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AVANT Corporation

Financial Results for the Fiscal Year Ended June 2018

September 5, 2018

Event Summary

[Company Name]	AVANT Corporation	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results for the Fiscal Year Ended June 2018	
[Fiscal Period]	FY2018 Annual	
[Date]	September 5, 2018	
[Number of Pages]	27	
[Time]	15:00 – 16:03 (Total: 63 minutes, Presentation: 39 minutes, Q&A: 24 minutes)	
[Venue]	The National Museum of Modern Art, Tokyo B1 Auditorium 3-1 Kitanomaru Park, Chiyoda-ku, Tokyo 102-0091	
[Venue Size]	213m ²	
[Participants]	39	
[Number of Speakers]	2	
	Tetsuji Morikawa	President, Group CEO
	Naoyoshi Kasuga	Director, Group CFO

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Presentation

Nakayama: Thank you for waiting and thank you very much for taking the time to attend our event. We would now like to open the earnings brief of AVANT for the fiscal year ending June 2018. I am Nakayama at the group management office. I will be the moderator of this earnings brief.

At the beginning, I'd like to ask you a favor: food and drinks are not allowed in this art museum apart from on the stage. We apologize for the inconvenience and appreciate your cooperation.

Now I'd like to start by introducing the speakers from the company. From the left-hand side: Morikawa, President and Group CEO, and Kasuga, Director and Group CFO.

First, Director and Group CFO Kasuga will deliver a presentation on highlights of the consolidated financial results. Mr. Kasuga, please.

Agenda

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- I. 2018年6月期の決算概要
- II. 2019年6月期通期業績予想
- III. 株主還元策
- IV. AVANT Group中期経営計画
- V. 質疑応答

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Kasuga: Nice to see you, I'm Kasuga, Group CFO.

This is the agenda I'm covering today. You can see the agenda over here. I would like to briefly explain the parts from No. 1 to No. 3, and the group CEO will talk about No. 4. Finally, we would like to answer your questions as long as time permits.

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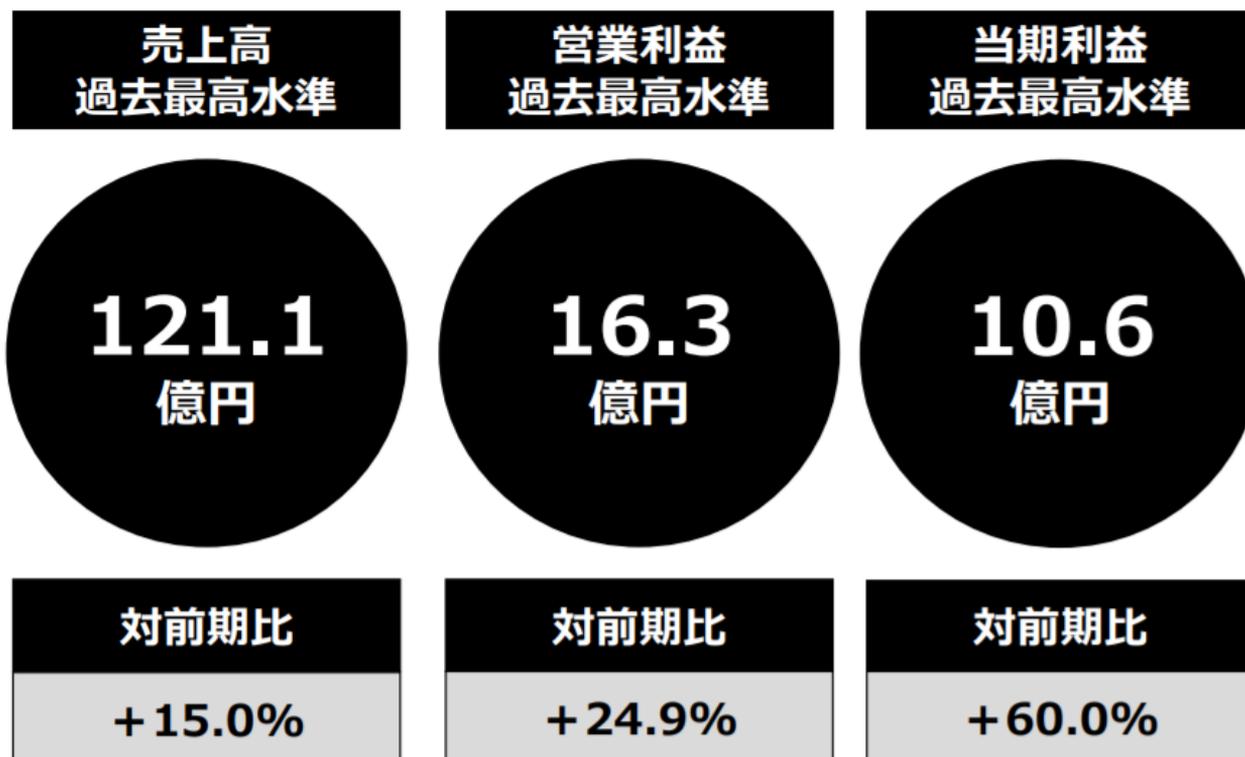
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I -1. 2018年6月期の業績ハイライト

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Here are our consolidated financial results of the last fiscal year ended in June. As you can see, net sales were 12.1 billion yen and operating profit was 1.6 billion yen. Net income exceeded the 1 billion mark for the first time last fiscal year. Both achieved record highs in our history of 21 years.

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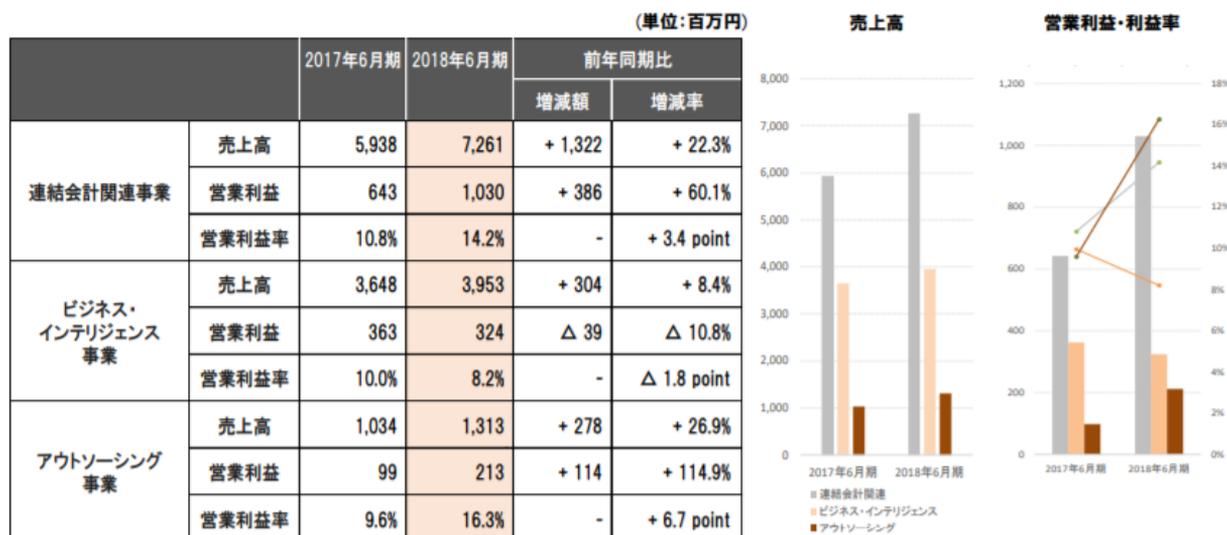
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I -2. 2018年6月期 事業セグメント別

