



GROUP CEO MESSAGE

Corporate value-driven management as a matter of course.

The value embedded within a company in “Spreading Accountability” will help improve company management.

We will contribute by unlocking this value.

TETSUJI MORIKAWA

Representative Director, President, and Group CEO

The Era of Corporate Value Management

On February 22, 2024, the Nikkei Stock Average reached a new 34-year high. The Avant Group has a strategic materiality to “be a software company that helps increase corporate value,” and we are preparing ourselves to finally push ahead with our core strategy.

Art that Comes with a Price Tag

About 10 years ago, I stopped by Christie’s next to a New York office of a company I was visiting on business. Christie’s is one of the world’s leading auction houses for art and other items. A pre-auction exhibition was being held, and I was curious to see what was going on.

On display was a wide variety of art, ranging from works by painters known to everyone to the latest modern art. It is also a great opportunity to appreciate art at its finest. However, one thing stood out as decidedly different from a museum. All the exhibits came with a price tag. This should not have come as a surprise as all items were up for auction, but all the pieces would not have been out of place in a museum. I found the act of looking at art while being able to check the prices very refreshing.

Until then, I had enjoyed looking at art while thinking about the historical contexts in which the works were created and the individuality of the artist. However, the presence of the price tags on that occasion provided me with a different perspective in being able to enjoy art works from a standpoint of wondering who would buy them and why they were priced the way they were.

The experience led me to becoming aware of what a value should be changes the way you look at things.

Becoming Aware of the Company's Price

In fact, I can also point to a similar experience with the management of our own company. An experience in which having an awareness of the company's price, or the price of the stock, changed management.

Unlike today, venture financing options in the late 1990s were quite limited. Since companies with no credit or track record were unable to borrow from banks or public institutions if they incurred losses, it was fundamentally important they built up a solid surplus in their core businesses. When a business is started against this kind of backdrop, the idea that deficits are bad can flow right through to the core of every decision. Although it was difficult, I am glad I was able to do my initial training with that mindset, because this concept is the basis for maintaining sound management.

When a company grows to a certain size and is able to raise funds from venture capitalists ("VCs"), a new perspective emerges. The stock price. However, this was determined at that point by VCs and institutional investors who were likely to invest in the company when it went public. For me, this had nothing to do with the company's own management. Even after a listing, a company could remain indifferent to its own stock price, as no impact of the stock price was apparent for the business.

We found that our own stock prices began to be linked to our business when we started to form alliances with foreign companies. In the late 2000s, we began to collaborate with several foreign companies. However, all of them would go on to be acquired by some other party over the next few years, and the kind of cooperation we had originally envisioned failed to materialize. We had sought a capital and business alliance, but this did not pan out as planned. I think this was because the prices, i.e., the stock prices of both companies, were totally out of sync. If one company's stock price is too low relative to that of another

company, the plans do not proceed. One of our partners once asked me, "Why is your stock so cheap?"

These kind of experiences drove home the importance that stock prices have on the actual business and helped me gain an appreciation of the importance of corporate value.

Understanding Corporate Value through the Board of Directors

However, becoming aware of stock prices was one thing, but working out how to create corporate value was another. But around that time, Japan's corporate governance reform was beginning in 2013.

Guidelines such as the *Ito Report* and the Corporate Governance Code were useful as a framework for understanding the concept of corporate value management. Knowledge of finance was also required to interact with investors, which was considered helpful in increasing corporate value. Therefore, we positioned our own board of directors as the starting point for value creation, bringing in members with expertise in global finance, and began a dialog with institutional investors.

As the Board of Directors met on a more regular basis, the agenda changed. The content of the meetings, which were previously focused on earnings reports and statutory approvals, shifted to corporate value matters such as the stock price and strategy. Board meetings now began with a report on the stock price. Also, in my own dialogs with investors, I gradually came to understand how investors went about trying to price the company by asking them what perspective they looked at when viewing the company, rather simply providing one-sided explanations of how the company was run.

Pricing a Company is Management

Such a process may make you think a company is just a commodity and wonder how it should be priced. I began to question my fundamental perception of the company and its stock price.

At the very least, a publicly traded company is like a commodity in the sense that its shares are bought and sold on a market. If that is the case, the management of the company that builds the products should at least be able to determine what the correct price should be. When I asked myself if I was thinking about this in the right way, I came to the conclusion I was not. Then I suddenly remembered the words of Mr. Inamori, the founder of Kyocera Corporation, who said, "Pricing is management."

