AVANT GROUP (3836)

A solid start to the medium-term strategy

5 August 2024

Q4 FY6/24 results update

Share price: ¥1,426 **Market cap: ¥53.7bn**



Source: Bloomberg

- **Remaining on track toward positive change** – Q1-4 FY6/24 results were ahead of guidance, with a notable OP growth of 24.6% YoY. Sustained growth was evident in the Digital Transformation Promotion and the outsourcing Consolidated Financial Disclosure Business segments, with a marked recovery in the Management Solutions business in Q4 FY6/24 with multiple large project wins. Overall, we believe the company has made a strong start by beating all initial financial targets in the first year of its medium-term strategy. Business transformation with a software-driven strategy should take greater shape YoY in FY6/25, as the company focuses on increasing market penetration with packaged software offerings.

Outlook positive for FY6/25

- **Dovetailing DX demand and packaged software** – with a solid demand environment driven by DX, we believe the company is positioned for sustainable earnings growth. Focus on market penetration with packaged software should result in new customer acquisition, cross-selling opportunities, and sales mix improvement. While the company will continue to invest in the business (in staff and business and capital alliances), we believe that profitability is on a positive trajectory for the medium term.
- **Valuations** – We have raised our earnings estimates for FY6/25 and beyond. The shares are trading on an estimated PER FY6/25 of 14.8x (with EPS growth of 25.4% YoY) and a free cash flow yield of 13.0%. We believe the execution of the medium-term plan will positively shift the earnings trajectory of the company, resulting in a re-rating of the shares.

Year-end	6/23	6/24	6/25E	6/26E	6/27E
Sales (¥bn)	21.42	24.42	29.49	35.56	42.49
OP (¥bn)	3.29	4.10	5.19	6.47	7.90
NP (¥bn)	2.09	2.85	3.58	4.46	5.45
EPS (¥)	55.65	76.62	96.10	120.00	146.36
DPS (¥)	15.00	19.00	28.83	36.00	43.91
Sales growth YoY (%)	+14.5	+14.0	+20.8	+20.6	+19.5
OP growth YoY (%)	+1.3	+24.6	+26.6	+24.7	+22.1
NP growth YoY (%)	+2.4	+36.1	+25.4	+24.9	+22.0
EPS growth YoY (%)	+2.4	+37.7	+25.4	+24.9	+22.0
PER (x)	25.6	18.6	14.8	11.9	9.7
EV/EBITDA (x)	16.7	12.3	7.2	5.8	4.8
EV/Sales (x)	2.0	1.7	1.4	1.2	1.0
PBR (x)	4.4	4.0	3.3	2.7	2.2
ROE (%)	18.3	22.3	24.2	24.8	25.0
ROCE (%)	26.1	30.2	31.3	32.4	32.6
FCF yield (%)	2.7	6.1	13.0	12.5	13.4
Dividend yield (%)	1.1	1.3	2.0	2.5	3.1
Total shareholder return (%)	1.1	3.9	2.0	2.5	3.1

Source: Company, Astris Advisory (estimates)

Price performance

	YTD	1M	3M	12M
Abs (%)	+0.3	+0.9	+12.5	-3.8
Rel (%)	+6.6	+30.7	+37.8	-1.8

Company sector

IT Software & Services
IT Consulting

Stock data

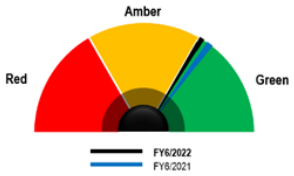
Price (¥)	1,426
Mkt cap (¥bn)	53.7
Mkt cap ($m)	376.0
52-week range (¥)	1,188-1,544
Shares O/S (m)	37.6
Average daily value ($m)	0.5
Free float (%)	54.9
Foreign shareholding (%)	17.6
Ticker	3836
Exchange	Tokyo Prime
Net Debt/Equity (x)	N/A
FFO leverage (x)	0.0
BBG BUY | HOLD | SELL	0 | 0 | 0

Source: Bloomberg

Business Overview

AVANT GROUP is a domestic market leader in financial consolidation software.

