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Financial Results Briefing

for the first quarter of Fiscal Year June 2021

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）

October 30, 2020

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

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I. Summary of financial results for the first quarter of FY June 2021

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Results Highlights

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Results within initial forecasts

- Revenues for the first quarter declined, but fell within the initial forecast. A fall in revenues was partially offset by cost reduction, minimizing deterioration in margins
- Recurrent revenues grew 14.3% year-on-year and the recurrent revenue ratio increased to 38.6%

(millions of yen)

	FY20/06 Q1<YtD>	FY21/06 Q1<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	3,714	3,601	△ 112	△ 3.0%
Cost of Revenue	2,149	1,997	△ 151	△ 7.1%
SG&A expenses	1,050	1,125	+ 75	+ 7.2%
Operating Income	514	478	△ 36	△ 7.0%
OP Margin	13.8%	13.3%	-	△ 0.6 point
Ordinary Income	520	482	△ 37	△ 7.2%
Net Income	334	303	△ 30	△ 9.1%
EBITDA	557	537	△ 20	△ 3.6%

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Results by Business Segment

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- Sales declined in Consolidated Accounting and Business Intelligence segments, but fell within the initial forecasts. The slowdown in Outsourcing segment reflected difficult comparison.
- Successful cost containment efforts in Consolidated Accounting segment led to an increase in operating income despite a decline in revenues

(millions of yen)

		FY20/06 Q1<YtD>	FY21/06 Q1<YtD>	Year-on-Year	
				Variance	%CHG
Consolidated Accounting	Revenue	1,922	1,801	△ 121	△ 6.3%
	Operating Income	330	323	△ 6	△ 2.0%
	OP Margin	17.2%	18.0%	-	+ 0.8 point
Business Intelligence	Revenue	1,429	1,382	△ 46	△ 3.2%
	Operating Income	180	115	△ 65	△ 36.3%
	OP Margin	12.6%	8.3%	-	△ 4.3 point
Outsourcing	Revenue	504	569	+ 65	+ 13.0%
	Operating Income	118	130	+ 12	+ 10.4%
	OP Margin	23.4%	22.9%	-	△ 0.5 point

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Consolidated Accounting Business

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Operating margin improved due to cost control, despite a decrease in revenues

- Segment revenue declined but cloud product maintenance fees and subscription fees maintained high growth, and recurring revenue grew in the high single digits. Contribution from large-scale projects came down and recurrent revenue ratio improved significantly
- Despite provision for bonuses which the company had deferred during the previous quarter, operating income margin improved to 18% due to cost containment effects and improved in-house process ratio

(millions of yen)

	FY20/06 Q1<YtD>	FY21/06 Q1<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	1,922	1,801	△ 121	△ 6.3%
Operating income	330	323	△ 6	△ 2.0%
OP Margin	17.2%	18.0%		+0.8point
New Orders	1,893	1,721	△ 171	△ 9.0%
Outstanding Orders	2,143	1,920	△ 223	△ 10.4%

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Business Intelligence Business

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Decrease in revenues and profits, but within the range of the initial forecast

- Operating income fell sharply by 36% YoY due to a decrease in revenues amid an increase in fixed-type expenses, but fell within the range of the initial forecast
- The order backlog declined by 37% YoY, but it remains flat QoQ. Baring any optimistic view, but orders received began to accumulate as economic activity normalized

(millions of yen)

	FY20/06 Q1<YtD>	FY21/06 Q1<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	1,429	1,382	△ 46	△ 3.2%
Operating income	180	115	△ 65	△ 36.3%
OP Margin	12.6%	8.3%		△4.3point
New Orders	1,565	1,379	△ 185	△ 11.9%
Outstanding Orders	1,340	850	△ 489	△ 36.5%

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Outsourcing Business

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Recurrent revenues maintained a high growth rate of around 20%