If you do not know the fair price of your company, you cannot question the merits of the stock price, which is the price set by the market. We cannot create our own value with our own will. Moreover, we are not able to decide the appropriate price ourselves. In the end, the market is what makes the evaluation, which is why we need to have regular dialog with investors and provide updates on our pricing strategy.

We are now convinced that the first step in improving corporate value is for management to develop the ability to value the company. The more focused we are on sustainable corporate value improvement, the more useful the company will be to society.

With these lessons in mind, our group calculates the corporate value of each group company, sets future target corporate value, and identifies strategic elements to realize the medium-term management plan.

Unlock the Value Embedded within a Company

Based on our own experiences, the Group is developing a variety of IT solutions to help clients increase their corporate value.

Our target clients are companies that are listed and therefore have a price in the form of a stock price. Stock prices are not only for publicly traded companies, but also for all companies that look to raise funds from investors. Therefore, we also consider companies whose shares are traded on the private market as potential customers.

Solutions offered by the Group are characterized by their specialized use of data and information. IT services for businesses are very extensive. They range from supporting company business processes to email and other communication tools. Our Group specializes in utilizing data generated through our business activities.

The use of data is very broad. Without some context, the group's character as a group could be vague. Therefore, we try to create synergy from activities of the entire group around the use of data that can have an impact on improving corporate value.

Currently, the company has three main businesses. The Consolidated Financial Disclosure Business provides solutions for the preparation of disclosed information that forms the basis for dialog with investors. It is designed to highlight the inherent attractiveness and value of the company to investors, as well as generating dialog on new value creation, and contributing to corporate value enhancement activities of the board of directors and others. The solutions provided by the Digital Transformation Promotion Business are designed to provide wider use of a data-driven activity environment that utilizes the latest and best technologies, including AI, to help value creators realize their potential. The Business Management Solutions Business provides information solutions to support

corporate value-driven management. We aim to help promote corporate value management, where business activities are directly linked to the enhancement of corporate value.

Although each business provides solutions as an independent company due to their different business models and expertise, they are all working to bring out the value embedded within a company by making meaningful management information available to everyone through IT, based on our common mission of popularizing management information. We are working to bring out the value that is buried within a company by making meaningful management information available to everyone through IT.



Software Driven Strategy

The new medium-term management plan, which began in the fiscal year ending June 30, 2024 with the strategic materiality of becoming a software company that helps increase corporate value, aims to create synergies for the group through software products. We utilize know-how and experience accumulated through the activities of each group company, utilize the best products that already exist, and create products when no such products exist. This combination helps us prepare software solutions that help improve corporate value.

To promote the strategy, we have budgeted approximately ¥20 billion for growth investment over a five-year period beginning in the fiscal year ending June 30, 2024. Net assets at the end of the fiscal year ended June 30, 2023 are approximately ¥12 billion and net income is approximately ¥2 billion, but this is a growth budget that can be fully generated by implementing a new medium-term management plan which aims to triple net income. However, for our group, which has a vision of becoming a software company like a manufacturing company in a new era, the implementation of this software-driven strategy is an unavoidable challenge in creating a new future.

One success in the first year of the new medium-term management plan was the release of TRINITY BOARD which supports the operation of a Board of Directors.

This software was created through trial-and-error to ensure that our Board of Directors can function to the best of its ability in response to corporate governance reforms. We will continue to reflect and develop various customer feedback processes in order to make this a tool that will help improve not only operational efficiency but also enhance the level of discussions on corporate value and stock prices among a board of directors of companies and group companies that are engaged in group management.

We will accelerate our software-driven strategy by developing and providing such software in tandem with the expertise and solutions of our group companies.

Power to Price Oneself

The decline in Japanese asset values relative to global asset inflation is significant. The emergence of new stock prices in Japan in such an environment, as well as price inflation, will significantly change the business environment and increase the potential volatility of prices. In a similar way to stock prices that do not move, highly volatile stock prices can also be a headache for managers.

As competition in value creation intensifies worldwide, we believe that empowering a company in its value-determining processes, based on a concept of corporate value that even takes into account external views that do not consider economic factors, should be more accessible to more people and is important for the sustainability of society.

The idea that the value of a company can be determined by its management will become the norm. We think many more companies will be able to compete globally through firm management of their companies to increase their corporate value without being swayed by the share price at a given point in time. The Avant Group aims to contribute to such social progress by providing software to help Group companies improve their solutions and corporate value.

Tetsuji Morikawa

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