

# New Medium-Term Management Plan

## "BE GLOBAL 2028"

### Review of previous Medium-Term Management Plan

The previous medium-term management plan, which ended in the fiscal year ended June 30, 2023, achieved its operational KPI targets for net sales and operating profit, with net sales growing 1.8x and operating profit doubling over the five-year period. We also achieved our financial KPI targets for ROE and dividends. However, we fell short of the strategic KPI targets set for the shift to a SaaS-type business model, namely the recurring sales proportion and sales growth rate + operating profit margin.

Although we believe our business has remained strong without any structural change, a shift to a software-based business is an unavoidable challenge for our group as we strive to

achieve long-term profitable growth. We think a major reason for the lack of progress in structural transformation during the previous medium-term management plan was that each of the operating companies were growing autonomously during the period. In light of this, we set the strategic materiality of becoming a software company that helps increase corporate value, which we think will help us grow as a group and contribute to society. Furthermore, we reorganized our businesses, and formulated a new medium-term management plan.

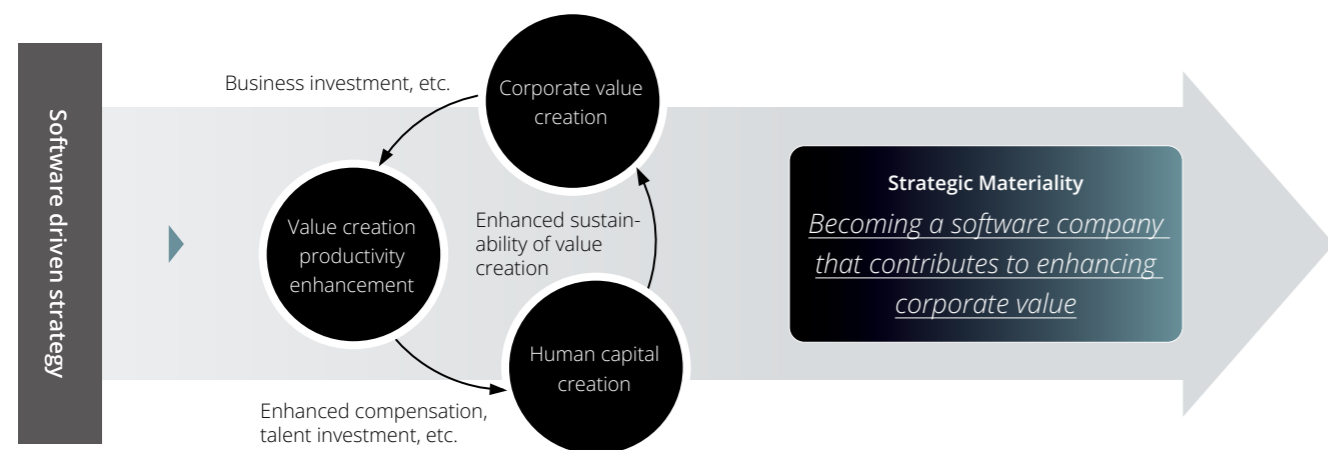
		18/6 (results)	23/6 (target)	23/6 (results)
Operational KPI	Net sales	¥12.11 billion	¥18.0–22.0 billion	¥21.42 billion
	Operating income	¥1.63	¥3.1–3.8 billion	¥3.28 billion
Strategic KPI	Recurring sales ratio	32.7%	70%	35.3%
	Sales growth rate + operating margin	28.5 points	40 points or more	29.9 points
Financial KPI	ROE	24.5%	20% or more	22.2%*
	Dividend	¥12	¥15 or more	¥15

\* Averages for the period ended June 30, 2019 through June 30, 2023. However, new revenue recognition accounting rules were applied from the period ended June 30, 2022. Actual results for the fiscal year ended June 30, 2023: 18.3%.

### Value Creation Cycle in the New Medium-Term Plan Created by Software Driven Strategy

As part of the new medium-term management plan BE GLOBAL 2028, the entire company will work together to address strategic materialities as outlined in the Software Driven Strategy, which positions software as the source of value creation. By raising the software sales ratio and profitability in our business, we will

increase value creation productivity (operating profit per employee). By sharing the returns and investing the benefits in our human resources, we will drive human capital value improvements, creating a virtuous cycle in which our corporate value will sustainably increase.



### Quantitative Targets of the New Medium-Term Management Plan

The new medium-term plan targets average annual growth in net income of 25% or more, with the goal of doubling net sales and tripling operating profit and net income over a five-year period. The company intends to increase value-creating productivity by raising software gross profit through a software-driven strategy, thereby increasing profits more than sales. We will also be aware of capital efficiency while growing net income and maintaining ROE at 20% or above.

In addition, following a review of the previous medium-term plan, we decided to set these targets using a bottom-up rather than top-down approach, after taking into consideration the plans of each business company. We also have assumed organic growth and have not factored in any M&A.

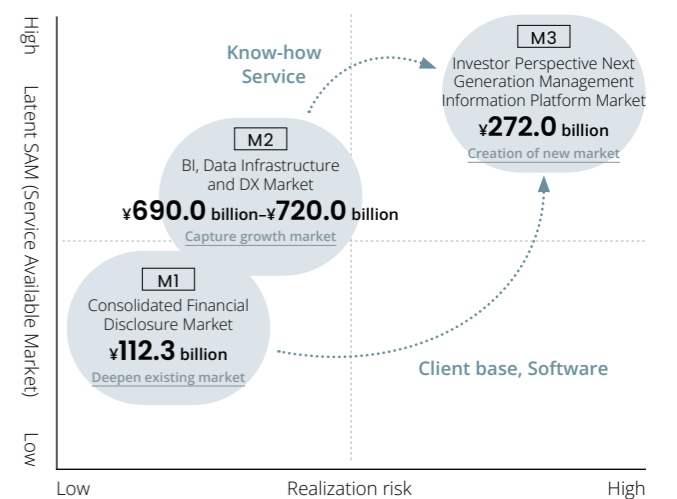
	23/6 (results)	24/6 (forecast)	28/6 (target)	5 year change/average
Net sales	¥21.4 billion	¥24.0 billion	¥40.0–45.0 billion	2x
Operating income	¥3.28 billion	¥3.85 billion	¥9.0–11.0 billion	3x
Operating income margin	15.4%	16.0%	20.0–24.0%	+5.0–9.0 points
Net income	¥2.09 billion	¥2.5 billion	¥6.0–7.0 billion	3.0x/CAGR 25%
Operating income/person	¥2.4 million	¥2.4 million	¥3.5–4.3 million	1.5x
Software gross profit	¥2.13 billion	¥2.17 billion	¥6.0–6.5 billion	3.0x
ROE	18.3%	19.3%	20% or more	Average 20%
DOE	4.9%	5.3%	8% or more	Average 7%
Dividend	¥15	¥19	¥51 or more	3.4x

### Markets of Focus

In the new medium-term plan, we will position ourselves in three markets. The first is the consolidated financial disclosure market. Here, we intend to promote the deep cultivation of the existing market, where we have the largest market share in Japan. The second is the fast-growing BI, data infrastructure, and DX markets, and we aim to steadily capture that growth. The third is next-generation management data infrastructure market, taking into account an investor's perspective. This is an area where we will be creating a market by preparing data sets that will enable management to enhance corporate value that would be similar to an investor's perspective, and it will be the greatest challenge for our group in the new medium-term plan.

We will contribute to the enhancement of our clients' corporate value through three businesses: the Consolidated Financial Results Disclosure Business (operating companies are responsible for these markets and engage in dialog with investors); the Digital Transformation Promotion Business (which builds data platforms useful for various management decisions); and the Business Management Solutions Business (which develops information environments to enhance corporate value).

### TAM (Total Addressable Market) and Positioning of Each Market



The entire group will contribute to the enhancement of our clients' corporate value through these three businesses.

