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**AVANT Corporation**

Financial Results Briefing for the Fiscal Year Ended June 2022

August 22, 2022

## Event Summary

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<b>[Company Name]</b>	AVANT Corporation
<b>[Company ID]</b>	3836-QCODE
<b>[Event Language]</b>	JPN
<b>[Event Type]</b>	Earnings Announcement
<b>[Event Name]</b>	Financial Results Briefing for the Fiscal Year Ended June 2022
<b>[Fiscal Period]</b>	FY2021 Annual
<b>[Date]</b>	August 22, 2022
<b>[Number of Pages]</b>	21
<b>[Time]</b>	15:30 – 16:11 (Total: 41 minutes, Presentation: 25 minutes, Q&A: 16 minutes)
<b>[Venue]</b>	Webcast
<b>[Venue Size]</b>	
<b>[Participants]</b>	
<b>[Number of Speakers]</b>	3
	Tetsuji Morikawa                      President, Group CEO
	Naoyoshi Kasuga                      Director, Group CFO
	Kenji Nishimura                      Senior IR Officer

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## Presentation

**Nishimura:** Hello, everyone. Thank you very much for taking time out of your busy schedule today to participate in the financial results briefing for the fiscal year ended June 2022 of AVANT Corporation.

My name is Nishimura, from the Corporate Communications Office, and I will serve as moderator today. Thank you.

The material to be used in today's briefing was uploaded to our website at 13:00.

Today's speakers are Tetsuji Morikawa, President, Group CEO, and Naoyoshi Kasuga, Director, Group CFO.

Today, we will first explain the progress of our mid-term management plan BE GLOBAL 2023 and our financial strategy for about 25 minutes. We will then take your questions. The entire meeting is scheduled to last approximately one hour.

Now, Mr. Morikawa, President, Group CEO, will give an explanation.

## Management View of Mid-term Plan "BE GLOBAL 2023"

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The delay in structural reform was a result of problems with software business development investments

		FY19 Actual	FY20 Actual	FY21 Actual	FY22 Actual	FY23 Target
Operational KPI	Net Sales (¥B)	140.7	156.9	162.4	187.0	180~220
	OP Income (¥B)	19.6	22.7	27.9	32.4	31~38
Strategic KPI	Recurring Sales Ratio (%)	31.4	32.7	36.0	34.6	70
	Sales Growth + OP Margins (Points)	30.2	26.0	20.8	32.6	40 or more
Financial KPI	ROE (%)	24.6	23.5	23.7	21.1	20 or more
	Dividends (yen)	7.5	9.0	11.0	13.0	15 or more

**Morikawa:** Hello, everyone. I am Morikawa of AVANT. I would like to begin by giving an update on the progress of our mid-term management plan.

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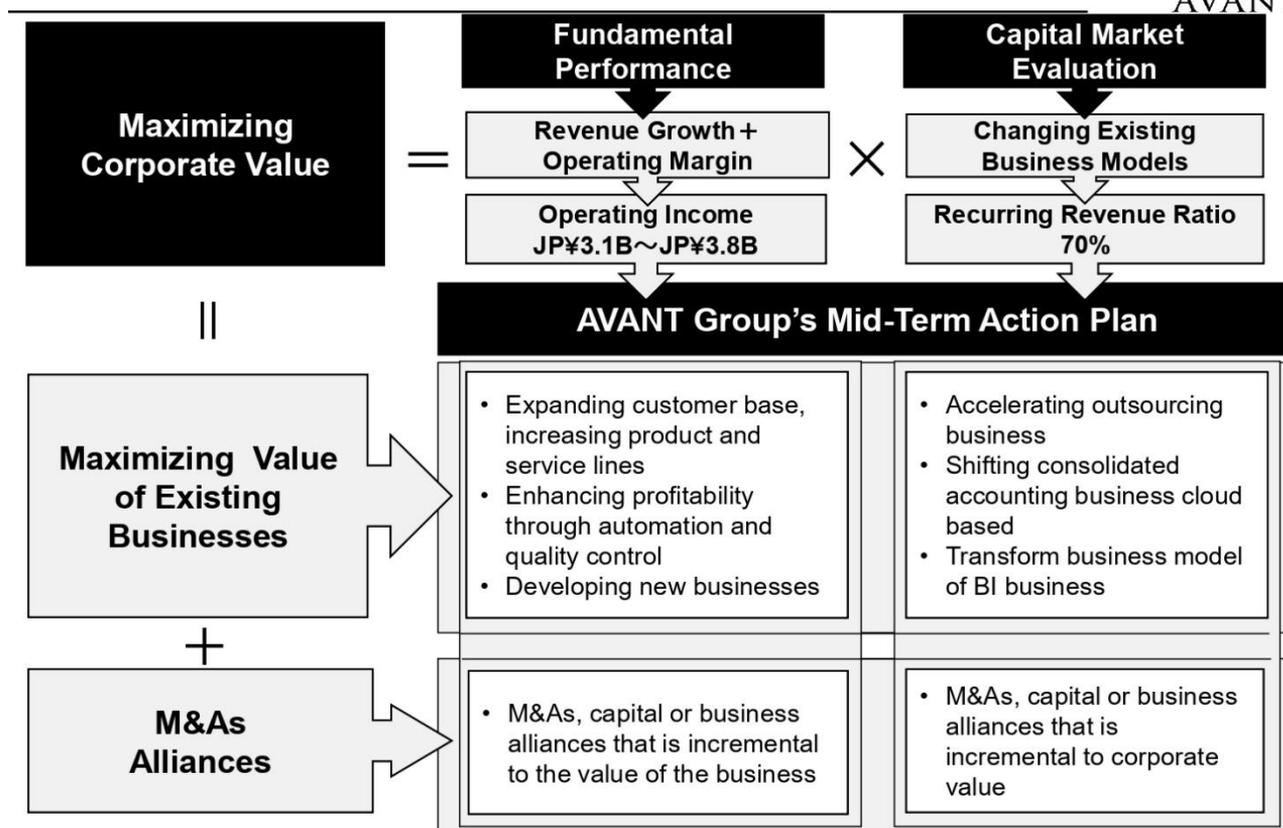
First of all, FY2023, this fiscal year, is the final year of our current medium-term management plan. In general, net sales, operating income, ROE, and dividends are within the scope of the medium-term management plan. In terms of net sales, we have almost reached the point where we will be able to achieve the top range of the target in the medium-term management plan. On the other hand, we have not achieved targets for what we have been saying are strategically important, such as the recurring sales ratio and GPP, which is the sum of the sales growth rate and the operating income margin.