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- **連結会計関連**：売上高が対前年比22.3%増となる一方で、人員増加見合いの費用及び外注費の増加などを吸収した結果、営業利益は前年比60.1%と大幅に増加
- **ビジネス・インテリジェンス**：売上高は3,953百万円と過去最高水準に達したものの、人員増加に伴う費用が膨らみ、営業利益は前年比10.8%減少
- **アウトソーシング**：売上高は前年比26.9%増と高成長を維持、また、営業利益についても引き続き高い収益性を確保しながら、前期比2倍以上の増額



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As a background, especially all three companies which currently operate business changed their way of disclosure from last year. The segment information is categorized into the consolidated accounting related business, business intelligence, and outsourcing business. Basically, they correspond to each business of the three main companies and are the same as the respective company's non-consolidated results. The consolidated accounting related business, business intelligence, and outsourcing businesses all increased net sales.

Although the business intelligence business saw a slight decline in profit, the other companies significantly increased profits, so operating profits also surged YoY on a consolidated basis.

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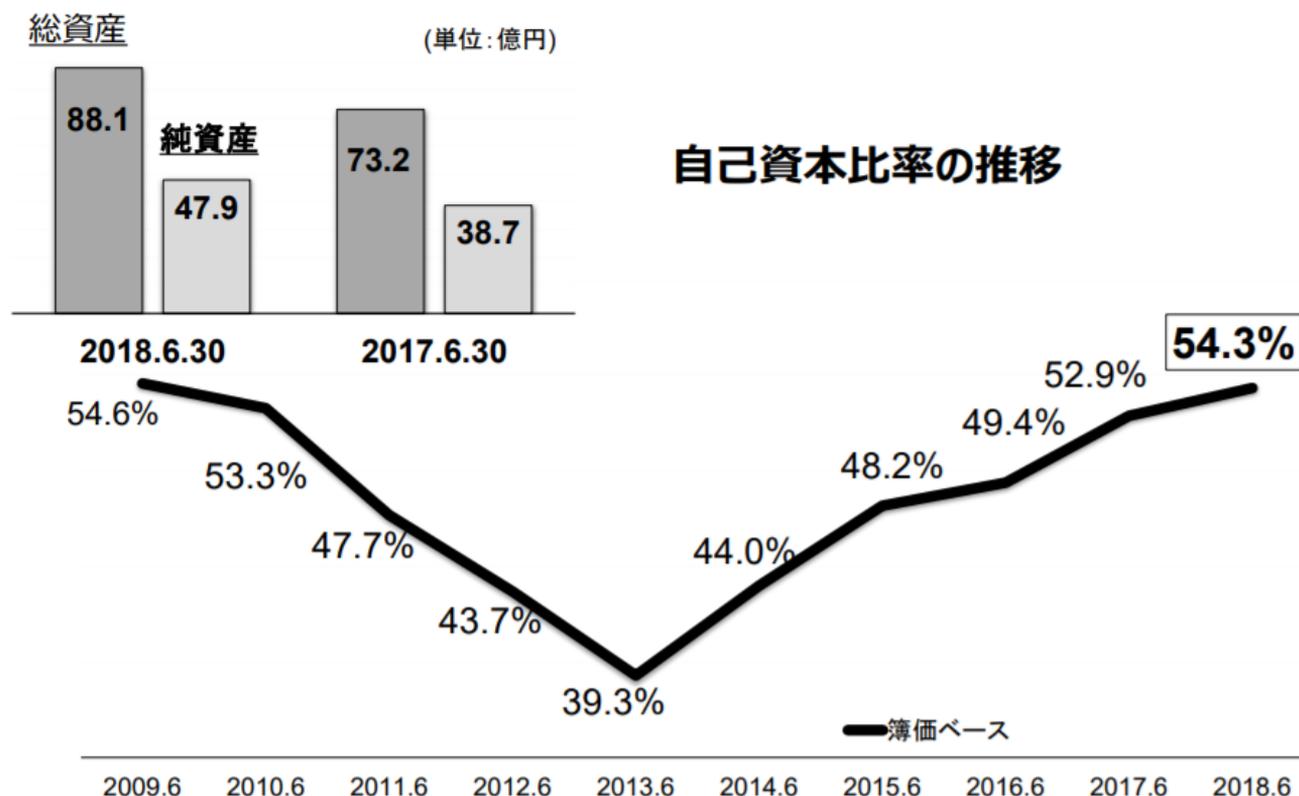
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I -3. 2018年6月期B/S(財務)概況

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Looking at changes in the balance sheet: capital equity ratio was 54%, and the loans borrowed from banks were eliminated last year. We had been virtually loan-free from before, and the balance on the balance sheet also became zero.

Cash has been accumulating, and we are receiving some comments on this: we have a cash balance of 4.5 billion yen. Setting aside working capital and other necessary amounts, and since we also have a 1.5 billion yen commitment line set at banks, it means we may be able to allocate 4.5 billion to nearly 5.0 billion yen in strategic investments going forward.

