

# **Financial Results Briefing**

## **for the Fiscal Year**

### **ended June 30, 2020**

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*This is an unofficial translation. In case of any difference in meaning between the original Japanese text and the English translation, Japanese text shall prevail*

**AVANT CORPORATION**

**(Code:3836 TSE1)**

**August 3, 2020**

## I . Summary of financial results for the fiscal year ended June 30, 2020

## II . Earnings and Dividend Forecast

\* Figures in this material are rounded down to the unit of display

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# **I. Summary of financial results for the fiscal year ended June 30, 2020**

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# Results Highlights

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## Improved results for the 5th consecutive year, net income setting new record

- The impact of COVID-19 can be seen in some orders towards the end of the fiscal year, but revenue exceeded expectations due to an additional order in a large-scale project in the consolidated accounting-related business.
- Operating income margin improved due to efforts to control fixed-expenses and absence of provision for loss on orders. Combined with a tax effects realized at the end of the fiscal year, net income increased 16.1% year on year.

(millions of yen)

	FY19/06	FY20/06	Year-on-Year	
			Variance	%CHG
Revenue	14,077	15,691	+ 1,613	+ 11.5%
Cost of Revenue	7,779	8,525	+ 746	+ 9.6%
SG&A expenses	4,332	4,888	+ 556	+ 12.8%
Operating Income	1,966	2,277	+ 310	+ 15.8%
OP Margin	14.0%	14.5%	-	+ 0.5 point
Ordinary Income	1,972	2,280	+ 308	+ 15.6%
Net Income	1,317	1,529	+ 212	+ 16.1%
EBITDA	2,133	2,505	+ 371	+ 17.4%

# Results by Business Segment

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- Revenues were driven by Business Intelligence business and Outsourcing business. The outsourcing business, which boasts a high proportion of recurrent revenue, expanded to 13% of consolidated revenues
- Consolidated accounting-related businesses drove growth in operating income represented by expenses reduction Initiatives in the second half.

(millions of yen)

		FY19/06	FY20/06	Year-on-Year	
				Variance	%CHG
Consolidated Accounting	Revenue	8,034	8,485	+ 451	+ 5.6%
	Operating Income	1,293	1,616	+ 323	+ 25.0%
	OP Margin	16.1%	19.1%	-	+ 3.0 point
Business Intelligence	Revenue	4,990	5,767	+ 776	+ 15.6%
	Operating Income	636	692	+ 55	+ 8.8%
	OP Margin	12.8%	12.0%	-	0.8 point
Outsourcing	Revenue	1,629	2,062	+ 432	+ 26.5%
	Operating Income	318	364	+ 45	+ 14.4%
	OP Margin	19.5%	17.7%	-	1.9 point

## Stable earnings, exceeding Company forecasts

- Additional orders in large-scale projects and new orders for legal consolidated accounting and profit management solutions also achieved higher sales, and the recurrent revenue ratio also increased
- Operating income margin improved by 3 percentage points due to a shift to highly profitable projects, control of fixed expenses, and absence of provision for loss on order received
- We delivered cloud-based Diva System LCA and other new solutions such as Compass that should contribute to the sophistication of group management of our clients

(millions of yen)

	FY19/06	FY20/06	Year-on-Year	
			Variance	%CHG
Revenue	8,034	8,485	+ 451	+ 5.6%
Operating income	1,293	1,616	+ 323	+ 25.0%
OP Margin	16.1%	19.1%		+3.0point
New Orders	7,774	8,313	+ 539	+ 6.9%
Outstanding Orders	2,173	1,999	173	8.0%

## Strong demand for DX confirmed, despite somewhat slower orders toward the end of the fiscal year

- Double-digit revenues growth achieved on the back of strong investment demand for DX
- Operating income margin decreased slightly, as higher compensation levels and higher fixed expenses associated with opening of a new office were only partially offset by an increase in revenues
- As the business has high susceptibility to the economic environment, the order backlog fell by double digits. Recently inquiries are recovering, and new services based on proprietary IPs were launched.

