Medium-Term Management Plan

BE GLOBAL 2023

For Japanese companies to grow beyond the challenges of a declining birthrate and an aging population and the COVID-19 pandemic, they are reaching the limits of operational efficiency improvements simply by investing in IT, so businesses need to restructure themselves through digital transformation, with decisive management decisions, to realize diverse ways of working and the creation of new business models. At the same time, to maintain sustainable development while addressing global issues such as global warming and economic disparities, corporate managers must maintain close communication not only with shareholders but also with customers, employees, local communities, etc., and consider the balance between the economy, society, and the environment. As a result, the ability to organize and analyze information is being called into question more than ever before, and in addition, there is an urgent need to improve management transparency through strengthened compliance and risk management systems.

As a result of these changes in the business environment, the Group's business is playing an even more important role in contributing to the resolution of customer companies' issues by making management information "visualization," "usability," and "entrustment". For the time being, while pursuing growth opportunities in Japan, the Group must aim to maximize its corporate value by growing both in terms of business expansion and capital efficiency to establish its position as a world-class company, which is the objective of its Medium - to Long-Term Management Strategy. Under the "BE GLOBAL 2023" Medium-Term Management Plan announced in September 2018, we aim to maximize corporate value over the five-year period from the fiscal year ending June 2019 to the fiscal year ending June 2023."

To maximize corporate value, the Group will take a three-pronged approach to achieve its targets, 1) pursue further sales growth through the collective strength of the Group, 2) M&A to accelerate growth, and 3) business model transformation. The Group has established six key performance indicators (KPIs) to measure progress towards it targets: net sales, operating income, recurring sales ratio, sales growth rate + operating income ratio (GPP), ROE and dividends.

Vision of BE GLOBAL 2023 Mid-Term Management Plan

Maximize Corporate Value = **Business Results** (Sales Growth + High Profitability) × **Investment Results** (High Capital Efficiency) × **Market Value** (Transform Business Model)

Key Performance Indicators (KPIs) of "BE GLOBAL 2023"

		19/6	20/6	21/6	22/6	23/6 (Target)
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 Margin (Points)	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

Industry Environment

While the global economy recovered strongly in 2021 after the spread of the novel coronavirus, as monetary and fiscal stimulus measures were implemented in various countries, the likelihood of global stagflation is said to be increasing in 2022 as these measures run their course, while Chinese lockdowns, global supply chain disruptions, the situation in Ukraine and other unexpected risks emerge one after another.

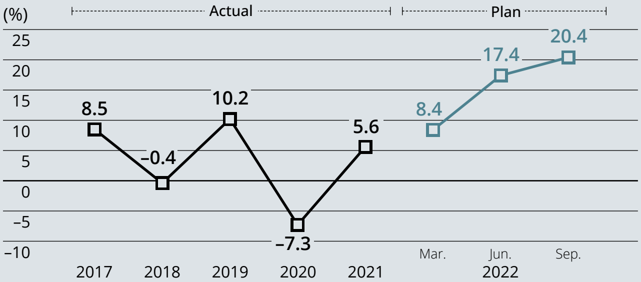
The Japanese economy is expected to manage only a moderate recovery path as the COVID-19 pandemic subsides, partly due to the continuation of large-scale monetary easing measures. Amid these circumstances, demand for software has been solid, and we can confirm that fully fledged digital transformation is underway. The Bank of Japan's *Tankan* survey of capital investment shows aggressive investment plans for software at a level not seen in recent years.

World Economic Recovery Rate Forecast

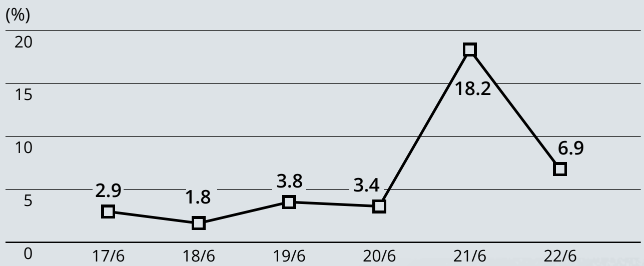
(%)	2020	2021	2022 (estimate)	2023 (forecast)	2024 (forecast)
World	–3.2	5.9	2.9	1.7	2.7
Developed countries	–4.3	5.3	2.5	0.5	1.6
Japan	–4.3	2.2	1.2	1.0	0.7

Source: THE WORLD BANK

Tankan: Investment in Software (All Industry)



