

3962 Change

Innovating the front line of business with New-IT and accelerating growth with Publitech

September 16, 2020

First Section of the Tokyo Stock Exchange

Highlights

• In October, the company will increase its equity share in TRUSTBANK, Inc. from 70% to 100%, converting TRUSTBANK into a wholly owned subsidiary. Additional costs, such as amortization of goodwill, will not be incurred because the increase in stake will be executed through a stock exchange. The profit of TRUSTBANK will be fully reflected in the consolidated statement, so the consolidated return for the business term ending September 2021 will be bolstered even further.

• TRUSTBANK, which holds a leading share in Hometown Tax payment application websites, possesses an overwhelming share of the network among local governments across the country. This is the base from which the company is promoting Publitech (New-IT in the public sector). The Hometown Tax Payment Program continues to expand, enhancing its astounding contribution to bottom-line profits. LoGo Chat and LoGo Form in the Publitech Segment are about to enter their new phase of growth.

• In response to the coronavirus pandemic, the company has transitioned all consulting work related to digital transformation (DX) to remote sites and to online IT training sessions. It has also converted its client portfolio from transportation, retail, and manufacturing to the public sector, telecommunications, and money market, aggressively pursuing new business.

• The company's operating profit to be announced for the fiscal term ending September 2020 is certain to exceed 34 million yen (preceding term recorded 10.81 million yen). As the Hometown Tax Payment Program normalizes under the new policy, its performance as the industry's leading entity is becoming evident. Enhancing Japan's productivity and contributing to regional revitalization are the company's ESG and SDG policies.

• Under the company's long-term vision, it continues to advance the mid-term three-year business plan and asserts to secure a leadership position in Japan's DX arena. In the first phase of the mid-term business plan, the company aims to achieve operating profit of 4.7 billion yen during the fiscal term ending September 2022 (25% operating profit on sales), which it expects to accomplish one year ahead of schedule.

• The business can be broken into (1) New-IT transformation business; (2) investment business; and (3) public sector business (TRUSTBANK + public sector x IT), but the company expects its proprietary public fintech business, utilizing community currencies and blockchain, to demonstrate strong growth in the near future.

• The strength of Change's management style lies in: (1) nimble management; (2) flagship model strategy; (3) partnership strategy; and (4) the capability to create application precedents. The company's enterprise scale will expand in layers through successful acquisitions, and its ROE will increase considerably as its business continues to grow. The company has its next acquisition target in its sights. The company continues to attract the necessary collection of talent, and its foundation for growth remains firm. We will continue to pay attention to the company as its enterprise value is poised for further growth.

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Corporate rating: A

Stock price (as of September 15, 2020): 9,520 yen

Market capitalization: 300.3 billion yen (31.54 million outstanding shares)

PBR: 35.8 ROE: 20.4% PER: 193.5 Dividend yield: 0.0%

(Figures are in millions of yen)

Accounting Period	Sales	Operating Profit	Ordinary Profit	Current Profit	EPS	Dividend
Sept. 2014	711	74	74	43	2.1	0
Sept. 2015	1400	134	137	82	3.9	0
Sept. 2016	1550	186	175	118	5.3	0
Sept. 2017	1980	331	325	229	9.0	0
Sept. 2018	2604	513	513	343	12.9	0
Sept. 2019	7054	1081	959	378	13.1	0
Sept. 2020 (F'cast)	11500	3800	3700	1550	49.2	0
Sept. 2021 (F'cast)	17000	6500	6500	4000	119.5	0
Sept. 2022 (F'cast)	20000	8000	8000	5000	149.4	0

(Based on results as of June 2020)

Total Assets: 14.979 billion yen

Net Assets: 8.375 billion yen

Ratio of Net Worth: 46.8%

BPS: 266.0 yen

(Note) ROE, PER, and Dividend Yield are estimates for the current accounting period. Fiscal term ending September 2014 comprises a 6-month period due to the change in the fiscal term. The following stock splits were executed: 300 for 1 at the end of July 2016, 2 for 1 at the end of June 2018, 2 for 1 at the end of December 2018, and 2 for 1 at the end of August 2020. EPS prior to the splits have been adjusted. Results up to the fiscal term ending September 2018 are non-consolidated, and those for subsequent terms are consolidated (in accordance with the Japanese accounting standards). 992,000 new shares are scheduled to be issued in October 2020 for the complete acquisition of TRUSTBANK.

Chief Analyst Yukio Suzuki (Belle Investment Research of Japan Inc.)

Definition of enterprise rating—the subject enterprise is qualitatively evaluated from the perspective of: (1) management effectiveness of the executive management; (2) potential for business growth; (3) risk management towards downward revision of business performance; and (4) sustainability from an ESG perspective. The rating will be indicated in four degrees: A for "fair," B for "requires effort," C for "requires significant improvement," and D for "extremely challenging situation."

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1. Feature: Evolution of New-IT's transformation to Publitech

Pursuing revolutionary productivity growth by applying IT—the key lies in digital productivity

The population of Japan is predicted to decline from 125 million in 2015 to 92 million by 2055. Of the total population, the productive-age population (ages 15 to 64) is expected to decline significantly from 76 million down to 47 million.

Recognizing that there is an urgent need for productivity innovations at Japanese enterprises as the population of Japan continues to decline, the company is committed to helping to enhance the enterprise value of its clients through productivity improvements. Such improvements are crucial to elevating national wealth and taking advantage of IT is crucial for enhancing the productivity of both individuals and organizations.

However, the rate of utilizing IT in any industry or enterprise is inadequate, and the innovation of business models through the "aggressive adoption of IT" is lagging. In addition to labor productivity and capital productivity, digital productivity is being questioned. This is where the focus lies.

Change is the mission—"People" × "Technology"

Change's mission (purpose as an enterprise) is to change people, to change businesses, and to change Japan.

The company's aspiration is expressed through its name: "Change." The corporate logo comprises three clusters of three vertical lines grouped together. Similar to the parable of the three arrows, the company will attempt to create change through three modes. 1) change people, 2) change businesses, and 3) change Japan. The company means to concurrently transform (1) the IT infrastructure, (2) workflows, and (3) business models by applying new IT.

To prevent Japan's demise, we must elevate productivity in a compelling way through the approach of combining people (human resource development) and technology (New IT). The company's mission is to lead this change.

Origins as a consulting firm

In 2003, a former Accenture employee started a business in consulting support before later formally launching an IT training business. The company focused on training project managers and system engineers, and its clients were big-name SI firms. These clients lacked the bandwidth within, so they outsourced their human resource development to external specialists. This business continues to do well, reflecting the consistent shortage of IT engineers. In addition, individuals who trained here have taken positions in various firms, supporting us in fostering solid business connections across the industry.

The current board of officers comprises multiple former veterans from Arthur Andersen Consulting (now Accenture). Chairman Jimbo became independent from Andersen Consulting, and President Fukudome joined the company when it was conducting consulting work for medium-sized enterprises. Later, Vice President Itoh (responsible for Mobile & Sensing Applications), Executive Officer Kaneda

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(responsible for Enterprise Security & Infrastructure), and Executive Officer Ishihara (responsible for R&D, the Next Learning Experience Field) participated in formulating Change's founding concept, and the company was founded in its current form in April 2003.