(millions of yen)

	FY19/06	FY20/06	Year-on-Year	
			Variance	%CHG
Revenue	4,990	5,767	+ 776	+ 15.6%
Operating income	636	692	+ 55	+ 8.8%
OP Margin	12.8%	12.0%		0.8point
New Orders	5,265	5,417	+ 151	+ 2.9%
Outstanding Orders	1,204	854	350	29.1%

## Double-digit revenues and profit growth

- Steady growth of 20% in recurrent revenues due to steady new contracts in financial closing outsourcing and fund management solutions
- The operating income margin fell by about 2 points due to the increase in fixed expenses associated with the expansion of offices, as well as expenditures to improve the office environment to ensure the safety of employees.
- Concluded a partnership with Aptitude Software to diversify solutions

(millions of yen)

	FY19/06	FY20/06	Year-on-Year	
			Variance	%CHG
Revenue	1,629	2,062	+ 432	+ 26.5%
Operating income	318	364	+ 45	+ 14.4%
OP Margin	19.5%	17.7%		1.9point
New Orders	1,807	2,160	+ 352	+ 19.5%
Outstanding Orders	852	950	+ 97	+ 11.4%



# Selected Quarterly Financial Data

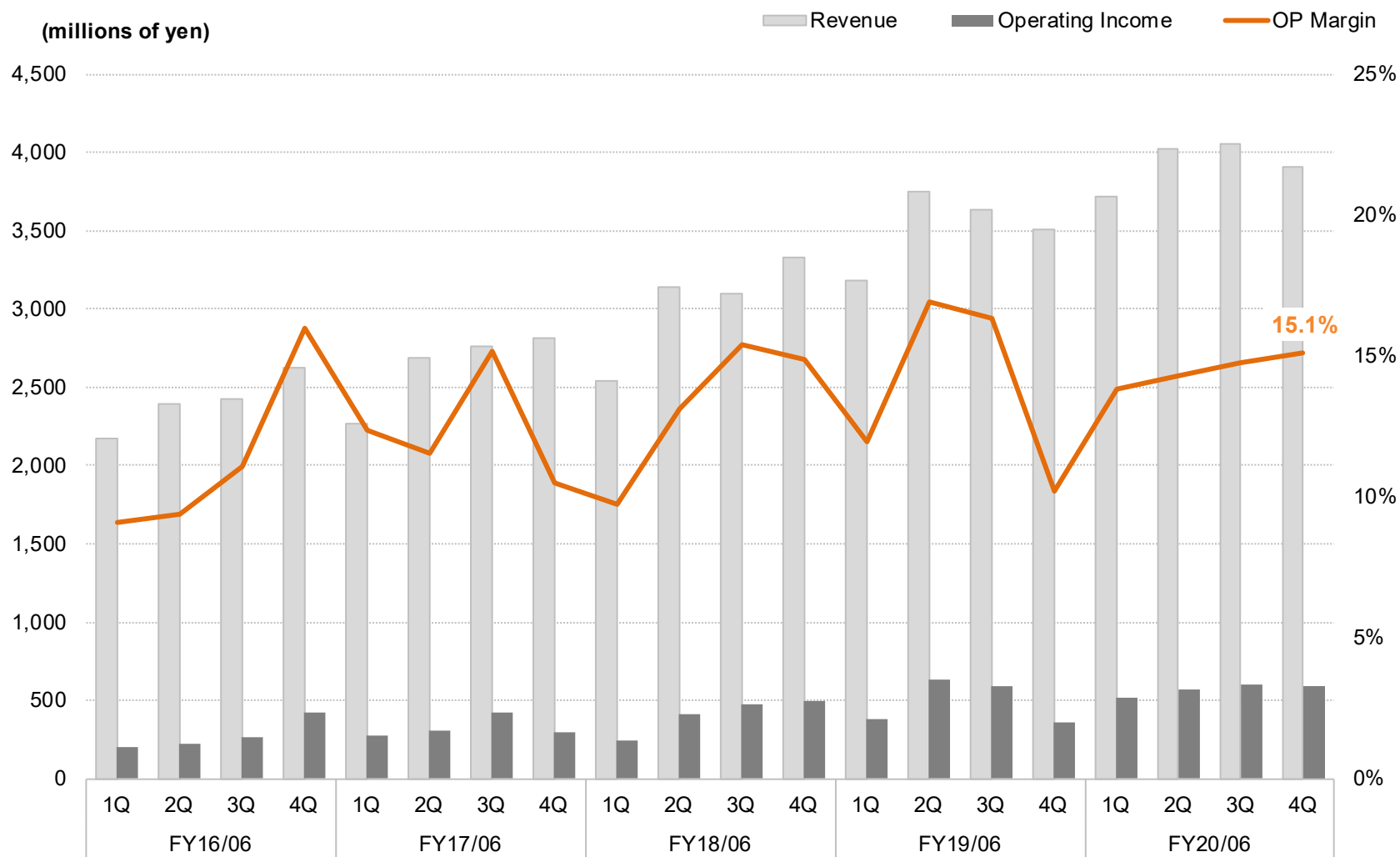
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- Operating margin in Q4 was 15.1%, a high level for the quarter