### Capital Allocation

We plan to allocate a total of approximately ¥20 billion in cash flow accumulated to date and from future business operations to minority investments and R&D for the first three years, and to

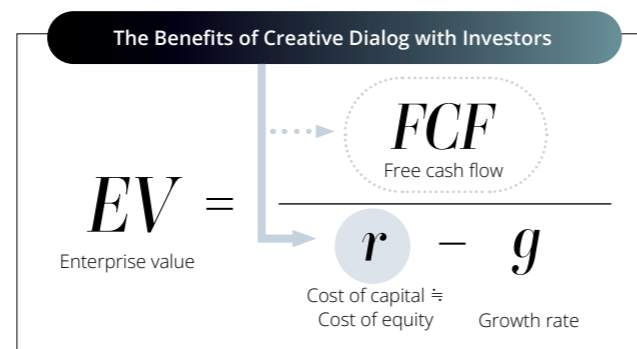
### Details of financial strategies, including capital allocation ▶ P.26

growth investments, mainly M&A, for the two years thereafter. We plan to return a total of ¥5 billion to shareholders.

**Purpose of the Dialog**

As we have no debt, our cost of capital is effectively equal to our cost of equity, which we calculate using the CAPM and recognize as 6.6% to 7.9%. Although we maintain a sufficient equity spread with an ROE around the 20% level, we are actively engaging in dialog with investors to find ways to lower the cost of capital and further increase corporate value.

We also gain insights from investors' questions and suggestions and apply them to our strategy considerations, linking the dialog to increasing corporate value by increasing free cash flow.

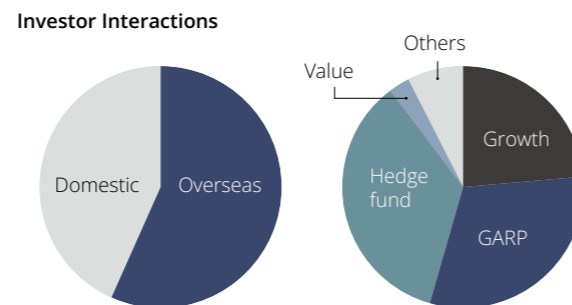


<b>Risk-free rate</b>	+	<b>β</b>	×	<b>Risk premium</b>	=	<b>Cost of equity</b>
0.6-0.7%		1.0-1.2%		6%		6.6-7.9% range
Set based on 10-year JGB yield		Set from 2-5 years x daily, weekly, monthly		Set from historical stock market returns		

**Number and Frequency of Investor Interactions (Fiscal year ended June 2023 and first half of fiscal year ending June 2024)**

With the intention of creative dialog, IR activities are targeted with institutional investors. Specifically, our main target is overseas growth-style investors, but we also engage in dialog with GARP (Growth At Reasonable Price) style and hedge funds, considering the diversity of investment perspectives.

We also combine online interviews as appropriate with onsite interviews, taking into account the influence of each investor in the U.S., Europe, and Hong Kong/Singapore.



**Main IR Activities**

Number of financial results briefings:	Number of individual meetings with institutional investors:	Number of overseas roadshow meetings:
<b>3</b>	<b>146</b>	<b>31</b>
analyst briefings held for 1H and full year results	individual meetings were held either online or in person	meetings in the U.S., Singapore, and Europe by the Group CEO and the head of the Investor Relations department

**Dialog Content and Response**

**Institutional investor comments**



Investors appear to view the key market in the medium-term management plan as the market for the business management solutions business. Investors are keen to understand more about how Avant Group's products work, their strengths and weaknesses, and the specific benefits for customers. These explanations help better convey the growth story of the Avant Group.

**Our response**

- We once again have been reminded that we are unable to provide solutions that offer greater clarity, but are working on improving our how we can respond.
- We will disclose information as and when specifics become available. At the Q2 FY6/2024 financial results meeting, we will walk through a demonstration of the TRINITY BOARD and an explanation of the AVANT Cruise product will be provided.



- We feel it is important to have a more focused dialog with investors about the drivers of Avant Group's growth rather than projections of future performance.
- We want to better understand what leading indicators can offer pointers to the progress of growth.

**Our response**

- C-level management are discussing and refining the drivers of sales growth and margin improvement, and critical success factors (CSFs) that are highly important for the achievement of the medium-term management plan, at Group management meetings.
- We are bolstering our management of quantitative data to enable ongoing disclosure.



We believe that share buybacks can send a message that the stock price is undervalued. I think the value of such transactions will increase as more of the company's own shares are repurchased. If we are able to show more clearly how cash is being used, I think the market may change its perception and understand how management resources are being directed toward growth.

**Our response**

Capital allocation is clearly stated, and the scale of shareholder return through investment in growth and dividends is available to investors. The company will then consider acquiring shares from the market as appropriate, taking into account the merits of how these shares can be best used, both as additional returns to shareholders, as well as incentive compensation for employees or a supplementary means of payment in M&A transactions.

**GROUP CSO MESSAGE**



**SHINGO MOROI**

Group CSO, Executive Officer  
Director, Avant Corporation

Our focus is on international institutional investors, especially growth and GARP style investors. While we aim to have them become our shareholders and hold our shares for the long term, we also place importance on having these investors evaluate our strategy from a long-term

perspective. We aim to improve our strategy based on the suggestions we get from these types of dialog. It is also our intention that dialog does not end at that point in time, but will continue during the implementation phase to help drive success of the strategy.

## Software and Solutions to Improve Corporate Value

By using software to collect, prepare, and manage various data sets at client companies, we can help unlock the value of this data and contribute to the enhancement of corporate value.

Unlock the value embedded at our customers and increase corporate value

**DivaSystem LCA** **Consolidated Accounting System**

Gather and calculate accurate accounting information as a basis for improving corporate value

- Streamlining consolidated accounting data and closing operations

Consolidated Financial Disclosure Business >>> Accounting Division

Earnings reports

**TRINITY BOARD** **Board DX Platform**

Enables sophisticated board discussions and facilitates more informed decision-making

- One-stop system operation and management for board meeting operations
- Close the information gap with Outside Directors
- Provides more time for substantive discussions through streamlining of operations and improves the information flow

Consolidated Financial Disclosure Business >>> Board of Directors



Financial data

Break down and reconfigure value units at the business segment level



Visualization and structuring of value facilitates accurate business decisions

**AVANT Cruise** **Group Business Management System**

Gather and organize diverse data sets useful for improving corporate value

- Integrate and centrally manage financial and non-financial data scattered throughout the company
- Process valuable information that can be utilized to improve the efficiency and sophistication of business management

Management Solutions Business >>> Corporate Planning Division

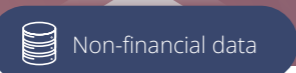
**AVANT Chart** **Group Business Management Dashboard**

Visualize corporate value through advanced KPI and management information analysis

**AVANT Compass** **Enterprise Value Analysis Cloud**

Use of best practices in enterprise value analysis

Business Management —Group Business Management—Connecting Corporate Value



Non-financial data

Extraction, processing, and analysis of a variety of business data (non-financial data) that are lying dormant in companies

Development and operation of an environment that supports management information infrastructure

**ZEUSCloud** **Cloud-based Data Analysis Platform**

Promotes data democratization where everyone can use data

**ZEAL DX Learning Room** **E-Learning Services**

Assist training of client employees to become data-driven human resources

**CO-ODE** **Open Data Provision Service**

Promote the use of data released by national and local governments



**STORYAI.** **Emotion Analysis AI**

Emotional analysis of stories from text and images

DX Promotion Business >>> Information System Division

## Main Products

Consolidated Financial Disclosure Business

No. 1 domestic market share\* for 10 consecutive years in consolidated accounting and consolidated closing systems

**Streamlines a series of consolidated financial closing operations from data collection to consolidated processing, reporting, and financial disclosures.**

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Customer issues to be addressed

- Investors, outside directors, and management demand earlier settlement of accounts and enhanced disclosure information. Amid a lack of administrative staff, the company has not been able to keep up with demand.
- Audit handling in the consolidated closing process is complicated and time consuming.
- Staff in charge spend a great deal of time preparing financial information so they do not have sufficient time for analysis of the data and are not able to adequately consider standardization and streamlining of the consolidated financial closing process.