After its foundation, all of its members left Andersen Consulting to join Change within a year, becoming its establishing members. Approximately two years later, Executive Officer Takahashi (responsible for Analytics & IoT) joined the company. During his time at Andersen Consulting, Fukudome was Jimbo's direct report. In addition, Takahashi worked under Fukudome. Director and CFO Yamada, who was Chairman Jimbo's classmate, holds a certified tax accountant's license. He was overseeing Change's business at an accounting firm, but left the firm to join Change around four years later. During the 13 years before the company went public, the current management team led the company as its core members.

Furthermore, Executive Officer Noda (responsible for the Next Learning Experience Field), who joined the company in April 2007 after graduating from university, assumed his current position in December 2019, demonstrating the company's robust development of internal talent.

Earnings by business segment

	(million yen)			
	Sept. 2017 (non-consolidated)	Sept. 2018 (non-consolidated)	Sept. 2019 (consolidated)	Sept. 2020 3Q
New-IT Transformation				
Sales	1980	2447	2742	2143
Profit	—	790	786	449
Investment Business				
Sales	—	157	450	0
Profit	—	76	228	-15
Publitech Business				
Sales	—	—	3867	6623
Profit	—	—	875	3648
Adjustment	—	-352	-868	-796
Total				
Sales	1980	2604	7054	8762
Operating profit	331	513	1081	3286

(Note) The profit figures indicate segment profits, while the adjustments applied are for the total company G&A expenses.
The result for term ending Sept. 2019 includes TRUSTBANK's earnings for 10 months

Entering a new phase

The company was established in 2003, listed on the TSE Mothers market in September 2016, and transferred to the TSE First Section in September 2018. The company was first established based on its consulting services, but later extended its business into human resource development for the IT industry. Subsequently, the company shifted its business from SE training to IT. The company recognized the limits of SE training in promoting productivity improvement in a true sense, so it decided to take part in the IT business on its own. The company named the transition "New-IT transformation." This represents the company's objective to promote New-IT.

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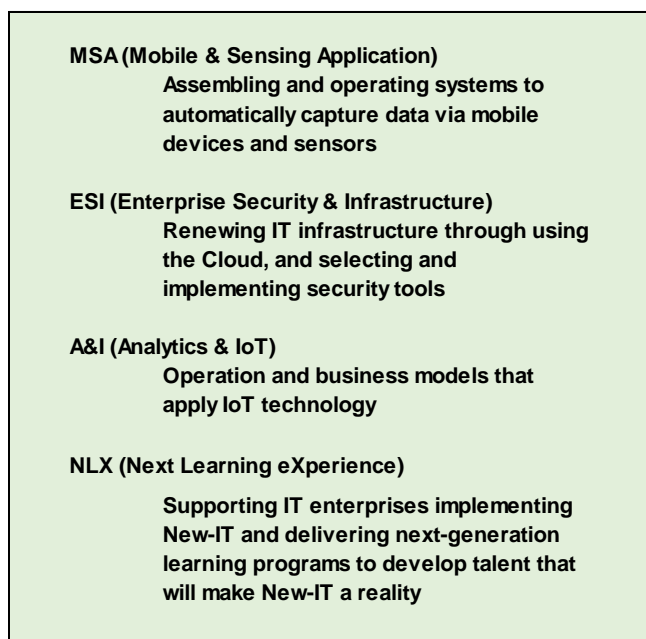
Furthermore, the company executed a large-scale acquisition in November 2018. It acquired TRUSTBANK, which operates "Furusato Choice," a comprehensive website for the Hometown Tax Payment Program. The company has now entered a new phase in the sense that it is looking to expand its growth area through M&A.

Three segments

Compared to Old-IT, the characteristics of New-IT are as follows: (1) the targets of implementation are front-ended; (2) the design and maintenance costs are low; (3) it is easy to use; and (4) the time needed for implementation is short. IT will be directly used on site, conveniently and economically, with little time required to master the tool.

The acquired TRUSTBANK belongs to the Publitech Business. All resources engaged in the Publitech Business, which originally belonged to the New-IT Transformation Business, have been transferred to TRUSTBANK together with all its workers. The Investing Business is an IPO accelerator, making small investments in start-up companies selected through their affiliation with the company's mainstream business, delivering capital gain through sales of their shares.

New-IT transformation —Four service lines—



New-IT's service lines

Change's mainstream business comprises four service lines.

MSA (Mobile & Sensing Application) utilizes mobile devices, such as Apple iPhones and iPads, while constructing and operating a system that automatically collects data through these devices by using their sensors and such.

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ESI (Enterprise Security & Infrastructure) restructures IT infrastructures by leveraging the Cloud and identifies and implements suitable security tools. As the Cloud's penetration rate is still low, the company will contribute to reducing the burden on IT infrastructure.

A&I (Analytics & IoT) restructures business operations and business models by utilizing IoT and conducts the analysis and application of big data. Data is accumulated within enterprises and organizations, and this business unit will put it to use.

NLX (Next Learning Experience) supports the implementation of New-IT and provides training programs to develop people who will execute the tool.

Factors in the company's robust business performance are rapid growth observed in new areas, such as business automation projects utilizing AI and Robotech Process Automation (RPA), application projects for audio AI speakers, regional revitalization through the use of virtual reality (VR), and development of AI specialists and data scientists.

Sales distribution and image of profitability by New-IT service line

	Sept. 2016 (estimate) (%)	Sept. 2017 (estimate) (%)	Sept. 2018 (estimate) (%)	Sept. 2019 (estimate) (%)
MSA (Mobile & Sensing Application) Assembling and operating systems to automatically capture data via mobile devices and sensors	30 ○	25 ○	20 ○	20 ●
ESI (Enterprise Security & Infrastructure) Renewing IT infrastructure through using the Cloud, and selecting and implementing security tools	20 ○	25 ●	25 ●	25 ●
A&I (Analytics & IoT) Operation and business models that apply IoT technology	10 ○	15 ○	20 ●	25 ●
NLX (Next Learning eXperience) Supporting IT enterprises implementing New-IT and delivering next-generation learning programs to develop talent that will make New-IT a reality	40 ●	35 ●	35 ●	30 ●

(Note) ○ represents profitability, and ● denotes high profitability. Both the sales distribution ratio and profitability are the analyst's estimate.

Deployment of Publitech (IT in the public sector)

As a case study, the company carried out a training session on AI utilization for employees of Kumamoto City. This city has a proactive attitude towards AI utilization, and an evaluation of an AI chat bot was conducted. The system, which provides automated responses to inquiries, can be horizontally expanded to other local governments. To improve Nara City's operational efficiency by implementing RPA, operational processes were defined and the rate of optimization was validated. The company has launched these initiatives with forward-thinking local governments, and there are signs of further expansion.

At local governments, for example, staff are working to enter nonuniform data using their PCs. First, the work content is analyzed (BPR), automation of the work is examined (validation of RPA), and then the automation tool is implemented. This kind of work still exists in abundance in both local

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governments and private enterprises. In this day and age, however, there are not enough people to do the work. Therefore, the inclination to save manpower in work that can be automated and divert it to different work is certain to gain even more traction in the future.

