AVANT GROUP

AVANT GROUP CORPORATION

Q2 Financial Results Briefing for the Fiscal Year Ending June 2023

February 20, 2023

Event Summary

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[Participants]	
[Number of Speakers]	3

Tetsuji Morikawa	President, Group CEO
Naoyoshi Kasuga	Director, Group CFO
Shingo Moroi	Corporate Officer

Presentation

Moroi: Hello, everyone. Thank you very much for participating in AVANT GROUP CORPORATION's financial results briefing for Q2 of the fiscal year ending June 2023. I'm Moroi, the head of the IR Office, and I will be the moderator today. As for today's briefing, the materials have been uploaded to the website at 13:00. Please refer to them.

We have two speakers today, Tetsuji Morikawa, President, Group CEO; and Naoyoshi Kasuga, Director, Group CFO.

We will explain the progress of the medium-term management plan, BE GLOBAL 2023, and the financial report for about 25 minutes, after which I will take your questions. The entire briefing is scheduled to last approximately one hour.

Let me now turn the floor over to Mr. Morikawa, President and Group CEO.

Management View of Current "BE GLOBAL 2023" Plan

- We believe that the failure to achieve the strategic KPIs was due to the fact that the management teams of each operating company were not sufficiently involved in the difficult and important management task of converting to a recurring-type business, nor was it connected to activities on the ground.

		FY6/19 Actual	FY6/20 Actual	FY6/21 Actual	FY6/22 Actual	FY6/23 Target
Operational KPI	Net Sales (¥b)	14.07	15.69	16.23	18.70	18.0～22.0
	Operating Income (¥b)	1.96	2.27	2.79	3.24	3.1～3.8
Strategic KPI	Recurring Sales Ratio (%)	31.4	32.6	36.0	34.6	70
	Sales Growth + OPM (Points)	30.2	26.0	20.7	32.6	40 or more
Financial KPI	ROE (%)	24.6	23.5	23.6	21.1	20 or more
	Dividend (yen)	7.5	9.0	11.0	13.0	15 or more

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Morikawa: I'm Morikawa from AVANT GROUP. First of all, I would like to begin today by discussing the status of the next mid-term plan based on the current mid-term plan.

This fiscal year, the current situation is the final year of the current mid-term plan, and we are now in the second half of the plan. As we have been saying for some time, we are generally on track to achieve the current levels of sales and operating income, as well as ROE and dividend payments in the financial area.

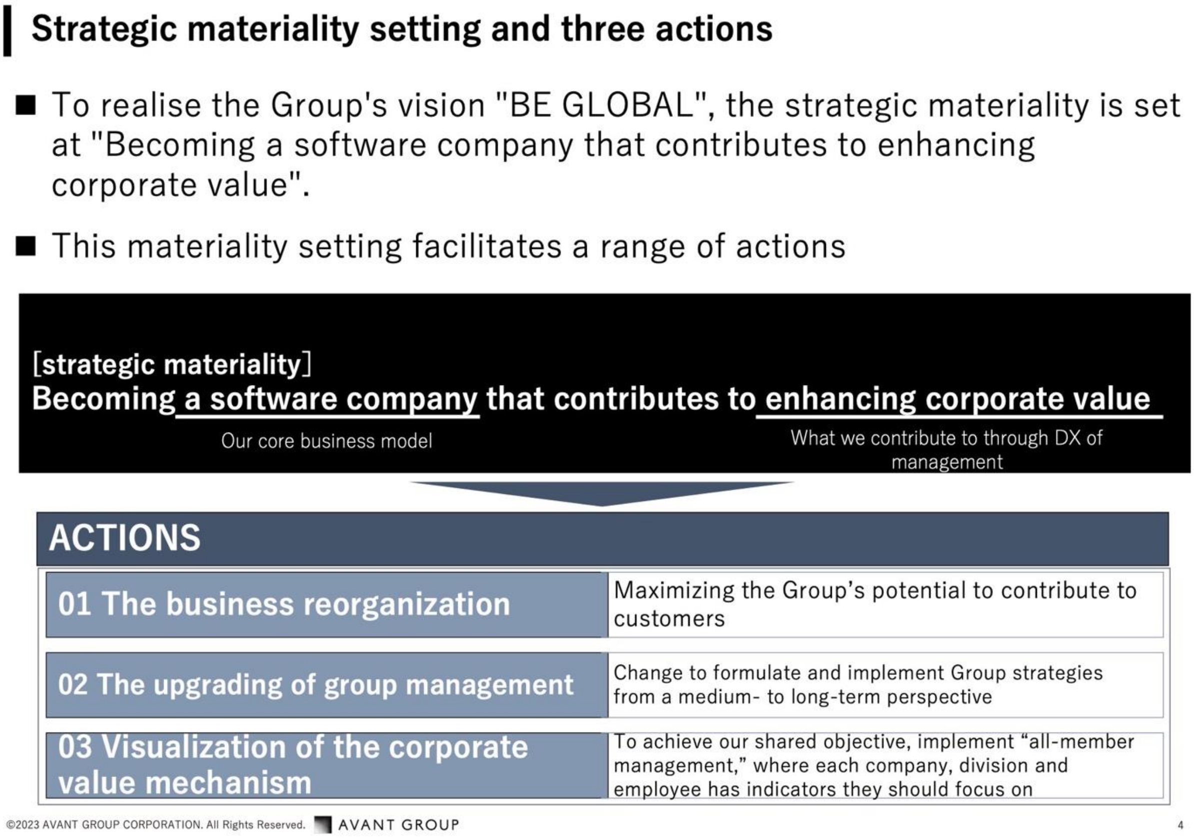
On the other hand, progress in structural reforms centered on the stock sales ratio has been slow, and we have been making preparations over the past two and a half years to see whether or not we can achieve this goal.

In particular, as for the stock sales ratio, our business started out as software, but as we expanded the scale of our business, we shifted to a more service-oriented business. However, we have intentionally expanded our business by shifting our focus to services because it is difficult to develop a software business without a certain degree of scale.

Rather than expanding on that line of business, we decided to create a proper model that would drag the business to the initial stage, centered on software, which was the starting point of the Company. One of the ways to achieve this goal was to change the contact point with customers to a recurring type, and to make a major change in the stock sales ratio.

However, although we are fortunate in some respects, the market environment is still very strong in the DX market, and we have been able to meet such demand, so our main focus has inevitably been on responding to demand rather than on structural reforms. As a result, we have developed our business without changing our structure.

I think that the final answer will be S in ESG, rather than just following the status quo in this market situation, but we are trying to increase the value of people. We would like to make more use of software, especially in order to do the part where we use IT to increase the value of human resources. In addition, the management team has had many discussions about what areas would have more impact in terms of areas that would be useful, and as a result, the current strategic materiality for actions in the next fiscal year and beyond has been established.



