

# AVANT

## **AVANT Corporation**

Q2 Financial Results Briefing for the Fiscal Year Ending June 2021

February 19, 2021

## Event Summary

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[Company Name]	AVANT Corporation	
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[Event Type]	Earnings Announcement	
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending June 2021	
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[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	3	
	Tetsuji Morikawa	President, Group CEO
	Naoyoshi Kasuga	Director, Group CFO
	Kenji Nishimura	Senior IR Officer
[Analyst Names]*	Kenichi Ito                      Ichiyoshi Research Institute Inc. Kris Vidane                      Eightfold Research Limited	

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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## Presentation

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**Nishimura:** Hello, everyone. Thank you very much for your participation in the Q2 financial results briefing for the fiscal year ending June 2021 of AVANT Corporation despite your busy schedule.

My name is Nishimura. I'm in charge of investor relations in the President's Office and will preside this meeting today.

We uploaded the materials to be used in today's briefing to our website at 1:00 PM today. So, please refer to them.

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

First of all, two of them will give a presentation for about 20 minutes on the progress of our medium-term management plan, BE GLOBAL, and our financial strategy. Afterwards, we will take questions from the audience. The entire briefing will take approximately one hour.

Now, let us start with Mr. Morikawa, President, Group CEO.

**Morikawa:** I'm Morikawa of Avant. I will now begin the financial results briefing for the second quarter for FY2021 of Avant.

First of all, I would like to give you an update on the progress of our mid-term management plan. After that, CFO, Mr. Kasuga will continue to explain the financial results and other information.

Thank you for your cooperation.

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# Overview of Avant Group Mid-term Business Plan

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- The Plan helps us to achieve the vision of BE GLOBAL under the management philosophy "Creation of a 100-year company".
- Three axes of challenges: business expansion, employee growth, and enhancement of corporate value
- We will create "de-facto," by expanding work environment where employee engages themselves in and incorporating our know-how into software

## To BE a Sustainable GLOBAL Software Company



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First of all, I would like to give you an overview of the medium-term strategy of the entire Avant Group, which is shown in the diagram.

First of all, our vision is to become a world-class software Company. However, in order to take on this challenge, we need to firmly develop the foundation as a Company, which is the growth of our business, the growth of our employees, and the enhancement of our corporate value.

Therefore, we are not just taking on challenges unnecessarily. Rather, we are developing the foundations of our business and moving forward in the direction of realizing our vision, BE GLOBAL.

We are taking a three-step approach to realize this vision.

The first is the recurring service ratio, RSR70, which is intended to create an environment that allows us to produce as much software as possible.

In the development of various software, it is very important to think of problems as one's own problems to solve them, and to think and act in ways that make this happen. I would like to embed this environment as much as possible within the entire Company Group.

In order to achieve this, the most desirable environment would be to continuously experience the same work with customers. In other words, spread as much as possible the environment where one thinks of work as one's own work. For such a model, the first step is to make as much of this recurrent-type business as possible.

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This is different from the subscription-type business model that is commonly referred to. The first step is to increase recurrent revenue as a way to improve our total experience so that we can take our business experience as our own.

The second part, indicated with a question mark, is to turn these various experiences into software. This involves processes of making it happen, actually asking the customer about it, and providing it to the customer. In doing this, we need to consider who will create what and where, while increasing this recurring revenue. The second step is where we implement this.

After the second stage, we will create a great many services and software that will be most useful in various business domains. Through such efforts, we aim to become a world-class software company, and this is the framework of our major strategy.

## Initiatives for FY June 2021

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- Promote cloud-shift, focus on basis for top-line growth
- Launch proprietary IP based products & services to improve recurrent revenue ratio
- Options for M&A at operating company level to accelerate growth

	FY20 Actual		FY21 Forecast		FY23 Target
<b>Revenue</b>	¥15.69B	➡	¥16.11B	➡➡➡	¥18 ~ 22B
<b>Recurrent Revenue Ratio</b>	32.7%	➡	UP	➡➡➡	70%
<b>Operating Income</b>	¥2.27B	➡	¥2.33B	➡➡➡	¥3.1 ~ 3.8B
<b>Revenue growth + OP margins</b>	26.0pt	➡	17.2pt	➡➡➡	Over 40pt
<b>Dividends</b>	¥9	➡	¥10	➡➡➡	Over ¥15

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The table here illustrates the KPIs under such a strategy.

Roughly speaking, we make it clear that we shift to the cloud and focus on top-line growth, and then introduce unique IP-based products and solutions to increase the recurrent revenue ratio. In addition, we will examine the possibility of boosting the growth of each Group company, including through M&A. These are the outlines of our medium-term management plan. And, one of the key management indicators is the recurrent revenue ratio.