The company developed a space museum utilizing VR for the town that is home to the launch site for JAXA space rockets (Kimotsuki Town, Kagoshima Prefecture). This work can be adopted by virtual public museums utilizing VR technology, meaning that the content will become the center of the project and large-scale buildings will not be needed. 2) Accidents and natural hazards that can occur during work are delivered as educational content in VR and applied to human resources training. Trainees will experience hazards similar to reality through VR, so the impact of the training will be significant.

Investment business inaugurated as the New Business Creation Unit

The New Business Creation Unit was established during the fiscal term ending September 2018. In terms of accounting, investment securities under non-current assets were reclassified as "operating investment securities" under current assets.

Investments are made in start-up companies and their shares are sold off through IPOs, contributing to the company's sales. Operating investment securities are like inventories for manufacturing enterprises, and gains or losses from sales are included in ordinary operating profits. Since it is the company's mainstream business, account processing is handled in this way. In future, contributions to profits from these types of investment activities will also increase.

The IPO Acceleration Program, which was already active, was repositioned as an official investment business. Investments are made in companies that correlate to the company's growth strategy, and the return on investment will be captured while pursuing business synergies.

In fact, GA Technologies, which excels at technologies related to real estate through the utilization of AI, was listed on the TSE Mothers market in July 2018. As a result, a certain amount of unrealized gain developed on its investment. This was sold off during the second quarter of the fiscal term ending September 2019. Sales (selling price) and operating profits (gain on sales – Investment Business Division's costs) were entered under the Investment Business Segment.

In accordance with Japanese accounting standards, valuation gains are not reflected in the profit-and-loss statement. Valuation gains are indicated mainly as "Difference with other valuations on available-for-sale securities" on the balance sheet. Investing in businesses is one of the company's mainstream activities, so the realized capital gains are entered under the operating profit of the business segment. If this was an investment in securities that was not part of the company's mainstream business, the realized gains or losses would be accounted for under non-operating revenues. This is the difference.

Teamwork and corporate governance

The team has shared hardships for much of the past 10 years, so the camaraderie among members of the management team is strong. Responsibilities are split up so that Chairman Jimbo oversees

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management of internal affairs, while President Fukudome is responsible for engagement with the company's clients.

The company assigns auditors, with the three auditors consisting of two individuals formerly with the Sony group and one previously with a bank. At the general shareholders' meeting held in December 2017, Mr. Hiroshi Fujiwara (CEO, BroadBand Tower Inc.) joined the company's Board of External Directors. Mr. Fujiwara is an accomplished business leader in the field of Internet-related businesses. In September 2018, the company was relisted on the TSE First Section, and Ms. Eriko Hayashi, a practicing lawyer, was added to the company's Board of External Directors at the annual meeting of shareholders held in December 2019. Diversification of the company's corporate management through the appointment of women to the management team is making progress, reinforcing the company's governance.

In addition, a stock option system linked to the company's business performance targets was adopted. All employees and officers are entitled to exercise their executing rights when the company achieves its overall performance target on a non-consolidated basis. The option stipulates that, should the company exceed one billion yen in accumulated operating profits during the three years between the fiscal terms ending September 2018 and September 2020, the beneficiaries will have the right to exercise 50% of the granted option, and should the company exceed three billion yen of the same during the same three periods, the beneficiaries will have the right to exercise 100% of the granted option.

ESG at full steam ahead

How is Change engaging in ESG? The "Innovation in Productivity" that was declared in the company's vision is aimed at the realization of a sustainable country, and (1) DX and (2) Regional Revitalization are imperative for achieving this goal. The company is engaging in these two themes.

In the area of the environment, the company will be collecting donations through "Enecho" to realize the local production of electricity for local consumption and the distribution of renewable energy through donations.

How is the company engaging with society? The company sponsors crowd funding through donations, with the aim of resolving challenges faced by local communities. The platform has so far generated more than 7.9 billion yen in funds donated for the reconstruction of Shuri-jo Castle in Okinawa and as disaster-relief funds for areas struck by earthquakes and torrential rain.

In the area of governance, the company will comply with items in the corporate governance code that had been put off so far during the current business term, having been substantiated as "premature." These include the following: (1) disclosure in English; (2) criteria for selecting successors; (3) compensation linked to business performance; and (4) performance evaluation of directors.

Currently, the foreign stock holding ratio stands at 12%. Discussions with overseas investors have increased sharply since the company's market capitalization exceeded 100 billion yen. The company's market capitalization has steamed past the 200 billion yen mark. The company is aiming to allocate the shareholder composition ratio to a third each for individual investors, domestic institutional

investors, and overseas institutional investors, excluding shares held by the officers. To achieve this goal, a business model that incorporates the ideal state of ESG is being sought. The management team is committed to achieving this with a sense of urgency.

2. Strength: Increasing enterprise value through its unique flagship model

Planning and proposal capability and knowledge management

Coming from a consulting background, the management team has inherently acquired the skills for planning and proposals. Therefore, the company possesses the capability to develop application precedents. In other words, the team is able to extract the problem and develop a solution by determining what technologies to apply.

On the other hand, will the company be able to sustain the level of competency among its people as the business expands? To this point, the company has mapped out its technology against different problems, constantly updating its content. This material has been launched as an internal library, a form of knowledge management. Its content has been assembled into a manual comprising text and video, accessible at any time.

Four unique characteristics—A business model for value creation

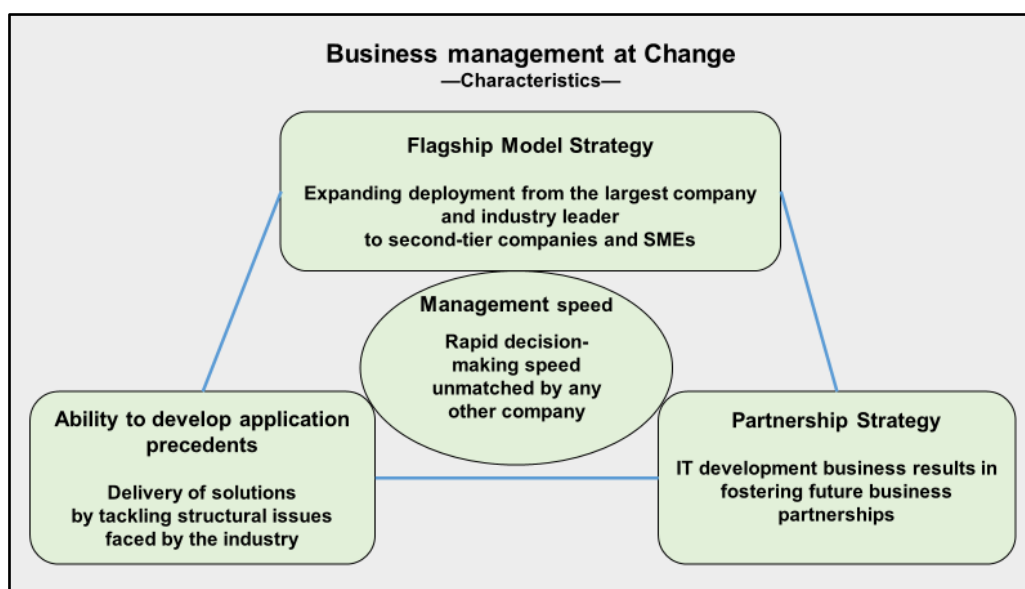
New technologies are constantly spawned in the field of New-IT, and these new technologies will be adopted to grow the company's business. There are four unique features to the company's management approach. They are: (1) nimble management; (2) flagship model strategy; (3) partnership strategy; and (4) capability to develop application precedents.