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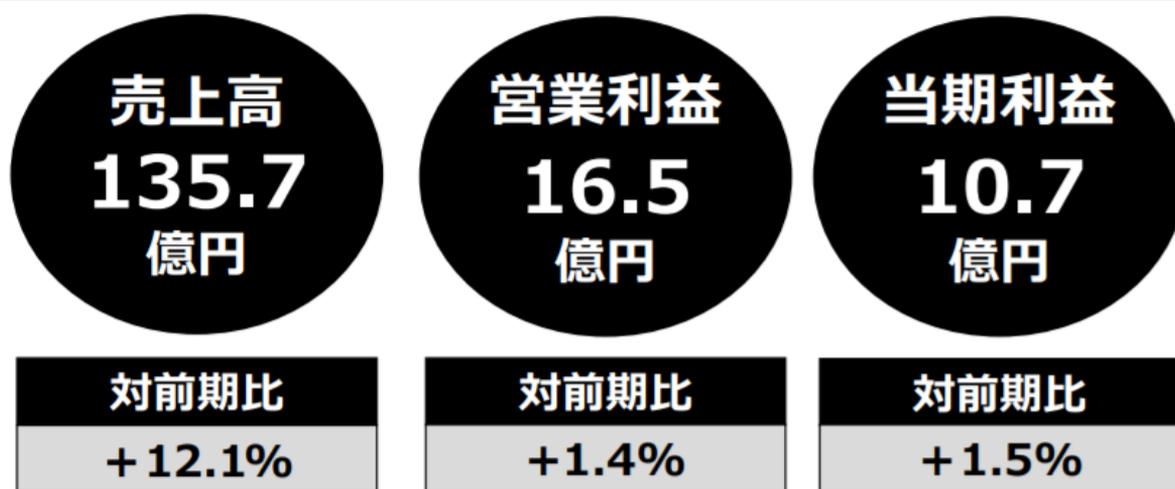
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Ⅱ. 2019年6月期の業績予想

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- 営業利益・当期利益共に以下の諸事項を勘案して前期から微増と予想
- 2019年6月期に想定していたライセンス販売が前期末直前に実現した結果、前期売上として前倒しで計上
 - 知的財産の開発や蓄積に繋がる大型かつ難易度の高い案件に取り組むことによる一時的な収益性低下の可能性
 - ビジネスモデルの転換を図る目的の研究開発や、新事業の創出および育成など、将来の成長を支え企業価値向上に貢献する活動への投資



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This is the current fiscal year's forecast, for the full-term ending June 2019. We expect net sales at 13.5 billion, as a result of double-digit growth. The growth in operating profit and net profit is very small, and we are asked by investors we've met so far why the growth rate is so low. As we show here, there are three factors.

The first factor is a rather limited one, but for the second and third – especially the second: we currently have several major projects ongoing, and as has been the case from before, we are sometimes doing development as a part of the project. In that sense, when looking at a single standalone project, sometimes the profitability worsens temporarily. But we are often able to complete a product as an outcome of the project, and we are also developing the products to be deployed in other companies, so in this situation, we hold the assumption that profitability may decline on a temporary basis.

Another factor is for the purpose of building more pillars for future growth: we are planning to create new businesses alongside bringing commercial products from overseas. We are currently planning such activities at AVANT, the holding company. We are preparing to build a new team structure and investments for this purpose. Considering such factors, the operating profit and net profit are both expected to grow only slightly.

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Ⅲ. 株主還元策

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- 2018年6月期については、1株当たり10円との期首予想を決算状況を見て、1株当たり12円に変更 (対前期比4円、50%増)
- 2019年6月期は、対前期比3円増配して1株当たり15円と予想

1株当たり配当金の推移(株式分割の効果調整後)

	2012年6月期	2013年6月期	2014年6月期	2015年6月期	2016年6月期	2017年6月期	2018年6月期	2019年6月期
	実績	予想						
1株当たり配当金(円)	1.0	2.3	6.8	4.5	5.5	8.0	12.0	15.0
純資産配当率 当社	1.30%	2.48%	5.84%	3.25%	3.41%	4.18%	5.20%	5.40%
(参考)東証上場企業平均	2.24%	2.28%	2.39%	2.43%	2.64%	2.78%	2.85%	-

出所:日本証券取引所グループ統計月報より作成; 2018年の上場企業平均純資産配当率については、2017年6月から2018年5月までの12ヵ月で算出

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As for shareholder returns, we changed our return policy and dividend policy about three years ago. For dividends, although you are institutional investors, we also have a very large number of individual investors as well. We still have a very large number of individual investors. Such investors are expecting to receive constant dividends, and our policy is to maintain the dividend basically so that the amount does not fall below the previous fiscal year's level. Meanwhile, we are also aware of DOE (dividend on equity), which we are hoping to keep raising gradually.

For your reference, this is the overall average of the companies listed on the Tokyo Stock Exchange. For the last fiscal year ending June 2018, although we have not gained approval from the shareholders yet, we are currently planning 12 yen per share. In terms of DOE, our ratio is 5.2%, while the TSE average is 2.85%, so we are at a much higher level than the market. We are hoping to maintain this level, keeping eye on this ratio from next fiscal year onwards, while increasing dividend per share. The forecast for this fiscal year is 15 yen per share, a 25% increase in payout per share.

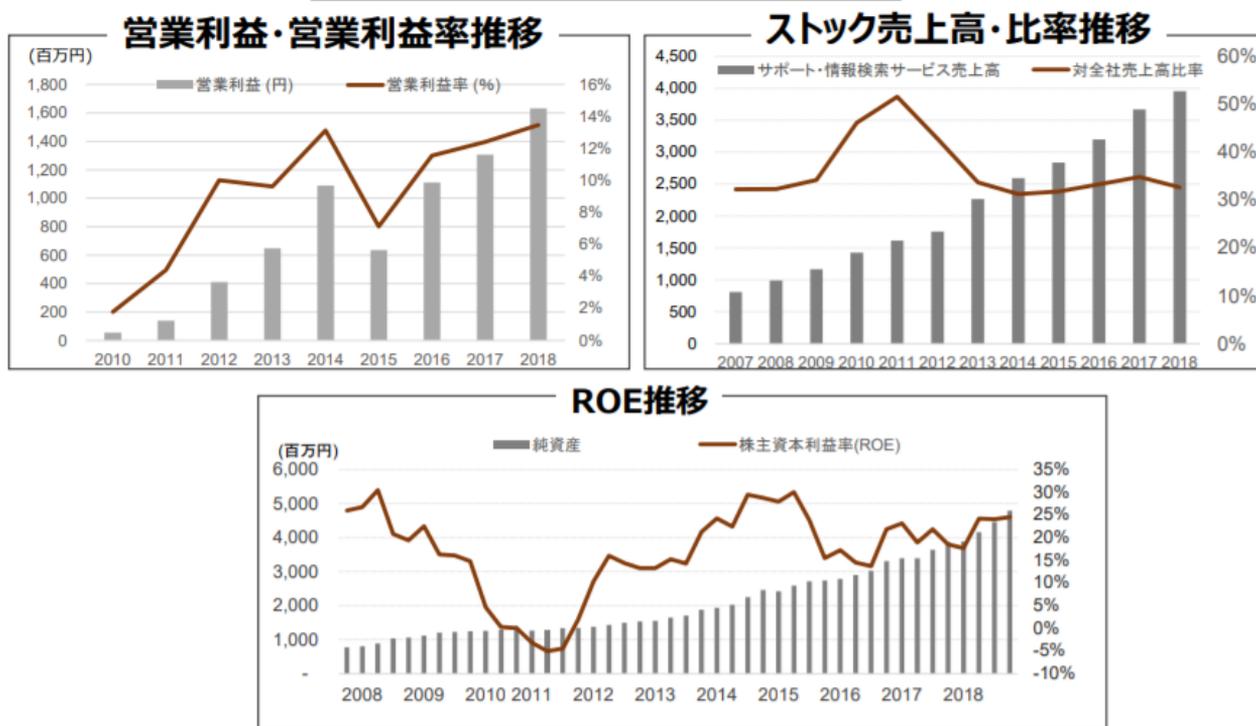
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当社の重要な経営指標の推移



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Lastly, these are what we monitor as KPIs. One is growth in the amount of operating profit. There is also profit margin, but we regard the growth rate of the profit as one KPI. Another is ROE, which we believe institutional investors and other stakeholders are highly interested in. We will keep showing the ROE level going forward.