Astris-Sustainability ESG rating



Reference Ratings	
MSCI	N/A
Sustainalytics	20.3
Refinitiv	N/A
S&P Global	62
Bloomberg	2.67

Next events

Q41 FY6/25 results November 2024

Tel: +81 3 6868 8797
Email: Corporateresearch@astrisadvisory.com

This report has been commissioned and paid for by the company

Q1-4 FY6/24 results

Recent results

FY results were ahead of company guidance

Key financials

(¥bn)	Q1-4 FY6/23	Q1-4 FY6/24	YoY (%)	FY6/24 guidance	Growth YoY (%)
Sales	**21.42**	**24.42**	**+14.0**	**24.00**	**+12.0**
Gross profit/(loss)	9.40	10.93	+16.3	-	
Gross margins (%)	*43.9*	*44.8*		-	
Operating profit/(loss)	**3.29**	**4.10**	**+24.6**	**3.85**	**+17.0**
Operating margins (%)	*15.4*	*16.8*		*16.0*	
Recurring profit	3.27	4.12	+26.2	3.85	+17.9
Net income attributable to the parent	**2.09**	**2.85**	**+36.1**	**2.50**	**+19.4**

Source: Company

Per business segment (pre-elimination)

(¥bn)	Q1-4 FY6/23	Q1-4 FY6/24	YoY (%)
Sales			
Consolidated Financial Disclosure Business	6.90	7.54	+9.2
Digital Transformation Promotion Business	7.27	8.85	+21.7
Management Solutions Business	7.88	8.52	+8.1
Segmental profit/(loss)			
Consolidated Financial Disclosure Business	1.59	1.84	+16.0
Digital Transformation Promotion Business	1.12	1.63	+46.1
Management Solutions Business	1.32	1.41	+6.6
Segmental profit margins (%)			
Consolidated Financial Disclosure Business	23.0	24.4	
Digital Transformation Promotion Business	15.4	18.5	
Management Solutions Business	16.8	16.5	
Orders			
Consolidated Financial Disclosure Business	7.44	8.27	+11.2
Digital Transformation Promotion Business	7.92	9.21	+16.3
Management Solutions Business	8.00	9.41	+17.6
Total orders post-elimination	**22.38**	**26.18**	**+!7.0**
Book-to-Bill (x)			
Consolidated Financial Disclosure Business	1.1	1.1	
Digital Transformation Promotion Business	1.1	1.0	
Management Solutions Business	1.0	1.1	
Order backlog			
Consolidated Financial Disclosure Business	3.95	4.68	+18.5
Digital Transformation Promotion Business	1.71	2.07	+21.4
Management Solutions Business	3.11	4.01	+28.7
Total order backlog post-elimination	**7.02**	**8.78**	**+25.1**

Source: Company
Note: Segment data were revised from FY6/24

Key highlights

Q1-4 FY6/24 results were ahead of guidance for sales and earnings, due to robust growth in the Digital Transformation Promotion business, continued high growth in the outsourcing business, and recovery in the Management Solutions business which saw the pipeline from Q3 FY6/24 come to fruition in Q4 FY6/24.

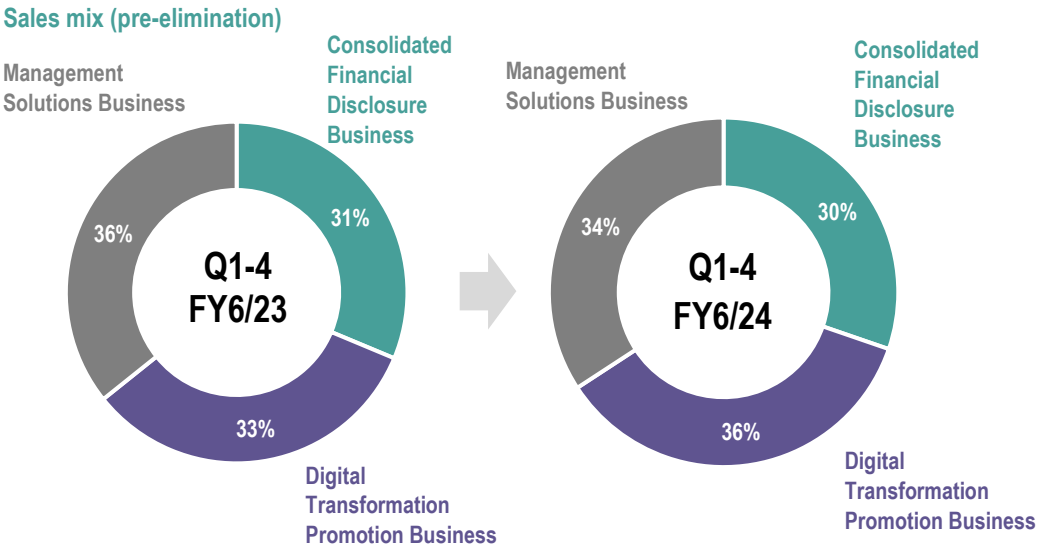
Unpacking the upturn experienced in Management Solutions, we note the following:

- Sales activities resumed subsequent to organizational changes YoY, resulting in increasing software and services sales.
- There were multiple large project wins in Q4 FY6/24, for both newly acquired customers as well as existing group customers. Orders for both recurring and discretionary business rose QoQ
- The business segment experienced a significant improvement in profitability for Q4 FY6/24, rising to 22.8% from 7.7% YoY.