Referring to the first point, "nimble management," the company can reach a decision in single day where a large-scale enterprise would take three months, from planning to execution. When dealing with the adoption of new technology, a large-scale enterprise would consume time until it is finally put on the table at the management meeting, and still decide not to take the risk to adopt the new technology. At the company, the leadership itself reviews the details and moves forward with it if it feels the potential. We compensate for large-scale enterprises' lack of decision-making speed, and generate the force to move things forward.

The second point, "flagship model strategy," refers to the company's approach to add leading players in each industry to its client list, and cascading that work down from the top tier, eventually to the second tier, and then medium and small-sized enterprises. Our business will also be expanded horizontally to their partners and suppliers. We call this approach the "flagship model strategy."

The third point, "partnership strategy," refers to the company's approach to deliver training to existing SI firms and enlisting these companies to become distribution partners for introducing software. In other words, instead of competing with major firms, the company joins forces with them to approach the market in a combined effort.

Regarding the fourth point, "capability to develop application precedents," the company tackles structural challenges faced by the industry head on, and creates precedent solutions that truly benefit the industry. In other words, the company is expanding its strengths in developing technological applications.



Execution of New-IT transformation—Delivering one-stop solutions

The company's strength lies in its ability to execute New-IT transformation. The company applies new technology in line with the clients' business challenges, delivering comprehensive solutions. As a result, it is more likely to engage the client from the problem identification stage, earlier than rivals that deliver individual products and services.

In addition, the company often finds itself identifying problems in the Line of Business (LOB) funded by the LOB's budget, setting itself apart from competitors that attempt to identify problems using funds from their IT system department's budget, making it unlikely that the company will be competing directly with its competitors.

Human resource development and adoption of technology—Exploring IT partners on a global scale

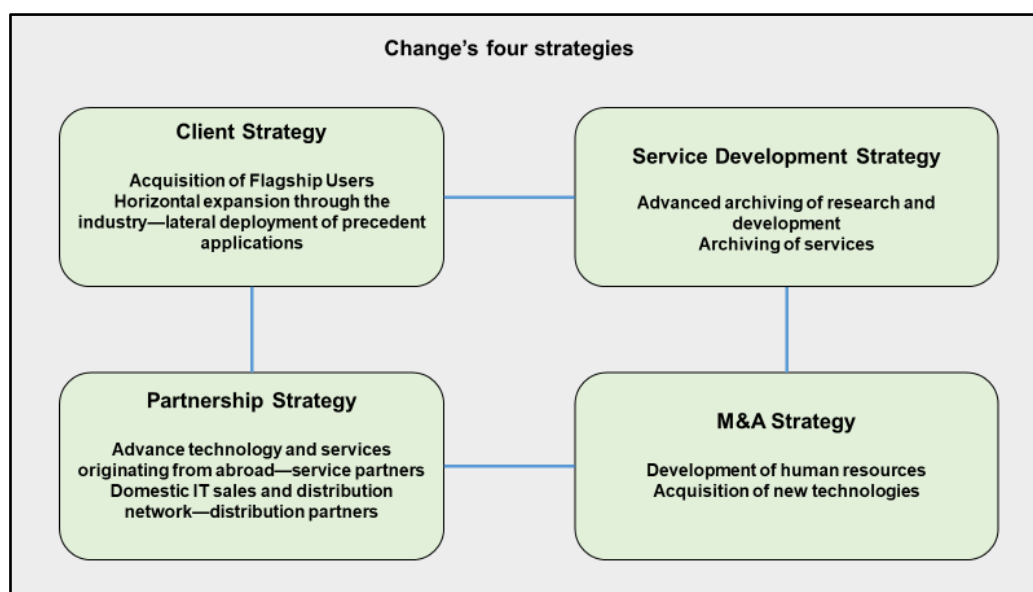
During the company's growth stage, President Fukudome and Vice President Itoh launched new businesses, and the executive officers developed them. The driving forces of the company's growth were: 1) development of its employees; and 2) adoption of technology.

The company originally began its business as a consulting firm, so it emphasized operational reform. It adopted IT as a tool for realizing this objective, and has remained effective by constantly adopting new technology in IT instead of staying with conventional technology. As such, the company is expanding across mobile, security, big data (BD), and IoT.

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And since the company is a start-up, it is agile, tackling issues that have proved to be difficult for large organizations, and delivering tangible results.

Another unique aspect of the company is the fact that it is exploring IT partners on a global scale. Overseas markets have been faster in adopting novel IT technologies, whereas Japan is constantly lagging three to five years behind in implementing these new IT technologies at the worksite level. In particular, developments in the US move rapidly, so the company is endeavoring to embrace overseas technologies.



Approaching industry-leading companies first

The company always approaches the industry's leading company first, with patience and persistence. Although the hurdle is high, but affords the company recognition, and the management team believes that, if they fail to gain any business there, it would not turn out to be a big market, and thus, they will not gain any substantial competitiveness.

There are three types of clients. The first type is the "educational customer." This is the type of client the company is able to learn from; leading automobile manufacturers and top securities firms fall into this category. In other words, the level of aspiration is very high, and the clients are very demanding, right down to the fine details. However, these companies possess a corporate culture designed to accomplish new initiatives, so they are effective at developing prototypes of new business models, even if the return is low.

The second type is the "lead customer." This type of client understands the value of the solution that the company delivers, and they are able to integrate its products and services. This type of client contributes to the company's earnings.

The third type is the "monster client." This type of client is very demanding and critical, but lacks in power to execute within the organization. If the company forces itself to continue engaging this type

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of client, it will only be in vain, so it needs to disengage at an early stage. The company has been successful in developing new clients while taking these points into account.

Adoption of new technology

The company does not adopt new technology in superficially, but takes it to a level where it is of actual use to the client's business. It sets a clear business objective and delivers a solution that requires creativity on the part of the client. While the world holds countless technologies, instead of simply using them, the company must refine them into applications that are highly valued as actual "application precedents." And it can be said that the company excels at the ability to implement technology from the client's perspective.

There are almost no other companies in the same industry that can do the same. That is, although there may exist similar firms in management consulting, IT consulting, mobile, security, or IoT, there is no competition that can construct actual application cases at the field level. In other words, once the company decides to pursue a business, there are almost no cases where potential clients will call for competing bids.

"Library" is the source of competitiveness

The company possesses a system that enables it to internally share components of the solution to be delivered: know-how, technology, and application cases. It calls this its "library," and each of the company's employees stores potential components in this library. The company has an incentive program that motivates its employees to do so by linking it to each individual's performance appraisal.