This will be explained by the Group CEO, but the ratio of stock business sales: basically, the percentage of recurring revenue we receive every year within total sales is set as a new KPI. We will also disclose this at least once a year, so you can see the progress.

At the very least, we will continue disclosure of the three metrics in this table, so you can measure our progress against our plans.

I'd like to end my short presentation, and I'd like to take questions later on. I'd now like to hand over to the CEO.

Nakayama: Now, President and Group CEO Morikawa will give a presentation on business strategies. Mr. Morikawa, please.

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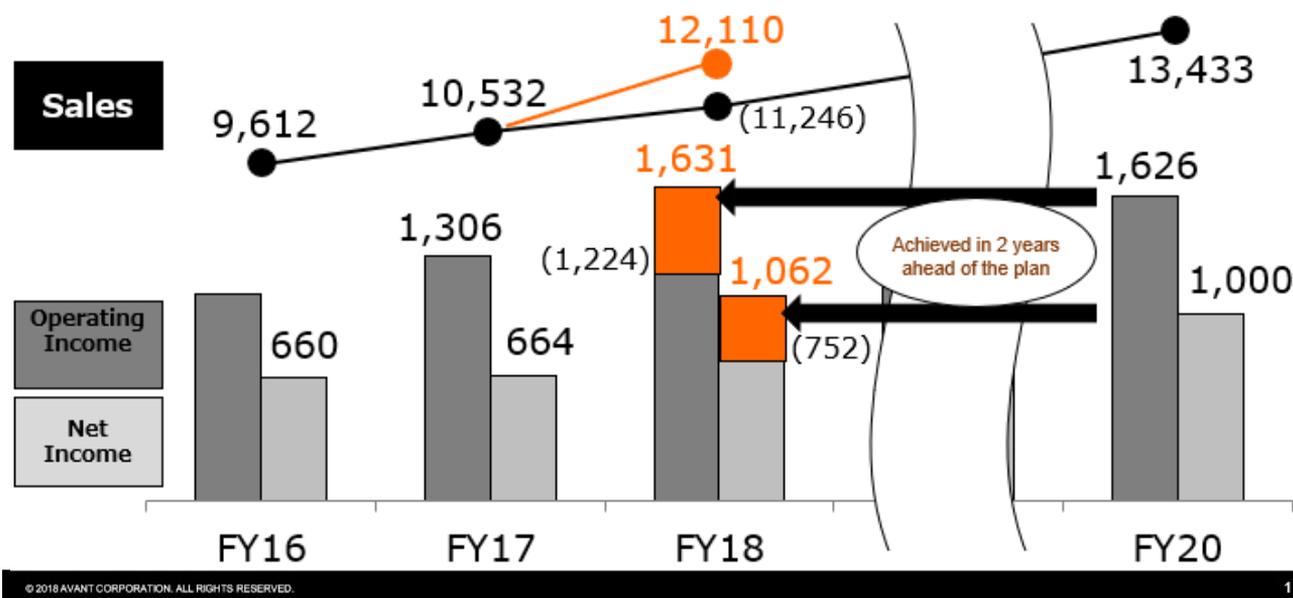
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前中期経営計画について

前中期経営計画（FY18～FY20）で目標とした「純利益：10億円」についてはFY18に2年前倒しで達成することができました。このため、新たにFY19～FY23の5年間について中期経営計画を策定いたしました。



Morikawa: Hello, everyone. I will walk you through our new mid-term management plan titled BE GLOBAL 2023. We will strive to move forward in the direction set in this plan over the next five years.

First, I'd like to review past performance. Originally, we should currently be in the midst of the five-year plan set three years ago. However, the top focus in this five-year plan had been to build up a scale of 10 billion yen as a group. We were also going to shift our focus to profitability: before that we were focused on scale, but we also decided to shift our focus on profits and profitability while expanding the business.

Therefore, the mid-term plan was split in half: the assumption was to achieve 10 billion yen around the middle of the five-year period, and afterwards boosting profitability, so we shift our business model to generate around 1 billion yen in net profit in five years.

However, we were actually able to generate 10 billion yen in sales in the second year of the plan. In fiscal 2018, we strengthened our focus on profitability, or value we can generate as a group. As a result, we were able to achieve the profit level initially planned for five years later. We decided that this mid-term plan should be regarded as over and new targets should be set.

The part I'm talking about today is about the newly set targets. I'd like to share the background on how this company started: my previous job was at the consulting firm PriceWaterhouse Consulting, and since the time I was a student, I have been extremely interested in business information systems. I attended a marketing seminar, and my graduation thesis was on business information systems. I was interested in how to create

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systems that are useful for decision-making, and how to utilize them, and I really liked software, so I would make my own systems to find things out. I've had strong interest in this field all along.

I joined a consulting firm, but I didn't use the expression "consulting" when I was talking with my clients: in the beginning I was calling myself a programmer or SE, and above all, I loved to offer custom-made solutions based on the clients' needs. I was very interested in such projects, and there was a period when I was actively increasing project orders. Working like that for three or four years, however, I noticed that the price I could charge my clients became about three times that of my colleagues. The unit price of me and other consultants who joined the firm in the same year were different by about three times.

This made me wonder what was happening. Actually, today this has become a de facto standard, but a software product called SAP had just entered Japan, and PW was taking initiative in expanding it. During that time, I saw firsthand how a service that provides a cluster of advanced knowledge, or cluster of IPs, can fetch a very high unit price.

This experience made me seriously think about the value of the work I was providing. In a society where this kind of service increasingly plays a central role, I started having a strong sense of urgency that unless I have a business foundation where I can accumulate IP itself, I may eventually be earning less and less.

Therefore, the starting point of our business is my previous job. It doesn't matter whether I say Japan or Asia, but in order to have a company that can contribute to the regions we are in or close to; I realized that it's critical to build a business that can accumulate IP on its own. That is how this company started out.