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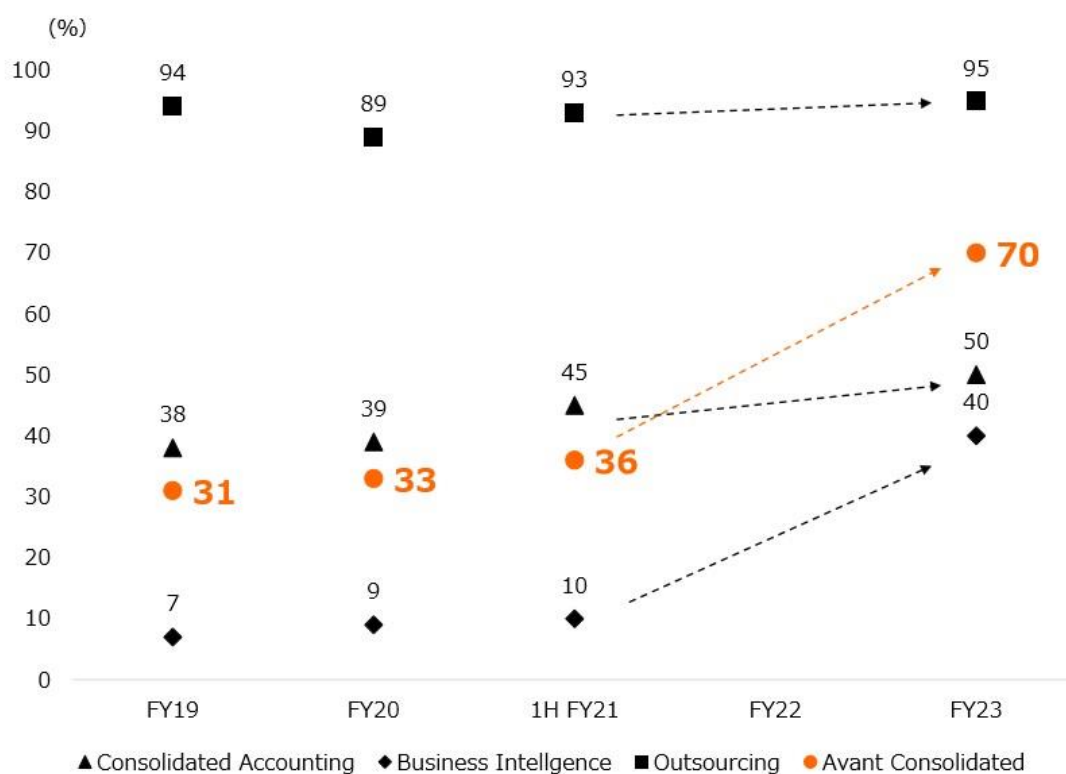
As I mentioned earlier, we have set this recurrent revenue ratio as a very important KPI, in the sense of creating a solid environment for software production. We aim to reach 70% from last year's 32.7%. We are now promoting such actions.

On the other hand, simply raising the recurrent revenue ratio is not enough for us to grow as a software company, so we also place great importance on the GPP, which is the sum of the sales growth rate and the operating income margin.

As a benchmark, overseas software companies, especially SaaS companies, have a GPP of 40 points or more, which is a threshold. Regardless of the business model we undertake, we are determined to exceed this threshold of 40 points, and by achieving both the recurrent revenue ratio and the GPP of 40, we will be able to establish a solid base as a software company.

## Recurrent Revenue Ratio

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This shows the trend of the recurrent revenue ratio that I just mentioned, and in FY2023 we are aiming at achieving 70 percent written in orange. On the other hand, the black figures show the achievement rates against the plans for each business.

Since the Outsourcing is a recurrent revenue business model to begin with, we have achieved 95 points.

On the other hand, in the Software Business, the Consolidated Accounting Business, which is shifting from the Azure-type software sales model to a model for continuous use, it's going to be 50 points, if things go according to our plan.

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In addition, the Business Intelligence Business is far from being converted to a continuous model, and it's going to be 40 points with maximum efforts, if things go according to our plan.

The total number of points is still less than 70, so we will focus on how to fill this gap by implementing new measures and other actions as a whole.

## Capital and Business Alliance with Metapraxis UK

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- Avant and Metapraxis closed business alliance on February 15, 2021
- AVANT will subscribe to a preferred share issue by Metapraxis, and dispatch two directors to the board, making Metapraxis equity method affiliate
- Two companies will work on the development of the Japanese version of "Empower," a BI tool specializes in financial analysis, and Avant will acquire an exclusive right to market the solution to customers in Japan and their subsidiaries in overseas markets
- License fees from Japanese Empower will be shared by the two

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On the other hand, as we announced recently, we have formed a capital and business alliance with a British company, Metapraxis. This is also one of our major measures to raise the recurrent revenue ratio.

Metapraxis has a BI tool that specializes in management dashboards, and from that perspective, it has a very strong compatibility with our solutions and products.

While there are a variety of visualization tools in the market, the way we do it is not to customize each one, but rather provide them as a single software package, which requires a certain scale of foundation. The purpose of this capital and business alliance is to provide an environment in which we can offer the Empower products of Metapraxis just like our own products in order to reinforce these areas, and to dramatically increase our ability to provide and propose solutions to our customers.