Sales Growth of Information Services Industry

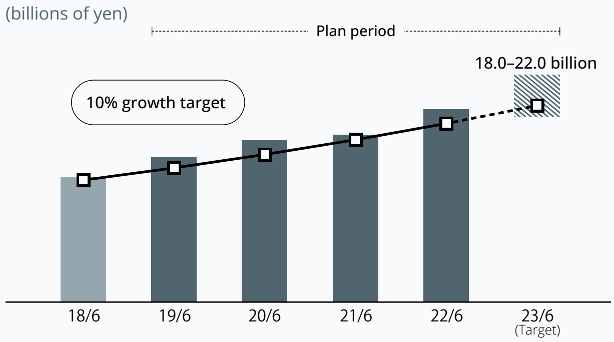


Compiled by Avant Group from METI, Survey of Selected Service Industries

Analysis of Operating Results and Financial Position

Net Sales

We are targeting net sales of ¥18 to ¥22 billion in the fiscal year ending June 2023, which would represent average growth of around 10% from the previous fiscal year ended June 30, 2022, when despite severe social and economic conditions such as the impact of the spread of the novel coronavirus and the situation in Ukraine, Japanese companies, our customers, became strongly aware of the need for management and decision-making based on data, and needs for the Group's products and services expanded solidly. As a result, each segment achieved an increase in sales, resulting in consolidated net sales of ¥18,703 million. Net sales before the application of the Accounting Standard for Revenue Recognition, etc. were ¥18,804 million, an increase of 15.8% compared to the previous fiscal year, and we are considered ourselves to be making solid progress toward the Medium-Term Management Plan target.



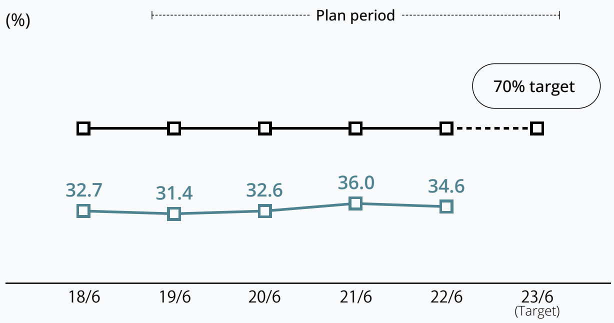
The Company has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) from the beginning of the fiscal year ended June 2022, so the figures for the fiscal year ended June 2022 are the figures after the application of the new Accounting Standard.

Please be aware of that there is an impact from the change in accounting standard when comparing with figures from the fiscal year ended June 2021 and earlier.

Recurring Sales Ratio

The Group aims to transform its business model during the period of the current Medium-Term Management Plan and has set a target of increasing the "Recurring Sales Ratio," which is the ratio of recurring sales (sales generated continuously in each period such as software maintenance fees) to total net sales, to 70%.

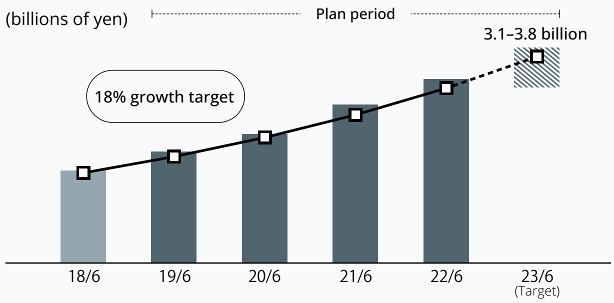
In the fiscal year ended June 2022, the Recurring Sales Ratio was 34.6%, down 1.4 percentage points from the previous fiscal year. Although we are beginning to see results in some areas, such as growth in the Outsourcing segment and growth in cloud computing sales in the Group Governance segment, with overall recurring sales increasing by 10.7% year-on-year, due to strong non-recurring sales mainly in the Digital Transformation the Recurring Sales Ratio declined.



Operating Income

The Group emphasizes growth in operating income and has set a long-term target of an average growth rate of 18%. Based on this average growth rate, our medium-term management plan aims to achieve ¥3.1 to ¥3.8 billion in the fiscal year ending June 2023.

In the fiscal year ended June 2022, the profit margin deteriorated slightly due to an increase in personnel expenses resulting from investments in human resources to develop new products and strengthen consulting sales capabilities, but this was partially offset by the increase in sales, resulting in operating income of ¥3,247 million. Operating income before the application of the Accounting Standard for Revenue Recognition, etc. was ¥3,038 billion, an increase of 8.7% from the previous fiscal year. As with net sales, we recognize that we are making solid progress toward the Medium-Term Management Plan target.