- Revenue growth slowed to 13% YoY, due to a difficult comparison to the high level of consulting revenue related to new contract recorded in the same period of the previous fiscal year. Recurrent revenues maintained a high growth rate of 20%.
- Operating income margin declined slightly due to an increase personnel and upfront investments to improve efficiency

(millions of yen)

	FY20/06 Q1<YtD>	FY21/06 Q1<YtD>	Year-on-Year	
			Variance	%CHG
Revenue	504	569	+ 65	+ 13.0%
Operating income	118	130	+ 12	+ 10.4%
OP Margin	23.4%	22.9%		△0.5point
New Orders	599	651	+ 51	+ 8.5%
Outstanding Orders	948	1,031	+ 83	+ 8.8%

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Selected Quarterly Financial Data

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- Progress ratio in 1Q is lower than usual, but within the initial forecast assumptions

(Millions of Yen)

	FY17/06				FY18/06				FY19/06				FY20/06				FY21/06			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Revenue	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	3,601			
Cost of Revenue	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	1,997			
Gross Profit	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	1,603			
SG&A expenses	703	930	847	910	781	865	898	986	1,027	1,188	982	1,133	1,050	1,239	1,338	1,258	1,125			
Operating Income	280	310	418	296	247	412	476	494	380	634	592	358	514	574	598	591	478			
OP Margin	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	13.3			
Ordinary Income	280	315	416	296	248	415	472	495	380	633	593	364	520	573	598	589	482			
Net Income	183	-0	250	230	162	269	311	318	237	403	389	286	334	339	344	519	303			
EBITDA	341	370	481	359	300	436	514	534	417	673	634	408	557	621	658	669	537			
EBITDA Margin (%)	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	14.9			

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Quarterly Trends in Major KPIs

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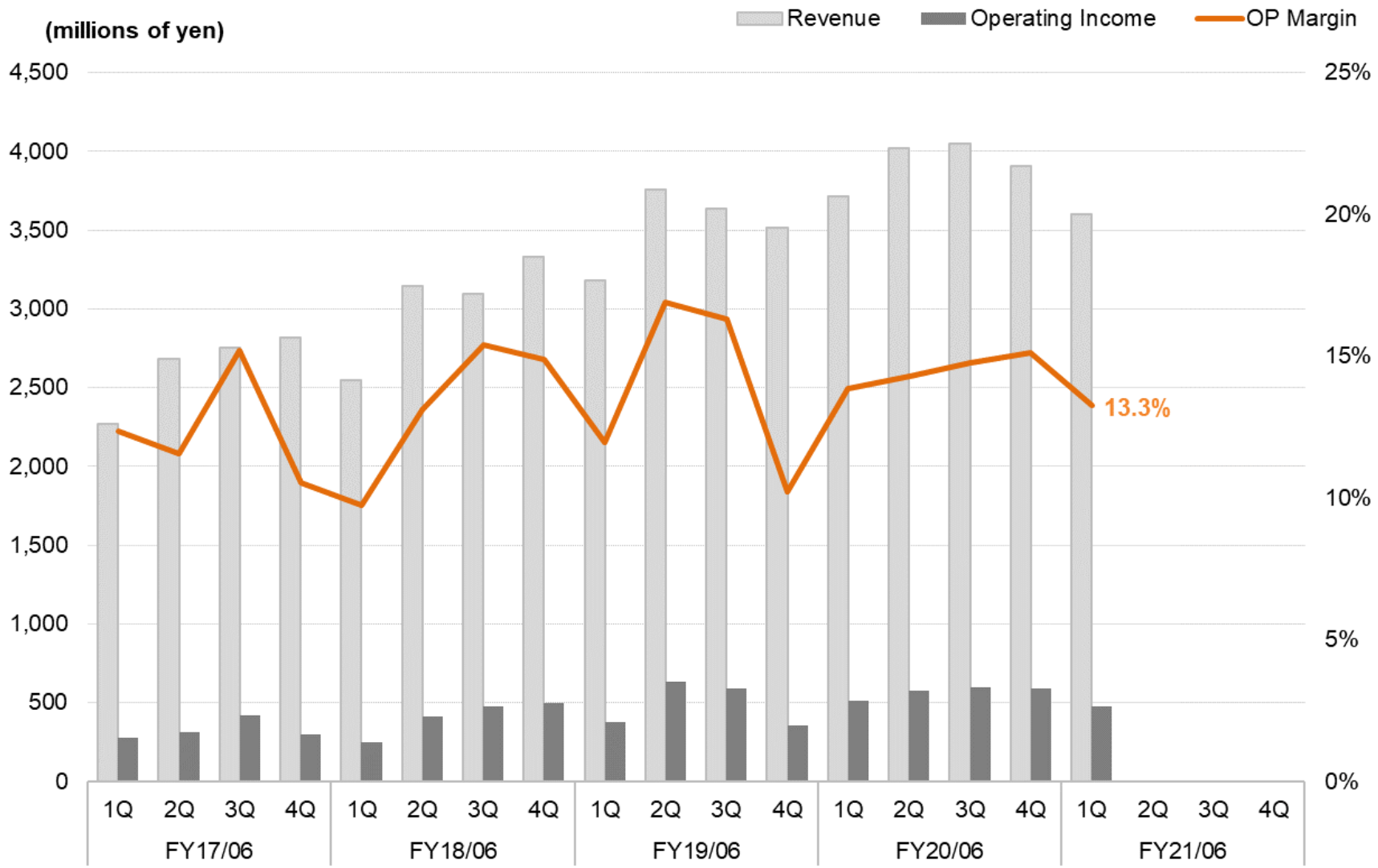