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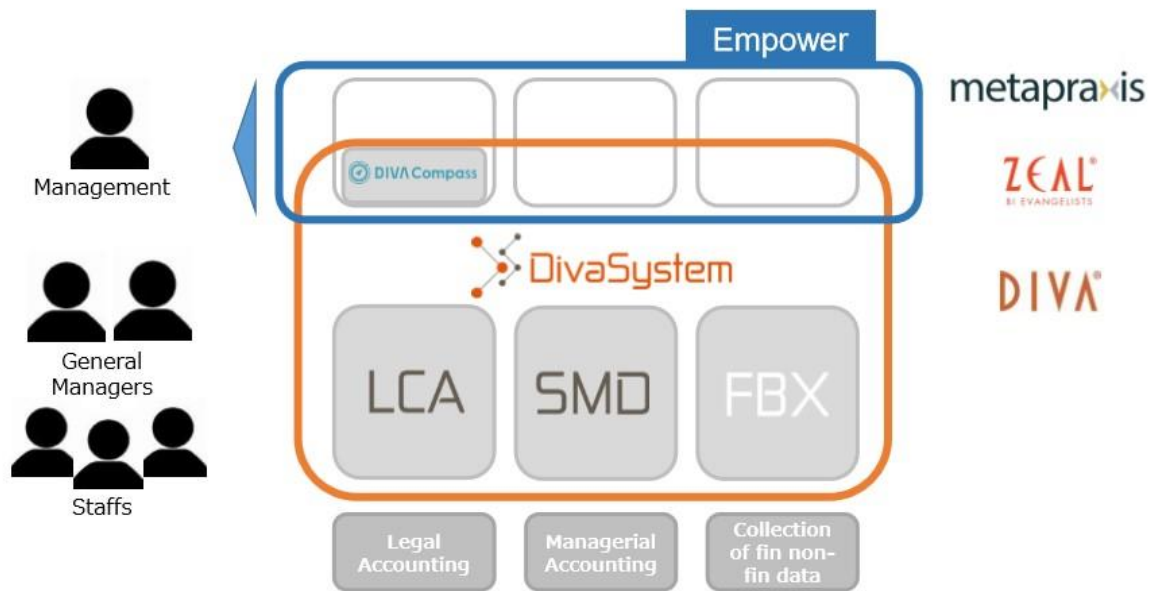
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- Metapraxis Empower is a BI tool that visualizes financial information and is used by many blue-chip companies in Europe and the United States, including Unilever and Thomson Reuters.
- DIVA's various solutions' competitiveness should be enhanced when visualized with Empower
- Avant is seeking new value contribution to customers



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As I mentioned earlier, we will combine various products we currently have to increase the value of the products themselves. In particular, the business we have been engaged in until now has been very strong when it comes to creating data for use.

As I explained at the last financial results meeting, one of our major issues is how to utilize and accelerate the data that we have created. As one of the measures to realize this, we have decided to incorporate Empower as a part of our products.

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## Segment KPI

FY20 Actual		FY21 Forecast		1H FY21 Actual	
Revenue: +6%	GPP: 25%	DOWN	UP	Revenue: -6%	GPP: 15%
OP margin: 19%		UP		OP margin: 22%	
Recurrent revenue ratio	39%		UP	Recurrent revenue ratio	45%

## Focus on cloud product development and expansion of solution proposal business

- ✓ Approach companies with strong performance and strong governance awareness
- ✓ Cross-selling management accounting SMD, group governance Dx3, etc. to LCA customers
- ✓ Collaborate with ZEAL and propose as a package with other companies' products (dashboard, BI, etc.)

- Cumulative number of companies using DivaSystem exceeded 1,100
- DivaSystem LCA, a consolidated accounting cloud service released in July, is off to a good start
- Needs to strengthen governance have become apparent, and both prospects and orders are recovering

The following is an overview of each Group company's business.

The first is the Consolidated Accounting-Related Business, which continues to focus on the development and promotion of cloud products and the expansion of the solution-based Solution Proposal Business.

With the current trend of corporate governance reforms, I feel that there is a very strong demand for corporate governance and Group governance from the perspective of how to enhance the governance capabilities of our customers.

The question is whether we will be able to adapt to this new environment, and we are gradually getting a rough idea of how to position ourselves in this new growth area by reviewing various solutions, training employees, and so on.

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## Segment KPI

FY20 Actual		FY21 Forecast		1H FY21 Actual	
Revenue: +16%	GPP: 28%	DOWN	DOWN	Revenue: +0%	GPP: 12%
OP margin: 12%		DOWN		OP margin: 12%	
Recurrent revenue ratio	9%		UP	Recurrent revenue ratio	10%

### Business model shift with proprietary solutions

- ✓ Introduce proprietary solutions following ZEUSCLOUD
- ✓ Strengthen collaboration with software vendors
- ✓ Support for DX-related projects at major companies
- ✓ Strengthen marketing, webinars

- Strengthened ties with data platform vendors with strong customer needs, such as Denodo, Snowflake, Databricks, Azure, etc., to support corporate data platform construction and data utilization projects
- Plans to gradually expand proprietary IP products

The Business Intelligence Business is riding a very large wave of the DX trend in society as a whole.

However, rather than simply promoting DX itself through system integration, et cetera, we will accumulate a variety of experiences as our own IP and make it into something with high added value. We are promoting such efforts. In the Business Intelligence Business, we are continuing to make full-scale efforts to transform our business model with unique solutions.

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Segment KPI					
FY20 Actual		FY21 Forecast		1H FY21 Actual	
Revenue: +27%	GPP: 44%	DOWN	DOWN	Revenue: +19%	GPP: 44%
OP margin: 18%		DOWN		OP margin: 25%	
Recurrent revenue ratio	89%		UP	Recurrent revenue ratio	93%

**Measures to Maintain Growth Momentum**

- ✓ Harden the pipeline for settlement outsourcing and cash management solutions
- ✓ Further diversification of services
- ✓ Accelerate investment in efficiency improvement and human resource development

- Signed a strategic partner agreement with Aptitude of U.K. to provide outsourcing services using RevStream, a system compatible with the new revenue recognition standard
- Steady expansion of consolidated financial results outsourcing clients in the first half

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And finally, the Outsourcing Business.

In a sense, we have already accomplished the first stage of the business model that we are aiming for.

