

AVANT (3836)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY06/2016		9,612	1,109	1,112	660	70.4	11.0	352.7
FY06/2017		10,532	1,306	1,308	663	70.7	16.0	412.6
FY06/2018CoE		11,246	1,224	1,224	752	80.1	19.0	-
FY06/2016	YoY	7.7%	37.9%	39.8%	64.3%	-	-	-
FY06/2017	YoY	9.6%	17.7%	17.6%	0.4%	-	-	-
FY06/2018CoE	YoY	6.8%	(6.3%)	(6.5%)	13.3%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (11 September 2017)

CIFO ACCELERATOR

AVANT, having been mainly involved with running operations of selling DivaSystem, i.e., packaged software for consolidated management and accounting on a licensing basis together with related services, is now heading for consistent earnings growth over the long term by means of focusing on operations as CIFO ACCELERATOR. On top of Japanese major listed corporates, etc. that have been cultivated as customers of DivaSystem, the Company now plans to offer a) software and system integration services, b) consulting services and c) outsourcing services also for listed corporates overseas as CIFO ACCELERATOR. CIFO represents officer and/or operations to play the role of CFO (Chief Financial Officer) and CIO (Chief Investment Officer) being combined. According to Tetsuji Morikawa who founded the Company and is the current president and CEO, the Company, having provided Japanese major listed corporates with solutions on “accounting (accounts processing of the past results)”, is now starting up offering of solutions on “finance (optimum allocations of business assets for the future growth)”. Meanwhile, he goes for “maintaining ROE of more than 20%”, “CAGR of 18% for operating profit” and “dividend of more than tenfold” to be achieved towards FY06/2027 as long-term targets of said management strategy. For example, operating profit is to reach ¥6,835m in FY06/2027 or in ten years, when simply calculated based on FY06/2017 results. Meanwhile, midterm management plan (FY06/2018 to FY06/2020) is calling for prospective sales of ¥13,433m and operating profit of ¥1,626m in FY06/2020, i.e., the last year of the plan. When based on FY06/2017 results, sales are to see CAGR of 8.4% and of 7.6% for operating profit. While this is the results of summarizing prospects from each operating company, the long-term targets are of more like those of Morikawa as the key person to run the Company based on his long-term management strategy.

In FY06/2017, sales came in at ¥10,532m (up 9.6% YoY), operating profit ¥1,306m (up 17.7%) and operating profit margin 12.4% (up 0.9% points). Sales of Licensing came in at ¥700m (down 7.1%), Consulting Services ¥6,161m (up 8.9%) and Support and Information Retrieval Services ¥3,670m (up 14.7%). In regards to Licensing, sales of the mainstay DivaSystem have remained roughly unchanged over the previous year, but sales came down sharply for trading of third-party BI-related packaged software as large-scale project in the previous year did not reappear. In regards to Consulting Services, sales associated with introductions, etc. of DivaSystem were buoyant as well as BI-related system integrations services. In regards to Support and Information Retrieval Services, sales of the mainstay operations of maintenance services, etc. for DivaSystem were favorable and sales of outsourcing services to undertake duties of consolidated accounting and tax payment surged. Meanwhile, the Company is seeing increasing personnel-related expenses due to aggressive hiring but benefiting more from increasing sales, resulting in operating profit margin improving.

FY06/2018 Company forecasts are going for prospective sales of ¥11,246m (up 6.8% YoY), operating profit of ¥1,224m (down 6.3%) and operating profit margin of 10.9% (down 1.5% points). The markets to which the Company is exposed are unlikely to see major changes of trends, etc. in the foreseeable future and thus sales are to continue increasing. In particular, demand is likely to pick up nicely for Consulting Services and outsourcing services to undertake duties of consolidated accounting and tax payment to account for a part of Support and Information Retrieval Services, while the issue to overcome here is to acquire and maintain human resources to cope with picking-up demand. The Company, having realized this issue rather beforehand, accelerated hiring in Q4 FY06/2017. Thus, the issue is now being overcome in a sense. However, this drives increases of personnel-related expenses a lot, making Company forecasts go for adjusting earnings. The headcounts stood at 709 as of the end of FY06/2017 versus 603 as of the end of FY06/2016, having increased by 106 (17.6%) of which the Company saw the increases by 60 exclusively in Q4 FY06/2017. Company forecasts assume personnel newly hired to start contributing to sales in three to six months after preparatory training as well as adoption of the measures coping with social climate represented by so-called work style reform to also generate impacts to earnings.

IR Representative: Corporate Strategic Information Management, Nobue Aoki (ir@avantcorp.com)

2.0 Company Profile

Providing Consolidated Management and Accounting with Solutions

Company Name	AVANT CORPORATION Company Website IR Information Share Price	
Established	26 May 1997	
Listing	8 February 2007: Tokyo Stock Exchange JASDAQ Growth (Ticker: 3836)	
Capital	¥288m (As of the end of June 2017)	
No. of Shares	9,388,000 shares, including 662 treasury shares (As of the end of June 2017)	
Main Features	<ul style="list-style-type: none">● Licensing proprietary packaged software of DivaSystem● Adopted by more than half of Japan's top 50 market cap corporates● Focusing on operations as CIFO ACCELERATOR over the long term	
Businesses	. Software Business	
Top Management	President and CEO: Tetsuji Morikawa	
Shareholders	Tetsuji Morikawa 36.21%, ESOP 10.38%, Tsuyoshi Noshiro 4.97% (As of the end of June 2017)	
Headquarters	Minato-ku, Tokyo, JAPAN	
No. of Employees	Consolidated: 709, Unconsolidated: 56 (As of the end of June 2017)	