One of the hurdles we have set for ourselves to overcome is the value of our contribution to our customers, which should not be limited to business improvement, as in the past, but should be used to enhance corporate value, which is the ultimate goal or form of our customers' business.

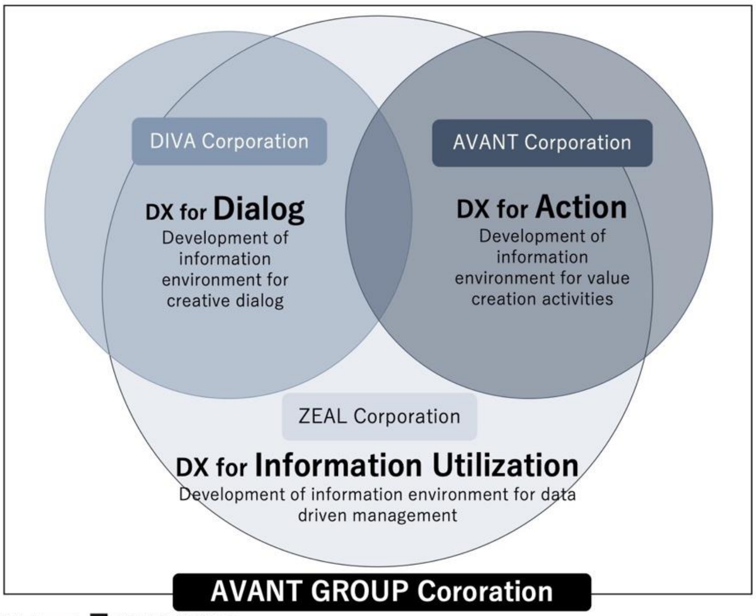
The other is, as I mentioned at the beginning of this presentation, to change our business model from one that is heavily service-oriented to one that is software-driven, in which services are created with a focus on software, and to become a software company that helps to increase corporate value. We are now moving forward with this materiality.

As this action, we are proceeding with the idea that we will do what we can do in the current medium-term plan in response to the actions that will be accelerated from the next fiscal year onwards. The first of these actions is to reorganize businesses, and the second is to upgrade the Group management itself.

In addition, we are preparing to visualize the mechanism of how we can improve our own corporate value.

01 The business reorganization

■ Change from organising operating companies by business model to organising operating companies by solution domain, which helps to improve corporate value, and establish a structure to realise DX in management.

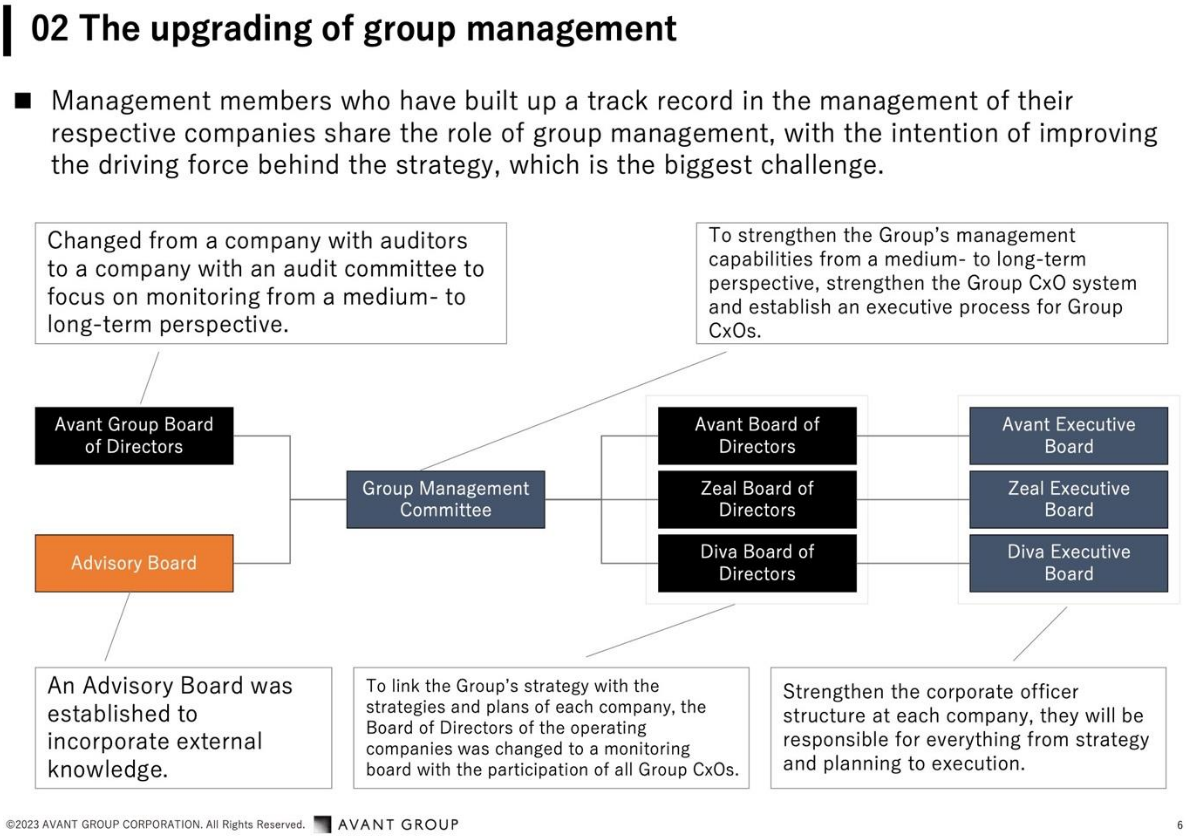


First, regarding business reorganization, this was reorganized within the Group last October. As a first step toward realizing the materiality I mentioned earlier, we are reorganizing the Group's operations in areas where there is considerable concentration, or in other words, where people with different capabilities are dispersed here and there. We are now reorganizing them into a new category that will help our clients improve their corporate value.

The first is DIVA, which is not only a conventional package business, but also a package business and BPO, which we had been promoting separately. However, we decided that we would be more useful to you if we provided not only software but also services in the area of disclosure of consolidated financial results, so we have combined BPO and software into the new DIVA.

In addition, based on the consolidated accounting package called DivaSystem, as a new contribution area, we will visualize the performance of the Company called CPM and help improve corporate value, and furthermore, we will manage the entire group to reorganize, etc. In order to solve various issues, there is a growing demand for areas where various tools can be useful. This part of the Company is being reorganized as a new company, AVANT GROUP CORPORATION.