The challenge for the future is to continue to maintain this growth and expand it firmly, and the other is to take advantage of the environment there to create new software. These two are our major issues and themes. Especially software development will be a big challenge, but our Outsourcing Business is moving forward to concentrate on producing results while maintaining a solid development environment.

This is the outline of each business from a strategic perspective.

Thank you.

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## Positive growth in revenues and OP for the last three months of the first half, moving to a recovery phase in line with expectations

- Cumulative revenue fell YoY, but quarterly revenue began to increase. Cumulative and quarterly operating income increased by double digits due to cost controls, and operating income margin exceeded 20% in the last quarter
- Orders and order backlog also returned to positive growth. Steady recovery in light of the difficult comparison against the previous fiscal year and the impact of COVID-19



1H progress: 47.4%



1H progress: 55.6%



1H progress: 52.8%



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**Kasuga:** My name is Kasuga, the Group CFO. I would like to explain the results for the second quarter.

As you can see, in the second quarter, revenue decreased compared to the same period last year. However, the decrease was a little. Operating income increased significantly, up nearly 20%. Net income also increased by more than 20% in the same manner.

In the remaining half of this fiscal year, we need to accelerate the growth of revenue a little more, otherwise we won't be able to meet the current forecast. On the other hand, we have exceeded the last year's level in regard to operating income, net income, and profit levels.

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## Results by Business Segment

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■ Consolidated Accounting-related business segment sales down YoY, but profit margin continues to improve. The Business Intelligence turned to higher sales and achieved a high profit margin with a 30% increase in profits in the last quarter. Outsourcing business maintained high growth and high profitability

(millions of yen)

		FY20/06 Q2<YtD>	FY21/06 Q2<YtD>	Year-on-Year	
				Variance	%CHG
Consolidated Accounting	Revenue	4,165	3,897	267	6.4%
	Operating Income	709	843	+ 134	+ 18.9%
	OP Margin	17.0%	21.7%	-	+ 4.6 point
Business Intelligence	Revenue	2,870	2,878	+ 7	+ 0.3%
	Operating Income	352	341	10	2.9%
	OP Margin	12.3%	11.9%	-	0.4 point
Outsourcing	Revenue	993	1,179	+ 186	+ 18.7%
	Operating Income	234	295	+ 60	+ 25.9%
	OP Margin	23.6%	25.1%	-	+ 1.4 point

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The following is a comparison of revenue, operating income, and operating income margin for each company or business segment compared to the same period of the previous year.

In the Consolidated Accounting-Related Business, there was a slight decrease in revenue, but operating income increased by nearly 20%.

The Business Intelligence Business managed to increase its revenue in the second quarter. If you look at the second quarter alone in particular, this is a considerable increase compared to the previous fiscal year. Operating income was slightly negative due to the full cost of the office relocation and expansion in the previous fiscal year. The cost of the expansion has been reflected in a slight negative figure, but this is not a cause for concern.

In the Outsourcing Business, both revenue and profits have increased, and as the Group CEO mentioned earlier, the GPP has already exceeded 40%.

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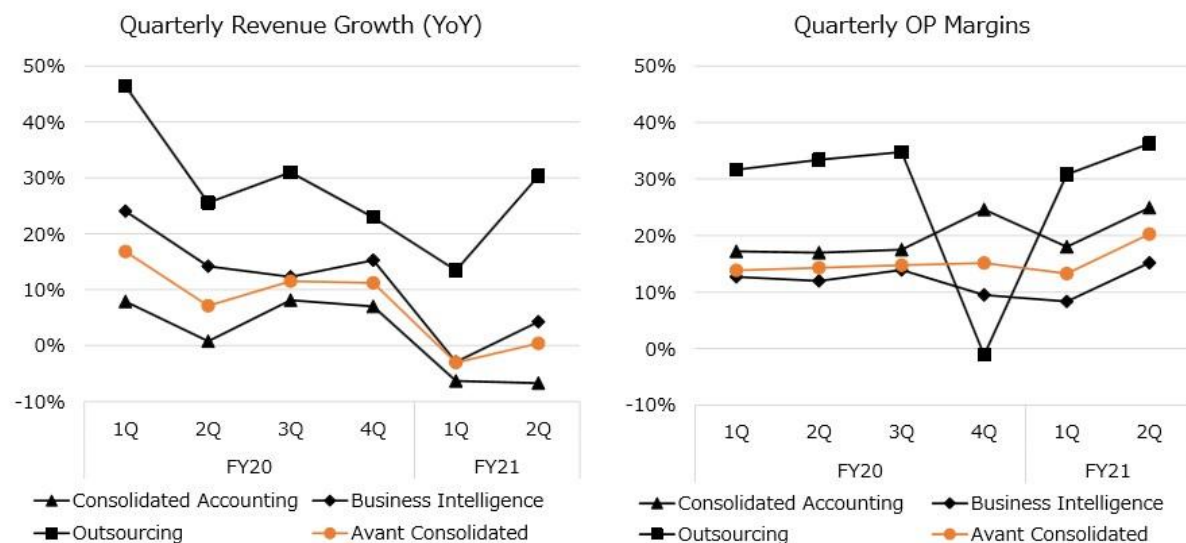
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## Segment Quarterly Results

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- The Consolidated Accounting-related segment had difficult comparison against previous year which was high level due in part to additional large-scale projects, but growth accelerated in the Business Intelligence and Outsourcing segments.
- Profit margins improved in all segments due to the effect of increased revenue and efforts to improve efficiency such as raising the in-house production rate.



