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Financial Results Briefing

for the second quarter of Fiscal Year June 2020

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）

January 31, 2020

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for the second quarter of FY June 2020

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

The information contained in this material regarding the business outlook and other forecasts and strategies etc. are forward-looking statements and are determined within the range that could normally be predicted based on the information reasonably available to the Company at the time of preparation of this material. Investors should be aware of the risks, however, that actual results may differ from the business prospects described in the material due to the occurrence of extraordinary circumstances that cannot usually be predicted or the occurrence of results that cannot usually be predicted. The Company will proactively disclose information that is considered material to investors, but investors should be advised not to make judgment based entirely on only the business prospects described in this material. This material should not be copied or transferred for any purpose without permission of the Company.

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I. Summary of financial results for the second quarter of FY June 2020

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Results Highlights

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Positive growth momentum continued

- Both revenue and profit maintained positive growth momentum even against previous period when each business demonstrated high level of expansion, and overall business progressed in line with full year guidance
- We maintain full year guidance while we observe orders and sales during the second half

(millions of yen)

	FY19/06 Q2<YtD>	FY20/06 Q2<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	6,933	7,734	+ 801	+ 11.6%
Cost of Revenue	3,701	4,355	+ 653	+ 17.7%
SG&A expenses	2,216	2,290	+ 73	+ 3.3%
Operating Income	1,015	1,089	+ 73	+ 7.3%
OP Margin	14.6%	14.1%	-	△ 0.6 point
Ordinary Income	1,014	1,093	+ 79	+ 7.9%
Net Income	641	673	+ 32	+ 5.0%
EBITDA	1,091	1,178	+ 87	+ 8.0%

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Results by Business Segment

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(millions of yen)

		FY19/06 Q2<YtD>	FY20/06 Q2<YtD>	Year-on-Year	
				Variance	%CHG
Consolidated Accounting	Revenue	4,008	4,165	+ 156	+ 3.9%
	Operating Income	607	709	+ 102	+ 16.9%
	OP Margin	15.1%	17.0%	-	+ 1.9 point
Business Intelligence	Revenue	2,430	2,870	+ 440	+ 18.1%
	Operating Income	313	352	+ 38	+ 12.5%
	OP Margin	12.9%	12.3%	-	△ 0.6 point
Outsourcing	Revenue	783	993	+ 210	+ 26.9%
	Operating Income	202	234	+ 32	+ 16.1%
	OP Margin	25.8%	23.6%	-	△ 2.2 point

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Consolidated Accounting Business

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Positive growth against robust results last year

- In addition to the accumulation of new contracts, the company was able to record additional sales from existing large projects. These led to a higher revenue against record-breaking revenue during the same period last year
- Despite increased staffing and increased costs associated with new office and renovation, profit increased through project quality management. Outstanding orders improved to match previous year

(millions of yen)

	FY19/06 Q2<YtD>	FY20/06 Q2<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	4,008	4,165	+ 156	+ 3.9%
Operating income	607	709	+ 102	+ 16.9%
OP Margin	15.1%	17.0%		+1.9point
New Orders	3,501	3,901	+ 399	+ 11.4%
Outstanding Orders	1,927	1,910	△ 17	△ 0.9%

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Business Intelligence Business

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Robust growth thanks to IT investment boom

- Double-digit revenue growth continues as we receive orders including highly difficult projects reflecting clients' expectation for skilled engineers with us
- Prime order ratio continued to rise, leading to a double digit growth in operating income, but margins declined slightly due to enhanced compensation and increased costs associated with opening of a new office

(millions of yen)

	FY19/06 Q2<YtD>	FY20/06 Q2<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	2,430	2,870	+ 440	+ 18.1%
Operating income	313	352	+ 38	+ 12.5%
OP Margin	12.9%	12.3%		△0.6point
New Orders	2,459	2,912	+ 452	+ 18.4%
Outstanding Orders	958	1,245	+ 286	+ 29.9%

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Outsourcing Business

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Revenue growth started to absorb expansion costs

- As governance enhancement and work style reform penetrate into corporations, both outsourcing of consolidated financial results and other sales such as cash management solutions recorded double digit growth
- The operating income margin deteriorated due to an increase in fixed costs due to an increase in office floor space which marginally improved in the second quarter

(millions of yen)

