Group. Prior to the reorganization in October 2022, in the fiscal year ended June 2022 the Group Governance Business, with an operating income margin of 22.0% was not only the most profitable but also the largest profit contributor. On the other hand, many software companies have achieved operating margins of 30% or more. A business that develops and sells software packages should be highly profitable, but because many of our customers are large companies, the associated SI (System Integration) services are expanding, and profitability is sluggish. On the other hand, the Outsourcing and Digital Transformation businesses, which are generally regarded as labor-intensive and low margin, have achieved sufficiently high operating profit margins (21.7% and 17.7%, respectively) relative to the industry through the development of unique business models and a review of the business mix. Through sales growth, these businesses have achieved substantial profit growth. We would like to raise the profit margin of the Group as a whole by raising the profit margin of Diva which is the core company of the Group Governance business. As a result, following the reorganization Diva is moving further toward becoming a product-oriented SaaS company.

NAOYOSHI KASUGA

Nakano As mentioned in the Cost of Capital section, I understand that the reason why the Company's PBR is approximately five times is that the market's return expectations are high, because the Company has created barriers to entry in its business and continues to earn excess profits. That's why it is troubling if you enter a new business in a field where there are already competitors, your overall profitability will decrease, and you will be unable to maintain a high valuation. But if the business model changes in the way you just mentioned and EBITDA growth continues to rise, I think EBITDA multiples should also benefit.

Kasuga I agree. It is like preaching to the converted, but in theory, the relationship of PER = 1 / (cost of equity – growth rate of net income) is established. For example, from the current PER and estimated cost of equity, the market's expectation for sustainable growth rate of net income is approximately 2%. In other words, I cannot help but say that there is little expectation of future profit growth at present. One way to increase the multiple is to raise market expectations for the Group's sustainable growth. To achieve this, I think the most important thing is to transform the business model to one that supports growth.

Nakano The growth of EBITDA itself is important, but the multiple that reflects the medium- to long-term growth based on the business model is also important.

Difficulty in Spreading Awareness of KPIs and Capital Costs on the Ground

Nakano Do you recognize any other issues as Group CFO?

Kasuga Although there are several issues, how to establish KPI awareness on the ground, including the Value Tree, has been a particularly big issue for some time. Since

I joined the Group in 2010, I have explained at several meetings of the Group Management Meeting and the Board of Directors that investments such as product development and M&A are a kind of cost, and that without a return exceeding that, no value is created. I have created a framework to evaluate such proposals, but I am acutely aware that in reality it is difficult to use, and proposals don't tend to pass. At present, I am beginning to think that a simpler indicator, such as EBITDA margin, or even gross profit, which is more widely understood and used by those on the ground and could be more effective than creating something elaborate and complicated.

Nakano Around 2000, when the Balanced Scorecard became popular, I provided consulting services to improve factory productivity. I told workers on the site that they would be able to do two types of work in half a year, instead of doing one type of work now. I think it is easier to convey a KPI if it is easy to understand.

Kasuga Similarly, I am aware of the problem that the operating companies only focus on the concept of P/L.

Nakano Yes, they tend to lack B/S awareness.

Kasuga Yes. To be honest, I feel that it is difficult for the operating companies to have B/S awareness, partly because until now, the holding company used to absorb all the profits of operating companies as dividends, leaving the operating companies poorly capitalized. For this reason, we introduced the concept of risk capital two years ago, which

MAKOTO NAKANO

measures the risk level of each company's assets and allocates and accumulates capital using internal reserves. Until then, there had been no concept of "invested capital" as the denominator, so the concept of ROIC is still in its infancy.

I think value-based management frameworks such as Value Trees and ROIC trees have existed for about 40 years, but why haven't they really been put into practice in Japanese companies?

Nakano Especially in the case of Japan, the influence of the finance education may be big. It was about 15 years ago that I started teaching university courses about how to think about corporate value. The students at that time will only be about 35 years old now, and I doubt they have reached that far up corporate management structures yet. On the other hand, I also have the opportunity to explain matters like this to managements in executive training, so I think understanding is now gradually spreading from both the top and the bottom. I think it will change as the number of people at the management who understand it gradually increases.

Kasuga It seems that it will take some time for this trend to spread. The Group has developed a Value Tree for each operating company, and the Group Management Committee and the Board of Directors of each operating company discuss specific measures for sales growth and improvement of profitability. Together with Group CEO Morikawa, representatives of each operating company Group COOs Okabe and Nagata, and directors of each operating company, we will take a closer look at how we will develop and implement the plan. Although the Value Tree at the Group level was first developed by the holding company from above, I believe that the ultimate goal of the Value Tree at the Group level is to link it to the KPIs of individual Group employees.