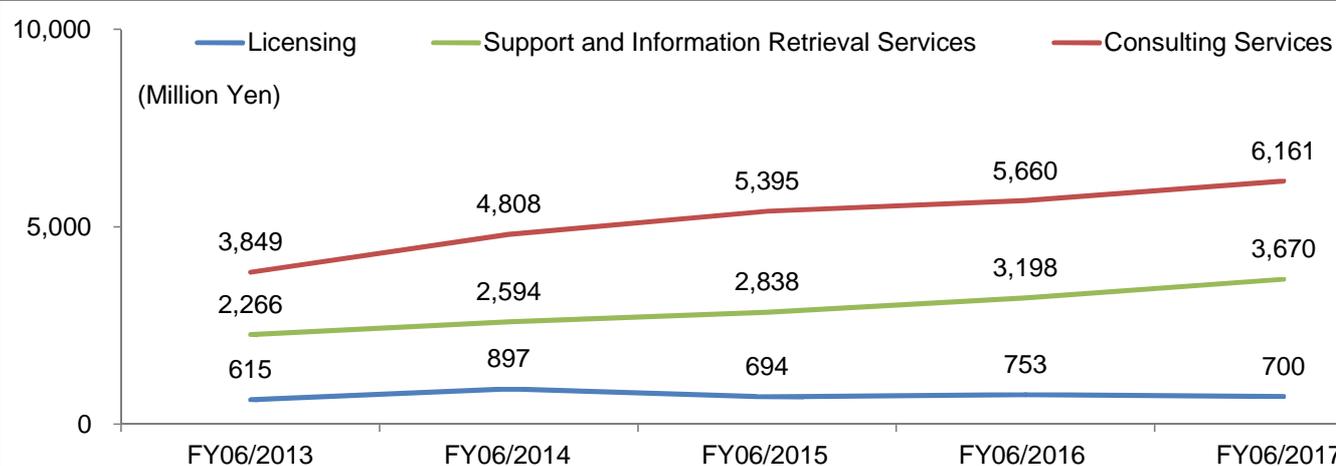
Source: Company Data

3.0 Recent Trading and Prospects

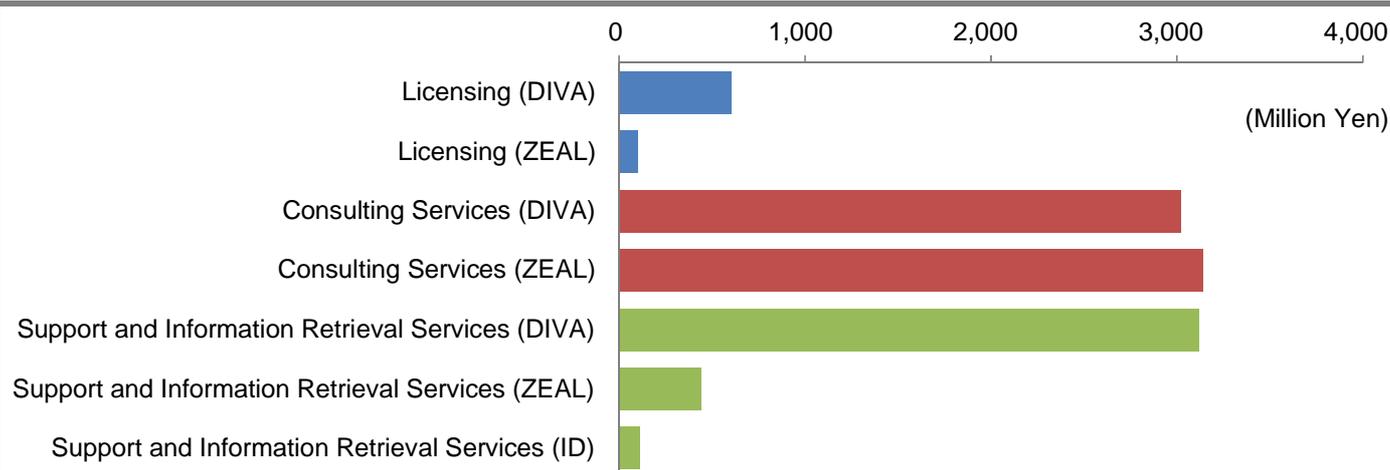
FY06/2017 Results

In FY06/2017, sales came in at ¥10,532m (up 9.6% YoY), operating profit ¥1,306m (up 17.7%), recurring profit ¥1,308m (up 17.6%) and profit attributable to owners of parent ¥663m (up 0.4%), while operating profit margin 12.4% (up 0.9% points). The results were better than initially expected. Initial Company forecasts were exceeded by ¥482m (4.8%) in sales, ¥281m (27.4%) in operating profit, ¥283m (27.6%) in recurring profit and ¥16m (2.8%) in profit attributable to owners of parent. Initial assumptions on sales turned out to be rather conservative, having resulted in major overshoots in operating profit and recurring profit. However, the Company unexpectedly saw settlement expenses of ¥326m at the extraordinary level and thus initial Company forecasts for profit attributable to owners of parent failed to have been exceeded much.

Sales by Business Domain



Sales by Operating Company for Each Business Domain (FY06/2017)



Source: Company Data, WRJ Calculation

In Licensing, 86% of sales were accounted for by DivaSystem or proprietary packaged software for consolidated management and accounting (DIVA) and the remaining 14% by trading of third-party BI-related packaged software. Collective 945 corporates have adopted DivaSystem over the past 20 years, i.e., since the launch in FY06/1998, while sales have been remaining a certain level to date and it appears that sales could surge going forward, when the Company possibly sees large-scale projects.

In Consulting Services, 49% of sales were accounted for by services associated with introductions of DivaSystem, etc. (DIVA) and 51% by BI-related system integration services (ZEAL).