But as we move forward, it's impossible for us to suddenly compete with SAP and win. So rather than winning or losing, we focused on IP, and since it is naturally how we contribute to our customers, gaining customers' trust. We figured that if we are able to create a robust business that would steadily build up trust and IP, we would eventually be creating a company that can compete at the global level. And that would also contribute to the society the company was founded in.

With that as the starting point, we decided not to talk too big but start with steady steps doing what we can do. That said, the span was quite long for a startup, with 10-year milestones. In the first 10 years, our aim was to become a top vendor in Japan in a certain area of software, however narrow that area may be.

The timing was also when consolidated accounting became mandatory, so we expected external pressure would boost needs in this area, and we would be able to capture a certain portion of the market if we focus our business information system thoroughly in this area. We would be able to aim for the top. This is how DIVA was developed as our focus product for the first 10 years.

But this is not where we stop, and we planned for our next steps. To accumulate IP further, we figured that the business scope should be expanded beyond a very limited area. We shifted to group management to incorporate different business models.

That said, without significant business resources, we can't keep aggressively buying businesses, so as a result of cautious deliberation, we ended up having much more deals we declined than accepted among the fairly large number of offers. We narrowed our focus on opportunities where we can truly contribute to our customers, and which would be useful as a part of the group. The next 10 years was a period when we shifted to group management while aiming to achieve the minimum benchmark of 10 billion in sales.

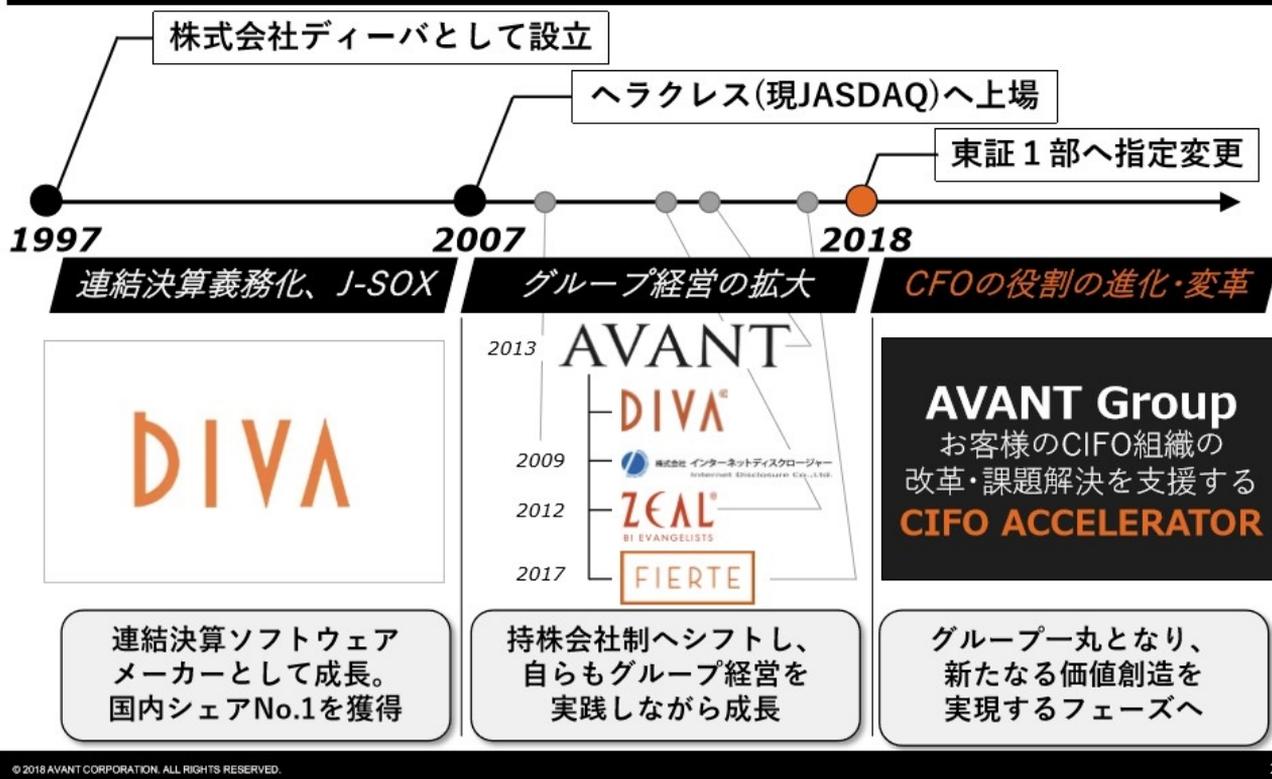
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We have some areas where we've entered the phase of the next 10 years. But it took quite some time to set targets for the next 10 years, and as we started as a company aiming to create world-class software, our attention was caught on going global, to sell our product globally.

But we have to properly understand overseas markets for that. We also have to understand the tactics of overseas software vendors, so we expanded our network significantly while adding overseas talent into the management team. As we constantly discussed our strategy and whether its objectives are achievable, we decided that the next 10 years should be "BE GLOBAL" instead of "GO". That means we can bet on the markets we are the most competitive in, while we first focus on bringing our level to world-class by globalizing our organization. That alone would take 10 years, so we set the target "BE GLOBAL" as the sole focus. That's the context of this 10-year plan.

Once the target was set, we discussed what to work on first, and we decided to start by integrating our customers by the whole group. We hadn't been so clear on this before, but we decided to put our singular focus on the customers, to contribute to the same group of customers. Rather than simply offering functions and specific services, we can actively expand our set of solutions to tackle the issues our existing customers are facing. That approach would be much more helpful for our customers, and as our target is not to sell in large quantities, we decided on this thorough customer-focused approach.

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CFO組織のデジタル化

当社グループでは、現在のCFO組織のデジタル・トランスフォーメーション関連マーケットは1,800億円程度のサイズと考えています。

一方でCFO組織を含む日本のホワイトカラーの生産性改善はGlobal水準に比べて大きく出遅れており、大きな改善の余地がある、つまりは市場の伸びが予想できる状況です。

当社グループでは、2023年までに、当該市場は年平均13%前後の成長で3,400億円程度の規模に拡大すると予想しています。



That leads to the organization of CFOs. One major direction we set in the last fiscal year was to contribute to the same group of customers with different solutions.

You may ask whether we have growth potential by focusing on the CFO organization, but when building a corporate business, I believe the location is the most important factor. If we position ourselves in a market that doesn't grow, we will not grow however hard we try. On the other hand, we would grow if we position ourselves in a growing market. And if we are an excellent player, we would grow even more. The important factor is to understand our current capabilities and position ourselves in the market that grows the most. We are extremely careful with our positioning.