The other is to further accelerate the business companies that have been specializing in the data utilization area of business intelligence, which is the information infrastructure for collecting and utilizing big data, data that exists inside and outside of companies, as the basis for DX, to further support the data platform. In October last year, we reorganized this business into three categories from the perspective of further accelerating the development of ZEAL.



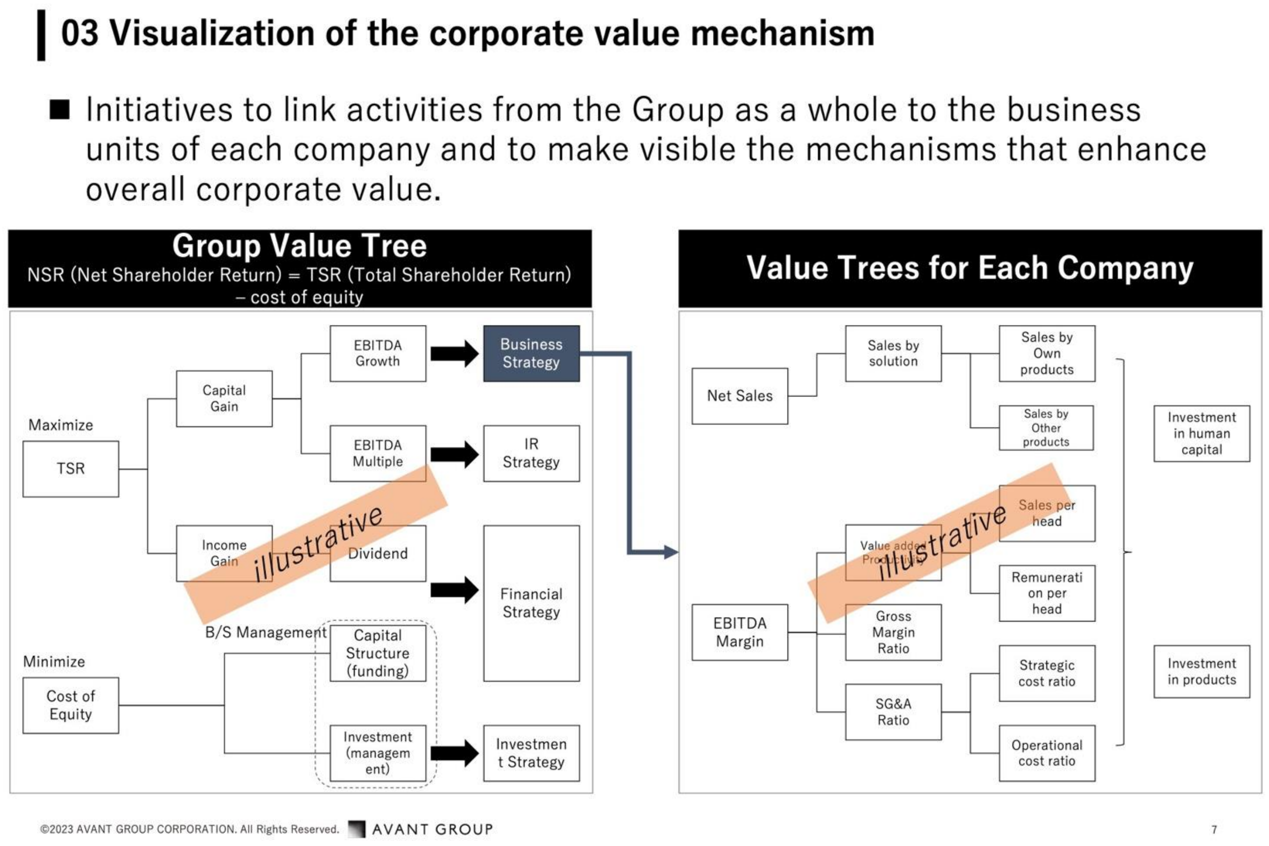
On the other hand, in the past several years, each operating company has focused on operating independently, but if materiality is to be realized, it is desirable not only for each individual business to operate independently, but also for the entire group to work with a common theme and strategy. In order to do so, the management team must have a clear understanding of this part of the business and cooperate and discuss management, so we are upgrading the management of the Group.

In the first place, there is the context of how to use the Board of Directors and such a position, but the biggest issue is how to properly divide so-called management and execution. We are reorganizing the process by dividing roles and moving forward.

In terms of management and execution, or the so-called separation of supervision and execution, our approach is to consider the business from a long-term perspective as much as possible in terms of supervision, and to carefully monitor what actions are being taken in execution in order to produce long-term results. We do not simply supervise, but rather we consider strategies from a long-term perspective and monitor whether or not they are being implemented. Naturally, execution is the part that produces results while resolving various issues on a daily basis, so we will proceed in cooperation with that part.

Looking back on the past, companies that are small and in a growth phase are not necessarily short-term oriented, but they have the problem of being composed only of people who focus more on short-term issues. In order to create longer-term growth, we have upgraded the Group management itself this time by shifting a little of our personnel's time to the area of making overall arrangements and promoting the division of roles between management and executive officers.

We have changed our approach so far, and we have changed the allocation of management time, not only in the short term, but also in the long term.



The second is that in order to link long-term involvement with short-term execution, it is necessary to organize not only the words, but also the mechanism by which the value is properly connected, and to share this information with all employees. We are also working to visualize the mechanism of value creation.

Rather than being quite strict about it, I think it is still common for various managers to say, for example, that gross profit is important, customer satisfaction is important, employee satisfaction is important, and so on, each with their own sensibilities about what is the most important part.

When managing as a team, it is effective for the management team to visualize what is going on in their minds in order to improve communication efficiency, and to create an information environment that allows communication with the members on the front line. This is why we are now working on this part.

We are still in the middle of the strategy, but we will change the stance with this kind of structure, change the management's time allocation, and furthermore, properly visualize the actions of the management people, and properly incorporate it. We are currently preparing for action over the next five years.