The Digital Transformation Promotion Business continues to be driven by cloud solution adoption and **appears to outperform overall market growth** at 21.7% sales growth YoY. The company has adopted a multi-vendor strategy, but its strong market positioning with Azure, AWS, and Google Cloud Platform has meant 66% of group company ZEAL's sales were derived from these platforms.

The Consolidated Financial Disclosure Business showed a **positive and stable sales performance YoY,** despite the company's strategy to downsize intra-group contracted development work.

No major change in the sales split YoY



Source: Company

FY6/24 OPM rose to 16.8% from 15.4% YoY despite an increase in personnel costs, outsourcing costs to handle increased orders, and investment expenses. OP growth resulted from the lack of one-time expenses group restructuring YoY and the revenue growth effect of the Digital Transformation Promotion business.

Review of year 1 and outlook for year 2 of the medium-term strategy

In the first year of the medium-term strategy in FY6/24, the company delivered a strong start, with all performance metrics being ahead of its internal plan. Net income benefitted from a one-time positive impact from tax relief from wage increases above a set threshold. While still being the first year, we view AVANT GROUP as on a positive trajectory.

Company financial targets of "BE GLOBAL 2028" medium-term strategy

(¥bn)	FY6/23	FY6/24	FY6/25 guidance	FY6/28CE	CAGR (2023-28)
Sales					
Consolidated Financial Disclosure	6.34	7.17	-	14.0	+17.3
Digital Transformation Promotion	7.27	8.81	-	16.3	+17.8
Management Solutions	7.82	8,48	-	14.7	+13.2
Net sales	**21.40**	**24.42**	**28.80**	**45.00**	**+16.0**
YoY (%)	*+14.5*	*+14.0*	*+17.9*		
				(40.00~45.00)	
Operating profit	**3.28**	**4.10**	**4.90**	**9.00~11.00**	***+25.0**
OPM (%)	15.4	16.8	17.0	*23.5	
YoY (%)	*+1.3*	*+24.6*	*+19.5*		
Operating profit per employee (¥m)	2.4	2.8	3.0	3.5~4.3	*+10.2
Net income	**2.09**	**2.85**	**3.35**	**6.00~7.00**	***+25.4**
YoY (%)	*+2.4*	*+36.1*	*+17.5*		
ROE (%)	18.3	22.3	22.4	20% or more	
DOE (%)	4.9	5.5	6.2	8% or more	
DPS (¥)	15.0	19.0	25.0	51.0 or more	
Implied dividend yield (%)	**1.1**	**1.3**	**1.8**	**4.0 or more**	

Source: Company
Note*: calculated at mid-point, CE = company estimate

The plan for the second year of the medium-term strategy (FY6/25) exceeds the levels set in the initial plan, and gross profit from software remains mostly in line. We view FY6/25 guidance as follows:

- **Sales growth of 17.9% YoY** denotes a slight acceleration YoY; this is down to all three business segments firing on all cylinders, as opposed to having to deal with organizational changes.
- OPM increasing YoY from 16.8% to 17.0% indicates that returns are set to improve, as well as with ROE. However, there will be business investment and related expenses.
- Dividend per share continues to be hiked, reflecting a positive stance to shareholder returns.
- In the period FY6/24-FY6/27, the company has earmarked ¥5bn spend for internal business investment, of which ¥0.67bn has been spent during FY6/24; consequently, we expect these costs to start rising YoY.

Overall, after year 1 we believe the company has a greater focus on its software-driven strategy. We believe the company will aim to drive its business transformation by accelerating the sales of its 'TRINITY BOARD' (a management information tool designed for use at board meetings), and 'Compass' (a management support tool that accelerates

management processes necessary for sustainable value creation). However, the focus will also be on increasing market penetration with standardized packaged software for CRUISE (business management software), as opposed to higher-end offerings with customization.