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The following table shows the quarterly revenue growth rate and operating income ratio for each company.

As I mentioned earlier, the Business Intelligence Business was probably the segment most affected by the COVID-19 pandemic in the first quarter, but we are seeing signs of recovery in the second quarter.

The Outsourcing Business, as the CEO mentioned, has already had a well-established business model, but not only that, the sales staff strived more than ever to overcome this emergency situation, which brought to them success and increased revenue.

On the other hand, the operating income margin has been on an upward trend since the first quarter of this fiscal year.

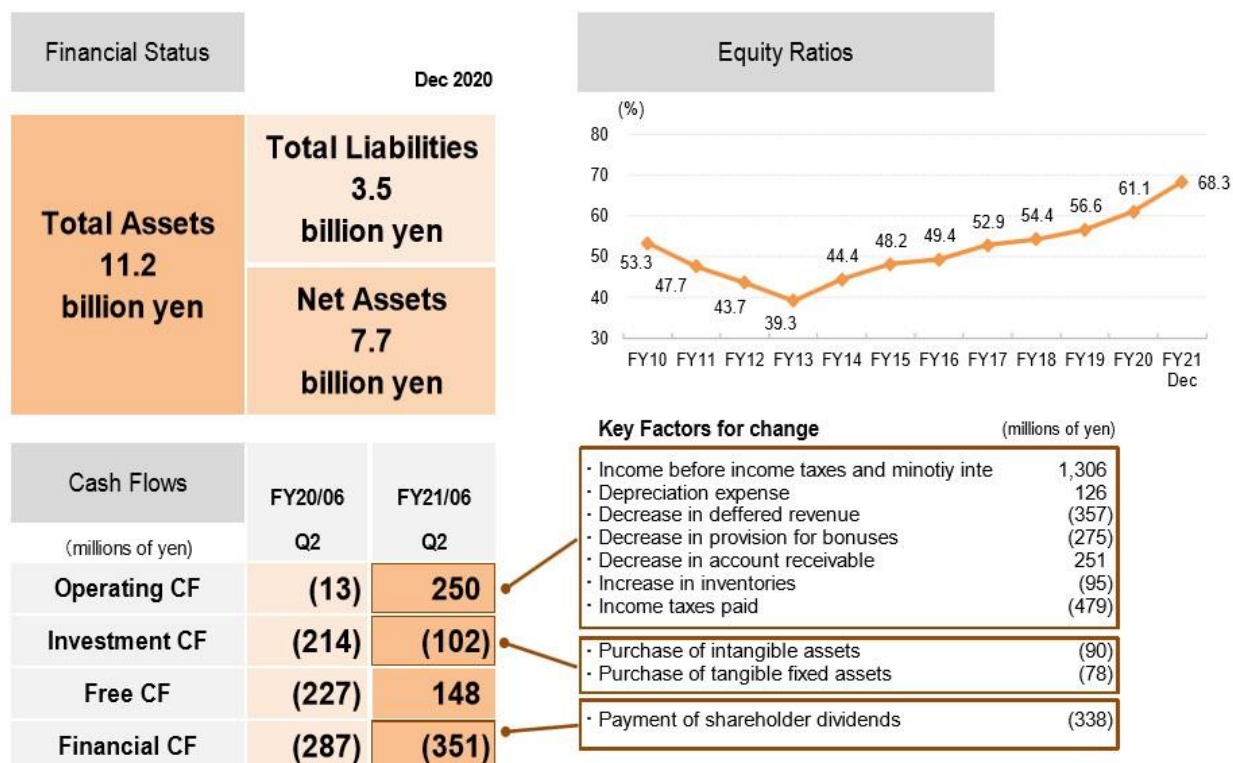
For the entire Group, this is the first time in 26 quarters that the operating income margin has exceeded 20%, according to past records.

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This is the status of the balance sheet and cash flow.

Due to the payment of bonuses, assets decreased slightly in cash and other assets to JPY11.2 billion, but on the other hand, as you saw earlier, profits increased significantly compared to the previous fiscal year, so net assets are steadily increasing. Capital adequacy ratio was 68.3%, which is the highest level in the past 10 years.

As for cash flow, in the case of our Group, operating cash flow is normally negative in the first quarter, and then it gradually turns positive in the second, third, and fourth quarters.

For the current fiscal year, however, operating cash flow has been positive since the first quarter, and as you can see here, it has been positive in the second quarter as well, so there are no particular problems in terms of cash flow.

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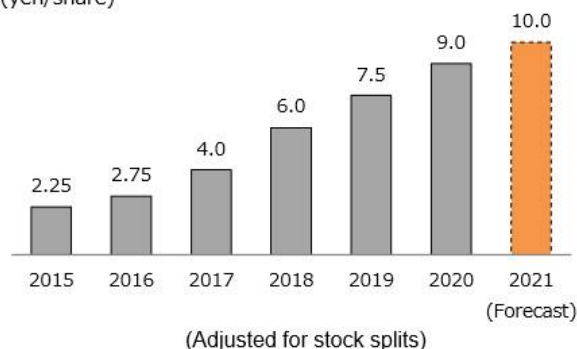
## Dividend Forecasts

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### For fiscal year ending June 2021 we forecast 10 yen per share dividends

- In line with the policy of continuing to pay stable dividends, we expect to increase dividends for the six consecutive fiscal year
- The DOE in Fiscal Year 06/2020 was 5.2%, significantly higher than the average of 2.9% of the company listed on the TSE (12 months)

(yen/share)



### <AVANT's shareholder return policy>

- 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
- DoE ratios for AVANT should improve over time and always exceed average of all listed companies of Tokyo Stock Exchange

	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Actual
Dividends per share (yen)	2.25	2.75	4.0	6.0	7.5	9.0
DOE (AVANT)	3.25%	3.41%	4.18%	5.20%	5.27%	5.17%
DOE (TSE Average)	2.43%	2.64%	2.70%	2.86%	2.93%	2.94%

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This is the dividend forecast.

