

AUDIT COMMITTEE MEMBERS



MAKOTO NAKANO

Outside Director
(Audit Committee Member)

TSUYOSHI NOSHIRO

Director
(Audit Committee Member)

CHIE GOTO

Lead Outside Director
(Audit & Supervisory Board Member)
Chairman of the Remuneration Advisory Committee

DISCUSSION

Formulate and Promote the New Medium-Term Management Plan under a New Governance Structure

In October 2022, Avant Group reorganized its group companies and transitioned to a company with an audit committee. We brought together three members of the Audit and Supervisory Board, including two outside directors, to discuss how the change in structure has had an impact on the new medium-term management plan and what the key points are for achieving the goals set out in the plan.

How the Medium-Term Management Plan (BE GLOBAL 2028) was Developed and the Key Software-driven Strategy

Noshiro The current mid-term management plan (hereafter referred to as “new medium-term plan”), BE GLOBAL 2028, was announced in August 2023. The overall strategy for our group was largely formulated one year prior to that, with each business company then required to put in place their own plans to finalize the new medium-term plan. At several points during the process, Mr. Nakano and Ms. Goto updated the board on progress at board meetings.

Nakano I first took on my position as a director in September 2022, and although I should have had a better understanding, I found some of the new materials presented at the board meeting difficult to understand. I have pointed out several times that I believe one of my roles is explaining management’s thoughts to investors, and as such, I requested that the ideas were presented in ways that were easier-to-understand. In particular, we asked for improvements in the most important point, —notably the target to double sales and triple operating profit through a software-driven strategy, as we did not initially find much in the way of concrete strategies or numerical support for this.



I believe the key to achieving the goals set out in the new medium-term plan comes down to our strategy regarding our people.

MAKOTO NAKANO

Goto I also highlighted areas where I felt that management's thinking was not clearly expressed in the documents or areas that I felt the content was not properly linked, and I also questioned the rationality of the estimates provided for operating companies' plans. Through these types of back-and-forth, I think we were able to make progress in improving the clarity for the possibilities of achieving the target figures. Compared to the previous medium-term management plan (hereinafter referred to as the "previous medium-term plan"), the new medium-term plan stands out as having been drawn up to represent the aggregate figures from targets at each individual company unit. However, at the heart of the policy for the new medium-term business plan is the materiality of "becoming a software company that helps increase corporate value," which is what our Group CEO Mr. Morikawa is striving to achieve.

Noshiro In the previous medium-term plan, we achieved our financial targets but fell short of our recurring sales ratio target, which was included to highlight a shift in the business model. We think the main factor behind this was because we failed to fully reflect opinions from client facing teams when we were formulating the targets. As a result, we set goals for the new medium-term plan in full coordination with the business execution teams. Rather than having Mr. Morikawa lead software development and M&A alone, we appointed Mr. Nakayama as Group Chief Product Officer (CPO) and Mr. Nagata, Group Chief Business development Officer (CBO), as General Manager of the Materiality Realization Office.

On the other hand, as Ms. Goto mentioned, I also see this as a return to the original aspirations that Mr. Morikawa had when he founded the company, namely to become a world-class software company. I am very proud to be a founder of Diva, because it was my desire when I started the company to create some intellectual property in the form of software for future generations in Japan.

Nakano Software involves a product that is more profitable and can grow more than a consulting-type business, which requires high labor costs. The structure is similar to Japan's world-class manufacturing industry. Mr. Morikawa often highlights his desire to have the company achieving Profitable Growth like other global companies. In other words, achieving sales growth as well as high profit margins and growth rates, I also believe that leveraging software to increase profit margins is a good strategy.

Goto The new medium-term plan emphasizes software, but does not necessarily focus on in-house development. There is a shift to a policy of buying time through M&A while continuing in-house development. In the near term, I am focusing on a strategy of selling software from other companies, but developing our own software in-house that will improve on these products. In the new medium-term plan, M&A is an integral part of the software driven strategy.

Nakano In-house development of software takes time and the chances of success are not high, so I also think the decision to look at M&A or make minority

investments in software companies that fit our strategy is extremely rational. The advantage is that it saves time and money compared to hiring new people to develop systems from scratch. Our company has sufficient funds for this purpose.

Noshiro Increasing the number of people does not necessarily bring about a directly proportional improvement in technology, so the policy of the current medium-term plan is to buy time and acquire expertise as leverage in order to double sales and triple operating profit.

Nakano There is no doubt that the key to achieving the goals of the new medium-term management plan is the software driven strategy. However, if I had to add

I think the policies behind the new medium-term plan looks to buy time and acquire expertise as leverage in our aim to double sales and triple profits.

TSUYOSHI NOSHIRO



something further, I would point to our people. Mr. Morikawa also plans to create human capital value from higher value-creating productivity generated by the software-driven strategy and returning and investing this in our staff. As part of the new medium-term plan, we have decided to grant equity compensation to all employees who work for the company for a full year. While several companies offer equity compensation to employees above a certain position, it is rare these schemes are extended to all employees. We believe that incentives will enable us to secure outstanding human resources and develop excellent software.

Noshiro We must ultimately enable our employees to add value to our products, since we would only become a distributor if we just sell products developed by other companies. The measure to grant stock-based compensation to all employees also reflects our desire to realize the materiality of becoming a software company that helps increase corporate value by familiarizing employees with the concept of corporate value.

Goto While it is of course important to evaluate the progress of the new medium-term plan in a timely manner over a short-term span, I would like to reiterate the long-term perspective of our corporate philosophy, "Creating a 100-year Company." To this end, it is still important to secure and train human resources.