Summary

AVANT GROUP is a domestic market leader in financial consolidation software with its 'DivaSystem' product line with approximately 45% market share. The company's competitive advantage is derived from specialization and deep industry knowledge, with its consultants having interdisciplinary expertise in accounting, data science, and technology to provide differentiated and high-quality solutions and data management services.

Market leader with approx. 45% market share in financial consolidation software

With a stable track record of growth and free cash flow generation, the company has embarked on a software-driven strategy. Combining the ongoing dynamic need for corporate data management, structural demand for digital transformation, and M&A growth, the company seeks to establish itself as a global standard in providing the necessary data and tools to enhance corporate value to its diverse customer base

The core strategic initiatives of the new medium-term plan are:

To become a global standard in raising corporate value, optimizing capital allocation and being software-driven

- To establish itself as a global standard in providing the necessary data and software tools to enhance corporate value to its diverse customer base
- **Optimize capital allocation** by spending ¥19.7bn over 5 years on growth investments, and ¥5.0bn for shareholder returns.
- **Target growth in key software markets** related to digital transformation for management information systems.

Astris Advisory estimates AVANT GROUP will drive medium-term growth via the following factors:

- Sustained high double-digit sales growth in Consolidated Financial Disclosure and Digital Transformation Promotion segments, as the company makes headway in providing DX and software-driven solutions to its customers The newly formed Management Solutions segment, which is at the core of the reorganization, is expected to have relatively slower growth as it will be in an investment phase.
- Steady improvement in operating profit margins, with an improving sales mix shifting towards software and improving staff productivity.

The shares are trading on an estimated PER FY6/25 of 14.8x (on +25.4% EPS growth YoY), and an FCF yield of 13.0%.

Astris earnings estimates and key assumptions

We have revised our earnings forecasts as follows for FY6/25 and beyond:

Astris Advisory earnings estimates

Year-end	FY6/25 guidance	FY6/25E (old)	FY6/25E (new)	FY6/26E (old)	FY6/26 (new)	FY6/27E (new)
Sales (¥bn)	**28.80**	**29.49**	**29.49**	**34.79**	**35.56**	**42.49**
Growth YoY (%)	+17.9	+20.8	+20.8		+20.6	+19.5
OP (¥bn)	**4.90**	**5.00**	**5.19**	**6.11**	**6.47**	**7.90**
OPM (%)	17.0	17.0	17.6	17.6	18.2	18.6
EBITDA (¥bn)	**N/A**	**5.44**	**5.84**	**6.63**	**7.26**	**8.84**
EBITDA margins (%)	-	18.5	19.8	19.1	20.4	20.8
FCF (¥bn)	**-**	**4.09**	**6.97**	**5.45**	**6.73**	**7.17**
FCF margin (%)	-	13.9	23.6	15.7	18.9	16.9
FCF conversion (%)	-	83.2	134.3	90.8	103.9	90.8
FCF yield (%)	**-**	**7.6**	**13.0**	**10.1**	**12.5**	**13.4**

Source: Astris Advisory
Note: FCF conversion is FCF/Pre-tax Profit

The core assumptions of these estimates are as follows:

- **Sales growth** – the core driver will be sustained high double-digit growth in Consolidated Financial Disclosure and Digital Transformation Promotion, as the company makes headway in providing DX and software-driven solutions to its customers.
- **Profitability** – we estimate a steady improvement in operating profit margins, with an improving sales mix shifting towards software and improving staff productivity.
- **Sustainable free cash flow generation** – we believe the company will continue to generate positive free cash flow with its asset-light business model – we have lowered our capex assumptions for FY6/25 and beyond.

JGAAP Financials

Income statement (¥bn)	FY 6/23	FY 6/24	FY 6/25E	FY 6/26E	FY 6/27E
Sales	**21.42**	**24.42**	**29.49**	**35.56**	**42.49**
COGS	12.03	13.49	16.22	19.38	22.73
Gross profit	**9.40**	**10.93**	**13.27**	**16.18**	**19.76**
Gross profit margin (%)	43.9	44.8	45.0	45.5	46.5
OP	**3.29**	**4.10**	**5.19**	**6.47**	**7.90**
OP margin (%)	15.4	16.8	17.6	18.2	18.6
Non-operating income	0.02	0.05	0.04	0.04	0.04
Non-operating expense	(0.05)	(0.03)	(0.04)	(0.03)	(0.03)
Recurring profit	**3.27**	**4.12**	**5.19**	**6.48**	**7.90**
Extraordinary gains	-	0.03	-	-	-
Extraordinary losses	(0.19)	(0.02)	-	-	-
Pre-tax profit	**3.08**	**4.13**	**5.19**	**6.48**	**7.90**
Tax	(0.98)	(1.28)	(1.61)	(2.01)	(2.45)
Effective tax rate (%)	30.2	31.1	31.1	31.1	31.1
Net income	**2.09**	**2.85**	**3.58**	**4.46**	**5.45**
Non-controlling NI	-	-	-	-	-
Parent attributable NI	**2.09**	**2.85**	**3.58**	**4.46**	**5.45**
Sales growth YoY (%)	+14.5	+14.0	+20.8	+20.6	+19.5
OP growth YoY (%)	+1.3	+24.6	+26.6	+24.7	+22.1
Pre-tax profit YoY (%)	+3.0	+34.2	+25.5	+24.9	+22.0
NI growth YoY (%)	+2.4	+36.1	+25.4	+24.9	+22.0