**Strengths**

**1 Provide standardized consolidated financial closing processes**

Standard functions have been cultivated through our experiences in building the leading market share position in Japan and a cumulative total of approximately 1,100 customer installations are provided to a wide range of companies, from large corporations to SMEs. These also include some companies preparing for IPOs. DivaSystem LCA covers a series of consolidated closing operations from data collection, consolidation processing, reporting, and financial disclosure, and standard business processes are provided from the beginning as templates, reports, and task management. This makes it easy to use, even for customers new to consolidated accounting.

**2 Consolidated accounting system that serves as the foundation for group management**



Contributes to developing a foundation for group management by providing consolidated and managerial accounting available on a single system, as well as overseas sub-consolidation and visualization of detailed accounting data at overseas offices and subsidiaries.

**3 Inter-system data integration function**

As the system also connects to group companies and auditing firms via the cloud, efficient remote closing and remote auditing are possible, reducing the audit response burden.

\* Source: Fuji Chimera Research Institute, "Software Business New Market 2012-2021 Edition," Consolidated Accounting Management Software Market Share Trends (Package), FY2011-2020 Actual  
ITR "IT Market View: Budget, Expense and Subscription Management Market 2022" Consolidated Accounting Market: Vendor Value Share (Forecast 2015-2021)

Consolidated Financial Disclosure Business

DX tools driving Japan's Board of Directors

**All information related to the Board of Directors is consolidated in a cloud platform, enabling the Board of Directors to become more sophisticated and efficient in operations.**

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Customer issues to be addressed

- Much time is spent on routine reporting items, formal resolutions, etc., and not enough on discussions consistent with the original roles and responsibilities of the Board of Directors.
- The company is not able to provide sufficient timely and appropriate information to outside directors and officers, and thus does not hear useful opinions and or have effective monitoring based on their skills and experience.
- Given difficulties in checking documents and minutes related to past agendas, some meetings are held without sufficient reflection of previous issues, resulting in inefficiencies such as going over previous discussions or reaching decisions that are inconsistent with previous discussions.
- The wide variety of tools used to store various data and exchange information, such as e-mail, chat, online storage, schedulers, etc., makes administrative management inefficient for the management office and can make it difficult for board members to get an understanding of the most up-to-date and accurate information. Information sharing methods may differ among group companies and meeting bodies, making information confirmation a cumbersome task for executives who often hold concurrent posts.

**Strengths**

**1 Sharing important information**

By sharing important information that should be made available to all board members, such as a summary of the philosophy, management policies, and medium-term management plan on the top page, the tool can help with the smooth guiding of board discussions and actions based on this information.

**2 Agenda optimization**

The annual agenda can be easily developed and shared, reflecting valid feedback from each board member and increasing the proportion of agenda items that are consistent with the board's original role. In addition, the system can produce reports on governance, strategy, and other themes, as well as allocate time according to reports, resolutions, and discussions, and analysis reports of their preliminary results and comparisons to assist in the creation of an optimal agenda.

**3 Centralize information and minimize management efforts**

All information related to board meetings can be consolidated and managed centrally, significantly reducing the administrative burden on the management office and enabling prompt and thorough preparations for the meeting. Board members no longer have to juggle multiple tools to find documents and past correspondence, allowing them to come to board meetings well prepared in advance. As a result, it is expected to make board discussions more sophisticated and meaningful.



# AVANT Cruise



## Group business management system for corporate value enhancement

By packaging the best practices of group business management, this cloud service makes it possible to quickly and easily increase efficiency and sophistication of group business management.

### Customer issues to be addressed

- Customers are looking to improve the sophistication of management analysis, but are put off by the considerable time and effort required to collect performance data from each department and to prepare materials.
- Customers would like to promote the use and disclosure of a variety of non-financial information such as ESG data, but it is difficult to centrally manage this data as it is dispersed across many divisions.
- Customers are unable to provide a timely response to drastic changes in the business environment by expanding the functionality of the business management system, and to speedily link information with management.

### Strengths

#### 1 Standardized business management functions based on experience in supporting group business management of over 1,200 companies\*

This is a packaged system with originally developed "Group Business Management Functions" corresponding to the corporate performance management process (budget, actual results, and forecast), which are included as standard. It can be implemented in as little as three months without requiring design development for practical use. Simply submit and set up the data, and it will be automatically processed to manage performance.

\* As of November 2023

#### 2 Centralized data management and visualization of the entire business

Financial and non-financial information can be integrated in a single system. By consolidating data necessary for business management, the entire business can be visualized, contributing to the realization of the PDCA cycle of business management.

- Financial information such as non-consolidated financial statements and non-financial information such as sales details and manufacturing cost details are linked between systems.
- When linking management information with group companies, the mapping function

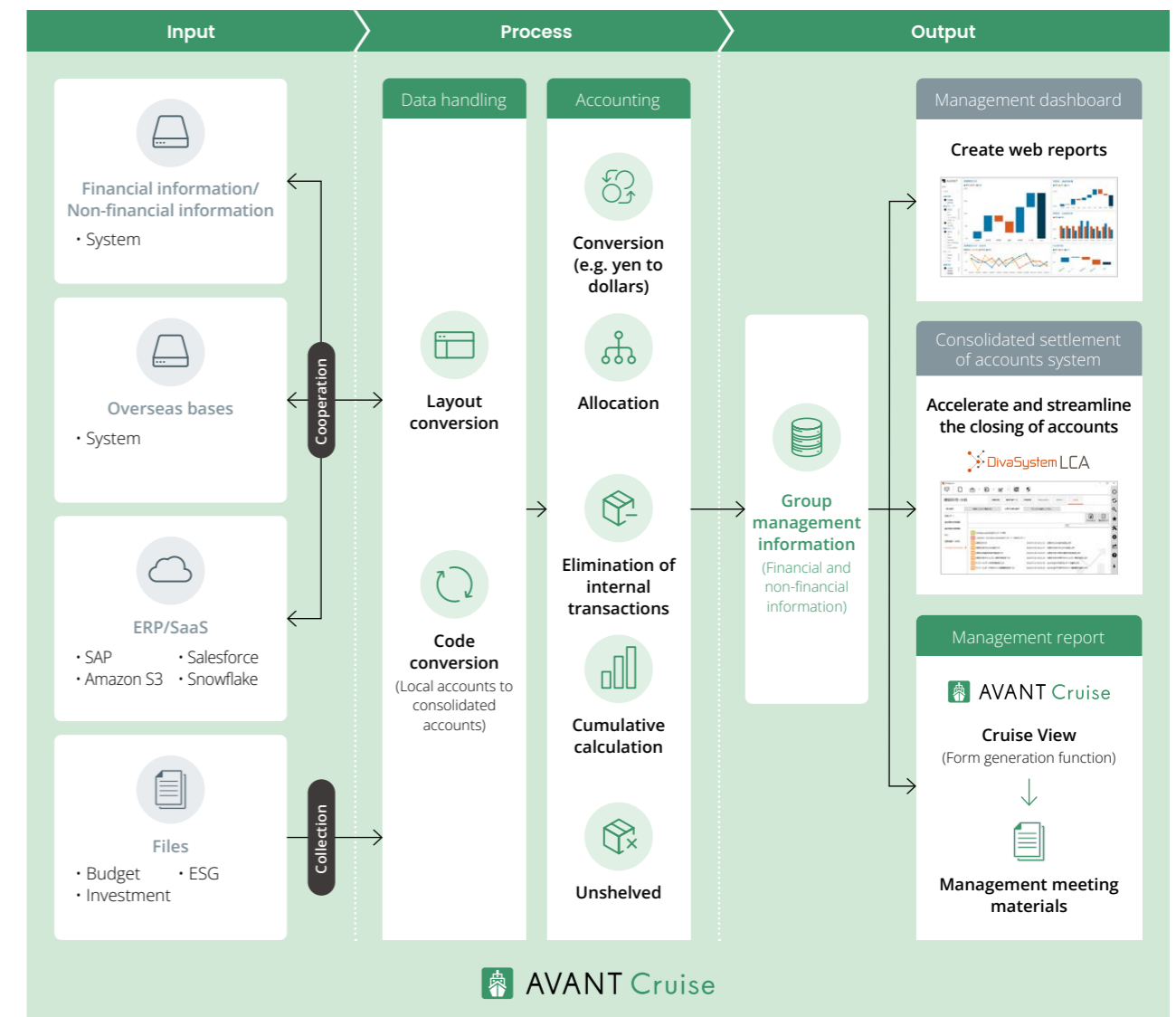
converts the code system of detailed data into a consolidated code system, etc., and the layout conversion function converts the layout system into a multidimensional data model.