	FY19/06 Q2<YtD>	FY20/06 Q2<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	783	993	+ 210	+ 26.9%
Operating income	202	234	+ 32	+ 16.1%
OP Margin	25.8%	23.6%		△2.2point
New Orders	758	1,068	+ 309	+ 40.8%
Outstanding Orders	650	928	+ 277	+ 42.6%

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Selected Quarterly Financial Data

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- We couldn't beat the record breaking profit in the second quarter last year, but made a good progress against the full-year forecast

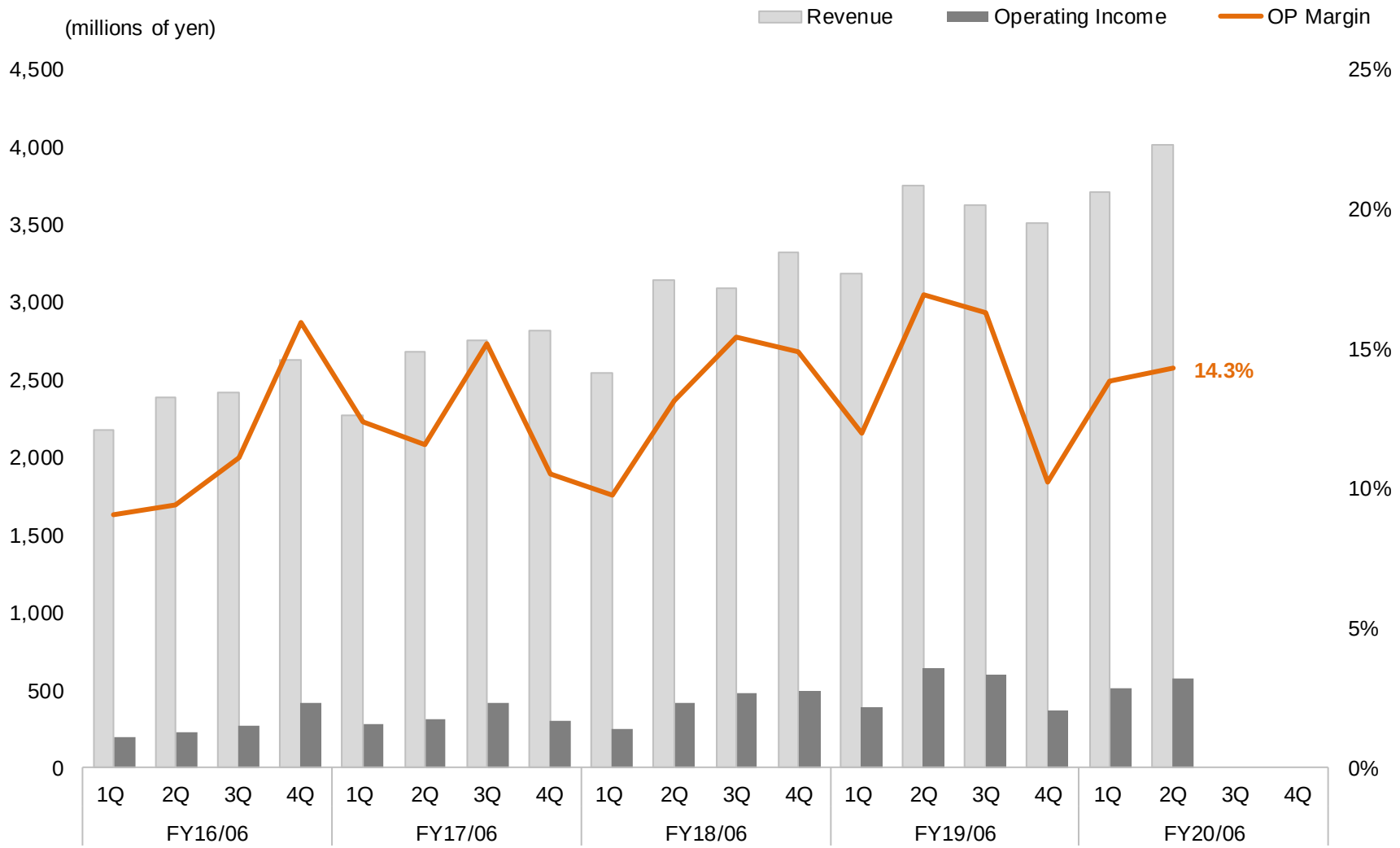
(Millions of Yen)