We have not changed our dividend policy. As stated here, one of our policies is to increase the dividend per share as long as there is distributable profit in absolute terms, and to increase the absolute amount.

Another is the ratio of dividends to net assets, which is written as DOE, and we try to keep this level higher than the average of all companies listed on the Tokyo Stock Exchange. According to the most recent statistical data, the rate is slightly below 3%, but in our case, the rate is 5.2%, which is not quite double, but considerably higher. We hope to maintain at least this level.

That's all.

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## Question & Answer

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**Nishimura:** Now I would like to start the question-and-answer session.

I will nominate a person, so that person unmutes and starts asking questions. And I think it will go more smoothly if you let me ask each question in a question-and-answer format.

Now, if you have any questions, please let us know.

Now, Ichiyoshi Research Institute, Mr. Ito, please start the questions.

**Ito:** Thank you for your explanation today. I came in about five minutes late at the beginning, so it was [Inaudible], so I apologize if I duplicated a bit.

First question is about the BI Business. In this quarter, despite the COVID-19 pandemic, you won a great deal of orders, and I have the impression that your management efforts had paid off. Looking back, as a BI Business, what efforts have you made so far to be able to respond flexibly to the demands of the world in times of emergency? If you have any internal efforts, please tell us about them.

**Morikawa:** Thank you for your question.

The BI Business itself is based on the SI model, so it is the business model that is most susceptible to changes in the environment such as coronavirus.

Therefore, the most important thing to do internally is to take measures to deal with the decline in revenue as soon as possible, and our first move has been to focus on measures on the bottom side rather than the top line.

In contrast, the recovery in revenue was not due to any special measures, but rather to the fact that the market demand itself did not decline as much as we had initially expected. In addition, the reality is that the recovery was quicker, so please understand that it's not our own efforts or measures that significantly contributed to the recovery of the top line.

**Ito:** Thank you very much. As a supplement, I think that increasing the unit price of BI means that you provide added-value. If you have any mid-term ideas on how to increase the unit price of that, please let me know.

**Morikawa:** When you say unit price, do you mean per customer or per person per month, or per person per service?

**Ito:** I'm assuming a man-month per person.

**Morikawa:** In that sense, what we do is to make proposals. By switching to a proposal-based model, providing high added-value at a level similar to that offered by consulting companies, we are trying to raise the unit price of DX-related projects and aim to increase the total volume of projects.

The point is, which customer do you order from? For example, there is a big difference in the unit price depending on whether the order for system development should have been placed with a SIer or with a consulting company.

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Particularly in the context of DX, consulting on what to develop, including technology, to help companies achieve data-driven management has become quite important, so we are increasing the total volume of projects that require such services. This is where we are heading.

**Ito:** Thank you very much.

Second question is about profitability. In the current fiscal year, revenue has recovered to some extent while outsourcing costs have generally been restrained, et cetera, so I think that profitability has improved greatly. With regard to these outsourcing costs, will they continue to be restrained to some extent in the future even after the pandemic has settled down, or should we consider this fiscal year to be a little unique? What do you think about outsourcing costs?

**Morikawa:** Outsourcing costs fluctuate depending on orders received, so as revenues recover, the absolute amount will improve along with it.

On the other hand, from the perspective of improving profitability, we are trying to gradually reduce the outsourcing ratio as much as possible, so we are trying to improve overall profitability through this mixture.

**Ito:** I have the impression that outsourcing companies are getting a lot busier, and I wonder if the outsourcing companies that were temporarily not used much due to the pandemic can be used again in the future when demand returns. Is there any change in the relationship with outsourcing companies?

**Morikawa:** This was the most important point when we looked at the balance of supply and demand, and we were controlling external subcontractors in anticipation of a recovery in the future, so we were able to maintain a relationship of trust with them. In short, I hope you can understand that the reduction was made, while maintaining a state of proper support for recovery.

**Ito:** Thank you very much.

**Nishimura:** Okay?

**Ito:** Yes. Thank you.

**Nishimura:** Next, Mr. Hiramatsu of Tokio Marine Asset, please ask a question. Thank you.

**Hiramatsu:** I'm more nervous than usual today because I can ask questions to the President, but this is the third time for me to attend a financial results briefing.

The first one is about Metapraxis. From their website, I found that they have been awarded a European Excellent Company Award. How were you able to form a partnership with such a company? Also, how was Avant evaluated from here as well? How did Avant also evaluate Metapraxis? Also, I thought your Company have been claiming to develop global software, but in reality, you have not yet developed such products internationally. However, your Company is suddenly off to a good start.

First of all, what was so great about Metapraxis, and how did you get along with each other, and how did you become very, very close?

**Morikawa:** In general, there are various ways to search for overseas partners, such as by listing them on the Internet or through referral agencies, and we have been working on that in such ways, but honestly, Metapraxis was introduced to us by an acquaintance.