Let me explain the background behind setting those goals in the first place. Our company originally started out in the software business, but in order to expand services to our customers and adapt to the business environment, we have been aiming for growth by placing a much stronger emphasis on services.

At the same time, however, if we are to sustainably and continuously increase the value of our contribution to our customers, we must utilize software more and more and further enhance our ability to create our own software. From this perspective, we have incorporated the shift to the software business as a recurring sales ratio, a symbolic KPI, in our current medium-term management plan. In reality, however, market conditions are not so bad, including for services, and as a result, we have spent a lot of time on how to promote our current business, and as a result, we have not been able to make much progress in the structural transformation to the software business.

## Mid-term Management Plan: BE GLOBAL 2023 (Reproduction of Sep-2018 presentation)

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3

This chart entitled BE GLOBAL 2023 was presented at the briefing on September 5, 2018.

We have made relatively good progress in maximizing value of existing businesses, which is listed in the middle.

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At the same time, however, we were unable to promote structural transformation while utilizing M&A and capital and business alliances. It is our regret that we were not strong enough to make investments in product development and business development in order to promote the software business, not only in M&A.

## Materiality of Avant Group

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– Materiality (Strategy) of Avant Group –

### Be a software company that helps increase corporate value

#### ◆ Background ◆

Since its establishment, the Avant Group has been striving for the creation of high-quality management and employment with the mission of "spreading accountability. In particular, in the field of consolidated accounting systems that support consolidated management, the company has gained a high reputation in the market and has demonstrated an overwhelming presence. On the other hand, the business environment surrounding companies has changed drastically in recent years, and **it has become important for management information to be used not only for operations and disclosure obligations, but also to enhance corporate value.**

The background to this is the expansion of ESG investment and society's demand for sustainable corporate management; there is no future for the Avant Group without adapting to these changing needs, and we cannot be useful to society and customers if we remain complacent about the status quo. To move to the next stage of growth, the most important task of the Avant Group is to **"become a software company that helps increase corporate value.**

#### ◆ Strategic Approach ◆

The target customers for the promotion of this materiality are **"any company that is expected to increase its corporate value.** In response to these customers, we will **shift the core business model of the Group to "software-based BPO that helps improve corporate value,"** and at the same time, we will **develop killer software that support numerous customers.**

#### ◆ Our Goal ◆

The Avant Group aims to **establish a world-class software business** based on the concept of "Software as a BPO" by addressing this materiality. In order to contribute to the enhancement of corporate value of many customers, **it is essential to convert services into software.** By promoting the "spreading accountability" and becoming an entity that has an impact not only on corporate management but also on capital markets and society, we will take **a big step toward realizing our vision of "becoming a world-class software company.**

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4

In order to face up to the fact that we have not been able to make progress in structural transformation and to properly address and realize this point in the next medium-term management plan, we have spent a considerable amount of time during the last fiscal year since the end of the third year of the current medium-term management plan to make arrangements for the next medium-term management plan.

The first step in this process was to define the Group's materiality. I mentioned earlier that the M&A did not go well. Unless we clearly state from the perspective of the Group's management what management and strategic issues, we need to resolve in the first place, we will not be able to unify the activities of the entire group. To ensure the unification of the Group, the Group's management team began a year ago to determine what issues we really need to resolve, and we have had extensive discussions, including those from outside the Group, to determine the materiality.

The points of helping to increase corporate value and becoming a software company, in other words, points that are currently not being realized, are clearly stated.

Considering what is the most impactful value for our customers, if we provide value to our customers, we should aim to help them even increase their corporate value. This is what is meant by "helps increase corporate value."