Assumptions for Formulating the next Medium Term Management Plan

Strategy	■ Contribute to clients seeking to enhance their corporate value through “DX for Management". ■ Clarify the direction of operating companies, reorganize low-profit products, and actively recruit to facilitate the development of future core products and strengthen the implementation consulting business. ■ Strengthen relationships with 1,400, mainly listed company customers, and by grasping customer needs provide products and services without a bias to in-house products. Accelerate the shift to the cloud and aim to accelerate top-line growth by increasing sales per customer and the number of customers.
Growth and Profitability	■ Sales growth 20% or more (5-year CAGR) ■ GPP 40 points or more (from FY6/28)
Capital strategy	■ ROE 20% or more ■ DOE over 8%

GPP=Net Sales Growth Rate + EBITDA Margin

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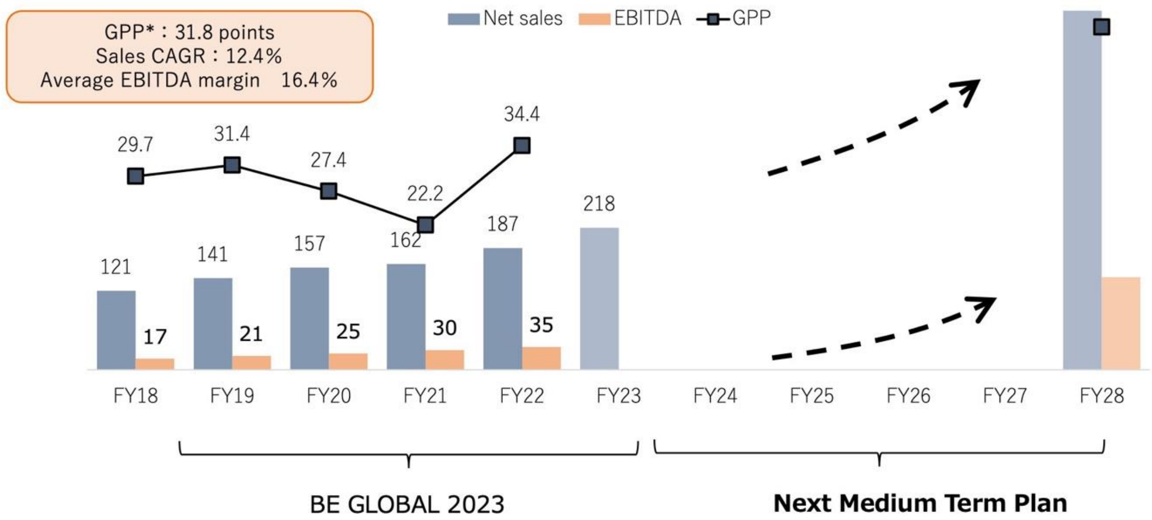
Based on these actions, we are now in the process of formulating the next medium-term plan, and basically, we ourselves intend to thoroughly pursue growth.

The growth level up to now has been based on a hybrid business model that combines services and products, and services have been growing at a higher rate than products, so in a sense, the GPP, sales growth rate and operating profit margin, is roughly 15% and 15%, respectively, and this is a standard value. We are now in a situation where we are taking action to raise this level to 20% or more so that we can say we've done a good job when we look back on it later. We are working to firmly build that type of business.

Assumptions for Formulating the next Medium Term Management Plan

■ Aiming for 20% sales growth and expanding margins



※GPP: Growth Profit Points = Sales Growth Rate + EBITDA margin. In the U.S., SaaS companies often use this indicator to measure their financial health, and while generally a score of 40 points or more is the target, we do not anticipate posting negative EBITDA margins.

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To reiterate, the next medium-term plan targets net sales and an average annual growth rate of 20%. We are now preparing to shift to a software company that can produce truly world-class people by reviewing our business model, reviewing areas of contribution to customers, and reducing our overhead as much as possible, while ultimately increasing the value of each individual human resource.

I have explained the current actions for the next mid-term plan. Thank you.

Results Highlights

- All segments benefited from strong demand, resulting in net sales growth of 20.2% YoY.
- Operating income increased 21.0% YoY, although operating margin improvement was limited due to increased headcount for growth and reorganization-related costs.

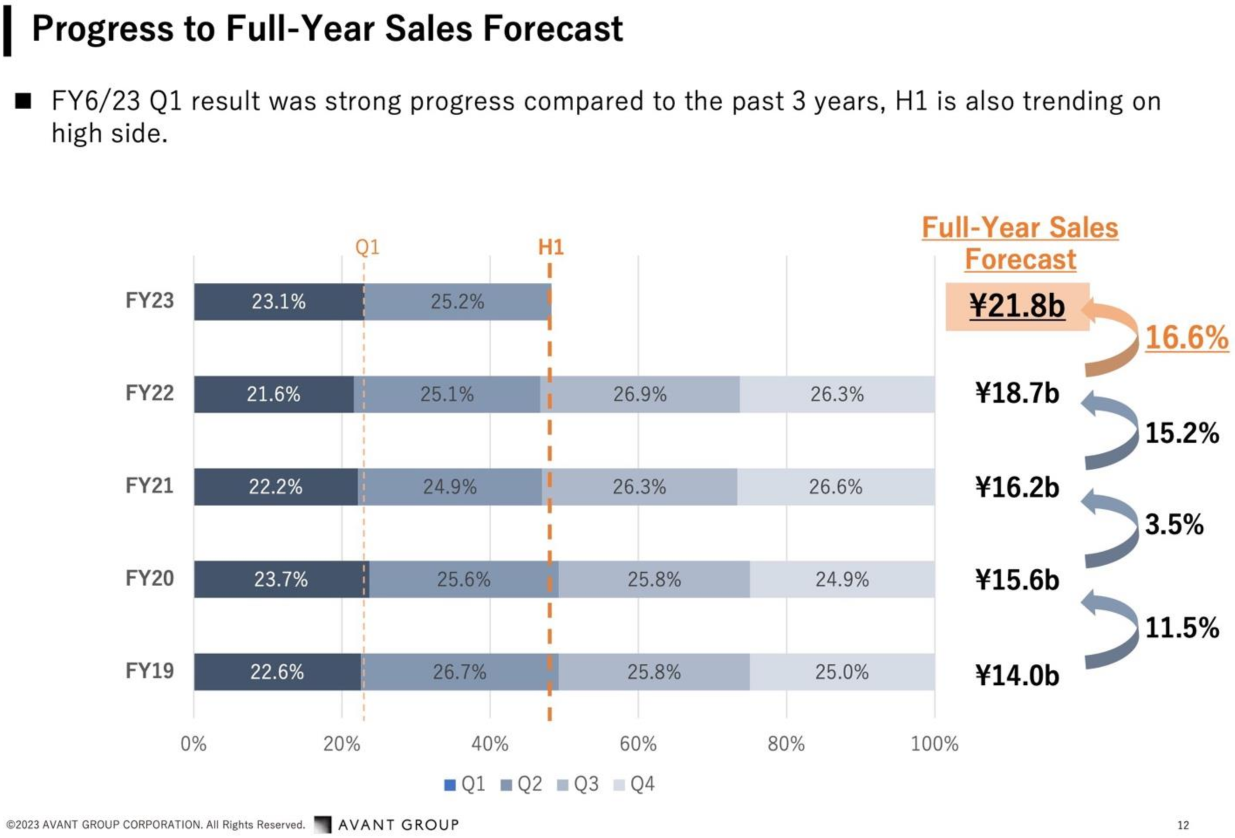
(Millions of yen)