The financiers who were very familiar with our Company felt that Avant had a very good affinity with Metapraxis, and we had often been approached by them for about four years.

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But, of course, it wasn't about capital participation or anything like that. I created personal relationships, especially with the current management. As for whether we could work together, we spent a year or two building relationships, including personal ones. During that process, we came to the conclusion that it would be possible for us to work together. As for the background of this project, we were introduced through extremely personal connections. I hope you can understand that it started by building human relationships.

Next, what aspects of them did we value? One area is that the business domain is very niche and specialized. What they specialize in is to create and provide information that is useful for management, which is what we call the "popularization of management information." They specialize in showing the information so that management can make use of it. We highly valued their business nature, affinity, and specialization.

Another point is the software they have themselves. Their software is not necessarily logical or provide an excessive variety of functions, but is designed to be very simple for its purpose. I really appreciated their technical and design capabilities.

These two areas are particularly strong, plus the human connection. By establishing a solid relationship of trust, we were able to create the human part, the product part, and the business area. With these three points in place, we have been moving in the direction of building a solid and deep relationship together.

Next, as for international product launch, as a matter of fact, we have been trying to sell our software overseas for more than 10 years now. However, partly because gaining popularity of software itself depends on the culture of the country, business applications that sell in Japan will not necessarily sell in the US.

As we have accumulated such sales experience, we realized that it would be better to rebuild our sales channels through cooperation with local distributors, rather than having Japanese people go out and sell the products themselves.

Metapraxis has a proven track record of sales in both the UK and the US. Through a partnership with them, we intend to create solutions that allow us to coexist with such companies and provide such solutions to our customers. We are currently working on a path to make our software world-class.

In fact, prior to this alliance, we had already achieved two sales orders of the combination of DIVA's products and Metapraxis' products in the US, and based on these results, we have been making progress after verifying the proof to some extent. That's all.

**Hiramatsu:** Thank you very much. [Inaudible] Metapraxis' product [Inaudible] was, it was. Also, you are going to localize and sell Empower in Japan. I think speed is crucial for this, but when can you launch?

**Morikawa:** Approximately by the time the pandemic ends. We are looking at the summer.

**Hiramatsu:** Around summer? So, what I don't understand is [Inaudible] from the BI, which is, but if it's a core part, of course it's consolidated, and who's in charge of this [Inaudible]?

**Morikawa:** DIVA is mainly in charge of the Consolidated Accounting Business.

In other words, it is customer-based. In fact, DIVA has a customer base of about 1,000 companies that they can propose to, so we think that adding value to the data that we currently have for that customer base, in order to further contribute to our customers, is the best way to penetrate the market, or to increase our ability to contribute to our customers. Therefore, DIVA is playing a central role in deploying Metapraxis' products.

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**Hiramatsu:** I understood. And regarding governance and corporate value creation, the Ito Review 2.0 is emphasizing corporate management and ROIC management more and more and suggesting that all companies should communicate with investors based on this. So, every company is troubled now.

After all, I hadn't kept track of the numbers, so I had to hurry [Inaudible]. If possible, every month, if possible, every week, as a matter of fact every day, but we need to get the dashboard ready to announce. That's what I hear.

Considering that, all the SIs and software [Inaudible] companies are already engaged in the BI, while saying that our dashboard is ready and amazing, but is the product that combines Empower still overwhelmingly strong?

**Morikawa:** Empower itself is not strong enough. On the other hand, DIVA itself possesses the basic data for ROIC management on the consolidated accounting system.

However, there are certainly various tools to visualize this. However, when we try to use it ourselves, for example, although we haven't used it for IR this time, we also make dashboards and use them to explain various things, but they are still surprisingly difficult to use.

When it comes to making a tool that properly reflects business requirements, such as the need to add supplementary information here and there, or the need to drill down a little further, we can do it, but the usability part is quite [Inaudible].

We are already using existing BI tools to create the front part of the system, while mainly using the data that DIVA has, but we recognize that we need to improve the degree of completeness of the application. MetapraXis products make it easier to reflect the requirements properly in terms of visualization, so we can incorporate the data we have and the business requirements.

The actual functional difference may be minimal, especially where business requirements specific to ROIC and the like can be well incorporated. However, when it comes to actual use, we believe that we can make the system very user-friendly.

**Hiramatsu:** I see. I understood. That's how you see it. After all, Japanese products are [Inaudible], and it's hard to customize after that. It's hard to say, but I thought this was definitely simple, since I can use the reservation [Inaudible] for video recording.

**Morikawa:** Yes.

**Hiramatsu:** Another thing that really surprised me was [Inaudible], and I was wondering if you could tell us a little bit about the text, whether it was written that way in the first place, whether it was done by people, whether there were people, what kind of software, whether it was automated.

**Morikawa:** I'm afraid that I couldn't catch the first part very well.

**Hiramatsu:** I'm sorry. You explained that in the Outsourcing Segment, you are going to establish an environment for software development. In my mind, I thought like, "Oh, this is supposed to be typed in [Inaudible]." What kind of things are you developing, [Inaudible] things, or simple RPA things? That kind of thing.

**Morikawa:** This includes the RPA-like part of automating the actual work. In short, it means taking over the entire business process, and we will do what it takes to improve it. In short, it has the advantage of being able to take the perspective of improving business processes.