#### 3 Highly flexible and scalable to meet business management needs

The system is designed with a logic that does not split up information or reduce the accuracy or speed of data linkage even when functions are expanded, enabling it to meet the business management needs of each company without unnecessary effort or cost. The UI does not require any programming knowledge and can be completed by simple clicks or using master settings. This offers excellent usability, allowing personnel in charge of accounting and corporate planning departments to expand the functionality themselves.



### AVANT Cruise Features



# AVANT Chart



## Platform for future forecasting and simulation

This BI platform is suitable for group management strategy and scenario development. It aggregates institutional consolidated data, management accounting data, non-financial data, etc., to quickly forecast and simulate future scenarios.

### Customer issues to be addressed

- Future forecasts are becoming more complex and difficult to perform in Excel. They also rely on the person in charge of the operation.
- In the current day and age when changes in the environment are difficult to predict, customers sometimes feel a sense of crisis in projecting the future direction of the business based on intuition and experience, assuming growth on a current trajectory.
- Customers would like to simulate the capital structure and other aspects of, for example, a 5% increase in sales to improve ROIC by 3% or something similar, but do not have a system or structure in place.

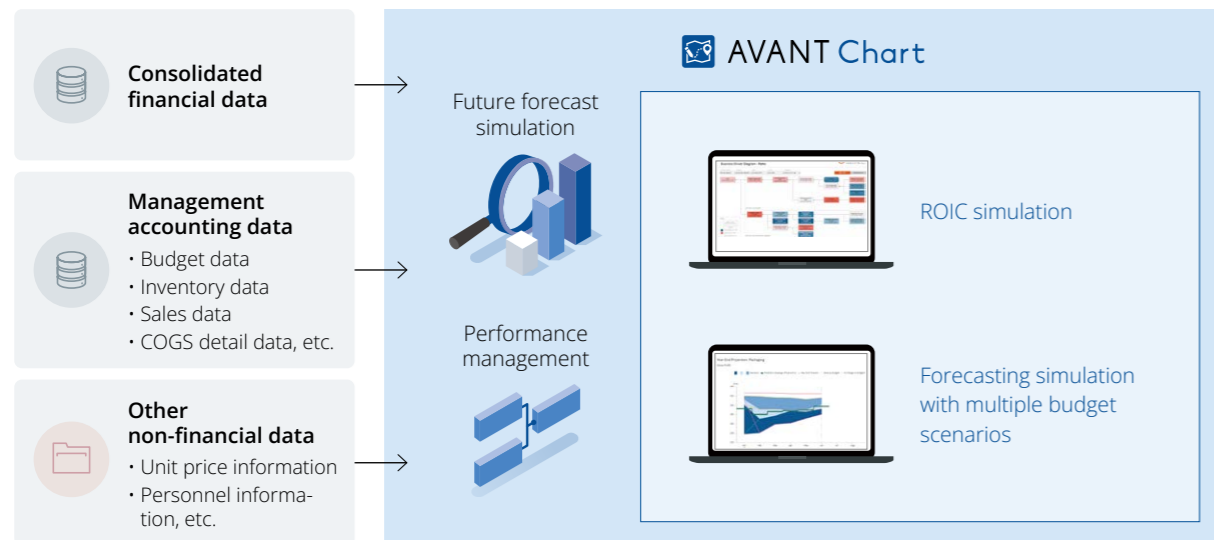
### Strengths

#### 1 Perform advanced KPIs and business analysis with only data input

Since KPI templates are included as standard, advanced KPI and business analysis can be started immediately by simply inputting accounting information and PSI (production, sales, and inventory) information into AVANT Chart. The creation of a value tree that breaks down corporate value into its constituent factors, such as various business units, enables this to be used for group business management and business management.

#### 2 Scenario analysis function

Future scenarios can be entered and future outcomes and KPIs can be simulated based on the input results. Multiple scenarios can be created, such as optimistic and pessimistic scenarios, and visual reports can be used to compare profit range/trend simulation results and help decision-making.



# AVANT Compass

Powered by NOMURA



## Cloud-based corporate value analysis for immediate use of management information

This is a cloud service that enables corporate value analysis by smoothly linking a variety of internal data with data from disclosure at other companies. A host of business management options allows data to be visualized and used in a wide range of operations in business management.

### Customer issues to be addressed

- Failure to disclose measures to achieve the Tokyo Stock Exchange's announcement in March 2023 of "Action to Implement Management that is Conscious of Cost of Capital and Stock Price," or formal measures.
- Failure to continuously monitor efforts disclosed with regard to measures to achieve management with awareness of cost of capital and share price.
- Insufficient analysis and evaluation of the current low P/B ratios based on investors' perspectives.

### Strengths

#### 1 Jointly developed with Nomura Securities Co.

In developing the solution, Nomura Securities Co., Ltd. supervised the design of all content. We combined Nomura's long-standing expertise in corporate value analysis with our software development technology. The system also includes functions that can only be provided through joint development, such as KPI target setting using the equity analyst's earnings forecasts and cost of capital calculation using logic taken from a quant analyst's debt cost estimations.

#### 2 Content in response to TSE requests

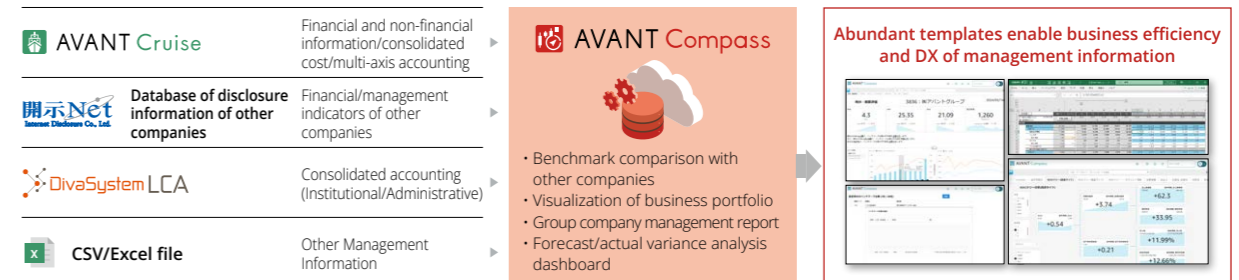
In the form of a response to the Tokyo Stock Exchange's announcement, the current situation is analyzed and evaluated, allowing policies and specific targets for improvement, and timing of implementation of initiatives and measures are set, to be disclosed, we support the promotion of

management and the implementation of proactive dialogue with investors.

Specifically, we have prepared a variety of content on market valuation and return on capital, including time-series trends, benchmark comparison with other companies in the same industry, and elemental breakdowns. In addition, continuous use of the system will enable a Board of Directors to monitor the effectiveness of efforts and the PDCA cycle, as ongoing oversight of this information is possible.

#### 3 Required data retention

The system has the information necessary for estimating the cost of capital, evaluating the company, and benchmark comparison with other companies in the same industry, such as financial statements, stock price data, TOPIX, risk-free rates, and risk premiums for all listed companies for the past 10 years to the most recent available data. Therefore, there is no need to obtain additional data and make calculations on a spreadsheet.



DX Promotion Business



### Cloud data platform to promote data-driven management

An all-in-one solution that combines a data warehouse, data lake, and BI tools in the cloud. All operations are handled by Zeal, enabling data integration and analysis.

Customer issues to be addressed

- The environment is not conducive to the constant visualization of management information (data), and managers cannot make timely management decisions because they are not able to see data they need in the way they require.
- Management planners collect and process management information scattered throughout the company using Excel in preparation for management meetings, a routine task requiring many man-hours and increasingly assigned to one specific person. This acts as a brake on prompt responses to requests from management.