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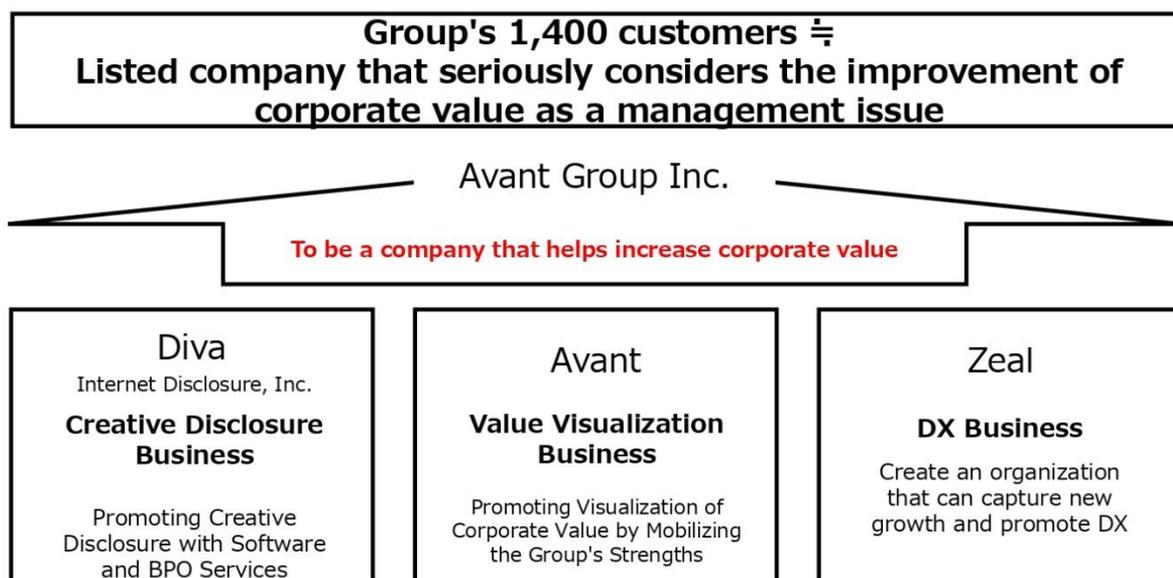
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The other "be a software company" means that we should not simply make and sell software, but that each of us should enhance our ability to contribute to the future of our customers, and to do so, we should make more and more use of software.

We will be committed to increasing corporate value from the perspective of maximizing the value of our contribution to our customers. We will be a software company from the perspective of improving each of our ability to contribute to our customers. We have established this materiality in order to further enhance these two abilities.

## Restructuring to be better positioned to solve social issues

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**Creating software that is lacking in all business companies through the solution of social issues.**

After setting this materiality, we looked back at the various current situations and began to discuss whether we could continue as is or whether something had to change. As a first step, we decided that we should review the structure of our own group.

The entire group has approximately 1,400 customers. For these customers, each group company has provided its own services, but it is more useful for customers to receive proposals from the Group as a whole, rather than from separate companies.

From this perspective, we felt it was necessary to review the structure to make it more useful to our customers, taking advantage of the strengths of the entire group.

Another point is that up to now, we have been structuring our business by business model, dividing it into a company that does software business, a company that does BPO, and a company that does SI. In this case, the software development is put on the shoulders of one company that is involved in the software business.

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We aim to create an environment where all companies can make more use of software and create it themselves.

Diva integrates BPO and software business. Avant, a new business company that develops new solutions and makes the most of them while using other companies' products. And Zeal helps to set up the infrastructure, not simply for software but also for the training of people, to make the most of the data.

Each incorporates software development into its business. We intend to realize the materiality with this structure.

## A Step to “Be a software company that helps increase corporate value”

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### 1. Optimize group structure and rebrand in pursuit of the vision (from 1H FY23)

Develop a framework to realize a software company that helps increase corporate value through reorganization of the organization.

### 2. Develop an environment to create people and organizations that enhance corporate value (throughout FY23)

1. Invest in human resources and establish an executive organization to promote human resource development.
2. Visualize the business value chain through dialogue with investors and formulate medium-term targets and business plans for the next period.
3. Promote the acquisition of critical business assets by utilizing capital (JV/MA) as well.

### 3. Develop products that drive the vision (throughout FY23)

Utilize all commercial products handled by the group, develop in-house what is not available in the market, and systematize software that will help increase corporate value.

We have presented a rough overall view of what we will focus on through this reorganization this fiscal year.

First, we will optimize the organization of the entire group in order to create a structure that will enable the entire group to make a solid contribution to customers through this materiality. Furthermore, we have started with a brand refresh to make it easier to understand and to ensure that all group members share the direction that we ourselves are aiming for and that we are contributing to our customers.

This is a first step. While doing this, we will create a structure that will allow us to invest in human resources more horizontally than ever before, in order to create an environment for building people and organizations that can contribute to increasing corporate value for our customers.

Furthermore, in order to become a company that helps improve corporate value, we ourselves will visualize the mechanism of how we perceive our own corporate value, and become a sort of test bed ourselves to show it. In the next mid-term business plan, we will visualize the mechanism, not just the figures.

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In order to realize the materiality, we will not simply conduct mergers and acquisitions, but rather, we will make good use of capital. With a level of openness that is set apart from conventional one, we will create alliances with various companies to strengthen our management resources, which are critical and need to be shored up.

We intend to promote the development of such an environment throughout the current fiscal year, and at the same time, we intend to develop products that will drive this vision across the Group.

These are the three key points that will be pursued horizontally throughout the Group toward the materiality.

## Governance Structure of Avant Group (Planned after Oct 2022)

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### Avant Group Corporation

(Trade name to be changed from Avant Corporation)

President	Tetsuji Morikawa	Group CEO	CDO (Chief Digital-Transformation Officer)	Takahiro Okabe
Director	Naoyoshi Kasuga	Group CFO	CRO (Chief Risk-Management Officer)	Hiroki Takemura
Director	Naohisa Fukutani		CBO (Chief Business-Development Officer)	Gen Nagata
Director	Jon Robertson		CIO (Chief Information Officer)	Tatsuru Nakayama
Director (Audit Committee)	Tsuyoshi Noshiro		CLO (Chief Legal Officer)	Masamitsu Suzuki
Director (Audit Committee)	Chie Goto		CHRO (Chief Human Resources Officer)	Eriko Satonaka
Director (Audit Committee)	Makoto Nakano			

### Diva Corporation

(Trade name to be changed from Fierte Corporation)

President	Gen Nagata
Director	Hiroki Takemura
Director	Tetsuya Kawamura
Director	Shuichi Fukayama
Director	Yoko Hosokawa

### Avant Corporation

(Trade name to be changed from Diva Corporation)

President	Takahiro Okabe
Director	Teppe Terashima
Director	Tatsuru Nakayama
Director	Shingo Moroi

### Zeal Corporation

President	Takahiro Okabe
Director	Kunihiro Nakamura
Director	Yoshiyuki Numata
Director	Hiroyuki Morita

In order to do this, it is necessary to set up people who will play a role in ensuring that the horizontal function. Last year, in addition to the CEO and CFO, we established group CXOs as a horizontal function. We intend to further strengthen this area and promote not only collaboration across the Group but also the creation of new things.