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As we do this, we use a consolidated accounting system called the DivaSystem as the actual backbone. It is possible to create something like additional functions to this consolidated accounting system.

So, while we will be working on RPA-like aspects to automate the work we are currently doing, we will also be creating software for niche areas as applications.

**Hiramatsu:** I understood.

I understood that your Company has put a lot of effort into the software as well. If your Company were to create something like an ERP, I think it would also be a significant management risk. Then, am I correct in understanding that your Company will proceed with caution and try to reduce the risk of software development?

**Morikawa:** Yes. I think our software itself is a relatively niche solution among the SaaS products that are out there today, but on the other hand, I think the ERP is the opposite as you have just mentioned.

We're focusing on the SaaS cloud-based software that we have now, so each solution is relatively small, and we're going to build multiple solutions, so it's not like we're taking a big risk with a large investment.

**Hiramatsu:** I understood. It is a cloud SaaS based ERP, not for SAP, isn't it?

**Morikawa:** Yes.

**Hiramatsu:** I'm sorry, I've been asking a lot of questions for a long time. Thank you very much.

**Morikawa:** Thank you very much.

**Nishimura:** Thank you very much.

Does anyone have any other questions?

Mr. Vidane of Eightfold Research, please let us have your question.

**Vidane:** My name is Kris from Eightfold Research.

You explained that you are considering M&A as a way to expand your business in the future. What kind of criteria will you use in the future to decide whether to acquire a software company that has products like Metapraxi or to form a business alliance like this one? For example, please tell us how you decided to do it this time, to the extent possible.

**Morikawa:** First of all, regarding the strategic positioning of M&A, we believe that we are currently engaged in a growing area. Therefore, there is no need to incorporate different new growth areas. Rather, we should focus on how to increase the value we contribute to our customers in our growth area. The point is that in the end, the current management issues are centered on how to drive our current business more, rather than what we can bring from outside.

Then, when we think about undertaking M&As, of course, the most important point is how it helps us to have what we don't have now. Therefore, as an effective means, if capital alliances are good, they should be used, and if M&As are good, they should be used. We make decisions based on such priorities, and M&A is never our goal. If there is a possibility that we can exclusively use a product that will increase the value of our contribution to our customers, we will promote it through a capital alliance.

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There may be some other ways to drive the whole thing more, other than the software. And if we decide it is a better choice to incorporate a company, we are likely to acquire a company, for example.

Therefore, it is not a matter of simply going out to buy these parts or this kind of software, but rather how we can realize what we want to create now. If the most effective way to achieve this is through a capital alliance, then that is what we will do. This is how we are proceeding.

**Vidane:** Thank you very much.

**Nishimura:** Okay? Thank you.

Does anybody have any other questions?

Mr. Sakurai of Nomura Asset, please ask a question.

**Sakurai:** My name is Sakurai from Nomura Asset.

**Nishimura:** Thank you very much.

**Sakurai:** Thank you very much for this valuable time today. I am embarrassed to ask such a primitive question, but I would like to ask you again about the status of cloud computing for the Consolidated Accounting.

As I recall, you released DIVA's LCA in July, which is a low-cost membership system that is targeted at new customers. On the other hand, the existing on-premise version of the DivaSystem has the strength of its customizability, so when I heard about it, I understood that it might be difficult to shift to the cloud entirely.

If the on-premise version of the main DivaSystem is going to be shifted to the cloud at once, I can see a scenario where the recurrent revenue ratio will also increase at once. I would appreciate it if you could explain that again.

**Morikawa:** Thank you very much.

I feel that my explanation of the recurrent revenue ratio was not enough. As I mentioned earlier in the strategy section, the main objective is to increase the total number of opportunities to experience the development of various software from various sites. Currently we have DivaSystem, but without such development foundation, there will be no next system coming up, following the current DivaSystem, for example.

In order to solve this problem, we would like to continue to take on the work itself on an ongoing basis and solve this problem in this area. Therefore, we want to create an environment where we can help our customers by creating this kind of software again, which is why we are improving our recurrent revenue ratio.

In project-based development, the theme seems to be the same each time, but the theme changes slightly, and it is difficult to realize the pain.

So, for example, we could change the way we deal with our clients from a project basis to a fixed annual fee, and within this amount, we can work backwards from, for example, what we want to do in five years, and this year we will work on these themes. By changing the way we do business with each other, we can feel the customer's pain in their business as it's our own pain.

We are not looking to shift software to the cloud to increase the stock ratio but would like to increase the recurrent revenue ratio by shifting our business model to such an ongoing type.

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So, the bottom line is that it is possible to increase the recurrent revenue ratio without shifting to the cloud for software itself in a hurry.

**Sakurai:** I see. Sorry, I'm taking a long time. I thought that cloud and maintenance are producing recurrent revenue in the Consolidated-Related Business, so you mean the contents of the recurrent revenue will change in the future, don't you?

**Morikawa:** Yes. You are right.

**Sakurai:** I see. Recurrent revenue will also come from the so-called on-premise version. Am I correct?

**Morikawa:** You are right.

**Sakurai:** I understood very well. Thank you.

**Nishimura:** Okay? Thank you.

Does anybody have any other questions? Okay?

It's a little early, but it looks like there are no other questions, so I would like to conclude the briefing session here. Thank you very much for your participation today.

Today's archived video will be available to watch on our website at a later date. We will also be uploading the document with a script.

This will conclude the briefing. Thank you very much.

**Morikawa:** Thank you very much.

[END]

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### **Document Notes**

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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