Strengths

#### 1 Visualize and analyze the latest management information

Visualize the data accumulated in the data platform with analytical functions (BI). This enables analysis and data aggregation from various angles, leading to more advanced utilization of management data.

#### 2 Contributes to operational efficiency

A data platform does away with the need for routine Excel operations and makes the data accessible to everyone as needed. Data necessary for analysis from the past to the present is stored in the cloud, making it easy to respond to various requests from management.

DX Promotion Business



### Open data utilization services that enable factor analysis and future forecasting

By utilizing open data in combination with customers' own data, it is possible to analyze factors and predict the future that were not noticed with only their own data.

Customer issues to be addressed

- In business analysis, a company may want to compare the financials of other companies in the same industry against its own to form relative judgments. However, the time-consuming data collection and processing does not allow enough time for in-depth analysis.
- Companies would like to understand the gap between the purchasing trends of its own users versus global consumption trends and the economy, but the workload for updating data every month is high.

Strengths

#### 1 Reduce the workload of collecting, processing, and updating a variety of open data sets

Since data is available from a single location, there is no need to search for and collect data in various formats published on various websites on every occasion. The open data provided is processed in a user-friendly manner and can be immediately used for data analysis.

#### 2 Sophistication in data analysis

By eliminating the workload of collecting, processing, and updating open data, data can be easily acquired and used for factor analysis, cause analysis, and future forecasting. In addition, the acquired open data can be combined with the customer's own data to enable sophisticated data analysis.

DX Promotion Business



### E-learning service for data-driven human resource development

Our e-Learning service will contribute to our clients' data-driven human resource development.

Customer issues to be addressed

- We want to promote DX using cutting-edge digital technologies such as big data and AI, but the lack of human resources in the company who are able to efficiently and meaningfully utilize a wide variety of data makes it difficult to find a way to train staff.

Strengths

#### 1 BI tools can be used even by novice data users

The contents are structured to enable participants to systematically learn a series of steps from data capture and processing to modeling and visualization, so even those with no prior experience in data utilization can learn how to use BI tools.

#### 2 Acquire skills that can be used immediately in the field

In addition to classroom lectures, the program offers a variety of content that can be used immediately in the field, such as hands-on analysis report writing and practical exercises of what has been learned.

DX Promotion Business



### AI-based SaaS that uses machine learning to emotionally analyze stories from text and images

AI-based data analysis enables accurate, precise, and broad-based decision-making information.

Customer issues to be addressed

- People cannot honestly evaluate the work they produce, and bias is always created.
- People want an objective perspective on texts or videos.

Strengths

#### 1 Quantitative and objective evaluation by AI is possible

AI technology converts a textual story in a graphical time series. This allows the flow of the work to be visualized at a glance to highlight potential points for improvement.

#### 2 Machine learning can analyze emotions for both text and images

Machine learning is also used to analyze emotions from images and suggest improvements. In addition to use in the entertainment industry, it can also be used for analysis of sales presentation materials and web marketing analysis.

# Financial Strategies to Maximize Corporate Value

**NAOYOSHI KASUGA**

Director and Group CFO

## Review of the Previous Medium-Term Management Plan and Policy for the New Plan

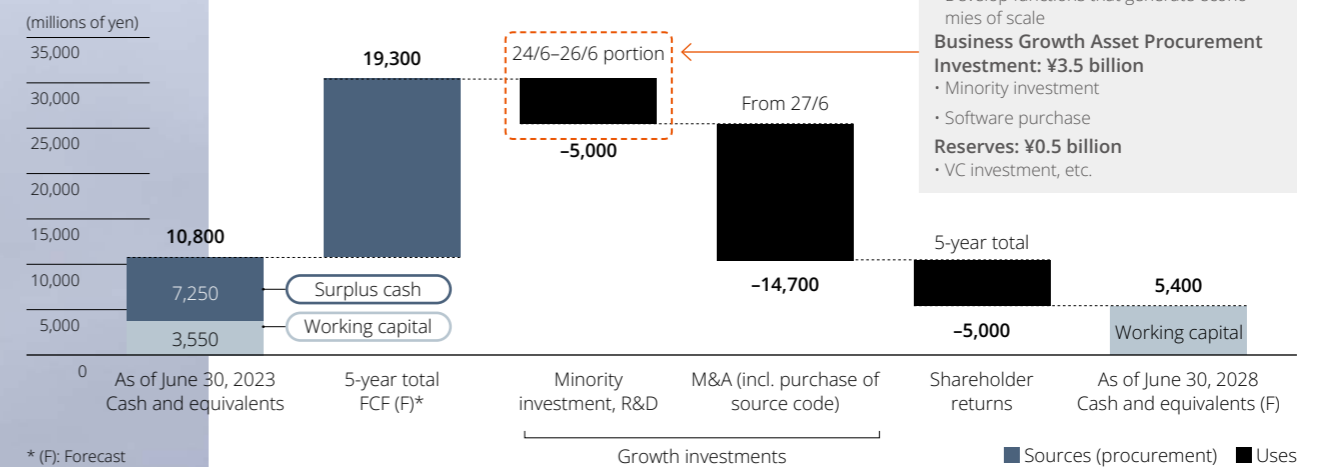
With regard to the previous medium-term management plan, we achieved both operational and financial KPIs, but failed to achieve strategic KPIs for recurring sales ratio and GPP (net sales growth rate + operating income margin). The main reason for this was that top management believed when setting each strategic KPI in the previous medium-term plan that the key to the Group's strategy was changing the business model. However, we were unable to see this implemented by the operating companies that were responsible for realizing the strategy. Therefore, in formulating the new BE GLOBAL 2028 medium-term management plan, which was launched in July 2023, we learned from our errors in the previous plan and involved the

management of the operating companies from the start, making sure we had thorough discussions with them.

Over the five years covered by the new medium-term plan, we aim to increase corporate value and more than double group-wide net sales as well as driving a more than three-fold increase in net income through average annual growth of 25% or more. The Critical Success Factors (CSFs) for achieving this will come from the implementation of the software driven strategy, and we will continue to view trends in software gross profit as our most important strategic KPI. In addition, in order to visualize the implementation of the software-driven strategy, KPIs and targets will be set and monitored for operations, product value, service value, and productivity. Furthermore, each operating company has set its own CSFs and KPIs based on their respective business models, and have formulated measures to navigate towards achieving target values, and have begun implementing these measures.

## [ Capital Allocation in the New Medium-Term Management Plan ]

Assuming ¥20 billion for growth investments and ¥5 billion for shareholder returns (dividends) over the 5-year period of the medium-term management plan.



# GROUP CFO MESSAGE



🕒 Growth Investment

Investment is positioned as a key driver to implement the software-driven strategy in the new medium-term plan. During the first three years of the new plan, we have set a limit of ¥5 billion in a search phase for investment projects, with a target of ¥500 million to ¥1 billion per project for use in minority investments and in-house R&D. We are also looking to make larger investments such as M&A during the final two years of the plan, utilizing the networks developed through our investments. We established this investment policy partly to reflect the fact that we were unable to identify suitable M&A projects despite our efforts to find these during the previous medium-term plan. The reasons to initially take a small position rather than conduct outright M&A at the outset is that it will be possible to become a major shareholder as an insider and acquire shares in a target company at a later stage having been able to gain confidence in the value assessment when a target company is looking for an exit strategy. In the future, our Materiality Realization Office, which will be newly established in the holding company in July 2023, will be responsible for selecting companies and software products, etc. for investment. The Group CFO's main role will be to act as a gatekeeper to

conduct financial due diligence on potential investments, as well as to develop recruitment and exit criteria for investment projects and manage them post-investment.