Among other things, we have established a CHRO, a director in charge of the human resources department, which will lead the entire group.

In addition, although we have not presented it here, we would like to promote investment in products, people, and other areas. Although we do not have a CPO for products at this time, we would like to accelerate product development policy making and investment promotion for the entire group under me, Morikawa, with the participation of product managers from each business company.

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These are the arrangements for the new medium-term management plan that will begin in the next fiscal year. We spent the last year sorting out materiality, and will spend the current fiscal year building an organization that can truly transform its structure and the products that will lead to that transformation in the next fiscal year and beyond. We intend to grow and promote new businesses by stimulating investment more than before.

That's all from me. Thank you very much.

## Earnings forecast for the FY ending June 30, 2023

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### Expect to maintain the pace of revenue growth, but income will decline due to upfront investments

- The company positions the fiscal year ending June 30, 2023 as a preparation for the start of the next medium-term management plan, and the upfront investment phase will continue.
- Although the company expects to maintain the pace of sales growth in all segments, it forecasts a decrease in profit due to an increase in personnel expenses resulting from aggressive hiring, an increase in expenses accompanying organizational restructuring, and expenses to prepare the environment for accelerating the shift to cloud, including discontinuation of low-margin products and projects in existing businesses.

(millions of yen)

	2022 June (Actual)	2023 June (Forecast)	Variance	% CHG
<b>Net Sales</b>	<b>18,703</b>	<b>21,800</b>	<b>+ 3,096</b>	<b>+ 16.6%</b>
<b>Operating Income</b>	<b>3,247</b>	<b>3,100</b>	<b>△ 147</b>	<b>△ 4.5%</b>
<b>OP Margin</b>	<b>17.4%</b>	<b>14.2%</b>	<b>—</b>	<b>—</b>
<b>Net Income</b>	<b>2,045</b>	<b>2,030</b>	<b>△ 15</b>	<b>△ 0.7%</b>

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9

**Kasuga:** I am Kasuga, Group CFO. I would like to explain our financial strategy.

First, I would like to discuss our full-year forecasts for the fiscal year ending June 30, 2023, the current fiscal year.

For the current fiscal year, as mentioned earlier by the Group CEO, we are forecasting net sales of JPY21.8 billion, which is close to the upper limit of the current mid-term plan.

On the other hand, we expect operating income to be affected by costs associated with the reorganization of the Group, as well as costs for environmental improvements such as the promotion of the shift to cloud computing. After factoring in these costs, operating income is expected to decrease from the previous fiscal year.

Another point is that although we are actually projecting an increase in ordinary income and income before income taxes compared to the previous year, the tax credits that were applied in the previous year may not be applied in the same way in the current year, so we are being conservative on this point and projecting a

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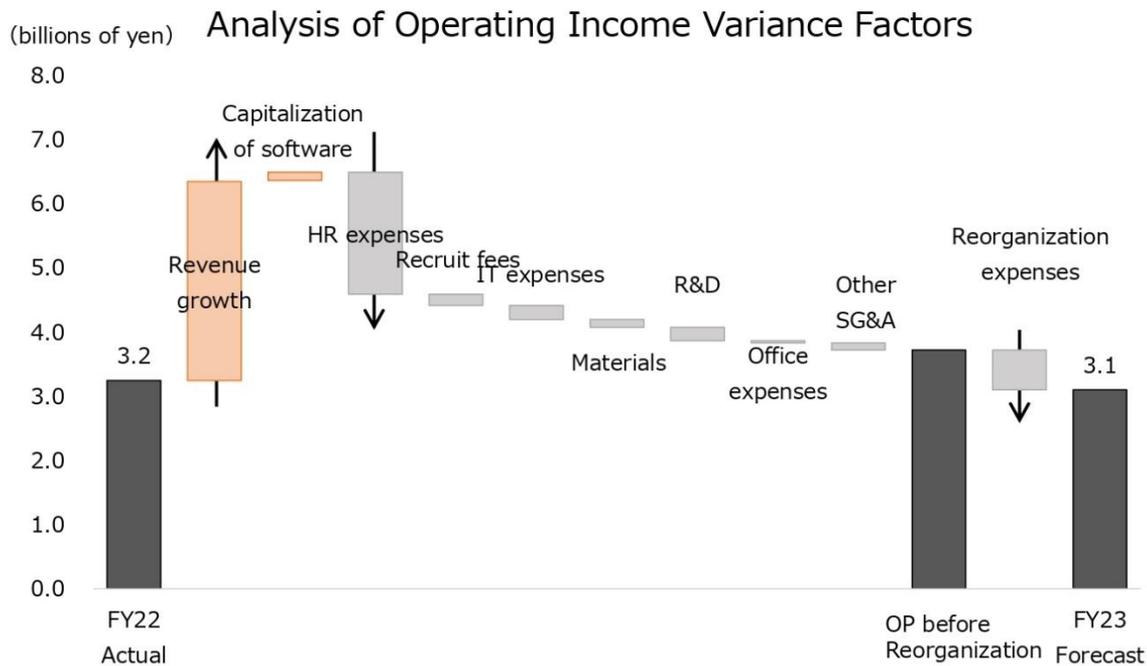
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slightly higher tax amount. Due to this, we are forecasting a slight decrease in net income for the current fiscal year.