	FY6/23 Q2	YoY Variance		FY6/23 H1	YoY Variance	
		Yr earlier	% chg		Yr earlier	% chg
Net Sales	5,497	4,703	16.9%	10,523	8,751	20.2%
Cost of Sales	2,904	2,375	22.3%	5,680	4,603	23.4%
Gross Profit	2,592	2,328	11.3%	4,842	4,148	16.7%
GPM	47.2%	49.5%	-2.3pt	46.0%	47.4%	-1.4pt
SG&A	1,414	1,308	8.1%	3,049	2,666	14.4%
Operating Income	1,178	1,020	15.5%	1,793	1,482	21.0%
OPM	21.4%	21.7%	-0.3pt	17.0%	16.9%	0.1pt
Net Income	771	603	27.9%	1,142	865	32.0%
NPM	14.0%	12.8%	1.2pt	10.9%	9.9%	1.0pt
EBITDA	1,279	1,097	16.6%	1,989	1,616	23.1%
EBITDA margin	23.3%	23.3%	0.0pt	18.9%	18.5%	0.4pt

Kasuga: I'm Kasuga, the Group CFO. As part of my financial report, I would like to present the results for H1 of FY2023 and the forecast for the full year.

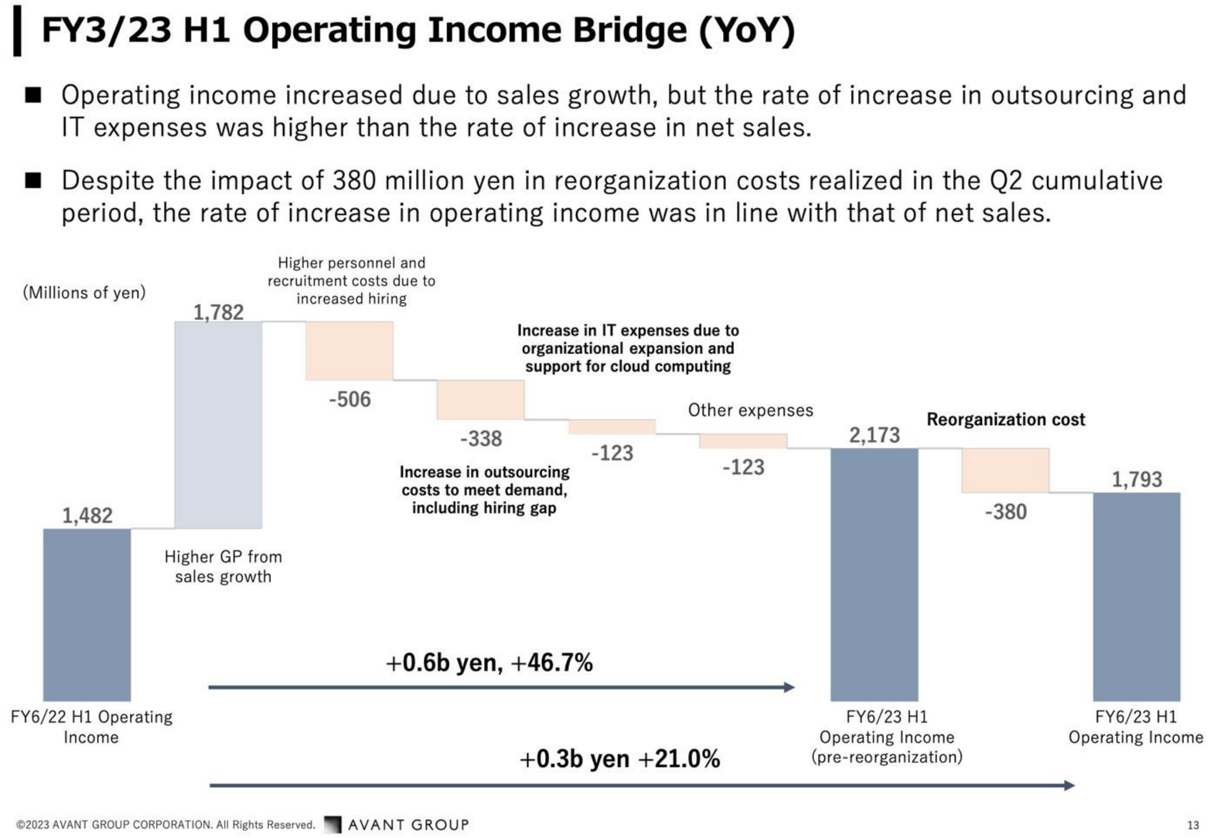
Both sales and income increased by more than 20% in H1 compared to the same period last year. Net sales were JPY10.5 billion, and operating income was just under JPY1.8 billion.

Last year, we invested in a company in the UK and posted a loss from that investment in the non-operating account, but that loss was eliminated this fiscal year, resulting in a significant increase in net income.



Please turn to the next page. As mentioned by the Group CEO at the beginning of the presentation, demand for DX is extremely strong, and sales in all segments are increasing steadily.

As of the beginning of H1 of the fiscal year, as of August last year, we had forecast sales of JPY21.8 billion for the full year, and we are currently more than 48% of the way there. Compared to the past three fiscal years, we see this progress as favorable.



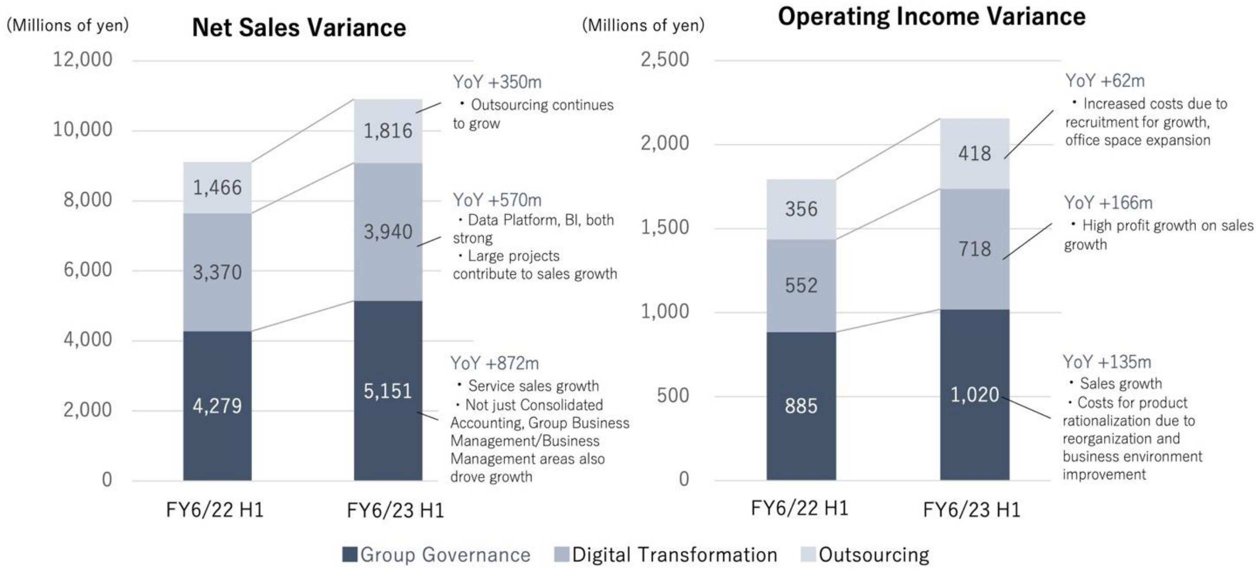
Next, please. Analysis of increase/decrease in operating income, shown in the form of a waterfall.