Our basic premise is that we will not make investments unless they are related to the group's business. In other words, the intention is not to make a net investment solely for the purpose of earning an economic return. We will invest in areas of the business that are solely related to the Group's business, particularly in targets that will contribute to increasing software sales and gross profit and enabling sustainable growth. Naturally, one selection criteria for investment is to generate a return that exceeds the minimum cost of capital. However, since many of the candidates for minority investment are likely to be unlisted startups, and may be seed-stage companies, however detailed the various assumptions made and detailed project future cash flows are, the accuracy of projections will inevitably be low. We prefer to keep cash flow forecasts moderate as a more practical method of feasibility study (verification of profitability), and estimate the expected growth rate and volatility of cash flow from similar examples of other companies. This helps set a hurdle rate for each project, which we use to discount the forecasted cash

flow. We are considering using this method for our discounted cash flow projections. To be more specific, our cost of equity as of February 2024 is approximately 7%\*. Therefore, the discounted present value of cash flows using the hurdle rate, including an additional risk premium for each deal, must be positive (or the IRR of the expected deal must be above the hurdle rate). The prerequisite for any potential investment is that the present discounted cash flow using the hurdle rate, to which a risk premium is added for each deal, must be positive.

That said, we fully appreciate that the results of the Feasibility Study are only numerical. The drive and passion of the person leading the project is also very important in determining whether the investment will be accepted or rejected. There will be times when the Group CFO may try to step on the brakes, but if the drive of the person still shines through, the Group CFO may decide to take on more risk. It sometimes is the case that to get the largest returns you have to be able to take more risks. We do need to add however that for our Group, the Group CEO and the Group CXOs, who are participants in the Group Management Committee that discuss investment decisions, can make evaluations based on a common language of corporate value and cost of capital, and we believe that decisions on that economic rationality are not carried out solely based on theoretical values.

\* Calculated assuming a 10-year JGB yield of 0.725%, an Equity β of 1.04, and a market risk premium of 6.0%.

🕒 Shareholder Returns

The balance of surplus cash and deposits as of June 30, 2023 exceeded ¥7 billion due to the fact that investments did not proceed as planned in the previous medium-term plan. Minority investments and M&A are important means of implementing the software-driven strategy set forth in the new medium-term plan. We assume that the surplus cash and deposits accumulated to date will be invested in such activities, but if appropriate investment targets are not secured, surplus cash and deposits may further increase. In such case, in addition to the ¥5 billion cash dividend planned in the current medium-term plan, the company will consider share buybacks from the market as appropriate, taking into account the benefits of not only additional returns to shareholders but also incentive compensation for employees and complementary payments from M&A transactions.

In addition to capital allocation, it is very important to put the PDCA cycle of the new medium-term plan into operation as quickly as possible. For this purpose, it is also essential to have internal software infrastructure in place that can draw on the latest information as necessary. At the start of the new medium-term management plan, the Group used its own product, AVANT Cruise, for the central oversight of management data within the Group. This automatically renews and extracts several KPIs in the new medium-term plan, enabling visualization and efficient monitoring of the plan's progress. At the same time, we are also working on digitization (DX) of our own group business management in order to provide appropriate and prompt feedback to each operating company. We expect this to be useful for early detection of issues and prompt response to them.

**First 3 years will be an exploratory phase, aiming to realize results in 4th year and beyond**

	24/6 >	25/6 >	26/6 >	27/6 >	28/6
	Exploratory Phase: ¥5 billion			Implementation Phase: ¥14.7 billion	
1. Software procurement	<ul style="list-style-type: none"> <li>Build cooperative relationships through minority investments in overseas SaaS vendors and software development companies to increase the number of software products handled by the company and expand the network to enhance the company's own development capabilities</li> <li>Main objective is not to acquire software, but to build a network with a wide range of options</li> </ul>			<ul style="list-style-type: none"> <li>Sourcing using the network established during the exploratory phase, executing source code purchases and M&amp;A</li> </ul>	
2. R&D to utilize generative AI, etc.	<ul style="list-style-type: none"> <li>Conduct research and development activities to increase the productivity of service delivery costs</li> </ul>			<ul style="list-style-type: none"> <li>Linking the results of R&amp;D activities to improved delivery cost productivity</li> </ul>	
3. Strengthening cyber security	<ul style="list-style-type: none"> <li>Continue to accumulate know-how and invest in equipment to help clients continue their operations</li> </ul>				



**Review and Policy on Corporate Value Enhancement**

We emphasize Total Shareholder Return (TSR) and Internal Rate of Return (IRR) in our corporate valuation. For example, if you purchased our shares at the beginning of the previous medium-term plan and held them for 5 years, the TSR would be 304.6%, sharply in excess of the TOPIX TSR

including dividends (149.3%) over the same period. Meanwhile the IRR would be 25.2%, significantly higher than that for the TOPIX. Furthermore, the Sharpe ratio, which is the excess return divided by the rate of change in return, and the trainer ratio, which is the excess return divided by the  $\beta$  value, both exceeded the metrics for the TOPIX over the same period. Therefore, we believe that we were able to deliver returns to shareholders that were sufficiently higher than the market, even taking risk into account.

TSR is divided into capital gains and income gains. Regarding income gains, TSR comes from plans to pay dividends in accordance with the shareholder return policy. As shown in the diagram below, capital gains can be broken down into EPS growth and PER. With regard to EPS, we plan to grow net profit by more than three times during the new mid-term plan period by implementing our software driven strategy.

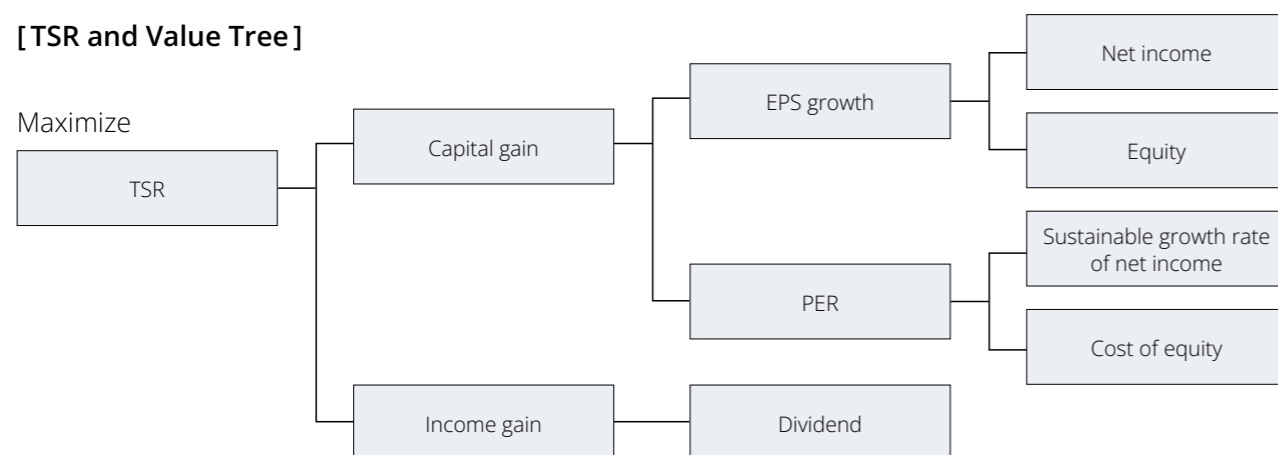
**[ Evaluation of Investment Return Performance ]**

		(yen)						
		Year	0	1	2	3	4	5
Cash out	Original share price*1		-482					
Cash in	Dividend per share			6	7.5	9	11	13
	Stock price after 5 years*2							1,411
Cash flow			-482	6	7.5	9	11	1,424
<b>IRR (Internal Rate of Return)</b>								<b>25.2%</b>

\*1 Closing price of our stock on July 1, 2018  
 \*2 Our closing price on June 30, 2023

2018/7/1-2023/6/30	Avant Group	TOPIX
IRR (Internal Rate of Return)	25.2%	5.75%
Risk-free rate	0.03%	0.03%
Volatility	39.14%	15.34%
$\beta$	1.2165	1.0
<b>Sharpe ratio</b>	<b>0.643</b>	<b>0.373</b>
<b>Trainer ratio</b>	<b>0.207</b>	<b>0.057</b>

**[ TSR and Value Tree ]**



Moving on to PER. This can be calculated as 1 divided by (cost of equity – sustainable growth rate of net income). Theoretically, therefore, PER can be increased by lowering the denominator, cost of equity, and increasing the sustainable growth rate of net income. In the CAPM model, the cost of shareholders' equity is the risk-free rate +  $\beta \times$  market risk premium, of which  $\beta$  is the only parameter that can be affected through individual corporate activities. In the case of our group, we believe that the cost of shareholders' equity may decrease as a result of a reduction in the volatility of earnings or cash flows. Specifically, an increase in recurring revenues from the SaaS and BPO businesses would likely lead to a lower  $\beta$ .