## Assumptions for FY June 2023 Forecasts

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10

I mentioned that operating income is expected to decrease. The analysis is as shown. We recognize that we have maintained our ability to generate operating income of up to approximately JPY3.7 billion level in FY2023 excluding the costs of restructuring.

In the previous fiscal year, the operating margin was a little over 17%, and we now forecast an operating margin of 16.8% excluding the restructuring costs. In that sense, we recognize that profitability has not declined significantly. However, we expect restructuring costs to be a little more than JPY600 million, and when this is incorporated, the forecast is in the JPY3.1 billion range.

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# Operating companies and market under the new structure

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	Business	Market environment
<b>DIVA</b>	In addition to developing, implementing, and maintaining the DivaSystem consolidated accounting system and related products such as DivaSystem Dx3-Advance and DivaSystem FBX, the company is also involved in the outsourcing of consolidated and non-consolidated financial closing operations using DivaSystem. The company also provides comprehensive support for corporate value creation processes through information disclosure.	<ul style="list-style-type: none"> <li>For Japanese companies, group management is inevitable for efficiency improvement, industry restructuring, and overseas expansion. The consolidated accounting system market is growing at around 6%, due in part to the need to accelerate the settlement of accounts and strengthen disclosure. With the rapid shift of systems to the cloud, <b>cloud systems are growing at about 20%. The outsourcing market is expected to grow by 20-25%</b>, supported by needs for DX reforms, addressing gerrymandering, changing work styles, and strengthening governance.</li> </ul>
<b>AVANT</b>	In addition to the introduction and maintenance of the DivaSystem consolidated accounting system and related products, and the development of group management support systems such as DivaSystem SMD, DIVA Compass, and DIVA Empower, the company also develops and implements systems that combine software developed by other companies to meet the needs of its customers and help them create corporate value.	<ul style="list-style-type: none"> <li>The Corporate Governance Code requires companies to make decisive management decisions based on management information and to realize corporate value enhancement, and companies need solutions (DX of management) to integrate and analyze various types of information to make management decisions, execution, and reporting. <b>The DX solutions and consulting market is expected to grow 30%.</b></li> </ul>
<b>ZEAL</b>	Through digital transformation, we provide data platforms and BI solutions that organize, integrate, and analyze internal and external data, make it "visible" in the form of reports and graphs, and provide information that is useful for management decision-making. We provide support through consulting and system development. The company also offers ZEUSCloud, a cloud-based analysis platform developed in-house, and ZEAL DX Learning Room, an e-learning service.	<ul style="list-style-type: none"> <li>Leading companies that view management reform through DX as the foundation of their competitiveness are actively introducing systems. The base of DX is also expected to expand in the future, and <b>the DX system integration market is expected to grow by 30%.</b></li> </ul>

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11

This is the position of the restructured company in the market as we plan our mid-term business plan for the next fiscal year.

All of these companies are well positioned in a market that is expected to grow by 20% to 30%.

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<p><b>Strategy</b></p>	<ul style="list-style-type: none"> <li>■ Contribute to clients seeking to improve their corporate value through " Management DX".</li> <li>■ Clarify the direction of operating companies, consolidate low-margin products, and actively hire to develop future core products and strengthen the implementation-based consulting business.</li> <li>■ Strengthen relationships with 1,400 customers, mainly listed companies, and provide products and services that meet customer needs, regardless of the company's own products. Accelerate the shift to cloud computing and aim to accelerate top-line growth by increasing sales per customer and the number of customers.</li> </ul>
<p><b>Growth and Profitability</b></p>	<ul style="list-style-type: none"> <li>■ Sales growth 20% or more (5-year CAGR)</li> <li>■ GPP 40 points or more (since FY27)</li> </ul> <p>GPP=Net Sales Growth Rate + EBITDA Margin</p>
<p><b>Capital strategy</b></p>	<ul style="list-style-type: none"> <li>■ ROE over 20%</li> <li>■ DOE over 8%</li> </ul>

As I just mentioned, the restructured companies are all located in growth markets, and I will now explain how they will be used to increase corporate value.

In a nutshell, we would like to contribute to the enhancement of corporate value by supporting management DX. To put it a little more simply, we would like to contribute in a form in which managers can actually see the data, obtain it in a timely manner, and make management decisions.

We clarify the direction of our business subsidiary. For example, in this restructured company, divisions of several different companies are integrated, and therefore there will be perspectives that were not previously visible. There is also a review of whether certain products or solutions are not serving customers well. We intend to conduct such a review while at the same time putting in place a system that will allow us to concentrate on the development of products that will be our core in the future.

In addition, the company Avant will be launching a new consulting business. We would like to differentiate ourselves from our competitors by the fact that we do not simply provide consulting, but can provide consulting and implementation at the same time. In order to strengthen the implementation-based consulting business, we would like to actively recruit such personnel.

We would also like to make the most of our group's greatest asset, which is our 1,400 client companies.

Until now, our customer service has been rather biased toward one department, but we would like to further expand our customer service through the restructured companies. For example, we would like to increase the

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number of customers by having the corporate planning and even IT departments have contact with customers for services that were previously mainly provided by the finance and accounting department.