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Selected Quarterly Segment Data

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(millions of yen)

		FY June 2018				FY June 2019				FY June 2020				FY June 2021			
		1Q	2Q	3Q	4Q	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	1,721			
	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	1,379			
	Outsourcing	297	343	297	549	439	319	363	685	599	468	505	586	651			
	(Elimination of inter-segment transaction)	-72	-255	-116	-154	-201	-115	-92	-266	-102	-201	-64	-164	-149			
	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	3,602			
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	1,920			
	Business Intelligence	762	791	895	929	1,004	958	1,044	1,204	1,340	1,245	926	854	850			
	Outsourcing	515	524	474	675	734	650	597	852	948	928	891	950	1,031			
	(Elimination of inter-segment transaction)	-65	-187	-179	-203	-260	-232	-177	-303	-264	-312	-209	-208	-206			
	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	3,596			
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	1,801			
	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	1,382			
	Outsourcing	282	334	347	349	380	402	416	430	504	489	541	527	569			
	(Intra-segment elimination)	-27	-134	-125	-130	-144	-143	-147	-141	-141	-153	-167	-161	-152			
	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	3,601			
Operating Income	Consolidated Accounting	145	220	265	398	244	362	346	339	330	379	378	528	323			
	Business Intelligence	21	81	122	98	102	210	233	89	180	171	209	130	115			
	Outsourcing	50	72	53	36	101	100	79	37	118	116	133	-4	130			
	(Elimination of inter-segment transaction)	29	37	34	-39	-68	-39	-67	-106	-114	-93	-122	-63	-90			
	Opertating Income	247	412	476	494	380	634	592	358	514	574	598	591	478			

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Total Number of Group Employees