(Millions of Yen)

	FY16/06				FY17/06				FY18/06				FY19/06				FY20/06			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<b>Revenue</b>	2,175	2,389	2,420	2,627	2,272	2,685	2,756	2,817	2,544	3,144	3,095	3,326	3,180	3,752	3,631	3,512	3,714	4,019	4,050	3,906
<b>Cost of Revenue</b>	1,233	1,341	1,454	1,423	1,288	1,444	1,490	1,610	1,514	1,866	1,720	1,845	1,772	1,929	2,057	2,020	2,149	2,205	2,113	2,056
<b>Gross Profit</b>	941	1,047	966	1,204	984	1,241	1,265	1,206	1,029	1,277	1,374	1,481	1,408	1,823	1,574	1,492	1,565	1,814	1,936	1,849
<b>SG&amp;A expenses</b>	744	822	698	784	703	930	847	910	781	865	898	986	1,027	1,188	982	1,133	1,050	1,239	1,338	1,260
<b>Operating Income</b>	197	224	268	419	280	310	418	296	247	412	476	494	380	634	592	358	514	574	598	589
<b>OP Margin</b>	9.1	9.4	11.1	16.0	12.4	11.6	15.2	10.5	9.7	13.1	15.4	14.9	12.0	16.9	16.3	10.2	13.8	14.3	14.8	15.1
<b>Ordinary Income</b>	196	222	268	425	280	315	416	296	248	415	472	495	380	633	593	364	520	573	598	588
<b>Net Income</b>	130	118	118	293	183	-0	250	230	162	269	311	318	237	403	389	286	334	339	344	511
<b>EBITDA</b>	251	283	328	483	341	370	481	359	300	436	514	534	417	673	634	408	557	621	658	668
<b>EBITDA Margin (%)</b>	11.5	11.9	13.6	18.4	15.0	13.8	17.5	12.8	11.8	13.9	16.6	16.1	13.1	17.9	17.5	11.6	15.0	15.5	16.3	17.1