On the other hand, we believe the Group needs to work on raising the sustainable growth rate of net income, as well as reducing the cost of shareholders' equity, in order to achieve a significant increase in PER. In our case, the profitability of in-house software product sales is much higher than that of service sales, so the key to improving profitability is to increase the proportion of our own in-house products. Sustainability is synonymous with a large amount of ongoing income, so further growth in SaaS, BPO, and other businesses is another option.

In summary, we expect PER, capital gains, and consequently TSR to increase by combining the sales of in-house software products with a business model that focuses on SaaS and BPO. These kind of processes are key to our software driven strategy, which is a central factor for realizing the new medium-term management plan, and we believe that implementing these strategies will also enhance our corporate value.

**Recognition of Issues as Group CFO**

In addition, we highlight two other issues to be addressed in future. The first is to increase the number of future group CFO and operating company CFO candidates. We are currently carrying out discussions with the CFOs of each operating company what skills the future CFOs will require and what kind of human resources are desirable to take on this role. However, I personally intend to widen the

scope beyond only candidates whose future career goal is to become a CFO. Even if top management comes from a non-financial background, I do not consider it appropriate to have to defer to a CFO on financial matters. We believe that human resources with the potential to assume top management roles in the future should take on a CFO role at least once in their career.

The second is related to the adoption or rejection of International Financial Reporting Standards (IFRS) in our group. Be Global 2028 continues to aim for global standards from the previous medium-term plan. Although the adoption of international accounting standards has been discussed several times to work towards this goal, it was not adopted because it did not seem necessary. However, assuming capital allocation is executed in accordance with the new medium-term plan and large M&A projects occur in the third year of the plan or later, the amortization of goodwill under Japanese GAAP could significantly affect profit at various levels. This could threaten achievement of the net income growth target of 25% or more per year on average. Of course, goodwill amortization does not affect cash flow, and differences in accounting standards do not change the intrinsic value of a company. That said, during a recent IR meeting with a global institutional investor, I was asked about the feasibility of tripling or more net income even after implementing M&A involving large amounts of goodwill amortization. After reflecting on this, I feel the need to reexamine the cost-effectiveness of adopting International Financial Reporting Standards, keeping in mind it may be one way to achieve the net income goal.

# GROUP CHRO MESSAGE



**ERIKO SATONAKA**

Group CHRO  
General Manager

For the new medium-term management plan to be successful, it is essential to align business strategy with human resources strategy and develop a structure in which our human resources can support the business.

Therefore, we continue to look at what human resource measures will be required to realize our strategy of “becoming a software company that helps increase corporate value,” and regularly hold internal meetings on the topic. As a result of our discussions, **we are currently focusing on (1) Optimizing the organization in line with the strategy of the operating company and (2) Developing a new generation of leaders that can drive the business.**

**(1) Our policy of optimizing the organization in line with the business strategy** involved setting out what we needed to do and identifying the organization and personnel structure necessary to realize our goals, as well as understanding the difference between what the current situation is and what will be required in future. We began looking at measures needed to close this gap in the fiscal year ending June 30, 2024.

Although it is not easy to find the right answer, and requires some trial and error, the discussions have resulted in concrete actions regarding investment in human resources (recruitment and training) throughout the group. Key factors in the organization and human resources

of each operating company have also become apparent. We regard getting to this stage in the cycle as a big step forward, as once we can highlight what the issues are, we can consider how they are best dealt with.

At the same time, leaders are an essential factor behind the success of any business. To this end, **we are also focusing on (2) developing a new generation of leaders that can drive the business forward.**

The Group’s Board of Directors considers developing a new generation of leaders a top priority issue. Most months, the board has in-depth discussions on how to identify the talent in the pipeline, the requirements for leaders, what organization is needed to achieve the goals in the medium-term management plan, and the type of leaders who will be able to take us in that direction in future.

Specific development actions are implemented in turn, including putting in place a leadership development program for younger employees (see below for details) and providing opportunities for group executive officers to meet and interact with presidents of outside companies to broaden their perspectives and deepen their thinking, with a focus on growing the number of potential successors across a wider pool of employees. These kind of initiatives help us develop a pipeline of potential new leaders from a deeper bench of talent.

At the same time, from the perspective of looking at developing human resources within the company as well as other potential leadership candidates in Japan, our Group CEO Morikawa, will take on a role as a visiting professor at Hitotsubashi University Graduate School of Business Administration in April 2024 and teach courses that draw on his experiences in entrepreneurship and IPOs. Focusing on corporate value management, we hope to convey practical approaches to business portfolios, dialogue with investors, what is needed in a leader, and hope that our group’s experience will be of some help in developing future leaders in Japan.

**Employee engagement** is also a foundation upon which a business is built.

We use external assessments (GPTW) to ensure all employees share the same vision and strategy, and are able to experience growth on a daily basis through mutual enlightenment. By taking actions after these initiatives, and by repeating the PDCA cycle, engagement scores are improving every year.

In addition, we are working to increase investment in people by enhancing corporate value from various perspectives and strengthening our strategy based on people, such as by launching a **stock grant system** for all employees that can work to increase the share price through growth of the business and sharing these returns.

## Development of Young Leaders

In order for a company to continue to create value, it is essential to bring through the next generation who can lead the organization in future. Developing the talent who can take charge of the company 10 to 20 years from now is an important initiative for the future of any organization. The development of future leaders ensures organizational sustainability, and fosters innovation and change in a rapidly evolving environment. Young leader development is an important pillar in human capital management.

A young leader development program for young candidates selected from our companies was started in the fiscal year ending June 30, 2024. We use a backcasting process, in which our goal is to help participants have a vision of their future leaders, help them identify and take action on what they need to take now to fill any gaps.

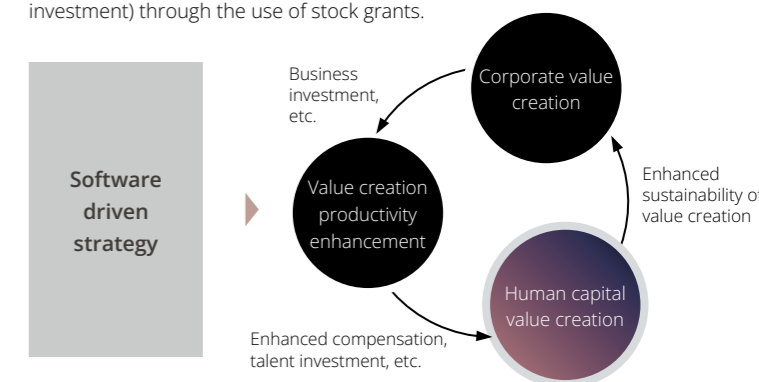
In an initiative termed the “Morikawa Juku” led by our group CEO Morikawa, we focus on the aspirations required of leaders, and include sessions that encourage creative dialogue and reflection, as well as practical training from a variety of perspectives. These include a management experience program to acquire an overall understanding and deep thinking skills, as well as training of specific mindsets to enhance autonomy, which leads to self-improvement. In addition to sessions that encourage reflection through creative dialogue, we also offer a management experience program to help participants look at situations from a more holistic perspective and acquire deep thinking skills. This initiative will be ongoing and the number of eligible participants will be expanded each year.

## Introduction of a Stock Grant Program for All Employees

Beginning in the fiscal year ending June 30, 2024, a stock grant program (RS Trust) for all employees will begin providing shares worth ¥50,000 per year to all employees affiliated with the company for the full fiscal year.