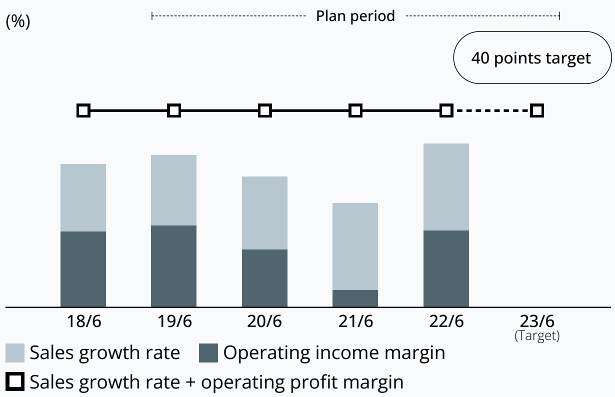
The Company has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) from the beginning of the fiscal year ended June 2022, so the figures for the fiscal year ended June 2022 are the figures after the application of the new Accounting Standard.

Please be aware of that there is an impact from the change in accounting standard when comparing with figures from the fiscal year ended June 2021 and earlier.

GPP (Sales Growth Rate + Operating Profit Margin)

In the Medium-Term Management Plan, to promote a balance between improving profitability and expanding business scale, we have adopted "Sales Growth Rate + Operating Profit Margin" as an indicator and aim to raise this value to 40 points or more, which is a high level even by global standards.

In the fiscal year ended June 2022, each segment continued to see solid growth in demand, with double digit sales growth of 15.2%, or 15.8% before the application of the Accounting Standard for Revenue Recognition. However, the operating profit margin declined by 1.1 percentage points from the previous fiscal year to 17.4% due to an increase in personnel expenses, or to 16.2% before the application of the Accounting Standard for Revenue Recognition. As a result, the ratio of sales growth plus operating income margin was 32.6 percentage points or 32.0 percentage points before the application of the Accounting Standard for Revenue Recognition. This represents an increase of 11.9 percentage points from the fiscal year ended June 2021, or an increase of 11.3 percentage points compared to before the application of the Accounting Standard for Revenue Recognition. However, there is no improvement in the situation where there is a deviation from the target value. We recognize that we need to accelerate sales growth and improve profitability.



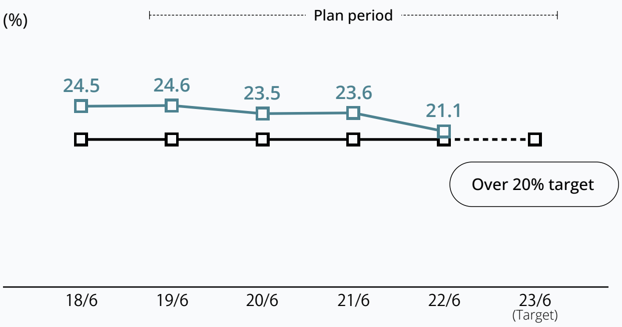
The Company has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) from the beginning of the fiscal year ended June 2022, so the figures for the fiscal year ended June 2022 are the figures after the application of the new Accounting Standard.

Please be aware of that there is an impact from the change in accounting standard when comparing with figures from the fiscal year ended June 2021 and earlier.

ROE

To achieve the Medium-Term Management Plan, we recognize that in addition to the growth of the three existing businesses, investment activities such as in internal investment and in external growth are also necessary. However, as a guide for implementing investment activities, we will continue to maintain as a target ROE at around 20% over the long term, and the target is to maintain 20% or more continuously.

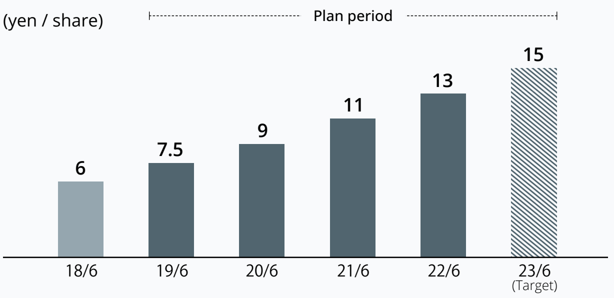
ROE for the fiscal year ended June 2022 was 21.1%, down 2.5 percentage points from the previous fiscal year, but remained above the 20% target set in the Medium-Term Management Plan. Amid growing uncertainty over the business environment due to the COVID-19 pandemic, we have made efforts to control unnecessary and non-urgent expenses, and we are confident that we are making solid progress.