# Quarterly Trends in Major KPIs



# Selected Quarterly Segment Data

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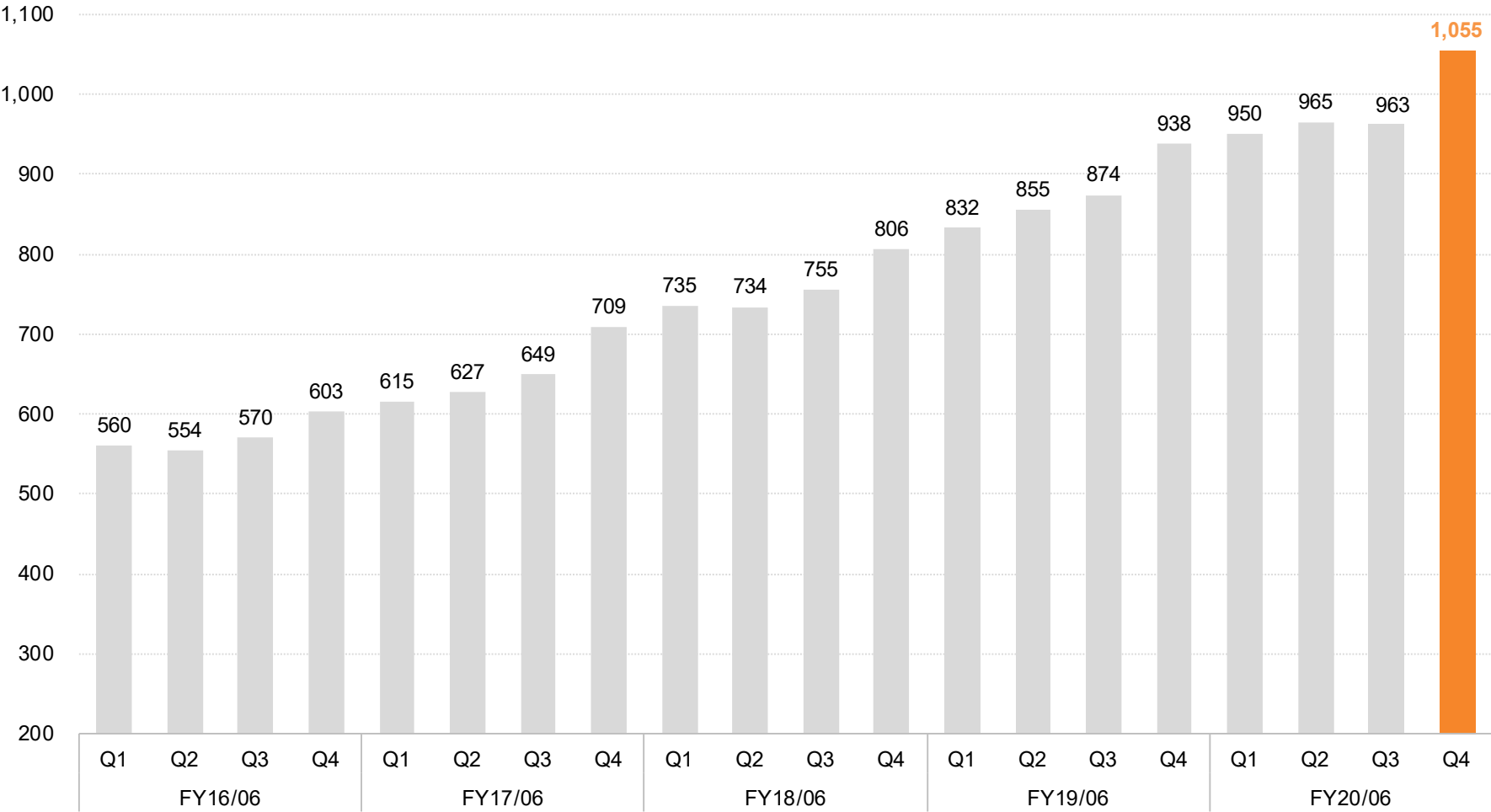
(millions of yen)