Cash flow statement (¥bn)	FY 6/23	FY 6/24	FY 6/25E	FY 6/26E	FY 6/27E
Profit before tax	**3.08**	**4.13**	**5.19**	**6.48**	**7.90**
Depreciation/amortization	0.45	0.54	0.66	0.79	0.95
Other non-cash items	0.08	(0.05)	3.38	2.33	1.73
Changes in working capital	0.13	(0.24)	(0.05)	(0.15)	(0.10)
Tax paid	(1.56)	(0.71)	(1.61)	(2.01)	(2.45)
Cash from Operating Activities	**2.18**	**3.68**	**7.56**	**7.44**	**8.02**
Capex	(0.75)	(0.38)	(0.59)	(0.71)	(0.85)
Acquisitions/increase stakes	-	-	-	-	-
Other investing cash flow	(0.05)	(0.25)	(0.15)	(0.20)	(0.17)
Cash from Investing Activities	**(0.80)**	**(0.63)**	**(0.74)**	**(0.91)**	**(1.02)**
Total cash dividends paid	(0.49)	(0.56)	(0.71)	(1.07)	(1.34)
Debt issuance/(retirement)	(0.01)	(0.01)	-	-	-
Equity financing	-	(1.40)	-	-	-
Other	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Cash from Financing Activities	**(0.51)**	**(1.98)**	**(0.72)**	**(1.08)**	**(1.35)**
FX impact	0.01	0.03	0.02	0.02	0.02
Net cash flow	**0.87**	**1.10**	**6.12**	**5.47**	**5.67**
Free cash flow	**1.43**	**3.30**	**6.97**	**6.73**	**7.17**
EBITDA	2.53	3.43	5.84	7.26	8.84
EBITDA margins (%)	11.8	14.1	19.8	20.4	20.8
Free cash flow margin (%)	6.7	13.5	23.6	18.9	16.9
Free cash flow conversion (%)	46.4	79.8	134.3	103.9	90.8
Capex/sales (%)	3.5	1.6	2.0	2.0	2.0
Capex/depreciation (%)	166.4	70.3	89.9	89.9	89.9
CFO margin (%)	10.2	15.1	25.6	20.9	18.9

Balance sheet (¥bn)	FY 6/23	FY 6/24	FY 6/25E	FY 6/26E	FY 6/27E
Cash & equivalents	10.32	10.87	16.99	22.47	28.14
Accounts receivables	0.50	0.50	0.50	0.50	0.50
Inventory	2.96	4.44	2.95	2.95	2.95
Other	1.57	2.39	1.59	1.59	1.59
Current assets	**15.35**	**18.20**	**22.03**	**27.51**	**33.18**
Tangible assets	0.49	0.49	0.63	0.81	1.01
Goodwill	-	-	-	-	-
Intangible assets	0.73	0.65	0.74	0.84	0.96
Investment	0.77	1.04	1.04	1.04	1.04
Other	1.37	1.52	1.52	1.52	1.52
Fixed assets	**3.35**	**3.70**	**3.92**	**4.20**	**4.53**
Total assets	**18.71**	**21.90**	**25.96**	**31.71**	**37.71**
Short term borrowing	0.01	-	-	-	-
Trade creditors	0.63	0.80	0.99	1.18	1.38
Other	5.48	7.51	8.41	10.55	12.08
Current liabilities	**6.12**	**8.31**	**9.40**	**11.73**	**13.47**
Long term borrowing	-	-	-	-	-
Other LT liabilities	0.25	0.30	0.30	0.30	0.30
Long term liabilities	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**
Shareholder's equity	12.33	13.29	16.26	19.68	23.94
Share acquisitions rights	-	-	-	-	-
Non-controlling interests	-	-	-	-	-
Total net assets	**12.33**	**13.29**	**16.26**	**19.68**	**23.94**
Total liabilities & net assets	**18.71**	**21.90**	**25.96**	**31.71**	**37.71**