Dividend

The Group positions dividends as an important part of its policy to return profits to shareholders and focuses on indicators such as the ratio of dividends to net assets, aiming to maintain and increase dividends in a stable manner without being significantly swayed by each fiscal year's business performance. In the fiscal year ending June 2023, we aim to achieve operating results and financial position sufficient to pay a dividend of ¥15 per share.

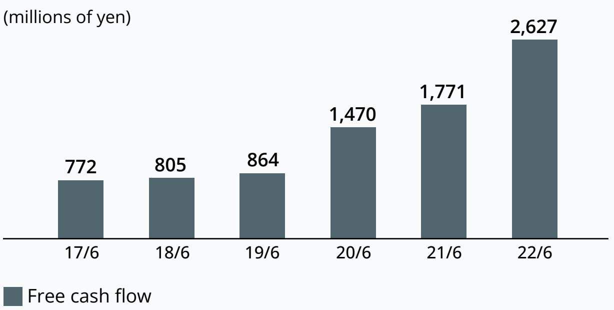
For the fiscal year ended June 2022, we increased our dividend by ¥2 per share to ¥13 per share in line with our basic policy of maintaining stable dividends. The dividend on equity ratio is approximately 5.0%, well above the average for companies listed on the Tokyo Stock Exchange.

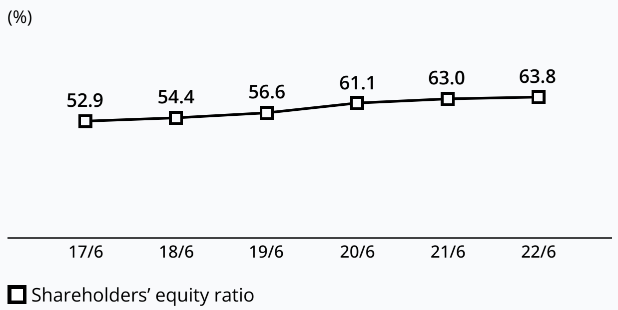


Free Cash Flow and Shareholders' Equity Ratio

The Company's free cash flow is on an increasing trend due to an increase in net income attributable to owners of the parent. As a result of efforts to secure liquidity as a priority issue before and after the COVID-19 pandemic, free cash flow for the fiscal year ended June 2022 was ¥2,627 million.

Net assets after payment of dividends from retained earnings of ¥413 million were ¥10,597 million. As a result, the shareholders' equity ratio improved 0.8 percentage points to 63.8% from 63.0% at the end of the previous fiscal year. We believe that we are maintaining a highly stable financial balance with little interest-bearing debt.





The Company has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) from the beginning of the fiscal year ended June 30, 2022. The figures for the fiscal year ended June 2022 are the figures after the application of the Accounting Standard.

Please be aware of that there is an impact from the change in accounting standard when comparing with figures from the fiscal year ended June 2021 and earlier.

Reorganization and the Next Medium-Term Management Plan

The fiscal year ending June 2023 is the final year of the "BE GLOBAL 2023" Medium-Term Management Plan, but we have not achieved significant results with regard to the business model conversion among the three prongs targeted in the "BE GLOBAL 2023" 1) pursue further sales growth through the collective strength of the Group, 2) M&A to accelerate growth, and 3) business model transformation. As a progress indicator, the Recurring Sales Ratio was only 34.6% in the fiscal year ending June 2022 and reaching the target of 70% is considered difficult.

Accordingly, in the second half of 2021, we began to formulate the next Medium-Term Management Plan, together with the Group management strategy execution team, we discussed what the Group should do to realize the vision, and formulated as the Group's materiality, "Becoming a software company that enhances corporate value." As for specific measures to realize this materiality, after discussions by the Group management strategy executives and the Board of Directors we have concluded that it would be effective to accelerate the growth of existing businesses and create new growth businesses by reorganizing them into separate organizations.