		FY June 2018				FY June 2019				FY June 2020			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
New Orders	Consolidated Accounting	1,343	1,906	1,557	2,924	1,611	1,890	1,693	2,579	1,893	2,008	1,944	2,466
	Business Intelligence	998	1,030	1,118	1,073	1,235	1,223	1,439	1,365	1,565	1,347	1,191	1,313
	Outsourcing	△297	△ 343	△ 297	△ 549	△ 439	△ 319	△363	△ 685	△ 599	△ 468	△505	△ 586
	(Elimination of inter-segment transaction)	72	255	116	154	201	115	92	266	102	201	64	164
	New Orders	2,567	3,025	2,856	4,392	3,085	3,317	3,404	4,363	3,955	3,623	3,576	4,202
Orders Outstanding	Consolidated Accounting	1,913	1,876	1,576	2,433	2,261	1,927	1,611	2,173	2,143	1,910	1,689	1,999
	Business Intelligence	762	791	895	929	1,004	958	1,044	1,204	1,340	1,245	926	854
	Outsourcing	△515	△ 524	△ 474	△ 675	△ 734	△ 650	△ 597	△ 852	△ 948	△ 928	△ 891	△ 950
	(Elimination of inter-segment transaction)	65	187	179	203	260	232	177	303	264	312	209	208
	Orders Outstanding	3,125	3,006	2,768	3,834	3,739	3,304	3,076	3,927	4,168	3,771	3,298	3,595
Revenue	Consolidated Accounting	1,392	1,942	1,857	2,068	1,783	2,225	2,008	2,017	1,922	2,242	2,165	2,154
	Business Intelligence	897	1,001	1,014	1,039	1,161	1,268	1,353	1,206	1,429	1,441	1,510	1,385
	Outsourcing	△282	△ 334	△ 347	△ 349	△ 380	△ 402	△ 416	△ 430	△ 504	△ 489	△ 541	△ 527
	(Intra-segment elimination)	27	134	125	130	144	143	147	141	141	153	167	161
	Revenue	2,544	3,144	3,095	3,326	3,180	3,752	3,631	3,512	3,714	4,019	4,050	3,906
Operating Income	Consolidated Accounting	145	220	265	398	244	362	346	339	330	379	378	528
	Business Intelligence	21	81	122	98	102	210	233	89	180	171	209	430
	Outsourcing	50	72	53	△ 36	△101	△100	△ 79	△ 37	△ 118	△116	△ 133	△ 4
	(Elimination of inter-segment transaction)	29	37	34	39	68	39	67	106	114	93	122	65
	Operating Income	247	412	476	494	380	634	592	358	514	574	598	589

# Total Number of Group Employees

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(person)



# Financial Condition & Cash Flows

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## Financial Status

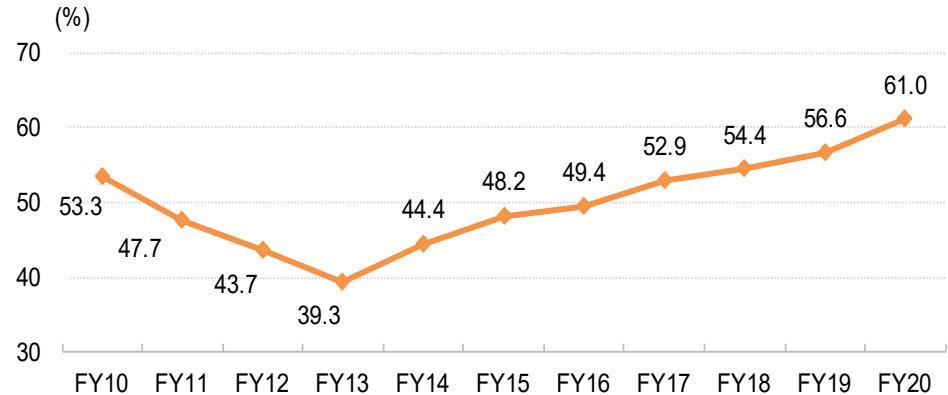
Jun 2020

**Total Assets**  
**11.7**  
**billion yen**

**Total Liabilities**  
**4.5**  
**billion yen**

**Net Assets**  
**7.1**  
**billion yen**

## Equity Ratios



## Cash Flows

(millions of yen)