The library of New-IT transformation continues to grow in content. 1) The data distribution platform development service; 2) the engagement service through application of data analytics; and 3) the health business management service utilizing vital data and smartphones, are on the rise.

Stock-type business comprises 60% of total business

In terms of the stock-type business model, the company plans to increase its composition from the current 60% to 80% in the future, with the automated recurring invoicing model as its base. Of the 60%, metering of software (monthly and annual subscription fees) accounts for 20%, and repeat use (software maintenance, version upgrade, etc.) accounts for the remaining 40%. Furthermore, half of the products in the stock-type business model are developed internally, while the other half are sourced from outside.

Accumulating precedents

- Work-style reform at a trading firm

Itochu Corporation is lifting its job mobility through work-style reform. The company has set up a system in which work can be carried out from anywhere. It constructed an IT system that delivers an environment similar to as if one was working from the corporate office. Many companies are not able to use their IT system outside the corporate office at a level similar to within the office due to strict

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security constraints. However, this company swiftly adopted a system invented in the US that boasts the highest level of security and ensures that data can be used from any terminal at hand.

The company had the top management experience this system first, and after experiencing its benefits, the decision was made to deploy the system across Itochu's entire organization. The deciding factor was top-down decision making. The offering of a "Proof of Concept" experience led to implementation of the system at once.

- Policy-making support for local governments—Application of RESAS

In numerous prefectures and cities, including Kagoshima Prefecture, it is necessary to compile evidence (scientifically) by utilizing data when shaping policies for regional revitalization and regional vitalization to avoid relying on prejudice or preconceptions. RESAS (Regional Economy Society Analyzing System) made available by the Cabinet Office, is filled with economic data, but the question is how to make use of this data for regional revitalization. In utilizing this big data, the company will provide support for task analysis and policy making. The company continues to secure new business in this area.

- Training on big data analysis

The company provided training to Hamamatsu City staff to enhance their data analysis capabilities. Hamamatsu City emphasizes data application in its key industries of manufacturing and development of data scientists through industry-academia-government collaboration. In order for the local government to promote the fourth industrial revolution, development of its own people is imperative. This field has the potential to expand nationally, so the company regards it as a promising market.

- First accreditation for data science and AI seminars awarded by the Ministry of Economy, Trade and Industry

The company's seminars have been accredited by the Ministry of Economy, Trade and Industry as the "Fourth Industrial Revolution Skill Mastery Seminar" program. The program enables participants to acquire a high degree of expertise and advances their careers, and it is supported by the government. The company's IT training skills are applicable as is. The need and demand for this people-training business is increasing dramatically, and the business is unfolding in the following areas: (1) training for IT businesses (major IT firms); (2) consulting and education services delivered to government offices and major companies on digital organization; and (3) training of people in skill-enhancement programs.

3. M&A: Accelerated growth in Publitech's business centering around TRUSTBANK

Complete subsidiary acquisition of TRUSTBANK—Ascending towards the next stage

In August, the company made the decision to fully acquire TRUSTBANK. The net profit will be reflected in the consolidated results starting in October 2020. Results for the current fiscal term will remain unaffected, but results will fully reflect the impact beginning with the next fiscal term ending

September 2021. The company's stake in TRUSTBANK had remained at 70%, but it will now increase to 100%, and its impact on the EPS will be significant.

TRUSTBANK was acquired in November 2018, and the company's stake at that time was 60%. This was increased to 70% through additional capital investment in August 2019, but it has now been elevated to 100%.

This complete ownership of TRUSTBANK will pave the way for a more integrated management of the group of companies. As a business division of the Change Group, decisions will be made more swiftly, and first-class personnel from the main organization will be dispatched as necessary. Furthermore, Publitech business, in addition to the Hometown Tax business, is certain to gain even more momentum. It will also pursue efficiency improvements in the administrative department.

When the company first acquired 60% of TRUSTBANK, it estimated the enterprise value of TRUSTBANK at eight billion yen, and 60% (4.8 billion yen) of that was paid for in cash. TRUSTBANK's enterprise value was calculated at 30 billion yen, so 30% (nine billion yen) of that will be exchanged for Change's listed shares.

Minority shareholders (those who held shares since inception) of TRUSTBANK will receive 992,000 Change shares. These 992,000 shares will be newly issued, which accounts for 6.3% of the total outstanding number of shares. Share dilution will occur to some degree, but this poses no issues from the perspective of a substantial increase in enterprise value.

A share of Change will be valued at 9,000 yen on the stock exchange, but the price of the share has since increased to more or less 14,000 yen (pre-stock-split basis), so reflecting back to that point in time, the deal resulted in a positive outcome for both Change's shareholders and TRUSTBANK's minority shareholders.

When TRUSTBANK's shares (60%) were acquired in cash, goodwill (including trademark rights) in the sum of 4.6 billion yen arose, which was depreciated over the next 10 years, but this treatment was subject to taxation. The recent stock exchange utilized only 6.3% of Change's total outstanding shares, and it has not had any impact on goodwill in the balance sheet. Existing shareholders of TRUSTBANK will become shareholders of Change, and they will join forces to increase Change's enterprise value. Simply put, it can be highly regarded as a 100% subsidiary acquisition that resulted in a win-win outcome.

TRUSTBANK will plan and manage "Furusato Choice"

TRUSTBANK holds an overwhelming leading position in terms of the scale of funds managed through the Hometown Tax Payment Program, managing in excess of 40% of the entire donations collected. Thanks to the company's website, services related to the Hometown Tax Payment Program became available in an integrated fashion, increasing the number of choices and making it easier for users to make donations.

In addition to "Furusato Choice," TRUSTBANK operates the "Tanomoshi" site, which supports producers across the country, the "Localbiyori" site, which aids the search for one's hometown, "Area

Japan," a medium that advertises the charm and challenges of Japan, and "Meibutsu Choice," a new style of online-shopping site that accommodates points issued by local municipalities.

Furusato Choice gathered information on return gifts onto one site and facilitated settlement of payment on the site. This one-stop Hometown Tax system is revolutionary. Currently, the site has more than 1,500 contracts with local governments, and the number of return gifts published on the site exceeds 200,000 items. TRUSTBANK aimed to reinvigorating the rural countryside and seniors through use of ICT, and constructed the largest Hometown Tax platform business in Japan.

On the other end, Change is engaged in operational reform of local governments through applying New-IT, such as AI and RPA, and its services aimed at the public sector had grown to become a business pillar of the company. President Fukudome of Change and Chairman and Founder Tamayo Sunaga of TRUSTBANK came to know each other through business directed at local governments, and the occasions to work together were increasing. Through these exchanges, when talk of a merger with TRUSTBANK emerged, TRUSTBANK recognized that it would be better positioned to share each other's missions and develop its business by merging with Change rather than with a competitor.

From this company's perspective, TRUSTBANK possesses a network with access to more than 1,500 local governments across the country. As such, the company will be able to enter relationships with these local governments to implement IT at speeds never seen before. The company will accelerate its Publitech Business (technological innovation in the public sector), including regional revitalization, services offered by local governments, and productivity enhancements. Furthermore, it also has its sights set on inbound-related businesses and digital payment systems.