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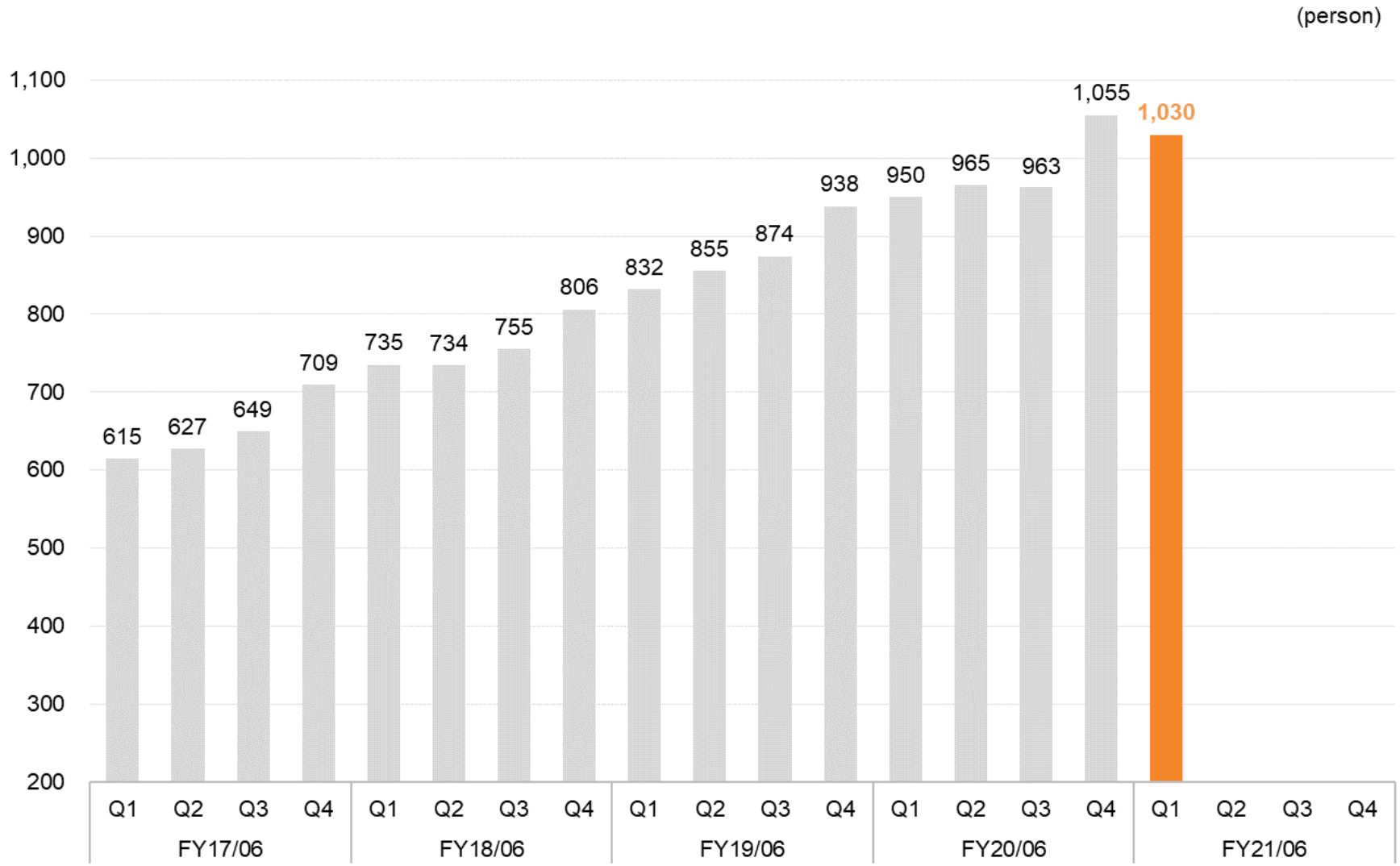

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Financial Condition & Cash Flows