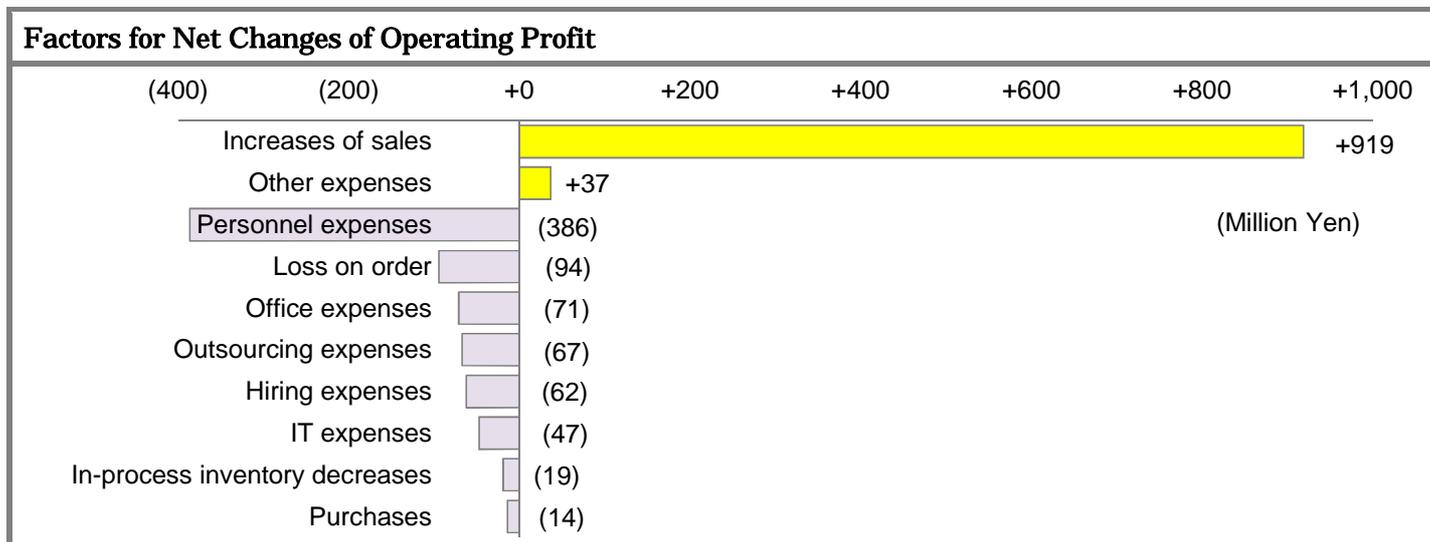
The former represents sales stemming from so-called “implementation” to set up master for using DivaSystem and/or to apply customization, which is indispensable when introducing DivaSystem. On top of this, the Company here is also involved with operations to drive aforementioned ones as CIFO ACCELERATOR and sales are starting to surge albeit not much on a value basis so far. For example, increasing sales of services to provide customers who have adopted DivaSystem with solutions for management accounting (CPM: Corporate Performance Management) are mentioned as one of the factors driving sales of Consulting Services.

Meanwhile, the latter literally represents sales of BI-related system integration. The Company’s expertise of services here to efficiently deal with diverse hardware has been highly appreciated to date and thus recent trading is buoyant. BI-related system integration services represent those of BI (Business Intelligence) which is based on a method to facilitate corporate decision-making by means of analyzing and processing vast in-house data accumulated by business systems, etc. More importantly, this also has good opportunities to drive operations as CIFO ACCELERATOR, going forward.

In Support and Information Retrieval Services, 85% of sales were accounted for by maintenance services, etc. for DivaSystem and outsourcing services to undertake duties of consolidated accounting and tax payment (DIVA), 12% by maintenance services associated with BI-related system integration services (ZEAL) and 3% by information retrieval services (ID).

Within the mainstay maintenance services, etc. for DivaSystem and outsourcing services to undertake duties of consolidated accounting and tax payment (DIVA), it appears that the former accounts for two thirds of sales here and the latter remaining one third. As sales of DivaSystem on a licensing basis are persisting, sales of maintenance services, etc. are on the rise, while sales are increasing fast in regards to sales of outsourcing services for corporates who have adopted DivaSystem. On top of the fact that there remains huge room to further cultivate this existing customer base, the Company is trying to get at aggressive cultivations of new customers here, likely to also drive operations as CIFO ACCELERATOR just like BI-related system integration services.

Meanwhile, the Company is also involved with information retrieval services representing the operations to offer services, as ASP for users effectively all accountants of auditing firms, to comprehensively retrieve timely disclosure information based on the Financial Instruments and Exchange Act, including any word in the texts, etc. To date, some 20,000 to 30,000 CPAs (Certified Public Accountants) have adopted said services for their regular use.



Source: Company Data, WRJ Calculation

At the end of the day, the Company saw net increase of sales by ¥919m over the previous year and net increases of operating profit by ¥196m. The Company has been keen on hiring and maintaining human resources for some time, having driven personnel-related expenses, but this was more than compensated for by increasing sales. Actually, office expenses and hiring expenses are on the rise in line with the Company's measures to increase headcounts, which should be also true of outsourcing expenses in that said expenses are spared to take advantage of external human resources. Elsewhere, the Company saw increases of loss on order, but this was rather insignificant when compared with collective impacts stemming from personnel-related expenses as a whole, as far as we could see. By the way, loss on order was generated in system integration services offered by the Company and it should be noted that aforementioned settlement expenses of ¥326m were booked to thoroughly settle problems from the past project here, which is not to reappear in FY06/2018.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act								
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		YoY
(Million Yen)	06/2016	06/2016	06/2016	06/2016	06/2017	06/2017	06/2017	06/2017		Net Chg.
Sales	2,175	4,564	6,985	9,612	2,272	4,958	7,714	10,532		+919
Cost of Sales	1,233	2,575	4,029	5,452	1,288	2,733	4,224	5,834		+381
Gross Profit	941	1,989	2,955	4,159	984	2,225	3,490	4,697		+537
SG&A	744	1,567	2,265	3,050	703	1,633	2,481	3,391		+341
Operating Profit	197	422	690	1,109	280	591	1,009	1,306		+196
Non Operating Balance	(1)	(3)	(3)	2	0	4	2	2		0
Recurring Profit	196	419	687	1,112	280	595	1,011	1,308		+196
Extraordinary Balance	0	0	0	(176)	0	(326)	(326)	(276)		(99)
Profit before Income Taxes	196	419	687	936	280	269	685	1,032		+96
Total Income Taxes	65	170	320	275	96	86	252	369		+93
Profit Attributable to Owners of Parent	130	249	367	660	183	183	433	663		+2
Sales YoY	+11.9%	+8.8%	+8.6%	+7.7%	+4.5%	+8.6%	+10.4%	+9.6%		-
Operating Profit YoY	+49.2%	+5.4%	+11.9%	+37.9%	+42.2%	+40.0%	+46.3%	+17.7%		-
Recurring Profit YoY	+50.3%	+5.8%	+12.7%	+39.8%	+42.6%	+42.1%	+47.2%	+17.6%		-
Profit Attributable to Owners of Parent YoY	+54.5%	(1.6%)	(2.5%)	+64.3%	+40.4%	(26.5%)	+18.0%	+0.4%		-
Gross Profit Margin	43.3%	43.6%	42.3%	43.3%	43.3%	44.9%	45.2%	44.6%		+1.3%
SG&A / Sales	34.2%	34.3%	32.4%	31.7%	30.9%	33.0%	32.2%	32.2%		+0.5%
Operating Profit Margin	9.1%	9.3%	9.9%	11.5%	12.4%	11.9%	13.1%	12.4%		+0.9%
Recurring Profit Margin	9.0%	9.2%	9.8%	11.6%	12.3%	12.0%	13.1%	12.4%		+0.9%
Profit Attributable to Owners of Parent Margin	6.0%	5.5%	5.3%	6.9%	8.1%	3.7%	5.6%	6.3%		(0.6%)
Tax Charges, etc. / Pretax Profit	33.3%	40.6%	46.6%	29.4%	34.3%	32.1%	36.9%	35.8%		+6.3%