	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
Revenue	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		
Cost of Revenue	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		
Gross Profit	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		
SG&A expenses	744	822	698	784	703	930	847	910	781	865	898	986	1,027	1,188	982	1,133	1,050	1,239		
Operating Income	197	224	268	419	280	310	418	296	247	412	476	494	380	634	592	358	514	574		
OP Margin	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		
Ordinary Income	196	222	268	425	280	315	416	296	248	415	472	495	380	633	593	364	520	573		
Net Income	130	118	118	293	183	-0	250	230	162	269	311	318	237	403	389	286	331	339		
EBITDA	251	283	328	483	341	370	481	359	300	436	514	534	417	673	634	408	557	621		
EBITDA Margin (%)	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		

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Quarterly Trends in Major KPIs

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Selected Quarterly Segment Data

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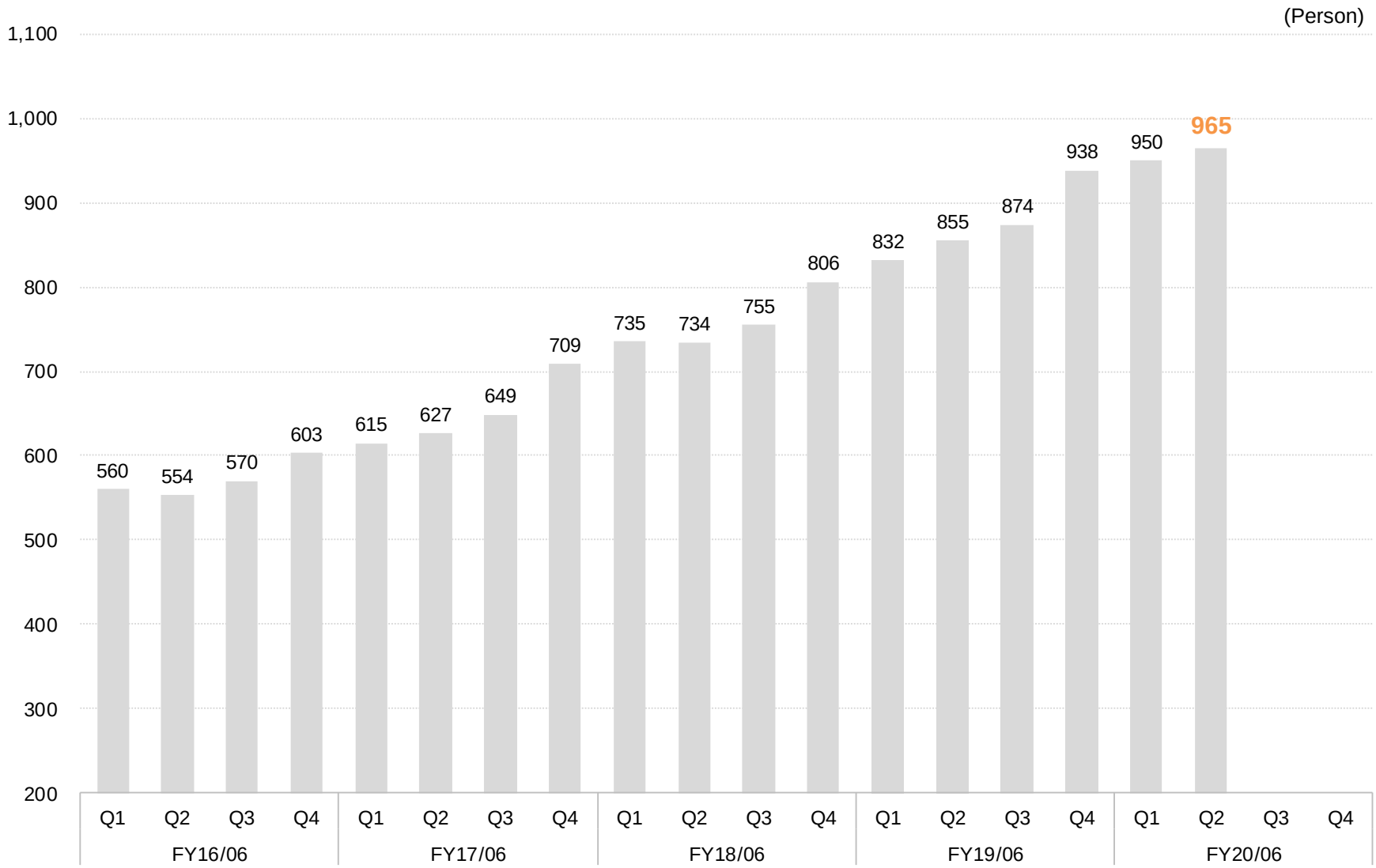
(millions of yen)