Operating income also exceeded 20% of net sales, which was the most significant impact of the sales increase. We had included subcontracting costs, personnel costs, and restructuring-related costs at the beginning of the period. Although we had budgeted for some of this, we were able to absorb it and ultimately achieved an increase in operating income equal to the increase in net sales.

Regarding the reorganization cost, I understand that the reorganization cost of JPY380 million has been shown as an actual value. If this impact had not been included, operating income would have been JPY2.173 billion, an increase of JPY600 million. This is a 46.7% increase YoY.

Results by Business Segment (Factors)

■ Sales increased in all segments.



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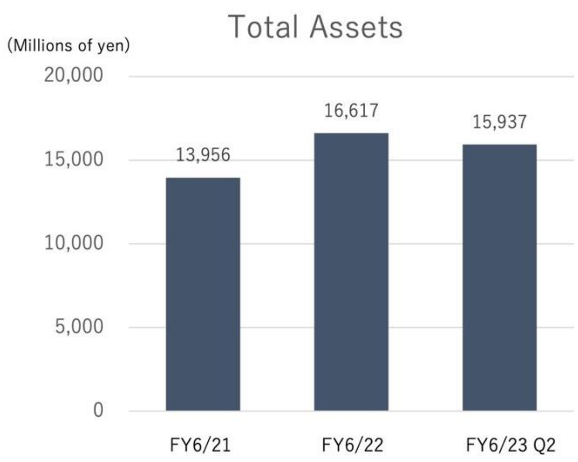
Next, please. The following is a breakdown of the factors that contributed to the increase or decrease in net sales and operating income for each segment.

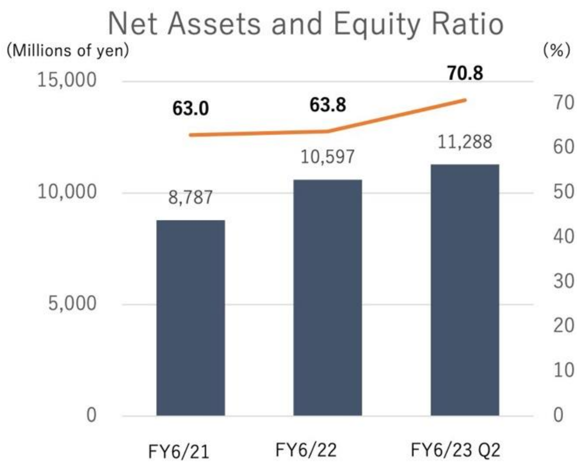
All segments showed more than double-digit growth, particularly in the outsourcing and group governance businesses, which increased by more than 20%.

Operating income increased significantly because the operating leverage of the DX and digital DX businesses is very high, higher than that of other segments. In fact, this was a very large increase in operating income. This is the main reason for the growth of about 30%, and basically all companies have increased their profits, and we have achieved an increase of 20%.

Financial Condition Trends

- Cash and cash equivalents decreased mainly due to performance bonuses, increase in working capital due to higher sales, expansion of office space, and purchase of source code, leaving total assets flat.
- On the other hand, liabilities decreased in response to the decrease in cash and deposits, and the equity ratio increased because net assets increased by almost the same amount as net income.





Effective from the beginning of the first quarter of FY6/22, the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and others have been applied.

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Moving on to the balance sheet.

I will discuss the balance sheet later, but there was an increase in performance bonuses in the operating cash flow, an increase in working capital requirements due to higher sales, and an increase in office space. In addition, we purchased software source code from a British company in which we had invested, which resulted in a decrease in cash and deposits. For that reason, there was no particular increase in the amount of total assets, so it has decreased slightly.

On the other hand, since cash and deposits decreased and liabilities decreased accordingly, net assets increased almost to the same level as net income, and the equity ratio reached a level of more than 70%.

Cashflow Trends

- Operating cash flow was negative in the first half mainly due to an increase in performance bonuses and an increase in working capital associated with higher sales.
- Investment cashflow investments also increased due to the purchase of source code from Metapraxis and office expansion (acquisition of fixed assets and increase in rent deposits).

(Millions of yen)

	FY6/23 Q2	YoY Variance		FY6/23 H1	YoY Variance	
		Yr earlier	% chg		Yr earlier	% chg
Operating CF	△ 225	458	△ 684	△ 717	284	△ 1,002
Investment CF	△ 510	△ 77	△ 433	△ 622	△ 254	△ 367
Free CF	△ 736	381	△ 1,117	△ 1,339	30	△ 1,369
Financial CF	△ 5	△ 5	0	△ 499	△ 422	△ 77

Effective from the beginning of the first quarter of FY6/22, the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and others have been applied.

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As I mentioned, cash flow from operations usually reflects seasonality to some extent, with a negative cash flow in Q1 and a positive cash flow in Q2. However, as the Group CEO mentioned, there is a slight service bias here as well.

Reflecting this, there is an increase in working capital requirements due to higher sales, with payments coming first. The increase in payments, especially in subcontracting expenses, has led to an increase in the demand for working capital in this area. However, we believe that this is what we call normal, healthy incremental working capital.

In addition, performance bonuses have been increased since the previous fiscal year in order to return profits to employees, because the previous fiscal year's performance was not so bad. In this sense, operating cash flow was negative in H1 of the fiscal year and was also negative in Q2.

On the other hand, on a free cash flow basis, as I mentioned earlier, we have purchased source code from a British company, Metapraxis. In the outsourcing business in particular, there was an increase in the deposit for the office expansion, as well as an increase in tangible fixed assets and fixed assets, such as the increase in the number of buildings and structures, which resulted in a cash outflow in this area. As a result, cash flow from investments was negative and free cash flow was also negative.

However, as far as the future is concerned, since sales are increasing, we expect cash flow, especially operating cash flow, to turn positive from Q3 onward, as long as the collection of accounts receivable is proceeding smoothly.