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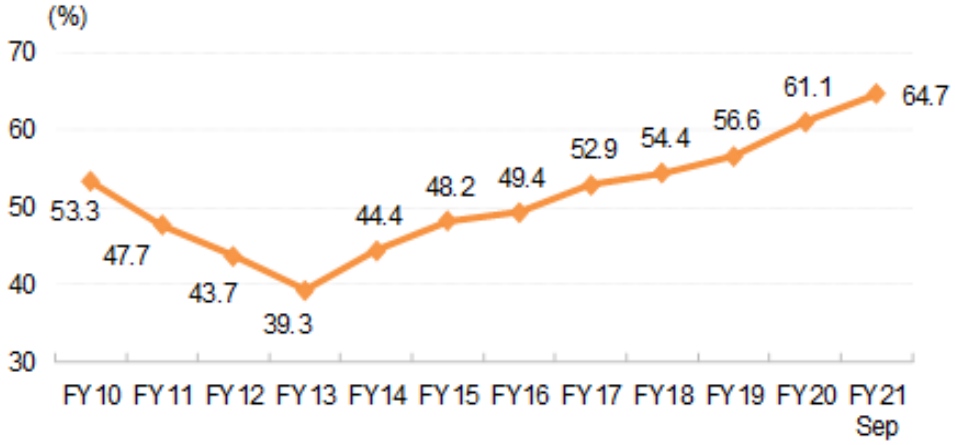
Financial Status

Sep 2020

Total Assets 11.1 billion yen	**Total Liabilities 3.9 billion yen**
	Net Assets 7.1 billion yen

Equity Ratios



Cash Flows (millions of yen)	FY20/06 Q1	FY21/06 Q1
Operating CF	(941)	72
Investm ent CF	(108)	(45)
Free CF	(1,049)	27
Financial CF	(283)	(341)

Key Factors for change (millions of yen)

· Income before income taxes and minotiy inte	482
· Depreciation expense	60
· Decrease in account receivable	667
· Decrease in provision for bonuses	(479)
· Decrease in deffered revenue	(212)
· Increase in accrued expencies and others	130
· Income taxes paid	(545)
· Purchase of tangible fixed assets	(70)
· Proceeds from collection of quarantee depos	68
· Payment of shareholder dividends	(338)

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Return on Equity (ROE) trends

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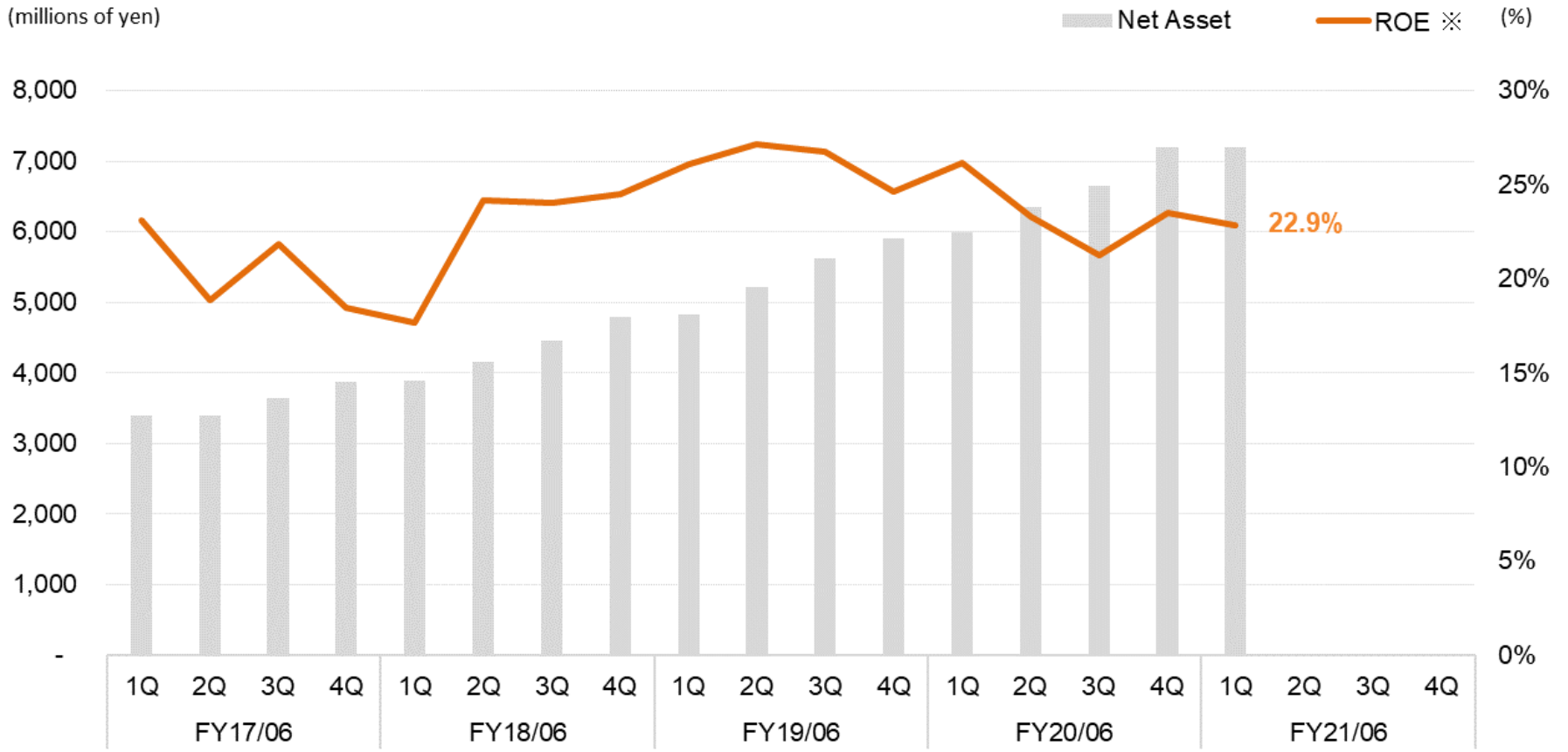
Our goal is to maintain over 20% on average in the mid- to long-term