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

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Total Number of Group Employees

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Financial Condition & Cash Flows

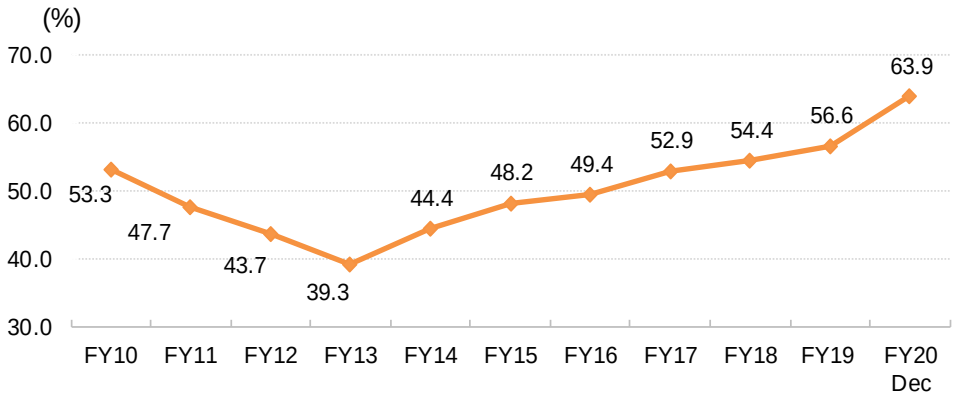
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Financial Status

Dec 2019

Total Assets 9.9 billion yen	Total Liabilities 3.5 billion yen
	Net Assets 6.3 billion yen

Equity Ratio



Cash Flow

(millions of yen)

	FY19/06 Q2	FY20/06 Q2
Operating CF	(219)	(13)
Investment CF	(86)	(214)
Free CF	(306)	(227)
Financial CF	(229)	(287)

Key Factors for change

(millions of yen)

・Income before income taxes and minotiy interests	1,093
・Depreciation expense	89
・Decrease in provision	(402)
・decrease in deffered revenue	(292)
・Decrease in account receivable	124
・Decrease in accrued expencies and others	(58)
・Income taxes paid	(623)
・Purchase of tangible fixed assets	(132)
・Purchase of intangible assets	(38)
・Payment of shareholder dividends	(281)