Leveraging networks among local governments

Local governments generally take a conservative stance towards change. However, all local governments that took part in Furusato Choice were astonished. The company should be able to further accelerate reform of services offered by local governments by leveraging this platform. This will lead to new business. Taking a look at work carried out at 1,788 local governments across the country, there should be a fair amount of commonality, but the systems that supports this work are being developed separately. Though 640 billion yen has been invested in developing these systems, by standardizing these systems and constructing a new one, costs will fall and the productivity of the services will improve. From the perspective of citizens who receive these services, procedures that can be completed online will reduce the burden on them and consume less time.

TRUSTBANK's New-IT—Deployment of Publitech

Change did not acquire TRUSTBANK merely with the intention to grow its Hometown Tax business. Nor is increasing the enterprise scale by combining profits from Hometown Tax business its primary objective, either. It goes without saying that the focus on business related to Hometown Tax will continue.

But Change has transferred Publitech business and personnel to TRUSTBANK from its main organization. Here, the transferred personnel are driving growth in the Publitech business. The network

established with local governments in each region through the Hometown Tax business is proving to be a great advantage, and the ultimate objective is to revamp services offered by local governments through implementing New-IT.

There were two challenges facing the Hometown Tax business. One is the fact that some local governments appeared to be collecting tax funds while deviating from the original purpose of gathering Hometown Tax donations. By increasing the rate of return gifts and without any attempt to contribute to regional development through promoting local produce, their interest seemed only to be collecting funds. The Ministry of Internal Affairs and Communications applied restrictions to this practice.

The other was the commission rate for providing the Hometown Tax platform. This has had a positive effect. In the case of TRUSTBANK (Furusato Choice), the original commission rate was set at 2%, whereas competing firms were charging anywhere from 9% to 12%. Judging from the competitive conditions, the company considered it entirely feasible to increase its commission rate while incorporating enhancements to its services. TRUSTBANK manages a platform for Hometown Tax called Furusato Choice. Platform management is a fixed-cost business, and higher sales lead directly to increases in profit, so profitability improves dramatically.

New-IT presents new potential in the Publitech segment. TRUSTBANK has dealings with over 1,500 local governments, and these local governments across the country are spending 600 billion yen on existing IT systems. These legacy systems were developed individually by each local government, and the development was undertaken by major IT firms such as Fujitsu and NEC.

The company's aim is to break down this stronghold and accelerate efficiency improvements. By utilizing new IT, AI and RPA, and by developing a system that serves as a common platform for local governments, President Fukudome estimates that the current cost of 600 billion yen could be reduced to 300 billion. This is where the opportunity lies for Change.

In addition, in order to stimulate local economies, the company must attempt to promote regional co-creation by activating the regional eco-system. For example, in addition to Furusato Choice, it could be applied to Meibutsu Choice as well. Here, the company will make use of the municipal points system. It is essential that currency is circulated within the region, so the company will invite visitors from abroad, and ensure that digital settlement is available. These are some of the areas where New-IT can be put into action, and the scenario is a highly achievable one.

TRUSTBANK's PMI success—Contribution rate of equity-profits also increasing

This January, TRUSTBANK underwent a structural reform. Ms. Tamae Sunaga (former Representative Director) assumed the position of Chairperson and Founder, and Mr. Kenichi Kawamura assumed the position of Representative Director. The post-merger integration of TRUSTBANK is proceeding smoothly. As a core company in charge of the Publitech business, the next step will be to expand the New-IT business aimed at local governments, which has been the original objective of the business expansion, by leveraging its base network developed through Furusato Choice.

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The only thing missing from TRUSTBANK has been the engineers needed for system development. This is where the company's strengths lie. The company plans to develop a Cloud-based system for local governments and promote shared use it. President Fukudome, CFO Yamada and other three individuals responsible for the public-sector business have transferred from the main organization to join the team, and are collaborating to manage the overall initiative.

TRUSTBANK will set up an office in Estonia. The company is paying close attention to Estonia, which is at the leading edge of electronic government. TRUSTBANK's LoGo Chat utilizes STNet set up in Powerico's data center in Kagawa Prefecture.

TRUSTBANK's management

The main organizations of Change and TRUSTBANK have so far been managed separately. However, TRUSTBANK has changed its course from its original Hometown Tax business to a broader Publitech business, and significant growth is expected from Publitech business, even when excluding the Hometown Tax business. Enhancement of group management and increasing the management team's breadth will be further pursued.

TRUSTBANK's vision is to "make the region independent and sustainable." The logic is to deliver people, goods, money, and information to the local community, and to recirculate them within the community means bringing the community closer to a state in which it is independent and sustainable.

The Hometown Tax business is not simply about collecting donations that are equivalent to tax payment in return for reciprocal gifts. It focuses on (1) Furusato Choice, and is being expanded to (2) government crowdfunding with a clear intent for the use of collected donations, and (3) disaster-relief activities utilizing the Hometown Tax Payment Program. This is also in the interest of developing independent regions.

Also, in addition to the Hometown Tax business, the company is engaged in: 1) "Meibutsu Choice," in which points issued by local governments are accepted for payments (e-commerce); 2) "Local Currency Business," where funds are circulated through the region; 3) Publitech Business (LoGo Chat), which elevates the added value of services offered to local residents by aiding productivity improvements in the local government; 4) "Energy Business" (Enecho), which promotes local production and local consumption of energy; and 5) "Corporate-Version Hometown Tax," which matches local governments with companies. Further expansion of community currency and local production and local consumption of energy appear particularly promising.

4. Mid-term business plan: Immediate response to the coronavirus pandemic—aiming to secure a leading position in Japan's DX market

Impact of the novel coronavirus

In terms of the impact of the novel coronavirus, 1) as an upside, the company observed significant growth in its Publitech business sector due to support offered to regional economies to deal with the

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pandemic. 2) On the downside, collective training sessions were either cancelled or postponed, which resulted in a decline in performance of the education business aimed at digital professionals. Currently, these training sessions have been taken online and the business is showing signs of recovery. 3) In addition, stark cutbacks in spending on DX investments were observed in transportation, retail and manufacturing. Here again, the company is reviewing its client list by shifting towards the public sector, finance and telecommunications. In total, the upside impact was overwhelmingly greater, so the company continues to extend its record of high profits.

The company recognized the risk of the coronavirus pandemic, and took action immediately to transition to a new mode. This kind of swift shift in strategy is in the company's DNA. All employees of the company have switched to working out of their homes since the end of March, but as the company had already completed the development of a system to accommodate this change, there were no obstacles at all to making this adjustment.

President Fukudome views the coronavirus pandemic as bringing on an irreversible structural change to society, people's daily lives, and businesses. Hence, the company changed course to: 1) emphasizing stability of corporate finances, refrained from M&A activities and accumulated cash; 2) shifting to a structure to deliver services from remote locations; and 3) capturing the government and local government markets by re-evaluating the company's portfolio of clients and products.

Specifically speaking, the company demonstrated the following actions: (1) it successively won contracts for online training session projects delivered remotely; (2) expanded LoGo Chat and LoGo Form in the Publitech sector; and (3) temporarily suspended large-scale M&A deals in March. The company is now back to re-evaluating M&A deals.