Income Statement	Cons.Act	Cons.Act								
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		YoY
(Million Yen)	06/2016	06/2016	06/2016	06/2016	06/2017	06/2017	06/2017	06/2017		Net Chg.
Sales	2,175	2,389	2,420	2,627	2,272	2,685	2,756	2,817		+189
Cost of Sales	1,233	1,341	1,454	1,423	1,288	1,444	1,490	1,610		+187
Gross Profit	941	1,047	966	1,204	984	1,241	1,265	1,206		+2
SG&A	744	822	698	784	703	930	847	910		+125
Operating Profit	197	224	268	419	280	310	418	296		(123)
Non Operating Balance	(1)	(2)	0	5	0	5	(2)	0		(5)
Recurring Profit	196	222	268	425	280	315	416	296		(128)
Extraordinary Balance	0	0	0	(176)	0	(326)	0	50		+226
Profit before Income Taxes	196	222	268	248	280	(10)	416	346		+98
Total Income Taxes	65	104	149	(44)	96	(9)	166	116		+161
Profit Attributable to Owners of Parent	130	118	118	293	183	0	250	230		(63)
Sales YoY	+11.9%	+6.2%	+8.2%	+5.2%	+4.5%	+12.4%	+13.9%	+7.2%		-
Operating Profit YoY	+49.2%	(16.2%)	+24.1%	+122.8%	+42.2%	+38.0%	+56.2%	(29.4%)		-
Recurring Profit YoY	+50.3%	(16.1%)	+25.7%	+128.8%	+42.6%	+41.6%	+55.3%	(30.2%)		-
Profit Attributable to Owners of Parent YoY	+54.5%	(29.9%)	(4.2%)	-	+40.4%	-	+111.8%	(21.5%)		-
Gross Profit Margin	43.3%	43.9%	39.9%	45.8%	43.3%	46.2%	45.9%	42.8%		(3.0%)
SG&A / Sales	34.2%	34.4%	28.8%	29.9%	30.9%	34.7%	30.7%	32.3%		+2.4%
Operating Profit Margin	9.1%	9.4%	11.1%	16.0%	12.4%	11.6%	15.2%	10.5%		(5.4%)
Recurring Profit Margin	9.0%	9.3%	11.1%	16.2%	12.3%	11.8%	15.1%	10.5%		(5.6%)
Profit Attributable to Owners of Parent Margin	6.0%	4.9%	4.9%	11.2%	8.1%	(0.0%)	9.1%	8.2%		(3.0%)
Tax Charges, etc. / Pretax Profit	33.3%	47.0%	56.0%	-	34.3%	-	39.9%	33.6%		-

Source: Company Data, WRJ Calculation

Sales by Business Domain (Cumulative, Quarterly)

Sales by Business Domain	Cons.Act	Cons.Act	YoY							
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
	06/2016	06/2016	06/2016	06/2016	06/2017	06/2017	06/2017	06/2017	06/2017	
Licensing	174	362	519	753	110	322	485	700		(53)
Consulting Services	1,230	2,650	4,104	5,660	1,298	2,855	4,502	6,161		+501
Support and Information Retrieval Services	770	1,551	2,361	3,198	864	1,780	2,727	3,670		+471
Sales	2,175	4,564	6,985	9,612	2,272	4,958	7,714	10,532		+919
Licensing	+4.7%	+10.8%	+16.2%	+8.6%	(36.5%)	(11.2%)	(6.6%)	(7.1%)		-
Consulting Services	+13.5%	+7.0%	+5.6%	+4.9%	+5.5%	+7.7%	+9.7%	+8.9%		-
Support and Information Retrieval Services	+11.0%	+11.5%	+12.5%	+12.7%	+12.2%	+14.8%	+15.5%	+14.7%		-
Sales (YoY)	+11.9%	+8.8%	+8.6%	+7.7%	+4.5%	+8.6%	+10.4%	+9.6%		-
Licensing	8.0%	8.0%	7.4%	7.8%	4.9%	6.5%	6.3%	6.6%		(1.2%)
Consulting Services	56.6%	58.1%	58.8%	58.9%	57.1%	57.6%	58.4%	58.5%		(0.4%)
Support and Information Retrieval Services	35.4%	34.0%	33.8%	33.3%	38.0%	35.9%	35.4%	34.8%		+1.6%
Sales (Composition Ratio)	100.0%		+0.0%							
Sales by Business Domain	Cons.Act	Cons.Act	YoY							
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
	06/2016	06/2016	06/2016	06/2016	06/2017	06/2017	06/2017	06/2017	06/2017	
Licensing	174	188	156	234	110	211	162	215		(19)
Consulting Services	1,230	1,420	1,453	1,556	1,298	1,557	1,646	1,659		+103
Support and Information Retrieval Services	770	780	810	836	864	916	947	942		+105
Sales	2,175	2,389	2,420	2,627	2,272	2,685	2,756	2,817		+189
Licensing	+4.7%	+17.2%	+31.1%	(5.3%)	(36.5%)	+12.2%	+3.9%	(8.2%)		-
Consulting Services	+13.5%	+2.0%	+3.2%	+3.0%	+5.5%	+9.7%	+13.3%	+6.7%		-
Support and Information Retrieval Services	+11.0%	+12.1%	+14.3%	+13.2%	+12.2%	+17.4%	+16.9%	+12.6%		-
Sales (YoY)	+11.9%	+6.2%	+8.2%	+5.2%	+4.5%	+12.4%	+13.9%	+7.2%		-
Licensing	8.0%	7.9%	6.5%	8.9%	4.9%	7.9%	5.9%	7.6%		(1.3%)
Consulting Services	56.6%	59.4%	60.0%	59.2%	57.1%	58.0%	59.7%	58.9%		(0.3%)
Support and Information Retrieval Services	35.4%	32.7%	33.5%	31.9%	38.0%	34.1%	34.4%	33.4%		+1.6%
Sales (Composition Ratio)	100.0%		+0.0%							