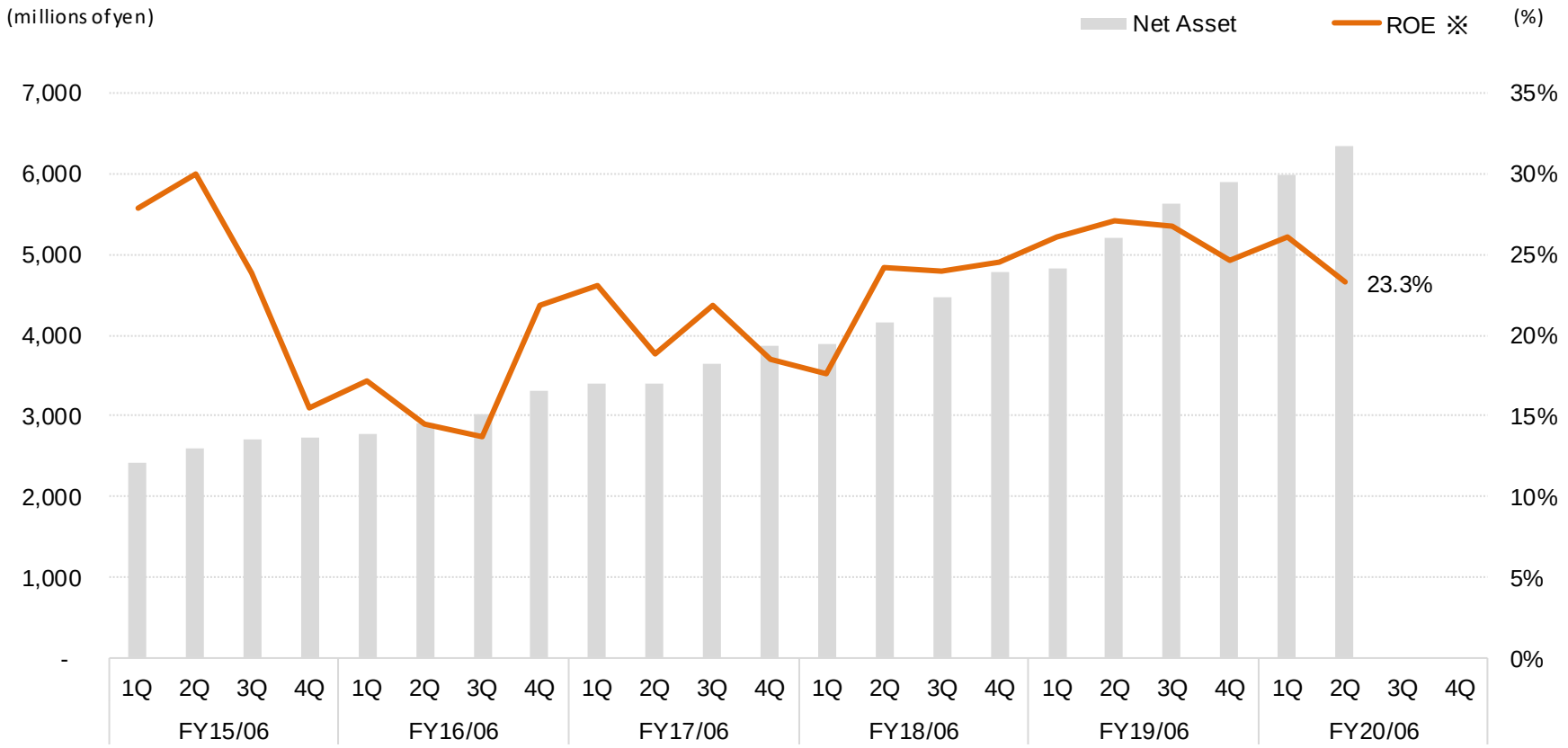
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Return on Equity (ROE) trends

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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

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Ⅱ. Earnings and Dividend Forecast

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Earnings forecast for the fiscal year ending June 30, 2020

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Both revenue and profit continue high growth

- While revenue growth at Consolidated Accounting business should slow to single digits as we finalize large scale projects, robust growth should continue at Business Intelligence and Outsourcing business and we expect double digit growth in revenue. We believe we could maintain OP margins.
- Good progress in the first half. While we maintain full-year forecast, we need to observe orders and sales in the second half

(millions of yen)

	2019 June (Actual)	2020 June (Forecast)	Variance (FY20 vs. FY19)	% CHG (FY20 vs. FY19)
Revenue	14,077	15,480	+ 1,402	+ 10.0%
Operating Income	1,966	2,165	+ 198	+ 10.1%
OP Margin	14.0%	14.0%	—	+ 0.0 point
Net Income	1,317	1,353	+ 35	+ 2.7%