Key metrics	FY 6/23	FY 6/24	FY 6/25E	FY 6/26E	FY 6/27E
Profitability					
Gross margin (%)	43.9	44.8	45.0	45.5	46.5
Operating margin (%)	15.4	16.8	17.6	18.2	18.6
Net margin (%)	9.8	11.7	12.1	12.6	12.8
ROA (%)	11.9	14.0	14.9	15.5	15.7
ROE (%)	18.3	22.3	24.2	24.8	25.0
ROCE (%)	26.1	30.2	31.3	32.4	32.6
ROIC (%)	20.0	22.0	24.2	24.8	25.0
Liquidity					
Current ratio (x)	2.5	2.2	2.3	2.3	2.5
Leverage					
Debt/Equity ratio (x)	0.0	-	-	-	-
Net Debt/Equity ratio (x)	net cash	net cash	net cash	net cash	net cash
Equity ratio (x)	0.7	0.6	0.6	0.6	0.6
Interest cover (x)	6,782	8,451	N/A	N/A	N/A
Net Debt/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
Valuation					
EPS reported (¥)	55.65	76.62	96.10	120.00	146.36
PER (x)	**25.6**	**18.6**	**14.8**	**11.9**	**9.7**
Diluted PER (x)	25.7	18.7	14.9	11.9	9.8
DPS (¥)	15.0	19.0	28.8	36.0	43.9
Dividend payout ratio (%)	27.0	24.8	30.0	30.0	30.0
Dividend yield (%)	**1.1**	**1.3**	**2.0**	**2.5**	**3.1**
Total shareholder return (%)	**1.1**	**3.9**	**2.0**	**2.5**	**3.1**
Free cash flow yield (%)	**2.7**	**6.1**	**13.0**	**12.5**	**13.4**
Diluted free cash flow yield (%)	**2.7**	**6.1**	**12.9**	**12.5**	**13.3**
PBR (x)	4.4	4.0	3.3	2.7	2.2
EV/sales (x)	2.0	1.7	1.4	1.2	1.0
EV/EBITDA (x)	16.7	12.3	7.2	5.8	4.8
EV/EBIT (x)	12.9	10.3	8.2	6.5	5.4
EV/FCF (x)	29.6	12.8	6.1	6.3	5.9

Source: Company, Astris Advisory (estimates)

Disclaimers

This report has been prepared by Astris Advisory Japan K.K. This report is based on information obtained from public sources that Astris Advisory Japan K.K. believes to be reliable but which Astris Advisory Japan K.K. has not independently verified, and Astris Advisory Japan K.K. makes no guarantee, representation, or warranty as to its accuracy or completeness. This report does not and does not attempt to, contain everything material which there is to be said about the Company. Any opinions expressed herein reflect Astris Advisory Japan K.K.'s judgment at the time the report was prepared and are subject to change without notice. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of their subject matter to be materially different from current expectations.

This report has been prepared as general information and is therefore not intended as a personal recommendation of particular financial instruments or strategies, and does not constitute personal investment advice.

The analyst hereby certifies that (i) the views expressed in this report accurately reflect the research analyst's personal views about the company and the securities that are the subject of this report, and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to views expressed by that research analyst in this report.

The report has been prepared by Astris Advisory Japan K.K., a Japanese firm organized under the laws of Japan and under supervision by the Japanese Financial Services Agency. Details about the extent of our regulation by local authorities are available from us on request.

Conflict of interest

This report has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II.

Readers should assume that Astris Advisory Japan K.K. may currently or may in the coming three months and beyond be providing or seeking to provide IR/corporate advisory or other services to the company.

Investment in securities mentioned: Astris Advisory Japan K.K. has a restrictive policy over personal dealing for its directors, officers, employees, and service providers. Astris Advisory Japan K.K. does not conduct any investment business and does not hold any positions in the securities mentioned in this report.

Limitation of liability

Astris Advisory Japan K.K. assumes no liability as regards any investment, divestment, or retention decision taken by the investor based on this report. In no event will Astris Advisory Japan K.K. be liable for direct, indirect, incidental, special, or consequential damages (regardless of whether being considered foreseeable or not) resulting from the information in this report.

Copyright 2024 Astris Advisory Japan K.K. All rights reserved.