The purpose is to raise awareness of the need to increase the corporate value of the company, as well as encouraging employees to contribute to the improvement of corporate value through their own actions. This should see returns through the benefit of future share price appreciation for all employees, an investment in human resources that will support the improvement of corporate value.

The more value a company can create, the more productive it will be. The value of the human capital involved in these processes also increases, leading to further human investment. In order to achieve this virtuous cycle, we intend to continue to strengthen our investment in people (human investment) through the use of stock grants.



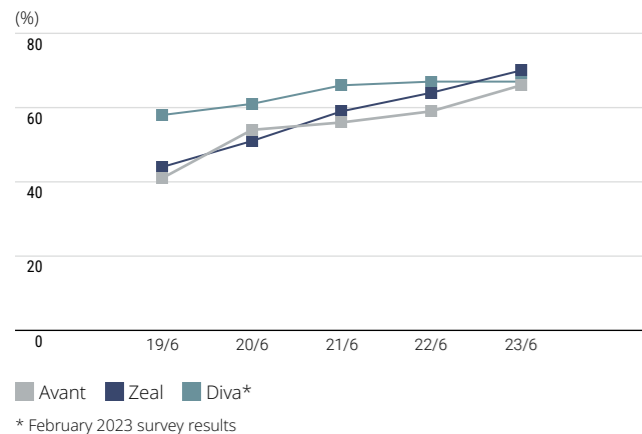


**GPTW**

Our Group philosophy is the “Creation of a 100-year Company.” The strapline for this headline is “A Company Where All Employees Are Fired Up to Create Value.” This is aimed at realizing a virtuous circle within the group, where accumulated efforts are properly evaluated, which in turn makes work more rewarding and

contributes to the establishment of higher goals. To this end, each group company has set a key KPI of a 70% GPTW score including participation from all members, and has established a system led by top management and company managers.

**GPTW Score of Each Group Company**



**What is GPTW?**

Great Place To Work® (GPTW) is a professional organization that has been quantifying and analyzing job satisfaction through surveys for over 30 years. GPTW defines a worthwhile company as one where there is trust between management and employees, and where all individual's abilities are maximized. There are excellent values and leadership, and where financial growth can be achieved through innovation. The GPTW questionnaire consists of questions that divide this “trust” into five elements: <Credibility>, <Respect>, <Fairness>, <Pride>, and, <Camaraderie>. Each company in the Avant Group uses the GPTW score to identify issues and aims to improve job satisfaction. Each company in the Avant Group uses the GPTW score to identify issues and aims to improve job satisfaction through solutions and improvements.

**Group Companies' Efforts to Improve GPTW Scores**

**Diva Corporation**



**GPTW Results for the Year Ended June 30, 2023**

Diva achieved a GPTW score of 67% in the February 2023 survey, the same as in the June 2022 survey\*. With regards to job satisfaction, employees highlighted the following points in particular: people that deserve to be promoted are promoted, people are treated fairly regardless of age, and a safe and healthy working environment.

The entire company is committed to dealing with each and every employee from a variety of perspectives, including developing human resources with the ability to lead the organization, regardless of age or length of employment. Having leaders that take seriously job satisfaction and growth of their teams was appreciated, as well as the discussions about growth and improvement of individual employees at monthly human resources meetings held by the board of directors. The entire company is committed to dealing with each and every employee from a variety of perspectives. In addition, internal questionnaires are used to identify questions about the company and opinions about the internal environment, implement improvements, and have President Nagata answer questions directly to address any points raised.

\* Due to a change in the timing of the GPTW survey for the fiscal year ending June 30, 2024, the February 2023 survey is an unofficial result that is not subject to the GPTW's determination of “Best Companies to Work For” certification.

**Challenges Seen in the Results for the Fiscal Year Ended June 30, 2023**

Among the items that received low evaluations, we highlight three key issues: “fostering a sense of contribution,” “a company where people can work for a long time,” and “an organization where anyone can fit in.” We will focus on these three areas for improvement because we want DIVA to be a company that can offer something positive to employees who join DIVA and want them to be as healthy and happy as possible while they work with us.

**Future Initiatives**

While continuing to provide appropriate support for each individual's job satisfaction, we will work with the leaders of each organization to analyze and improve organizational issues, and strengthen onboarding and improve the retention rate in these three priority areas.

We will strive to create an environment in which each employee has a sense of satisfaction in his or her work, and can grow through cooperation and friendly competition, aiming to create an organization in which employees can take pride in working for DIVA.

**Group Companies' Efforts to Improve GPTW Scores**

**Zeal Corporation**



**GPTW Results for the Year Ended June 30, 2023**

Zeal has carried out this survey since 2016 and has continuously worked to improve employee job satisfaction. When the survey began in 2016, the score was 51%, but as a result of company-wide efforts to improve the workplace environment and job satisfaction, the score rose to 70% for the fiscal year ended June 30, 2023, a significant improvement of +5 ppt over the previous year.

In addition, the company was selected as one of the “Best Workplaces” in the 2023 edition of the “Best Companies to Work for” certification, with employees citing points such as “opportunities for skill development” and “fair distribution of profits.”

This result arose thanks to an initiative by department heads and senior managers in discussions about job satisfaction of their employees. The department heads themselves considered and implemented various measures, as well as the receiving input from the activities of the Working Group for Enhancing Job Satisfaction. This group has members participate on their own initiative, to create opportunities for employees at work. We believe that this is the result of the efforts of each employee to improve his or her own work environment.

**Challenges Seen in the Results for the Fiscal Year Ended June 30, 2023**

The gap in scores by position and age, such as young to mid-career and executive positions, has highlighted differences in values and other issues. The score gap between general employees and managers on questions related to “pride,” such as the significance of individual duties and the sense of contribution, is also large. One key area to address is improving satisfaction among general employees.

**Future Initiatives**

A continued point of focus will be further bolstering of the company-wide skill enhancement training program and creating an environment in which individuals can realize growth and develop their abilities, one of the company's strengths, through the formulation of skill maps and other measures.

In addition, we will focus on measures that promote connections within the group both with individuals working at different levels and at similar roles in other parts of the organization. We will carry out initiatives such as promoting 1-on-1 meetings, workshop-style philosophy training, and online get-togethers open to anyone who wishes to participate, regardless of department. We will focus on creating an environment in which two parties can openly approach each other with mutual understanding and a common understanding that goes beyond age or position.

**Group Companies' Efforts to Improve GPTW Scores**

**Avant Corporation**



**GPTW Results for the Year Ended June 30, 2023**

Avant's GPTW score for the period ended June 30, 2023, was 66%, a +7 ppt increase over the previous quarter and the highest level ever recorded. In comparison to benchmark companies, Avant's strengths included “providing an easy work-life balance,” “being entrusted with responsible work,” and “compensation commensurate with work.” The company has a high rate of employees taking paid leave, a high rate of male employees taking parental leave, and offers a hybrid work style of coming to the office as well as working from home that takes into consideration employees with various needs such as childcare or nursing care, etc. In addition to finding a work-life balance for employees, the company also sets goals that take into account career plans (“will”), organizational goals (“must”), and adjusts compensation scales using an external survey to achieve market-competitive pay levels. The company also supports employee growth (“can”) through 1-on-1 communication and twice-yearly evaluation meetings. It also adjusts compensation using external surveys to ensure a market-competitive pay levels.

**Challenges Seen in the Results for the Fiscal Year Ended June 30, 2023**

Issues identified as challenges include “low scores of managers below the department head level,” “solidarity,” and “ease of approaching and speaking to the management and administrative level.” This will be improved in future.

**Future Initiatives**

President Okabe will review the GPTW survey results for all employees and provide an opportunity to explain the company's strengths, growth opportunities, and future initiatives. He will also provide process improvement and implementation support related to various tasks faced by managers below general manager, a twice-yearly company-wide award system (Avant Award). The company aims to further improve employee job satisfaction by resolving issues through town hall meetings in which the president will address the whole company and through small meetings in which each director can provide further clarity on initiatives introduced at the company-wide meetings.