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet	Cons.Act	Cons.Act	YoY							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
(Million Yen)	06/2016	06/2016	06/2016	06/2016	06/2017	06/2017	06/2017	06/2017	06/2017	Net Chg.
Cash & Deposit	2,351	2,560	2,686	3,404	3,263	3,296	2,866	3,945		+540
Accounts Receivables	1,538	1,496	1,429	1,555	1,161	1,552	1,656	1,481		(74)
Inventory	184	234	223	120	142	107	187	183		+63
Other	568	564	538	656	636	623	616	659		+2
Current Assets	4,642	4,856	4,878	5,737	5,203	5,580	5,326	6,269		+532
Tangible Assets	245	234	231	210	204	177	233	207		(3)
Intangible Assets	271	240	217	201	171	145	127	100		(100)
Investments and Other Assets	400	403	529	559	617	758	830	747		+187
Fixed Assets	916	878	978	971	992	1,081	1,191	1,056		+84
Total Assets	5,559	5,734	5,856	6,709	6,195	6,662	6,518	7,325		+616
Accounts Payables	272	313	347	336	253	319	426	421		+85
Corporate Bond (Less Than 1 Year)	30	-	-	-	-	-	-	-		-
Short Term Debt	122	122	122	122	115	96	59	28		(93)
Other	2,103	2,175	2,185	2,794	2,314	2,738	2,255	2,866		+72
Current Liabilities	2,528	2,610	2,654	3,252	2,683	3,155	2,740	3,316		+63
Corporate Bond	-	-	-	-	-	-	-	-		-
Long Term Debt	120	96	59	28	4	-	-	-		(28)
Other	124	123	123	116	115	115	135	135		+18
Fixed Liabilities	245	220	182	145	120	115	135	135		(9)
Total Liabilities	2,773	2,831	2,837	3,398	2,804	3,270	2,876	3,452		+54
Shareholders' Equity	2,782	2,900	3,018	3,311	3,392	3,391	3,641	3,872		+560
Adjustments	2	2	-	-	(1)	-	-	1		+2
Total Assets	2,785	2,903	3,019	3,311	3,391	3,391	3,641	3,873		+562
Total Liabilities and Net Assets	5,559	5,734	5,856	6,709	6,195	6,662	6,518	7,325		+616
Equity Capital	2,785	2,903	3,019	3,311	3,391	3,391	3,641	3,873		+562
Interest Bearing Debt	273	219	181	151	120	96	59	28		(122)
Net Debt	(2,078)	(2,341)	(2,504)	(3,253)	(3,142)	(3,199)	(2,806)	(3,916)		(663)
Equity Capital Ratio	50.1%	50.6%	51.6%	49.4%	54.7%	50.9%	55.9%	52.9%		+3.5%
Net-Debt-Equity Ratio	(74.6%)	(80.7%)	(83.0%)	(98.3%)	(92.7%)	(94.4%)	(77.1%)	(101.1%)		(2.9%)
ROE (12 months)	17.2%	14.5%	13.7%	21.8%	23.1%	18.9%	21.8%	18.5%		(3.4%)
ROA (12 months)	16.4%	15.3%	16.1%	18.0%	20.4%	20.8%	23.2%	18.7%		+0.7%
Total Assets Turnover	157%	167%	165%	157%	147%	161%	169%	154%		-
Quick Ratio	154%	155%	155%	152%	165%	154%	165%	164%		-
Current Ratio	184%	186%	184%	176%	194%	177%	194%	189%		-

Source: Company Data, WRJ Calculation

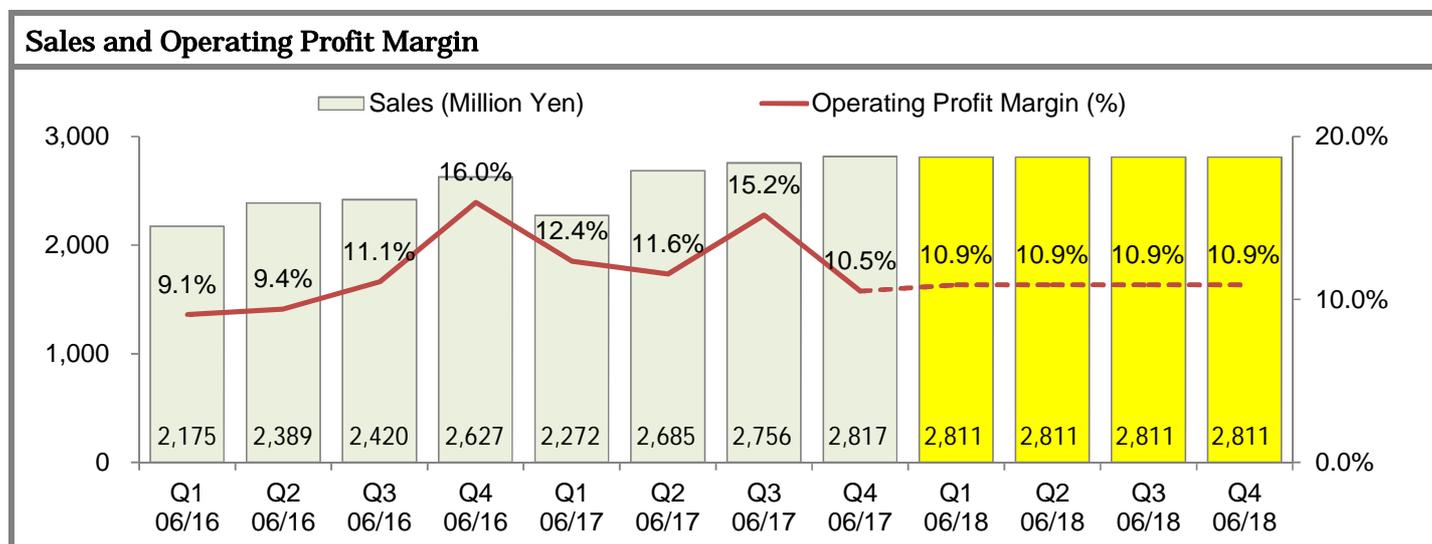
Cash Flow Statement (Cumulative, Quarterly)