Evolution of Group Management through Changes in Governance Structure

Noshiro Returning to my earlier comments about insufficient cooperation among the operating companies when setting KPIs for the previous medium-term business plan, in September 2022, when the new medium-term business plan was being formulated, we shifted from a company with corporate auditors to a company with an audit committee and delegated execution authority to each company. The Company's Board of Directors, as a holding company, is now primarily responsible for monitoring strategy execution. How do you both see the current functioning of the Board of Directors?

Nakano It is difficult for me to comment on previous measures as I was appointed after the current structure was put in place. However, I feel the group

management tone for the company is solid. The board of directors discusses how to allocate capital and human resources. As a holding company, this equates to the function of an internal capital market, i.e. allocating capital to operating companies from an investor's perspective. I have developed an impression that execution of the details for the strategy is left to the individual operating companies.

Noshiro Each operating company has a different business model, and we respect their independence. While human resources at the management level will be part of the Group's strategy, each company is free to draw up their own strategy for human resources. The companies have achieved results to date, so it may be easier to leave them free to implement their own initiatives in some areas. Ms. Goto told the board that after the reorganization and establishment of Avant in 2022, it would be best to quickly address Mr. Okabe taking on the role of both president of Avant and Zeal and to find an alternative solution.

Goto Yes, and as a result, I believe the appointment of Mr. Numata as president of Zeal in July 2023 and which allowed Mr. Okabe to step away from the position as president was another step forward in group governance.

With the transition to a company with an audit committee system, proposals submitted to the Board of Directors have become more selective than before. Especially since when the new medium-term management plan was first being formulated, there has been an increase in proposals centered on business strategies. I feel that Mr. Morikawa has increasingly decided, as the head of group management, to focus on strategy, and delegated authority for execution to the presidents of the operating companies. The group has a clear management philosophy formed around the vision of our founder, Mr. Morikawa, and this philosophy permeates the entire group as a corporate culture. In this way, the operating companies have a strong sense of unity while maintaining a degree of independence. The Board of Directors is also discussing how to broaden collaboration between Avant and Zeal, and is making progress in strengthening group synergies. In future, we may come up with ideas such as creating a common development



Agenda items presented to the Board of Directors are more selective than in the past and are increasingly focused on business strategy.

CHIE GOTO

department for human resources, promoting common hiring, or consolidating some functions to minimize operational costs.

Nakano Ms. Goto, you were appointed to the board of directors from the position of corporate auditor with the transition to a company with an audit committee.

Goto I have become more aware of the increase in responsibility I have taken on. When I was a corporate auditor, I was not involved in decision-making on business execution, so I perhaps felt somewhat reluctant to ask in-depth questions. However, in line with my move

to director, I approach board meetings with a strong awareness that I have voting rights and an intent to participate in decision-making.

Noshiro With the transition to a company with an audit committee system, the Companies Act allows companies to select directors who are members of the audit and supervisory committee who have the authority to convene meetings of the Board of Directors, in addition to those who normally have the right to convene meetings of the Board of Directors. Pursuant to the Company's Articles of Incorporation, Ms. Goto is granted the right to convene such meetings by resolution of the Audit Committee. Together with the nomination of the lead outside director through mutual election of outside directors, this is expected from a corporate governance perspective.

The Most Urgent Issue is to Formulate a Succession Plan and to Develop Management Human Resources for this Purpose

Noshiro With the adoption of the audit committee system, the current board of directors no longer functions like a management board, but I think is closer to a monitoring board with some advisory board aspects. Ultimately, the monitoring board has the right to dismiss the top management. In our case, however, the top management, Mr. Morikawa, is the founder of the company and has demonstrated the leadership to drive growth and increase the share price to a valuation with a P/B ratio of 4 to 5 times, so we do not think it is necessary to strengthen the monitoring aspect to that extent at this point. What's more important is succession.

Goto In addition to the Group CEO, we also need to look at a succession plan for the Group CFO. This is an issue that must be promoted so that it can be undertaken at any point and ensure a smooth handover in the event something unexpected were to happen.

Noshiro Mr. Kamoi, who joined as an outside director in September 2023, has been involved in HR-related businesses and has experience in CEO succession, so I see this as a strengthening of the board composition in terms of succession. Regarding succession of outside

directors, I understand there is no need to move urgently as most directors still have served less than five years, but rotation must be considered. This is my personal opinion, but I think it is preferable from a governance perspective to replace outside directors after 8-10 years for monitoring purposes, although a CEO should be able to continue for more than 10 years if he/she is excelling in the role.

Goto Prior to the transition to a company with an audit committee, the statutory term of office was two years for directors and four years for corporate auditors, so once a corporate auditor is reappointed, he or she would be in office for eight years. In contrast, after the transition to a company with an audit committee system, the statutory term of office is one year for directors who are not members of the audit committee, and two years for directors who are members of the audit committee. In future, I believe appointments will be based more on performance evaluation, regardless of whether someone is a member of the audit committee or not.

Nakano Regarding the development of management candidates that can be involved in succession plans, we have just begun to explore this with Mr. Morikawa and Ms. Satonaka, the group CHRO, taking the lead. Initiatives include the development of young leaders in a strategy we have termed the "Morikawa Juku." We recognize that our group is somewhat lacking in management-ready personnel, partly as a result of the low average age of our employees. As the number of staff in the current management team is minimal, we will not be able to achieve our goal of becoming a sustainable 100-year company unless we encourage the growth of young and mid-career talent. We need to be able to know that even if someone is attracted away by another company then we can still thrive.

Goto There is certainly a vulnerability in terms of the depth of human capital. To this end, we have been getting reports updating us on the considerable effort going into mid-career hiring.

Noshiro Yes. However, the company is still growing faster than the pace of hiring, and I think we are in a dilemma where one person has to take on multiple key roles at the same time. It is challenging to have to train people while growing, but I view this as an unavoidable challenge for a company that aspires to growth.