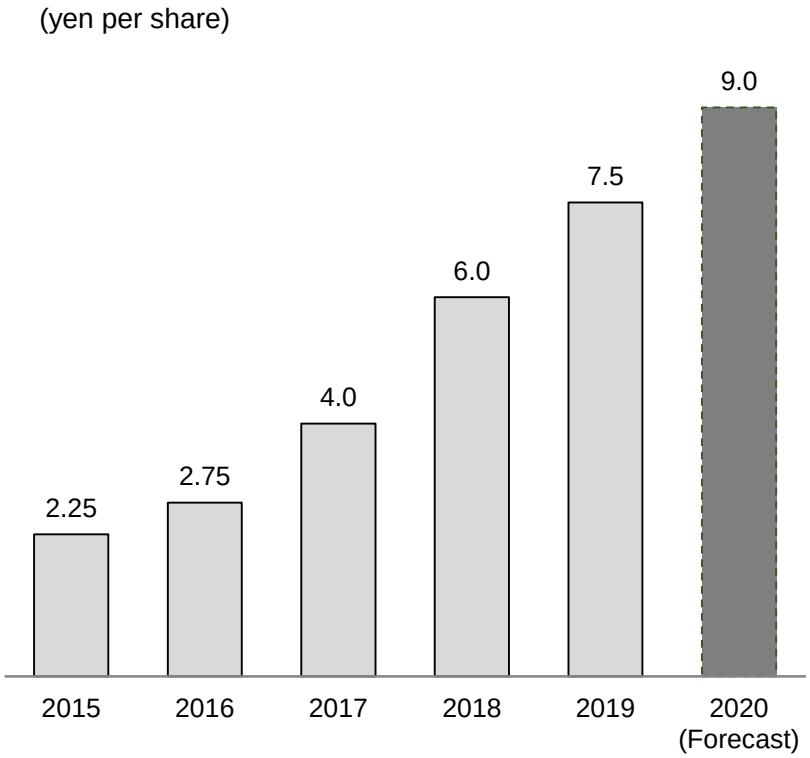
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Dividend Forecasts

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The FY 2020 dividend forecast is 9 yen per share

- In the fiscal year ending June 2020, we plan to increase dividends in line with our policy of continuing stable dividends
- Per share data adjusted for two-for-one stock splits on December 1, 2019



(Adjusted for stock splits)

＜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

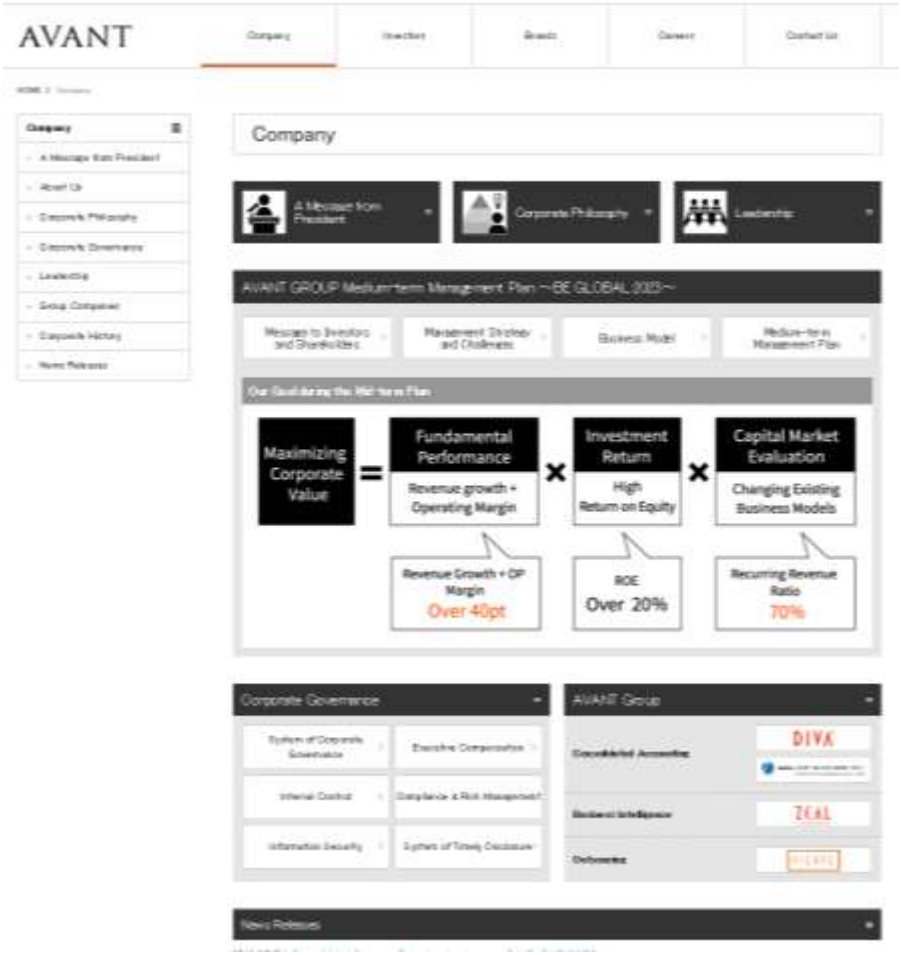
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