We also have to avoid being lost in an apparently growing but overly competitive market. So, we further segment the market and identify the areas that would grow and also where we can become number one. It is very important to discover these areas, so we are always careful in this part as well.

Our business is supported by our customer base. There are about 1,000 companies, mainly publicly listed ones, that use the system provided by the company DIVA. The most important point is to focus on these customers. About the potential of expanding related services, including outsourcing service and SI service using business intelligence: making a rough estimation, we are positioned in a market worth about 180 billion yen, and adding up the components of the market that are bound to grow, it is likely to reach at least 340 billion in five years. This is not overstating, and we aren't using external sources for this calculation. We are not saying that this would happen because a certain source is saying so, but we are adding up the potential we are feeling in the market, to predict how far it would grow, to reach this figure.

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We expect the average growth to be about 13% in CAGR. This was also a major discussion point in the executive meetings. At first, I hid these figures when talking about expansion into the global market, but I was asked whether that was really going to take place and what was the situation in the market we operate in. I explained, and I was immediately told: just focus on this market. It made perfect sense.

The market has this level of growth potential, and the officers and advisors are very close to the CFO organizations, with extensive knowledge of the market, so it is not only an internal belief, but this growth potential is in a sense verified by the consensus of these people.

We are aiming to be an excellent player in this market with CAGR 13% potential. We are not trying to match this average growth, but aiming to become the top player, so we are looking to about 20% growth. With a good position in the market, our focus is now to concentrate on running our business.

Our aim is to make a major contribution to the digital transformation of CFO organizations, as they face the major issue of how to grow out of existing practices and utilize the diverse information environment.

BE GLOBAL 2023

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CIFO ACCELERATOR

当社グループは、私たちのミッションである「経営情報の大衆化（経営情報を未来の地図に変えていく）」を実現すべく、ソフトウェアを用いて企業のCFO（最高財務責任者）組織のデジタル・トランスフォーメーションを推進しています。

当社グループは、デジタル化された情報を操り、企業の意志決定を支える現代のCFOを「CIFO」と呼称し、“見える化”・“使える化”・“任せる化”という多様な手段で、このCIFO組織の行う革新の推進役を担う「CIFO ACCELERATOR」となることを志向して事業活動を行っております。

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In terms of the image and branding, we set out the term “CIFO ACCELERATOR”, which may sound unfamiliar, but it reflects our aim to provide various solutions to accelerate the digital transformation of CFO organizations, as well as changes in their mindset, or cultural transformation.

We haven't clarified what I in CIFO stands for, because it can be changed afterwards in different ways. It can generally be thought as the combination of Chief Information Officer and Chief Financial Officer, but “I” may

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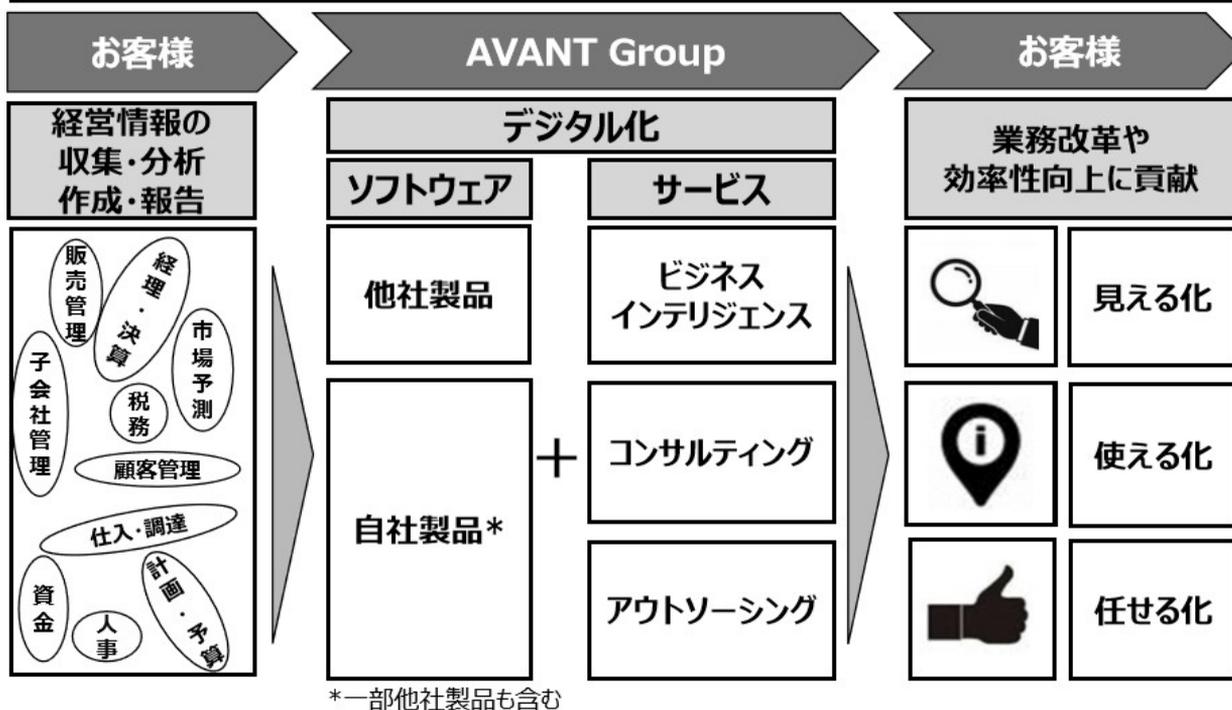
also stand for Intelligence or other words, so it's possible that "I" can stand for different things in the course of the advancement of the business.

This "I" is very convenient, so we put it in to show that it's not just "F". Going forward, CFO organizations come with "I". It may even stand for "love" ("ai" is the Japanese word for love). We created the term CIFO to work on this area, and we are looking to strengthen our branding that we are an accelerator of this movement.

BE GLOBAL 2023

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The key for this CIFO ACCELERATOR business model is how to accumulate relevant IP and trust. It's not simply to increase the number of customers and grow sales and profits, but how we can create the environment at our hands to be capable of accumulating IP in larger quantities, and of course, how to accumulate customer trust together with the IP.

When considering how to accumulate IP, first we have to be trusted by our customers for them to disclose their knowhow to us. One-time deals make things difficult. One point is to maintain long-term relationships with a sharp focus on building trust.

In order to absorb and organize experience, I believe it's very important to repeat the same thing over and over again. Rather than doing different things each time, the thorough repetition of the same activity allows us to extract some essence. In that sense, something like outsourcing is a very useful environment where we can accumulate IP, because we always repeat a certain type of activity. By expanding such areas, we can have the knowhow naturally shared by our customers, and we can first learn it by ourselves. Through providing such an environment to our members, the people who learned through experience can transfer that essence into our software. Unless you have the experience by yourself, you tend to bring in knowledge that is not

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usable. There is something in feeling that despite what's written in a textbook, the reality is different based on your own experience. We believe it's extremely important to provide this kind of opportunity not to just a limited range of members, but as many members as possible and lead that to accumulation of IP.