FY19/06

FY20/06

**Operating CF**

**1,320**

**1,890**

**Investment CF**

**(455)**

**(420)**

**Free CF**

**864**

**1,470**

**Financial CF**

**(232)**

**(294)**

## Key Factors for change

(millions of yen)

• Income before income taxes and minority interests	2,280
• Depreciation expense	227
• Increase in deferred revenue	218
• Decrease in account receivable	181
• Decrease in accrued expencies and others	(124)
• Decrease in notes and accounts payable – trade	(83)
• Income taxes paid	(799)

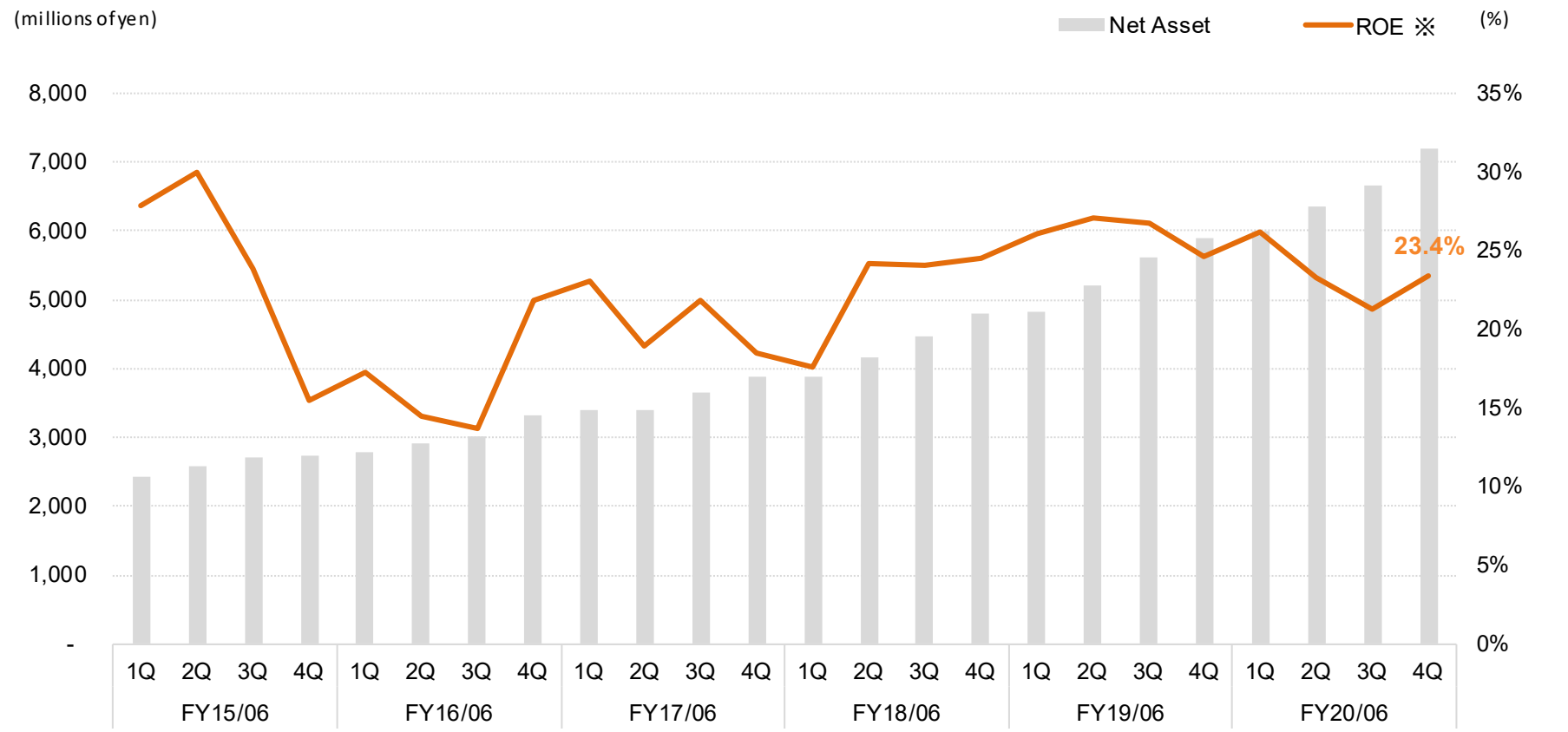
• Purchase of tangible fixed assets	(236)
• Deposit paid	(138)