Cash Flow Statement	Cons.Act	YoY								
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		
(Million Yen)	06/2016	06/2016	06/2016	06/2016	06/2017	06/2017	06/2017	06/2017	06/2017	Net Chg.
Operating Cash Flow	(320)	(6)	328	1,135	86	160	(64)	1,070		(65)
Investment Cash Flow	(27)	(74)	(245)	(301)	(91)	(106)	(273)	(297)		+4
Operating CF and Investment CF	(347)	(81)	83	834	(5)	53	(338)	772		(61)
Financing Cash Flow	(116)	(173)	(211)	(243)	(135)	(162)	(200)	(232)		+11
Cash Flow Statement	Cons.Act	YoY								
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY	Net Chg.
(Million Yen)	06/2016	06/2016	06/2016	06/2016	06/2017	06/2017	06/2017	06/2017	06/2017	Net Chg.
Operating Cash Flow	(320)	313	335	807	86	73	(224)	1,134		+327
Investment Cash Flow	(27)	(46)	(170)	(56)	(91)	(14)	(167)	(23)		+32
Operating CF and Investment CF	(347)	266	164	751	(5)	58	(392)	1,111		+360
Financing Cash Flow	(116)	(57)	(38)	(32)	(135)	(26)	(38)	(31)		0

Source: Company Data, WRJ Calculation

FY06/2018 Company Forecasts

FY06/2018 Company forecasts are going for prospective sales of ¥11,246m (up 6.8% YoY), operating profit of ¥1,224m (down 6.3%), recurring profit of ¥1,224m (down 6.5%) and profit attributable to owners of parent of ¥752m (up 13.3%) with operating profit margin of 10.9% (down 1.5% points). Meanwhile, prospective annual dividend is ¥19.0 per share, implying a payout ratio of 23.7%. Compared with ¥16.0, implying a payout ratio of 22.6%, in FY06/2017, the Company is to increase dividend by ¥3.0.



Source: Company Data, WRJ Calculation (FY06/2018 quarterly forecasts: full-year Company forecasts pro rata)

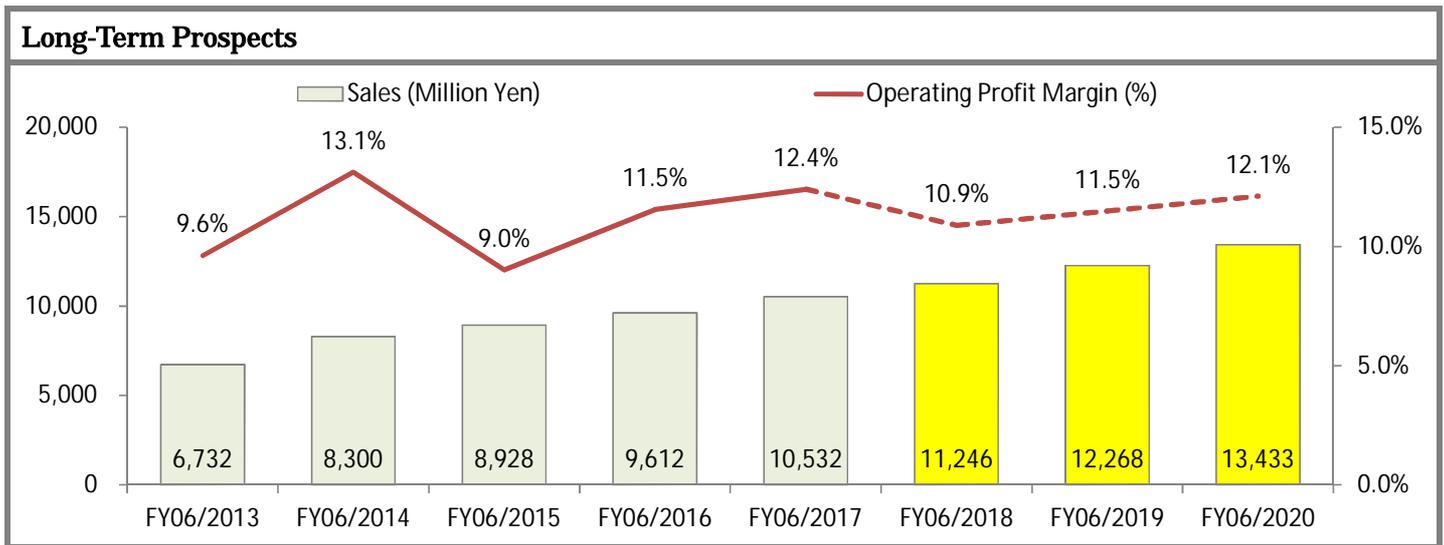
Above-mentioned Company forecasts are going for operating profit margin adjusting, while this has already taken place in Q4 FY06/2017. When compared with operating profit margin of 16.0% in Q4 FY06/2016, i.e., during the same period in the previous year and with 15.2% in Q3 FY06/2017, i.e., the next-preceding quarter, operating profit margin came in at 10.5%. The key reason for this is acceleration of hiring to increase the headcounts in Q4 FY06/2017. Going forward, Company forecasts assume this should generate impacts on a full-year basis in FY06/2018, increasing personnel-related expenses faster than sales, although this should be one-off.