When asked why we engage in outsourcing service, we can explain that it's for our customers, but actually this is the key: How we can create an environment to accumulate IP. We believe outsourcing itself is a very useful means for this purpose. We don't engage in a wide scope of outsourcing, but instead specialize in our areas of strength, and what I explained is the background of this narrow focus. We are moving in a direction to keep strengthening this business model through such activities.

Recently there are various initiatives involving AI: for us, the utilization of AI is regarded as a foundation to accumulate knowledge. Rather than replacing existing work, if we use it as a basis for consultants to accumulate knowhow, AI is by no means an opposing force but a basis for each consultant to raise productivity.

There are various types of AI, but basically in this area, the level of the old generation expert system is useful enough. It's not necessary to make large-scale investments or to follow the latest developments, but partly using existing AI products as the basis to accumulate knowledge is a very effective way to utilize the technology.

One example of what we are aiming for: to accumulate knowhow, knowledge, and IP under our ownership to raise the value of contribution to our customers, while raising our own productivity. As I already said, we will be focusing our efforts in this area going forward.

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AVANT

AVANT Groupの目指す姿

< BE GLOBAL > 世界に通用するソフトウェア企業となる

当社グループは

- ✓ CIFO ACCELERATORとして
- ✓ 世界に通用する知的財産（ソフトウェア）を持つ
- ✓ 高付加価値企業となる

ことを志向して事業活動に取り組んで参ります。

なお、「世界に通用する」ことを目指すものの、当中期計画期間は**国内市場を優先**して活動いたします

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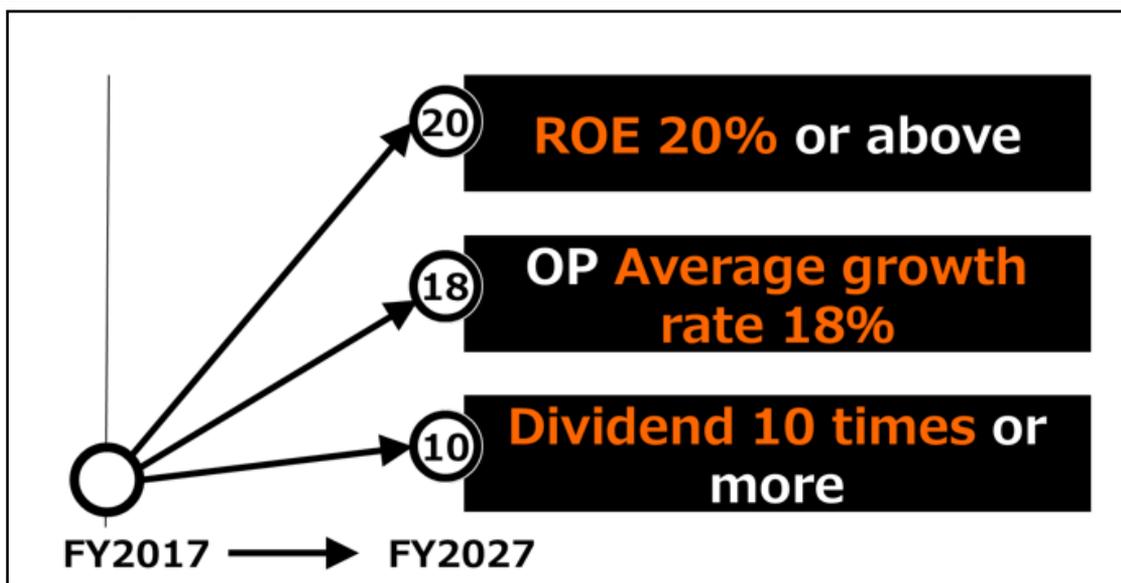
So far, I've been talking about how to be useful to our customers and what kind of business model we put in place. On the other hand, we have our starting point. We have entered our third step to become a world-class software vendor, and our big picture in 10 years is to become a CIFO ACCELERATOR that is the number one player in a certain area - a software provider that anyone in a Japanese listed company would recognize. That would be based on a significant number of customers using our product. We'd like to be recognized as a de facto product. We want to be a company that has such a brand recognition and on top of that, our own IP, whose level has to be world class. And our business must have high added value. Talking about high added value, the value of a company is ultimately shown in the stock price. We checked the globally relevant software companies and found that they have a certain scale in business value. We also have to gain this value in order to keep operating as an independent business - operating in Japan, we had been regarding business value as something rather vague, but when aiming to reach a global level, we have to regard the business value in the form of stock price and market cap. This is not our target in itself, but we have to be aware of it and use it to check whether we have a business model that can contribute to value creation, and whether we are taking action to raise that value. In the first five of the 10 years, we will strive to bring our value to that of a world-class software company.

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AVANT Groupの長期経営目標

前期に策定した長期(10年間)のパフォーマンス目標は堅持



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Of course, there are corresponding figures: as long-term targets, we are aiming to maintain ROE in the 20% range, OP margin CAGR of 18%, and boost dividends by 10 times or more. The dividend will be depending on the other two figures, but we will not be changing this part in particular.

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AVANT Group Mid-term Target

	FY18		FY23
Sales	JPY12B	➔	JPY18B~22B
Stock Sales Ratio	33%	➔	70%
Operating Profit	JPY1.6B	➔	JPY3.1B~3.8B
Growth Profit Point	28.5pt	➔	over 40pt
ROE	24.5%	➔	over 20%
Dividend	JPY12	➔	over JPY30

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On the other hand, we have set some new indicators needed to shift the structure of our business. They are shown here. Net sales, ROE, and dividends are not the major focus points, but as a measure to see whether we are successfully creating an environment in which IP can be accumulated, we set the ratio of sales from the stock business as a critical indicator. Its current level is 33%. We are trying to raise this to 70% in five years. That is not achievable by continuing our business in the current way. The ratio for outsourcing is 100%, and one way is to expand this part.

Meanwhile, we have some SI-type business in certain areas, but we are trying to discontinue the simple SI model. We are trying to shift the service to something that allows for a more continuous relationship with our customers. We have already started this move. Through these efforts, although we still have quite a large gap, we want to be sure to pull the ratio up to 70%, and the business plans of our individual companies are focused on how to raise that ratio. That's always in mind when we consider how to prepare next year's contracts and what actions to take. When we bring new commercial products, we check whether they would contribute to this factor, and we are moving forward step by step.