Earnings forecast for the fiscal year ending June 30, 2023

■ H1 saw both sales and profit growth, and we expect sales growth for the full year, but as it is possible that reorganization costs may exceed initial expectations, we maintain our forecast for profit decline.

(Millions of yen)

	FY6/22 (Actual)	FY6/23 (Forecast)	Variance	Chg
Net Sales	18,703	21,800	+3,096	16.6%
Operating Income	3,247	3,100	-147	-4.5%
OPM	17.4%	14.2%	-	-
Net Income	2,045	2,030	-15	-0.7%

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This is the full-year performance forecast.

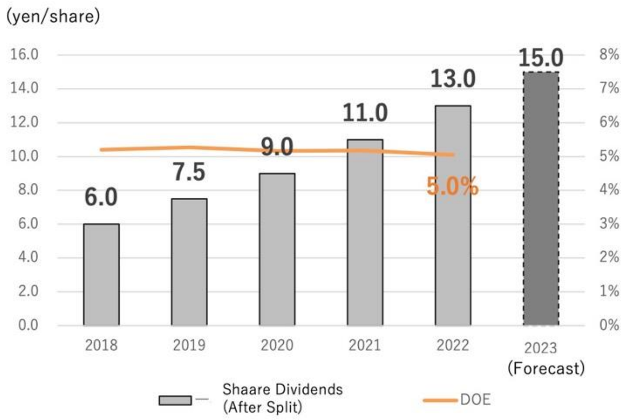
H1 was unexpectedly profitable, to be honest. As I mentioned, this is a very large increase in sales, and we expect sales to continue to grow at this rate through H2. However, we have the hidden possibility that what we consider reorganization cost in terms of costs may exceed our assumptions at the beginning of the period in some cases.

Reorganization cost is divided into two major categories in particular. One is the reorganization cost incurred by the operating companies, and the other is the reorganization cost incurred by the corporate or holding company.

We believe that the reorganization cost that will emerge in the operating companies may in some cases exceed the assumptions made at the beginning of the period. Therefore, we will not change our forecasts at this time. It remains unchanged.

Shareholder Returns

- The dividend per share for the fiscal year ending June 30, 2023 is forecast as 15 yen, as targeted in our Medium-Term Management Plan.
- DOE for the fiscal year ended June 30, 2022 was 5.0%, well above the TSE-listed company average (12 months) of 3.1%.



＜Our shareholder return policy＞

- Dividends are an important part of our shareholder return policy
- Avant aims to maintain if not grow the dividend by focusing on indicators such as dividend on equity (DoE) which is less impacted by fluctuations in annual earnings.
- Avant's DOE is above the average of all companies listed on the Tokyo Stock Exchange, and over the long term Avant aims to reach 8%, which is the average of the top 10% of companies in terms of DOE.

Regarding shareholder returns, we have not made any particular changes to our earnings forecast. As I said, the forecast of dividend per share as a return to shareholders remains unchanged from the original forecast of JPY15 per share.

As for shareholder returns, we have not changed our policy of returning profits to shareholders, so one thing we will do is to increase the dividend per share. In terms of the current forecast, we expect to increase the dividend by JPY2 compared to last year. In addition, we are focusing on dividend on equity, and will gradually increase this indicator. The average for all companies listed on the TSE is 3.1%, and we are always conscious of surpassing this figure and hope to eventually bring it up to around 8%.

Although we will not be able to achieve the goals in this fiscal year's plan and the current mid-term plan, we would like to be aware of this area in the next mid-term plan.

That's all for the H1 results and the full-year earnings forecast.

Question & Answer

Moroi [M]: We will now begin the question and answer session. All participants are currently muted. If you have any questions, please click the raise hand button at the bottom of the screen. I will nominate a person and will unmute his/her microphone. Please note we will answer the question one at a time.

Then, Mr. Hiramatsu, please ask your question.

Hiramatsu [Q]: Thank you for all your help. At the beginning, the integrated report, I thought this was great. Ms. Louise Taguchi, I think it's good to have someone like this, but at the same time, when we interview companies, it's generally like this. ROIC is not calculated at all. When it comes to filling the gap with invested capital, people think it's English at that point.

I would like to ask the President a few questions today. The first one, though, is how to raise the stock ratio, which will be the most crucial part of the next medium-term plan. I was wondering what would make this a breakthrough. First of all, analysts and fund managers go to various companies to ask about DX, and of course, they want to make it cloud-based, open, BI, and visible.

President, for most companies, the point is how to extend the life of their on-premise legacy. In this context, the first thing I want to ask you now is how you interact with each of the customers of 1,400 companies, and what needs you have now. I think that is dialogue and information utilization, but I wonder if people are really capable of doing that, and I also wonder if they are aware that the system is quite old. The current [SIer] is so involved in that area that it has been put off. Please tell us first whether your customers are following the direction of your company's management and what needs they have.

Morikawa [A]: First of all, I think you just mentioned on-premise, which is the area of software that has been introduced so far. Our greatest feature is actually an area that does not originally contain software. Not much in it. To put it in a very extreme way, there were areas that were being handled by Excel and the like. As you say, it is difficult to make changes in areas such as ERP, SAP, and other ERP-centered areas that do not easily lead to the replacement of on-premise systems.

Rather, white space is a very unique characteristic in the area of how to use the information that has been accumulated there. For white space, we are taking a different approach than ERP and are entering the market as a consolidated accounting system.

It's in there because it's a consolidated accounting system, so at first glance it may seem like an extension of the traditional system, but it's actually in a completely different context. The most distinctive feature of this Business Intelligence is that it has entered the white space of information utilization through consolidation.

Hence, it is quite easy to get into SaaS or new cloud-based software. It is difficult to replace the current work with Excel, of course. Instead, we have the theme of how information utilization is used by listed companies in the first place, and how it can help improve corporate value, which is the theme of this time. The point is not to replace tools, but to make it easier to deploy by taking the approach of covering information systems that can be used for specific purposes with software.

Again, it is not a replacement of the traditional system. The biggest challenge for us is to work in an area where it is easy to develop what will be needed in the white space with the characteristics of SaaS.

What is key to improving the stock ratio is exactly software. We do not simply distribute cloud software, but rather, we will provide a software lineup that meets the theme of helping our clients improve their corporate value, and we will provide it with increased value in our own way. If we can expand this area by selecting the right software lineup and providing value-added services, the stock sales ratio will increase.

So, the future direction is still software-driven. The Group as a whole will drag the development of the business centered on software. We are now thinking of promoting the improvement of this ratio by doing such things.