Meanwhile, one of the aforementioned long-term targets based on management strategy to focus on operations as CIFO ACCELERATOR is to achieve “dividend of more than tenfold” towards FY06/2027. When simply based on the plan (to pay ¥16.0 per share on a full-year basis) in FY06/2017, we calculate annual dividend to reach more ¥160.0 per share in ten years or in FY06/2027.

Since around two years ago, the Company has been aware of dividend on equity (DOE) in particular as measures for sharing earnings with shareholders. In FY06/2017, the Company saw DOE of 4.18% far above DOE of 2.78% for the average of TSE-listed companies, while DOE of 4.29% is suggested for FY06/2018, being based on assumptions of Company forecasts. Not only does it raise the ratio short term, but also the Company is planning to consistently raise the ratio over the long term until eventually becoming one of the top 20% companies in terms of DOE out of all the TSE-listed companies. On the other hand, long-term targets are going for consistent increases of earnings and thus “dividend more than tenfold” is to be achieved.

Long-Term Prospects

On 17 August 2017, the Company released its midterm management plan (FY06/2018 to FY06/2020), calling for prospective sales of ¥13,433m, operating profit of ¥1,626m, recurring profit of ¥1,626m and profit attributable to owners of parent of ¥1,000m in FY06/2020, i.e., the last year of the plan. When based on FY06/2017 results, the plan is calling for CAGR of 8.4% in sales and of 7.6% in operating profit during the periods. Meanwhile, as mentioned earlier, operating profit margin is to adjust in FY06/2018, negatively affected by accelerating hiring, but this is to be followed by consistently improving operating profit margin in FY06/2019 and FY06/2020, respectively, 11.5% and 12.1%.



Source: Company Data, WRJ Calculation

Meanwhile, goodwill write-off (¥113m pa) on ZEAL CORPORATION, having become one of the operating companies since Q2 FY06/2013 through merger and acquisition, will finish in Q1 FY06/2018. Consequently, expenses are to see net decreases by ¥84m over the previous year in FY06/2018, equating 0.7% of prospective sales of ¥11,246m in FY06/2018 and thus operating profit margin seeing a corresponding rise in FY06/2018 over FY06/2017. In spite of this, operating profit margin is to be under pressure, suggesting that negative impacts from increasing personnel-related expenses are so substantial.

On the next day of the release of midterm management plan, i.e., 18 August 2017, the Company held its results meeting and additionally disclosed aforementioned details of long-term prospects. The bottom line is to achieve “maintaining ROE of more than 20%”, “CAGR of 18% for operating profit” and “dividend of more than tenfold” over the next 10 years or towards FY06/2027. The Company saw average ROE of 21.2% (lower end of 15.5% to upper end of 28.7%) over the past 5 years, while high equity spread (ROE - cost of capital) at the same time, having been [selected as one of the 50 candidates for “Corporate Value Improvement Award” by Japan Exchange Group, Inc. on 30 August 2017](#). Meanwhile, operating profit is to reach ¥6,835m in FY06/2027, when simply calculated based on FY06/2017 results (¥1,306m).

The Company advocates that its MISSION is to transform management information into map of the future, that its VISION is for all the headcounts to create value and that its VALUE is for management information to get “seeable”, “usable” and “trustable“. At the same time, the Company is to do its best on activities to fulfil gap between midterm management plan and long-term targets being more like those of Morikawa as the key person to run the Company.

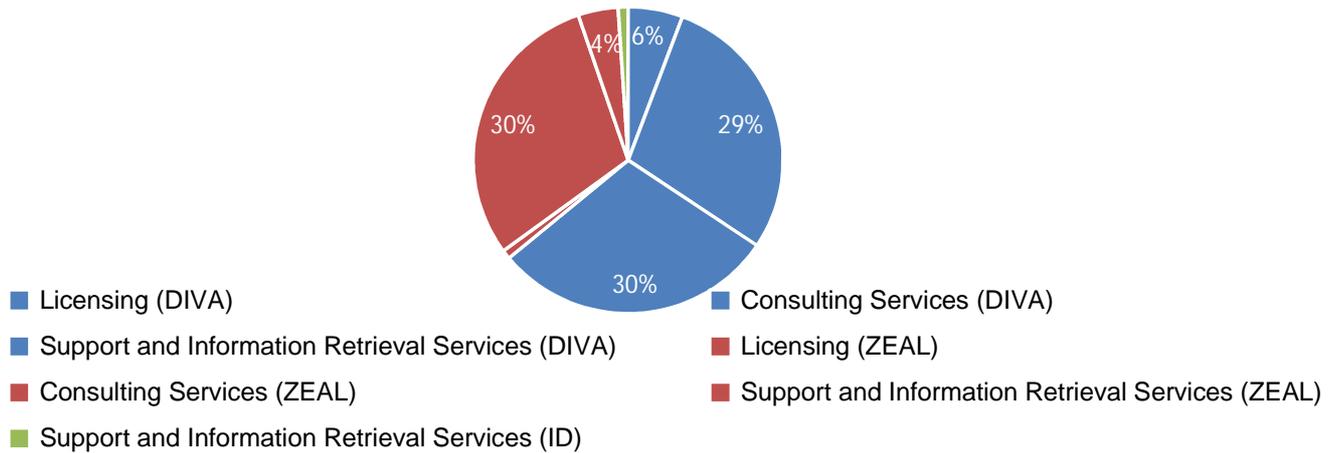
4.0 Business Model

Providing Consolidated Management and Accounting with Solutions

On 1 October 2013, the Company converted into holding company to collectively run five operating companies (all 100% consolidated subsidiaries), which was implemented through incorporation-type company split. Own business operations were succeeded by one of them, i.e., newly established DIVA CORPORATION, while the Company was newly identified as AVANT CORPORATION. Then, as of the end of FY06/2016, DIVA BUSINESS INNOVATION CORPORATION was merged and acquired by DIVA CORPORATION and ex-operations of the former, i.e., ERP-related system integration services were all succeeded by the latter. To date, said operations have been consistently shrinking. As far as we could gather, some parts of aforementioned loss on order were generated here, suggesting lowering probability for loss on order to reappear in the future.