In terms of private enterprises, the national government, and municipalities, the following projects are rapidly increasing in number: (1) development of suitable environments for working from remote locations; and (2) digital learning at home. These areas have always been the company's forte, so it was able to respond to these needs immediately. In addition, TRUSTBANK's Furusato Choice boosted its reputation through its genuine initiatives to collect donations for supporting actions to address the coronavirus pandemic, adding to its foundation to further grow the Publitech business segment.

Future business strategy

Taking the coronavirus pandemic as an opportunity, the company reexamined its future business strategy. The company changed the strategic policy of its mid-term business plan and prepared to achieve its growth curve ahead of schedule, and the company is in fact increasing its chances of achieving this goal.

There are three implementation strategies. The first is to ensure that the workstyle adapted to the new life with the coronavirus is properly linked to productivity improvement. For many listed companies and local governments, working from home and remote locations as an emergency measure is not accompanied by the appropriate IT environment for work, so in many cases, productivity has been sacrificed. This will not lead to any improvement of the current situation.

The second is to flexibly reshuffle strategic initiatives. The company will shift its focus from retail, transportation and global manufacturing companies, whose businesses have taken a hit from the coronavirus pandemic, to businesses related to the public sector, such as the national government and local governments. Services extended to public and private sectors have been reformulated to address needs, such as (1) digitization of human development services and (2) telework support packages.

The third is to concentrate resources in TRUSTBANK, whose Publitech business is entering a phase of rapid growth. Assignment of workers from Change's main organization to TRUSTBANK has been increased, and hiring of experienced professionals and sourcing from outside the organization has been significantly boosted.

Digital transformation (DX) of the environment for remote working

Regarding digital transformation of the environment for remote working, based on awareness gained during the pandemic's first wave, the company has completed preparations to deliver an ideal environment for the second wave in a one-stop manner.

During the first wave of the pandemic, the following challenges were recognized: 1) existence of work that cannot be executed remotely; 2) deployment of terminals; 3) insufficient security; and 4) access speed.

As a lineup of products offered in preparation for the second wave of the pandemic, the company offered: (1) enhancement of user interaction through a combination of Box, Zoom, and direct; (2) secure remote access through a combination of Blackberry and Awingu; (3) protection of digital copyright with Workspace; and (4) contactless service and a complete support package.

In addition, the company initiated a data analysis service aimed at measuring productivity in remote working environments. According to a survey conducted by Tokyo Shoko Research, while the remote work-style has been adopted by 56% of the 18,000 companies nationwide and 83% of large-scale enterprises, how they can appraise worker output remains an issue.

The company applied its big-data analysis service, which already has a solid track record, to remote working, and began delivering the service to the telecommunications industry. The company will apply its productivity evaluation service, which had, until then, been aimed at brick-and-mortar businesses in the retail industry, to remote working in other industries. The company will visualize work carried out by each individual worker by applying its expertise to measuring achievements and evaluating productivity.

Investigation into the actual situation of IT professionals

Change compiled a report, "Investigation into the Actual Situation of Enterprises and IT Professionals to Prepare for Promoting DX," consigned by the Information-Technology Promotion Agency (IPA) of Japan. One characteristic uncovered was the lack of skill of IT professionals. The company also identified a trend among IT professionals that they have nowhere to apply newly acquired skills to practice them, and their aspiration to seek another position leveraging their IT expertise is low. Even if a company is engaged in initiatives for digital transformation, a gap exists

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in the sense of impending crisis and vision for the next 10 years among the leadership, and in any case there are not enough IT professionals to handle them. Although it goes without saying for new professionals, even veteran IT professionals are increasingly in need of retraining. That is, the need for training and development in this field is extremely strong.

Transitioning from convergence to online—Training business for digital professionals

Last September, the company began providing a new service, "Comprehensive Human Resource Development Package for Professionals in Digital Technology," catering to human resource development. The program entails e-learning to develop and train professionals in each enterprise, and to enhance the digital literacy of all employees in a company by categorizing employees into four classes, from basic skills to real-life application. Each employee has the opportunity to take a training program matched to his/her own capabilities. The training programs are separated into management level, enterprise field level, and IT-systems department level.

In addition, starting in November, the company commenced delivery of "Digiteli," a membership-only digital transformation assistance program. "Digiteli" is a name created by the company, which is a hybrid phrase combining "digital" and "intelligence." The program comprises four subjects: "e-learning," "DX Seminar and AI Application Workshop," "DX Concierge Service," and "Open Innovation Community." This program is also available as a monthly subscription service.

In the development of digital professionals, there is a rapid transition from group training to online training. As such, the company is upgrading its library of e-learning contents with titles such as "Basics of 5G for First-Time Learners" and "Consulting Package for Developing Digital Transformation Professionals."

Providing solutions for shifting group training sessions to completely online sessions

A majority of group training sessions held by enterprises have until recently been carried out in three-C (closed spaces, crowded places, close-contact settings) environments. The training and development program service for enterprises is a market that exceeds 500 billion yen in transaction value, of which an estimated 300 billion yen is spent on group training programs. The company has been providing e-learning content for training and development of digital professionals for free as a way to cope with the novel coronavirus pandemic.

Based on this experience, the company will offer comprehensive services to support the shift from group training to online training. It will provide assistance from selecting appropriate IT tools, procurement (storage, video, chat), curriculum building, to anchoring support. The services will be tailored to those responsible for training and development in enterprises and for firms that specialize in training and development.

Integrated package for starting work-at-home

Recently, there has been an upswing in the number of companies that are in a rush to deploy a system for remote working. The company has been developing platforms for remote working that have

been delivered to large-scale companies through leading numerous mobile environment implementation projects. In order to effectively introduce a new workstyle, the following three components will become necessary: (1) technical line infrastructure; (2) personnel development, and (3) preparation of in-house rules.

Our "Integrated Package for Starting Work-at-Home" delves into the following tasks to deliver a service that lifts productivity: 1) support in applying for subsidies through collaboration with social insurance and labor consultant offices and in developing in-house rules; 2) upgrading the internal communication infrastructure to the latest technology; and 3) employee training and development.

Contactless deployment of PCs: "Zero touch kitting"

The company proposed deployment of work terminals (PCs, tablets, smart phones) for remote working in a completely contactless manner and executed the distribution. The service entails smooth kitting of work terminals without involving human hands. By utilizing Jamf Pro, which manages Apple devices in an integrated manner, the company was able to activate devices delivered directly to the homes of newly hired employees. Deployment was completed in a fully remote way.

Launch of the LoGo series, tailor-made for local governments

The LoGo Series, tailor-made for use by local governments, first began with trial use of LoGo Chat in September of last year, and the company began offering the mobile app in January. The system allows communication within local governments, conventionally carried out on paper and by telephone, through chats on a mobile app.

The second stage, LoGo Form, began in March. LoGo Form is a tool for developing online forms, specifically for use by local governments, that sits on a network dedicated to local governments (LGWAN). It enables easy composition and compiling of questionnaires and application forms used by local governments.

For example, should a local government wish to create and execute a questionnaire for the purpose of setting a policy, LoGo Form allows staff working for the local government to put together the form on his/her own, and even analyze the collected data.