• Payment of shareholder dividends	(281)
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# Return on Equity (ROE) trends

**Our goal is to maintain over 20% on average in the mid- to long-term**

■ We aim to improve ROE, while maintaining the Group’s management principles, by enhancing profitability further and managing assets more efficiently



※twelve month rolling

## **II . Earnings and Dividend Forecast**

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# Earnings forecast for the fiscal year ending June 30, 2020

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## We expect six consecutive years of growth in revenue and profit

- Both revenues and profits are expected to be at low levels in Q1, as economic activity stagnated around April and May due to the spread of COVID-19 and the accompanying announcement of the state of emergency.
- On the other hand, projects that were suspended or delayed at the time have gradually resumed and re-started as economic activities regain ground. The Group assumes that they will recover from the second quarter onward and expects both revenues and profit to increase slightly for the fiscal year.

(millions of yen)

	2020 June (Actual)	2021 June (Forecast)	Variance	% CHG
Revenue	15,691	16,110	+ 418	+ 2.7%
Operating Income	2,277	2,330	+ 52	+ 2.3%
OP Margin	14.5%	14.5%	—	—
Net Income	1,529	1,561	+ 31	+ 2.0%



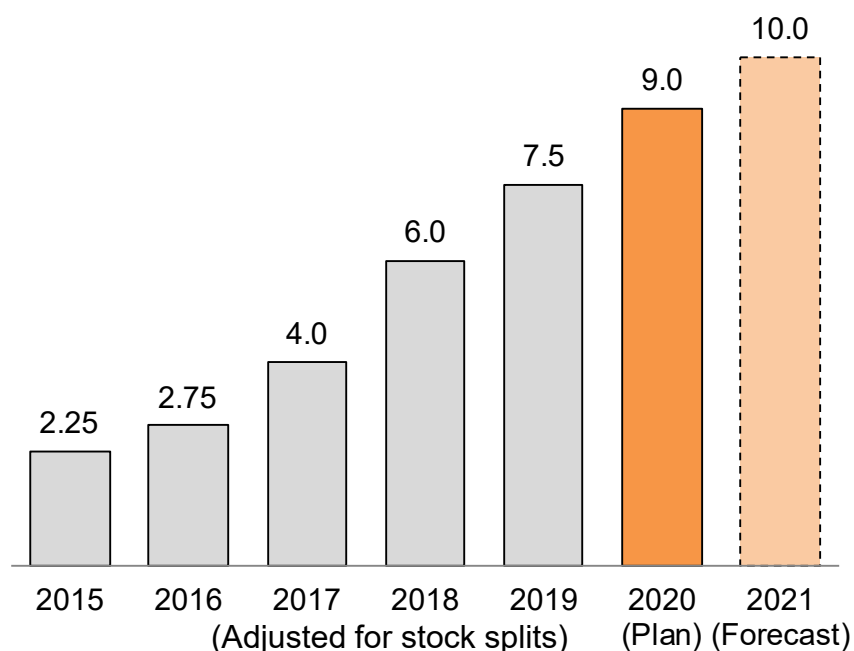
# Dividend Forecasts

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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%, which is expected to reach a level 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

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