- 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, 2021

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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%

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Dividend Forecasts

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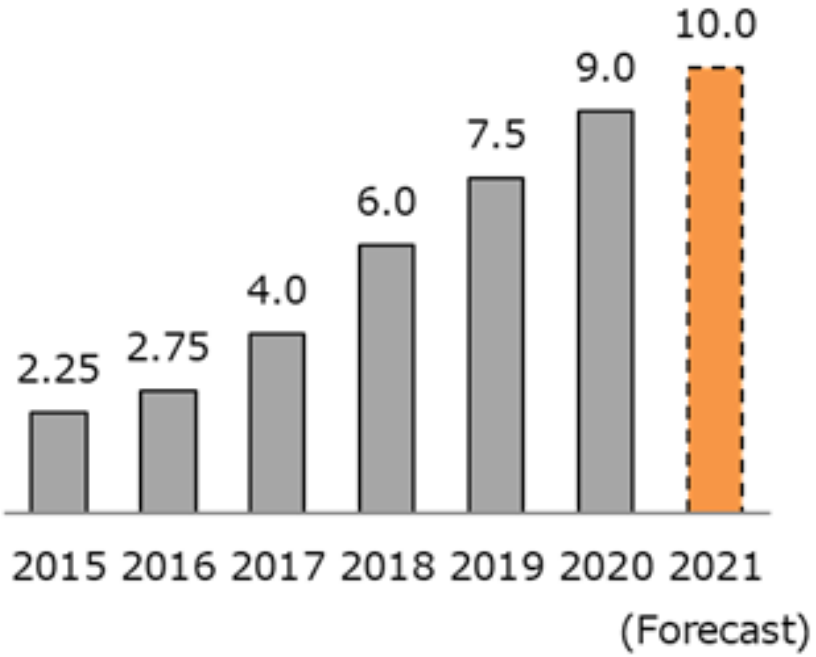
For fiscal year ending June 2021 we forecast 10 yen per share dividends

- 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%, 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 per share)



(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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