At the same time, we will increase our contribution to each customer. As a result, we would like to increase sales per client.

If we are able to implement the specific strategies we are going to formulate as a result of the above, we believe that we can aim for an average sales growth rate of about 20% over the next five years, the period of the next medium-term management plan.

However, it is not enough to just aim for sales. We would like to newly define GPP, the sum of sales growth and EBITDA margin, which combines operating margin and amortization or depreciation. Our new discipline is to keep the new GPP above 40 points.

However, in H1 of the next mid-term plan, we expect that upfront investments will be made. We hope to achieve more than 40 GPP points especially in H2 of the plan.

As for capital strategy, we would like to aim for an average ROE of 20% or more during the next mid-term management plan period as in the current mid-term plan, and would like to use this as one of the guidelines for effective use of capital.

The ratio of dividends to net assets will be explained later in the policy for returning profits to shareholders. The DOE is stated here as over 8%, but I will explain later.

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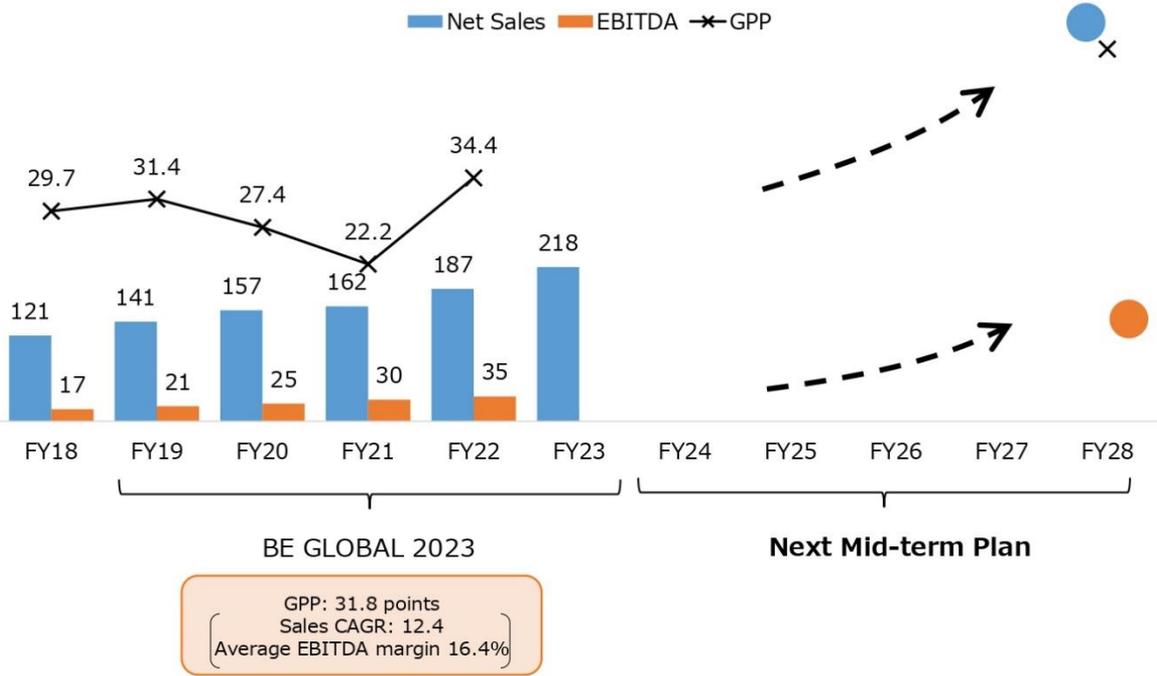
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# Aiming for 20% sales growth and 40 GPP points



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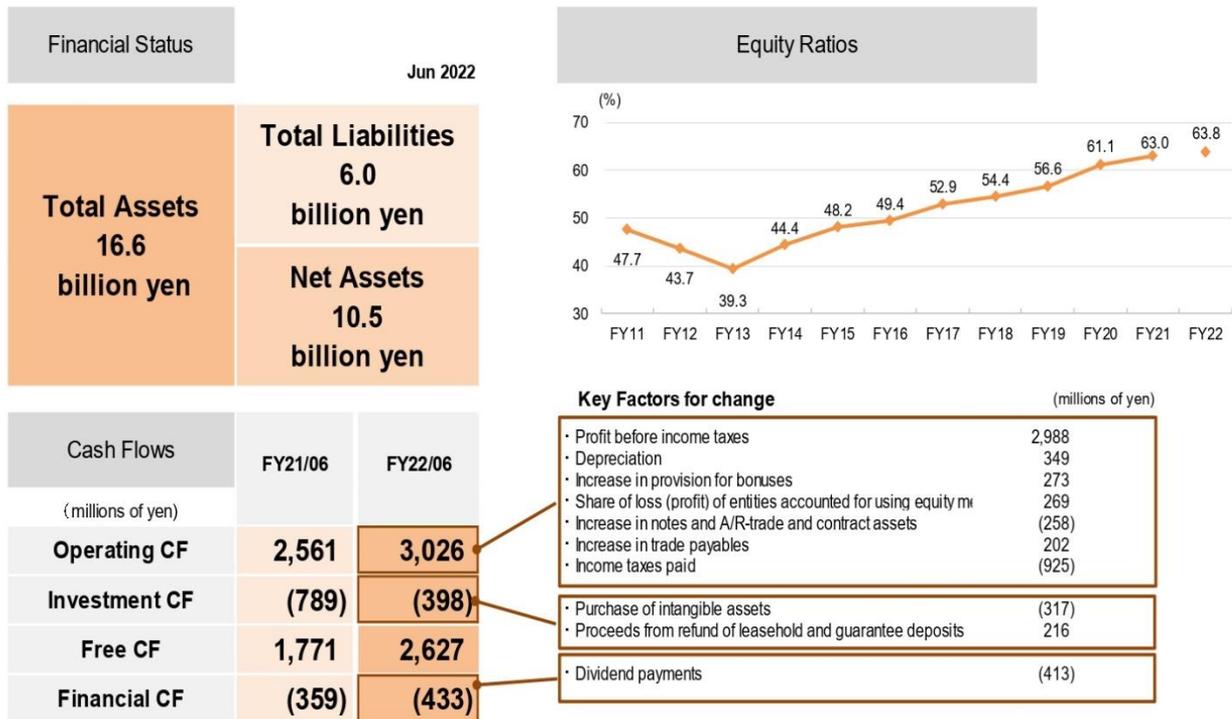
I mentioned that we are aiming for 20% sales growth and 40 GPP points, but this is just the image we are currently portraying.