As the first step of the reorganization, on July 15, 2022, the development arm of Diva Corporation, a consolidated subsidiary of the group (main products DivaSystem LCA and DivaSystem FBX), was transferred to Fierte Corporation in an absorption-type company split agreement, while in a similar absorption-type company split agreement, the Zeal Corporation transferred to Diva Corporation businesses under the jurisdiction of the Corporate Performance Management Unit. These changes were approved at the General Meeting of Shareholders held on September 27, 2022, and on October 1, 2022, Diva changed its name to Avant Corporation and Fierte Corporation to Diva Corporation, and the group holding company which oversees the execution of the Group's strategies, changed its name to Avant Group Corporation from Avant Corporation.

During the fiscal year ending June 2023, each company will be preparing to launch its next Medium-Term Management Plan to further clarify its direction under the new management structure. Specifically, we will promote the development of an environment for accelerating the shift to the cloud and in existing businesses streamlining low-profit products and projects. During the period of the new Mid-Term Management Plan, we will actively recruit, to facilitate the development of new products, which will be our core applications in the future, and to strengthen our implementation consulting business.

The market environment surrounding each company is very favorable, and under the new organization, by strengthening existing products, developing new products, and providing new solutions, we will increase sales at existing customers and cultivate new customers, thereby improving profitability. As a result, we aim to achieve a compounded annual growth rate (CAGR) of 20% or

Overview of the next Medium-Term Management Plan

Strategy	■ Contribute to customers who aim to increase corporate value through "DX for Management." ■ Clarify the direction of operating companies, reorganize low-profit products, and actively recruit to facilitate the development of future core products and strengthen the implementation consulting business. ■ Strengthen relationships with 1,400, mainly listed company customers, and by grasping customer needs provide products and services without a bias to in-house products. Accelerate the shift to the cloud and aim to accelerate top-line growth by increasing sales per customer and the number of customers.
Growth and profitability	■ Sales growth of 20% or more (5 year CAGR) ■ GPP40 points or more (after June 2028) * GPP = Sales growth rate + EBITDA margin
Capital strategy	■ ROE of 20% or more ■ DOE> 8%

more in the period of the next Medium-Term Management Plan (from the fiscal year ending June 2024 to the fiscal year ending June 2028), and a (sales) growth and profit (EBITDA) point (GPP) of 40 points or more in the second half of the Medium-Term Management Plan. We also aim to maintain an average ROE of 20% or higher and gradually raise DOE to 8% from the current 5% level. The details of the strategies in the next Medium-Term Management Plan, the strategies of each operating company, and especially important KPIs, will be discussed as the fiscal year ending June 2023 unfolds, and will be disclosed at an appropriate time.

* Until the current medium-term management plan, GPP was defined as the sum of sales growth and operating margin, but from the next medium-term management plan starting in FY2024, GPP will be defined as the sum of sales growth and EBITDA margin.

Operating Companies and Market Environment under New Structure

	Business Description	Market Environment
DIVA	In addition to developing the DivaSystem LCA consolidated accounting system and related products such as DivaSystem, Dx3-Advance, and DivaSystem FBX, we are engaged in outsourcing services for consolidated and non-consolidated accounting operations using DivaSystem and provide comprehensive support for corporate value creation processes through information disclosure.	Efficiency improvement, industry reorganization, and overseas expansion are making group management inevitable for Japanese companies. Due to the need for faster settlement of accounts and improved disclosure, the consolidated accounting system market grows at around 6%. **Systems are rapidly becoming cloud-based, and cloud systems are expected to grow at around 20%**. On the other hand, we expect **the outsourcing market to grow by 20–25%**, supported by needs such as DX reform, combating individual over-dependence, work-style reform, and stronger governance.
AVANT	Supporting the creation of corporate value through the installation and maintenance of the DivaSystem consolidated accounting system and related products, the development of Group management support systems such as AVANT SMD, AVANT Compass, and AVANT Chart, and also based on customer needs developing and implementing systems that may incorporate software developed by other companies.	The Corporate Governance Code requires companies to make decisive management decisions based on management information and to realize improvements in corporate value. Companies need solutions (DX for Management) to integrate and analyze various types of information and to make management decisions, execute and report. **The DX solution consulting market is expected to grow by 30%**.
ZEAL	Under the auspice of Digital Transformation, through consulting and system development, supports the development of a data-platform and BI solutions for organizing and integrating internal and external data, making it "visible" through analysis, reports and graphs, and providing useful information for management decision-making. The company has also developed its own cloud-based analytical platform "ZEUSCloud" and e-learning service "ZEAL DX Learning Room."	Advanced companies, which regard management reform by DX as the key to competitiveness, are actively in introducing systems. In the future, due to the spread of DX, **the DX system integration market is expected to grow by 30%**.