Skipping OP, another point is the sum of sales growth and OP margin. To understand the performance level of globally relevant software companies, we talked with various software vendors – mainly in the US – as well as venture capitalists and PE people for the past four years. Based on what we learned, I came to the understanding the sum of these two ratios seem to be key.

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If a company is simply focused on profit, the growth in scale tends to be compromised. But after all, scale is regarded as very important in the case of software business. When valuing scale while attempting to strike the right balance with profit, the sum of growth and profit margin proves to be quite useful.

Based on the input of various people, my own calculation of the baseline level is 40. If the sales growth and OP margin add up to over 40, the company should have become quite an excellent software company.

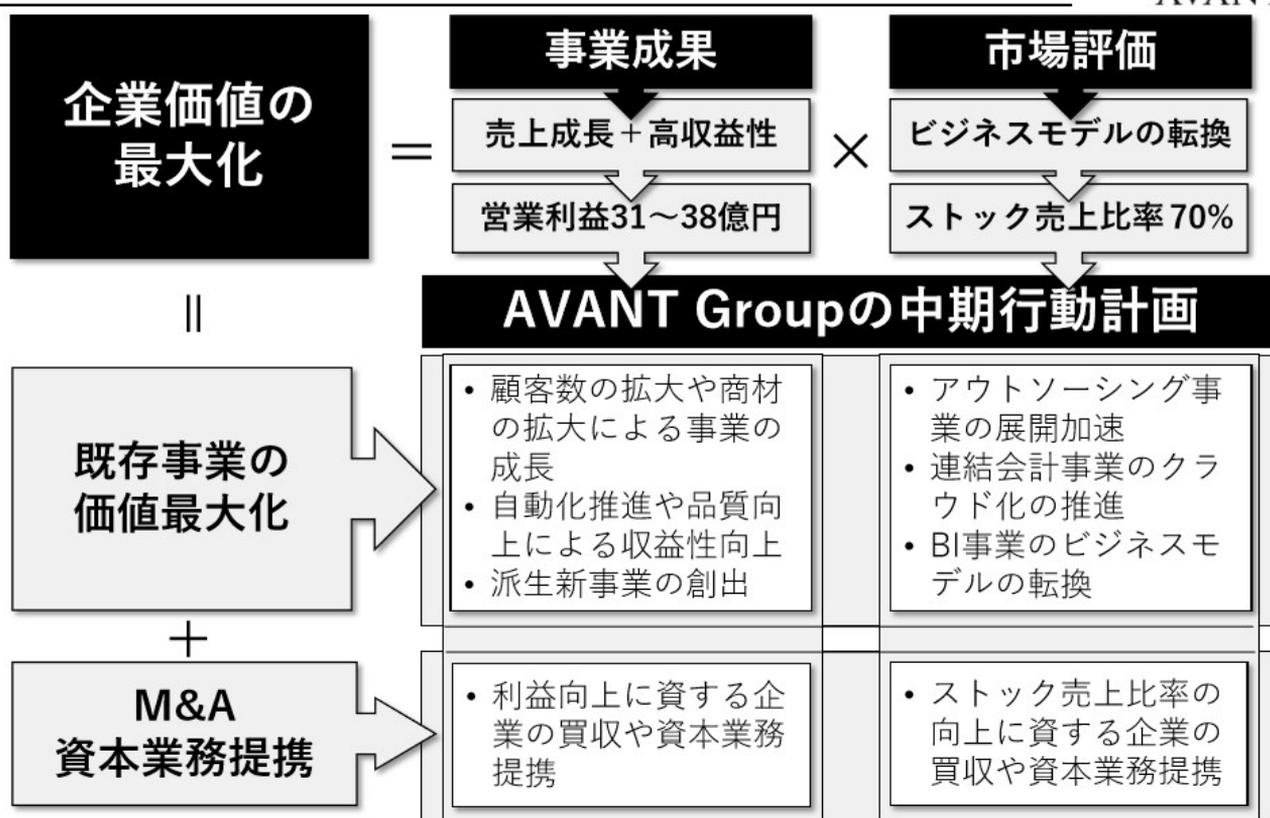
With our existing business model, around 35 would be the limit. By adding 5 to this and have the members of each company to actually feel that this is not just an extension of what we've been doing so far, and to drive forward the transformation of the business model, we set the target to bring the sum of sales growth and OP margin up to 40. To achieve this, we have to accumulate more IP, and gain value against it. This is achievable only through a major transformation.

Suppose the company's sales is around 20-30 billion yen, and this GPP40 is already achieved, in the US this company would be valued at around 100-200 billion. That's a fact that exists in the world, so the aim to realize fundamentals that are comparable to such companies is the reason we set this target.

You can calculate back the OP margin, so it's not such a priority for us, but anyway for the next five years, we are focusing on how to improve the percentage of sales from stock business, as well as the sum of sales growth and OP margin which we call GPP.

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Lastly, I'd like to show the structure with which we execute our plans. Basically, we are going to focus on maximizing value of our existing businesses. Before giving up growth and bringing something from outside, if

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we have any potential to grow, we should focus thoroughly in that area. In that sense, our main focus is to maximize value of our existing businesses.

The structure is divided in two parts: as fundamentals, there is the flow from GPP to OP, but ultimately this is a matter of EPS. To raise earnings per share, we will put our efforts into improving the fundamental aspects of our existing businesses. But that alone would not determine our corporate value, so another point is the market valuation, shown on the right-hand side. This is a matter of PER. This is affected greatly by the areas we are located and what business model we have in place. We will steadily and carefully shift ourselves into a position where such factors would be valued highly and appropriately, as an effort to build corporate value.

The left-hand side shows an area where we have to work steadily, while the right-hand side is a question of what is a business that grows, and how we can change the structure of our existing businesses, rather than leaving them in their current shape. We will be focusing on shifting to stock business, and not by depending on manpower but more on areas that can be digitalized and automated.

Our next attempt is to use finance and utilize M&A and capital partnerships to our advantage. However, this is not to expand scale but to drive forward structural transformation, so we have set restrictions. We will never say that any opportunity is welcome: we have set quite strict criteria, and whatever doesn't meet them are out of our consideration. We also avoid offers from somewhere else. We will only work on opportunities we decided we want to. These are restrictions we set in order to execute our strategy, but basically, we will do something. M&A is one option at hand in our ongoing structural transformation. These are the efforts we will be taking in the next five years.

Therefore, although we have been talking about relatively linear sales and profit figures when discussing our five-year plan, this time we just set the target to be achieved in five years, and we will be taking whatever action needed to ultimately bring us to that level. Since it's quite difficult to describe that in specific terms, we will update the progress with solid explanation. We have set this mid-term plan and targets in this way to take action and meet our goal in five years' time.

That's the end of my presentation. After this, we'd like to answer your questions.

Nakayama: Thank you very much, Mr. Morikawa.

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