If we factor in the possibility of upfront investment, we may see a slight decline in EBITDA margin at some point. However, we would like to eventually have an average sales growth rate of over 20%, which, combined with EBITDA margin, will result in a GPP of over 40%.

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Next is the status of cash flow.

This is the status of the term just ended. Net assets have exceeded JPY10 billion.

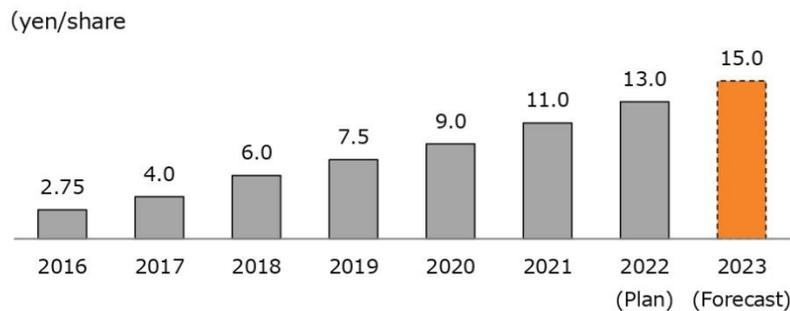
As explained by the Group CEO, the acquisition of critical business assets is not necessarily limited to M&A. In the future, it may take the form of joint ventures or small investments. Cash and deposits are around JPY9 billion as of the end of June. Even after deducting working capital, which is about twice the monthly sales, the Company is now in a situation where it has capital for future investment of between JPY6 billion and JPY7 billion.

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- Cash dividends are an important part of shareholder return policy. AVANT plans to maintain sustainable growth in dividends, and rely on dividends on equities (DoE) rather than cash income which could fluctuate and unpredictable.
- AVANT's ratio of dividends to net assets should be higher than 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 the ratio of dividends to net assets.



(Adjusted for stock splits)

	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Plan	FY2023 Forecast
Dividends per share (yen)	2.75	4.0	6.0	7.5	9.0	11.0	13.0	15.0
DOE (AVANT)	3.41%	4.18%	5.20%	5.27%	5.17%	5.18%	5.05%	-
DOE (TSE Average)	2.64%	2.70%	2.86%	2.93%	2.94%	2.88%	3.18%	-

(Note) The average ratio of dividends to net assets for companies listed on the Tokyo Stock Exchange is a weighted average of the monthly figures of companies published for the 12 months through June.

Finally, our policy of returning profits to shareholders.

We would like to raise the dividend per share, keeping in mind the ratio of dividends to net assets.

For the current fiscal year, FY2023, we are forecasting a dividend of JPY15 per share, an increase of JPY2 per share over the previous year. We have set a target of JPY15 per share as the dividend for the final year of the current medium-term plan, and we are aiming to meet this target at a minimum.

That's all from me.

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## Question & Answer

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**Nishimura [M]:** We would now like to move on to the question-and-answer session.

I will nominate you and ask you to unmute at that time, so you can unmute and start asking questions. Please ask one question at a time.

If you have any questions, please raise your hand.

Now, Mr./Ms. Sakemi from Norinchukin Zenkyoren Asset Management, please.

**Sakemi [Q]:** My name is Sakemi from Norinchukin Zenkyoren Asset Management. Thank you very much for your explanation.

I would like to ask about one thing. Your company is mainly engaged in the Group governance business, and I believe that your DivaSystem SMD for consolidated accounting originally had a large number of customers.

In that context, you have increased net sales by about JPY3.5 billion in the five years since the fiscal year ended June 30, 2017. The number of customers has always been quite large and has not been growing so much, but sales have increased by JPY3.5 billion. I know that you have a lot of products, including some that are derivatives of DivaSystem. Can you tell us what has driven the increase in sales?

**Nishimura [A]:** I think you are right that the number of customers is not the only factor. Sales from existing customers grow as they add more features, increase the number of licenses, and so on. The effect of DivaSystem sales increases is relatively large.

This, combined with cross-selling with SMD and other systems, led to an increase in sales of JPY3.5 billion.

**Sakemi [Q]:** Thank you. You mentioned an increase in numbers of licenses. Are you seeing that group companies of existing customers are adopting the system?

**Nishimura [A]:** Yes, that's right. In some cases, as the number of companies in a group grows and more users use the system in subsidiaries, additional functions are adopted.

**Sakemi [Q]:** Does the fee increase, like how much for the basic function, and how much for each additional function?

**Nishimura [A]:** The easiest example would be the case in which you have adopted Japanese standards, but you will now newly adopt the international accounting standards, and therefore introduce a new system.