Meanwhile, on 21 July 2017, the Company came up with the release to newly set up FIERTE CORPORATION as 100% consolidated subsidiary and to make this into one of operating companies for the Company to run. The new operating company introduces unique own brand strategy for outsourcing services to undertake duties of consolidated accounting and tax payment to be transferred through company split from DIVA CORPORATION that has been in charge of the operations here so far. This change is expected to make it easier for the Company to pursue cultivations of new customers here other than existing customers to have been cultivated through DivaSystem. At the same time, the Company is trying to get at selling of DivaSystem to newly cultivated customers here. On 1 October 2017, the deal of company split will be implemented (becoming effective), while the Company suggests CAGR of some 30% in regards to sales of outsourcing services, going forward, presumably assuming a reasonable success in cultivating new customers other than those of DivaSystem.

Sales by Operating Company (FY06/2017)



Source: Company Data, WRJ Calculation

As far as we could see, the bulk of sales as a whole for the Company in FY06/2017 were accounted for by those of the two main operating companies to be run by the Company, i.e., DIVA CORPORATION and ZEAL CORPORATION. Meanwhile, operations of each business domain disclosed by the Company are correlated to those of each operating company as follows:

In Licensing, DIVA CORPORATION develops and sells proprietary DivaSystem which is packaged software for consolidated management and accounting. On top of this, ZEAL CORPORATION trades third-party packaged software associated with offering of own BI-related system integration services, but sales here are small and gross profit margin low.

In Consulting Services, DIVA CORPORATION is in charge of implementation for each corporate who has newly adopted DivaSystem, while offering other services represented by CPM (Corporate Performance Management) to provide solutions for management accounting for the same customer base cultivated by DivaSystem. On top of this, ZEAL CORPORATION is in charge of offering BI-related system integration services.

In Support and Information Retrieval Services, DIVA CORPORATION runs operations of maintenance services, including version upgrades, etc., for DivaSystem as well as of offering outsourcing services at the same time. On top of this, INTERNET DISCLOSURE Co., Ltd. is in charge of information retrieval services, while maintenance services by ZEAL CORPORATION are also included here.

To add to all those operating companies, the Company also runs DIVA CORPORATION OF AMERICA in the United States, looking for future business opportunities in there, while doing the same in all the other markets overseas at the same time. Most recently, the Company has started up some aggressive initiatives in some parts. In fact, "Going global" is mentioned as the key strategy to increase the number of customers in management strategy to focus on operations as CIFO ACCELERATOR. Now, the Company is most keen on customer cultivations in some specific areas of Asia, i.e., Singapore and Indonesia. In Singapore, the Company has locally hired an Indian people, belonging to the largest group of people in there second only to Chinese people, to become the sales representative. To date, he has actually started up his activities of marketing and sales.

Divasystem (Image Pictures)

製品大分類	製品中分類	製品小分類	連結通貸金額	連結通貸金額	連結通貸金額	連結通貸金額	連結通貸金額	連結通貸金額
データ区分			100損益計算書					
勘定科目(統一)			+ 8100000売上高 + 8200010VC + 8200020FC + 8400010販売費 + 8400020一般管 + 8792000営業利					
原科小分類			+ 8100000売上高 + 8200010VC + 8200020FC + 8400010販売費 + 8400020一般管 + 8792000営業利					
製品大分類			+ 8100000売上高 + 8200010VC + 8200020FC + 8400010販売費 + 8400020一般管 + 8792000営業利					
製品中分類			+ 8100000売上高 + 8200010VC + 8200020FC + 8400010販売費 + 8400020一般管 + 8792000営業利					
製品小分類			+ 8100000売上高 + 8200010VC + 8200020FC + 8400010販売費 + 8400020一般管 + 8792000営業利					
目目(統一)			+ 8100000売上高 + 8200010VC + 8200020FC + 8400010販売費 + 8400020一般管 + 8792000営業利					
会社			+ 8100000売上高 + 8200010VC + 8200020FC + 8400010販売費 + 8400020一般管 + 8792000営業利					
受注先			+ 8100000売上高 + 8200010VC + 8200020FC + 8400010販売費 + 8400020一般管 + 8792000営業利					
仕向地			+ 8100000売上高 + 8200010VC + 8200020FC + 8400010販売費 + 8400020一般管 + 8792000営業利					
大分類A			692,350	79,800	0	35,776	121,205	455,489
中分類Aa			43,992,258	26,270,857	26,985,943	2,940,492	10,843,409	-3,158,463
中分類Ab			16,595	174,502,253	126,888,219	21,090,522	81,957,507	86,878,054
中分類Ac			10,557	95,719,858	49,382,380	10,974,701	40,128,800	39,514,799
中分類Ad			338,105,440	84,509,349	129,742,267	16,861,845	58,615,818	48,376,074
中分類Ae			4,834,380	1,836,565	1,844,681	95,220	536,265	21,653
中分類Af			1,222,331	2,222,331	4,334,331	413,806	2,237,679	5,713,431
中分類Ag			14,646,146	14,646,146	32,057,714	2,048,841	10,955,979	7,760,660
中分類Ah			1,157,512	1,157,512	1,157,512	66,016	371,808	-3,134,321
中分類Ai			0	0	0	0	0	0
中分類Aj			0	0	0	0	0	0
大分類B			624,185,734	942,751,036	60,125,381	55,593,475	242,759,075	-76,983,295
分類未定(大分類)			0	48,043,316	19,747,558	0	0	-67,790,874
合計			1,845,947,913	794,239,773	456,466,460	110,060,694	448,527,545	37,653,207



Source: Company Data

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage, etc.

Company name: Walden Research Japan Incorporated

Head office: 4F Hulic Ginza 1-chome Building, 1-13-1 Ginza, Chuo-city, Tokyo 104-0061 JAPAN

URL: www.walden.co.jp

E-mail: info@walden.co.jp

Phone : +81 3 3553 3769