Hiramatsu [Q]: I understand very well. Thank you. You are quite right. Recently, I was surprised to hear that a company with a market capitalization approaching USD1 trillion was managing its operations using Excel. They were using Excel to clear the payments. They have a market capitalization of JPY1 trillion. I see, I understood. You would do SaaS software in-house, and if other companies had good software, you would bring that as well.

Morikawa [A]: Yes.

Hiramatsu [Q]: Then, President, what becomes important there is how much those needs are niche needs. Also, everyone wants to produce results, not software. Every company wants to grow. They want to increase sales more in a shrinking economy.

Then, I think the consulting ability is required. I think you need to know about the industry, know about the data, know how to use the data, and then you can say, well, let's put this software in, or let's put something else in. What will you do about whether or not there is a gap in the human resources there, or the dynamic human resources portfolio, and if there is, how will you fill it?

Morikawa [A]: This is probably the second point of differentiation in the next mid-term plan. The point I just mentioned is the basic framework of the next medium-term management plan. I'm talking about dragging it with so-called software.

The second major hurdle is that, although the value-added in this area may be high, the consultants' skills may need to be highly individualistic.

We are trying to define the theme, and the characteristics of SaaS are not quite as extensive as ERP, but if you had several segments within your group companies, for example, and you wanted to add corporate value on a segment-by-segment basis, what kind of company would you benchmark? So, if we choose a global company as a benchmark, and as a result of that, we can visualize, for example, how much our company should be worth, but in reality, we are only valued at this level, then we can make it visible. I think it is possible to do this.

In this way, the characteristic of SaaS software is to create niche solutions for specific themes. I think that SaaS tends to be less likely to spread if the system can do too much of anything.

Therefore, I think that for the part of the business that covers a large area, we will use the existing structure to provide a conventional SI-type business. We have a hypothesis that by providing SaaS solutions that focus on these themes, we will be able to increase the use of software that supports the improvement of corporate value, which does not require much consulting.

Specifically, we have several themes, including the visualization of corporate value, as I mentioned earlier, and the digitization of workflow from the perspective of DX for the Board of Directors itself. We would like to take on the challenge of expanding this area without the need for the consulting background I mentioned earlier by properly converting each of these areas into SaaS.

In addition, if we hire highly skilled people like consultants from outside the Company, for example, and then drive them to create a business, it will be difficult to obtain and maintain them because there is a lot of competition. The gap between the current members and the new members is also difficult to fill, and this is where the software-driven approach comes into play.

By doing so, it becomes quite clear that this is the kind of skill set that is needed for this software. By making this clear, we can create an environment in which it is relatively easy to say, for example, even if we are hiring inexperienced workers, that if they acquire this skill set properly, they will be able to use it. This kind of software-driven approach will also make it easier to train people, and not require a large number of people with too much advanced knowledge. We need some, but we don't need them in large quantities. The second pillar of our plan is to create a business model that increases the value-added of human resources in a relatively efficient manner by combining these two aspects.

Hiramatsu [Q]: I see. I understand. So if you narrow it down, you can specialize in that, rather than consulting on everything. At this point, have such human resources already grown enough for the first and second year of the mid-term plan, or has your company already established a system to train them?

Morikawa [A]: It's not a cake of a picture at all, but a seed from which a sprout has sprouted. We have an organization leading such consulting, and we are actually making proposals to customers. Regarding the area of software, although it has not been made public yet, the prototype has already been completed. That is why, we have reached a certain level of proof.

Hiramatsu [Q]: So, when you say you are ready to start the mid-term plan, some products are already available in a certain lineup, and some people can provide niche-specific consulting.

Morikawa [A]: Yes. It is a de minimis but.

Hiramatsu [Q]: No, no. Yes, that's true because your main business is also in good form. I understand. Also, this has nothing to do with that, but what do you think of a ChatGPT from the President's point of view, and ultimately, I heard that there is a great need for AICF, from large companies to medium-sized and small companies. Looking at it, I still think AI would be essential. I am not sure if the implementation of AI, not just ChatGPT, is already at the gate.

Morikawa [A]: After all, I think that we have to take on the challenge of AI implementation itself, including research and development. In fact, I have been trying to see if I could use AI and ChatGPT as my partner, asking them various questions and so on. After all, the past information is summarized properly to some extent. I think it is very easy to use, for example, as a system for searching information within a corporate department, to summarize scattered information, while leaving aside the question of certainty.

I think this BI, or data utilization, which is a bit different from the conventional level, is easy to do. In the past, I would ask Mr. Moroi, for example, what was going on and have him look up the summary and do it for me, but I think that could be replaced to a large extent.

However, on the other hand, as for how to create the future, on the contrary, ChatGPT seems to refrain from answering on purpose. When I asked such a question, it gave me a very elaborate excuse, which in essence meant that it could not answer, but I thought it was a very elaborate excuse and a great system. I still feel that it is not very open from the viewpoint that it cannot be held responsible for the future.

From the perspective of our area, I think that 90% of the time, the current corporate planning and other departments probably spend most of their time compiling information, and I think that it is useful in that area.

On the other hand, I feel that if we divide the roles of the future part of the system, such that humans spend more time on the future part, it may be usable for the time being.

Hiramatsu [Q]: I understand. When I saw that, I really thought about it. I thought that we really don't need white-collar workers who don't add value.

Morikawa [A]: I think there are various areas of consulting, but I think the reality is that there are a lot of system implementation, or rather, system implementation consultants. I don't think this area will be affected so much. There is talk of being able to do it with programme automation, but I'm not sure if it's going to be affected right away yet.

On the other hand, I think that the areas of individual consulting, or the provision of various ideas to small, medium, and mid-sized companies, are more fact-based and performance-based advice, so I think that these areas will be hit hard.

Hiramatsu [Q]: That's right. When a professor couldn't distinguish the student's paper from the paper by ChatGPT, I wasn't sure if the ChatGPT was great or if the professor was naive, but, well, I guess so.

By the way, last but not least is the integrated report. I would love to see the rest of the story about Ms. Louise Taguchi. I would like to know what happened in the end. I would like to know whether or not Louise will play an active part. Whether or not she will combat Rainbow. I think that perhaps Louise will try to use AVANT GROUP.

Morikawa [A]: You are quite right.

Hiramatsu [M]: Sorry. Thank you. All clear now. Goodbye.

Morikawa [M]: Thank you very much.

Moroi [M]: If you have any questions, please feel free to ask. If there are no other questions, we will conclude the briefing. Thank you very much for your time today.

Morikawa [M]: Thank you very much.

Moroi [M]: Today's video will be archived on our website at a later date. We will also be uploading scripted materials for your reference. Also, after this, the screen will be switched to another screen asking you to fill out a questionnaire, so please cooperate in filling out the questionnaire.

Thank you very much for your time today.

[END]

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