**Sakemi [Q]:** Thank you.

Can you give us a breakdown of the increase in sales over the past five years?

**Nishimura [M]:** Per product?

**Sakemi [Q]:** Yes. I wanted to get an idea of the breakdown.

**Nishimura [A]:** As for the figures, we will contact you again separately.

**Sakemi [M]:** Thank you. That's all from me.

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**Nishimura [M]:** Thank you very much.

**Nishimura [M]:** Do you have any questions?

Mr./Ms. Hiramatsu of Tokio Marine Asset Management, pleas.

**Hiramatsu [Q]:** Thank you very much for your explanation. However, without having heard your previous explanations, I think it would be difficult to understand today's explanation.

I think it is really a matter of determination of top management. I am sure it is difficult to switch to a new business while continuing to operate the existing business, and if you are serious about increasing the recurring sales ratio, you cannot afford to be too preoccupied with the existing business. As you mentioned before, don't you have any intention to curb receipt of large project orders for the businesses that have no future, even if the man-month is good, and sell out it?

You will accumulate medium-sized projects and move them to the cloud. I think the shift to cloud computing of Diva was still be less than 10% when I last heard about it.

The next step is to strengthen cross-selling. Cross-selling was also done discretely when I heard before because you had only 360 customers. Will you switch to the recurring business even putting the brakes on existing businesses that are doing well?

**Morikawa [A]:** If we go with an extension of the existing business structure, we will not be able to change the structure, so we changed the allocation of business assets and created a combination that is not an extension of the existing business structure.

I think you are talking about the nature of the projects themselves that we receive orders for. We are changing the current structure of the Group itself to a business model that we intend to expand in the future, before we change the nature of projects.

As a result of the change in structure, each of the businesses will accelerate the business that should grow the most. At that time, it is very likely that individual decisions will be made more strongly than before, for example, not to take on large custom projects.

For products, we will not simply sell packages alone, but will combine them with BPO or strengthen sales in a manner that facilitates the accumulation of sales of the recurring business. We are taking the approach of changing the quality of deals after changing the business model. I know this is a bit confusing, but we are currently taking the approach of changing the characteristics of the projects we receive by changing such fundamentals.

**Hiramatsu [Q]:** I understand. Thank you very much.

Also, you say you will contribute to the DX of the corporate management. However, Accenture and many other companies are doing that, while using Slers.

Then you have to go upstream, you have to consult, and you have to be able to read the data and make proposals while doing DX. With numerous competitors and still using agents to compete for talent, you need to recruit 100 or 200 people each year. Furthermore, I am wondering how you will enter the market, where the repeat rate is said to be 95%. What are the decisive factors, special techniques, or strengths that make your company better than other companies in this area?

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**Morikawa [A]:** I think our strength lies in the fact that we have narrowed down our business areas and are able to provide not only software but also BPO, SI, and other services for these narrowed-down areas.

Large consulting firms offer a very broad range of consulting services. Corporate value has many different contexts, and no one has an approach like ours, which focuses on creating information that is genuinely useful for improving corporate value and providing it with pinpoint accuracy to those who can make proper use of it. We believe that we can strengthen our cooperative relationship with consulting firms in the future.

A key point of differentiation is the area of information utilization. We focus on areas that are useful for increasing corporate value, and we provide services in a consistent manner.

**Hiramatsu [Q]:** I understand.

I cannot get an image of the software that integrates your company's know-how. You are not saying about Diva, aren't you? You just mentioned that you create software in the areas you have narrowed down and that your company's employees use the software to contribute to increasing corporate value. For example, if we wait another year or so, what kind of software will be available?

**Morikawa [A]:** It is not the world of ERP or something like that. The functions are divided into four major groups: the functions to collect data, the functions to make the collected data available, the functions to give a meaning to the available data, and the functions to deliver the data with meaning to the appropriate people.

For example, for the collection of data, it is necessary to link data with various ERPs to collect data, to collect data with the data collection system of the consolidated accounting system, and to collect data by linking with planning and budgeting systems, etc. We are planning to strengthen this area by linking with a variety of existing products.

On the other hand, there are quite a few areas where this gathered data is difficult to use, due to factors such as slightly different accounts or slightly different segmentations, when actually trying to use the data horizontally. To some extent, we have in-house expertise in the area of preparing this data, and I believe that the ability to automate this process and make the data available will be one of the themes we will be strengthening.

As for giving meanings, there are various ways, such as the ROIC tree. We ourselves have begun to have software that can simulate and create such value trees. By implementing content for this, it will be possible to provide various templates such as ROIC trees and value trees.

Regarding the functions to deliver, we will provide, for example, a mechanism to deliver data so that it can be used by the board, not just BI. From now on, we will create functional groups that do not exist, and those that do exist will be gathered from outside and combined. We are in the process of organizing our offerings in such a way that we can make proper proposals.

**Hiramatsu [M]:** I understood it very well in concrete terms. If you make it, people will really want to use it. Right now, we are getting data from disparate sources, and we are not even able to integrate them. Mr. President, if you include Scope 2, GHG, and all the KPIs related to human capital, even I can immediately sell four or five projects.

I really understood it clearly today. Thank you.

**Nishimura [M]:** Thank you.

Do you have any other questions?

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There are no other questions, so this will be the end of the session. Thank you.

Today's video will be archived on our website at a later date. We will also be uploading the scripted document for your use.

Thank you all very much for taking time out of your busy schedules to join us today.

**Morikawa [M]:** Thank you very much.

[END]

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