Effectiveness of LoGo Chat and for-fee usage

In April, the company had 261 contracts and 157,000 licenses for LoGo Chat. As the coronavirus pandemic progressed, by July the numbers had blossomed to 446 contracts and 240,000 licenses. Right now, the focus is not on increasing the number of contracts, but on how the company can enhance the users' experience.

LoGo Chat is Japan's first business chat tool for the exclusive use of local governments that runs on the integrated administrative network for local governments (LGWAN), and it has been delivering the following benefits: 1) improving information sharing among agencies and departments; 2) speeding up decision-making processes; 3) aiding development of a community connecting local governments

across the country; and 4) promoting close collaboration among businesses in the region. The effectiveness of LoGo Chat as a tool to cope with the coronavirus pandemic is being recognized.

According to a survey conducted by TRUSTBANK in June, the following results were obtained through a questionnaire sent to 1,300 individuals working in local governments: (1) work reduction in the order of 25 minutes per person per day, which is equal to 98 hours a year; (2) 20% reduction in the time consumed to prepare reports and adjust schedules; (3) reduction in paper use in the order of 480 sheets per person per year (equating to approximately 4,000 yen).

In fact, the mayor of Izumiotsu City (Osaka Prefecture) issued an order for all employees to accelerate their ability to work remotely, and by implementing a remote working environment using LoGo Chat, they were able to complete the set up in a week.

Fukaya City (Saitama Prefecture) conducted a proof-of-concept test in April, and as a result, they recognized a prominent time-saving opportunity through improved communication among the staff. It became evident that time and costs (labor costs) could be reduced through more efficiently adjusting schedules, responding to telephone and e-mail inquiries, and preparing materials for meetings. The company sees an opportunity to expand this system to all 1,560 local governments across the country and among 920,000 staff working for these offices.

LoGo Chat is about to clear the so-called chasm (a level that must be cleared to gain the leadership position in the industry) as it is referred to in the realm of venture business. Since it is a subscription-based business model, if the company were to set future fees at 400 yen per month per account, with 250,000 accounts, it should be able to generate annual revenue in excess of one billion yen. The company plans to begin charging for this service in April of 2021.

Utilizing LoGo Form

LoGo Form became available in March, and by August, it had been adopted by 71 local governments. In putting LoGo Form into action in August, Kaga City in Ishikawa Prefecture, for the first time in Japan, commenced electronic application services without the requirement for personal seals. This system does not rely on real life face-to-face meetings, paper, or personal seals, and utilizes individual identification provided via the Individual Number Card, enabling the user to complete administrative procedures completely online. Also, administrative services can be requested via smart phones, at any time, and from any location. LoGo Form is worth commending as an electronic application system.

Hamamatsu City implemented the system to enhance the efficiency of preparing data for deposits of the 100,000-yen benefit to residents. The system enables the office staff to easily create a web-based form on his/her own without any advanced IT skills, using a single control screen.

The early application for the 100,000-yen benefit was a special measure put in place to allow those who were in particularly dire straits and required payment of the benefit as quickly as possible. Data had to be re-entered from a handwritten application form, but by managing this process using LoGo Form, the following processes needed for preparing data to deposit benefits were integrated into a single procedure, namely: (1) automated calculation of the amount of benefit to be paid; (2) prevention

of double payments; and (3) input control overseen by the Federation of Bankers' Association. This was implemented in only four days, and the system has also significantly reduced errors.

Coordination among LoGo Form and Digital ID—Leveraging Estonia's know-how

TRUSTBANK and blockhive concluded a business partnership in May. Combining TRUSTBANK's LoGo Form and digital ID application "xID," developed by blockhive, has enabled staff of local government offices to swiftly and effortlessly prepare administrative application forms, which can now be completed entirely online without going to the office or using paper or personal seals.

blockhive is a Japanese company, but it delivers solutions related to digital ID and blockchain, leveraging its experience and expertise gained in Estonia, where 99% of all administrative applications are completed online. blockhive is already working with Kaga City in Ishikawa Prefecture to shift administrative services online.

Digital community currency platform service: "chiica"

TRUSTBANK's digital community currency platform service, "chiica," developed for local governments, was adopted by Fukaya City in Saitama Prefecture as part of a project to support families with children. It has been operating since August. The local government will issue 5,000 negi (negi is the unit of the community currency) for each child, which is equivalent to 5,000 yen. A negi card is issued to benefit families, and it can be used for payments at retail stores in the city that are taking part in the program. It is part of aid in response to the coronavirus pandemic. Compared to vouchers issued in paper, the required cost to realize this system is reduced by 60%.

Towards realizing Japan's policy for Society 5.0—Aiming for dead center

"Society 5.0" refers to the growth frontier that takes after (1) the hunter-gatherer society; (2) the agrarian society; (3) the industrial society; and (4) the information society. In Society 5.0, various kinds of leading-edge technology from the fourth industrial revolution, such as IoT, big data, AI, and robots, will be adopted by various industries and all aspects of social life. Through the use of these technological tools, it attempts to deliver services that address the needs of each individual by utilizing innovation (innovative system development) with the aim of solving many of society's problems.

It attempts to address issues faced by seniors, work-style reform, the evolution of supply chains, strengthening of the capabilities of people, reexamination of administrative procedures and regulations, and adoption of fintech. The project emphasizes the following areas: (1) extending healthy life expectancy; (2) realizing the mobility revolution; (3) attaining next-generation supply chains; (4) developing pleasant infrastructure and neighborhoods; (5) advancing fintech; and (6) constructing platforms for data applications.

Labor shortages will be addressed by automation using AI and robots. Convenience will increase, not only in factories, but in offices, cities, and even in households. New types of supply chains will be developed by collecting, analyzing, and leveraging data that had never been put to use before. Also,

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the nature of services in medical and nursing care, agricultural products, tourism, and government administration will be transformed to a significant degree.

Furthermore, policies aimed at leveraging human resources will change in two aspects. The national government's policy will push for an environment that increases the opportunities for women, seniors, people with disabilities, and foreign citizens to take part. Also, in the civilian sector, the nature of human resources required by both large corporations and SMEs will change, so they must equip themselves with an attractive working style to attract talented workers. In both sectors, development of people is imperative.

Grasping the business environment—Development of People × New-IT

The government has successively announced new policies and is preparing to accelerate the following initiatives: (1) Society 5.0; (2) an action plan for work-style reform; (3) an action plan for digital government; and (4) a cashless vision.

This is where the government's vision coincides with Change's mission. In other words, the company will unfold its business with the aim of improving labor productivity.

Productivity Improvement = People × Technology = Human Resource Development × New IT

Labor shortages will be compensated by automation, and people will take on new tasks. It will also be crucial to develop new workers who will be required in new industries.

Investment in the field of New-IT is brisk, and here, three areas are noteworthy. First, the trend of digital transformation (DX) is gaining momentum in all industries. Second, investment in IT in the Line of Business (LOB) is expanding anew. Third, for work-style reform to succeed, new ways to apply IT to enhance productivity are becoming imperative. These are all directly tied to expansion of the company's business.

The market for New-IT transformation

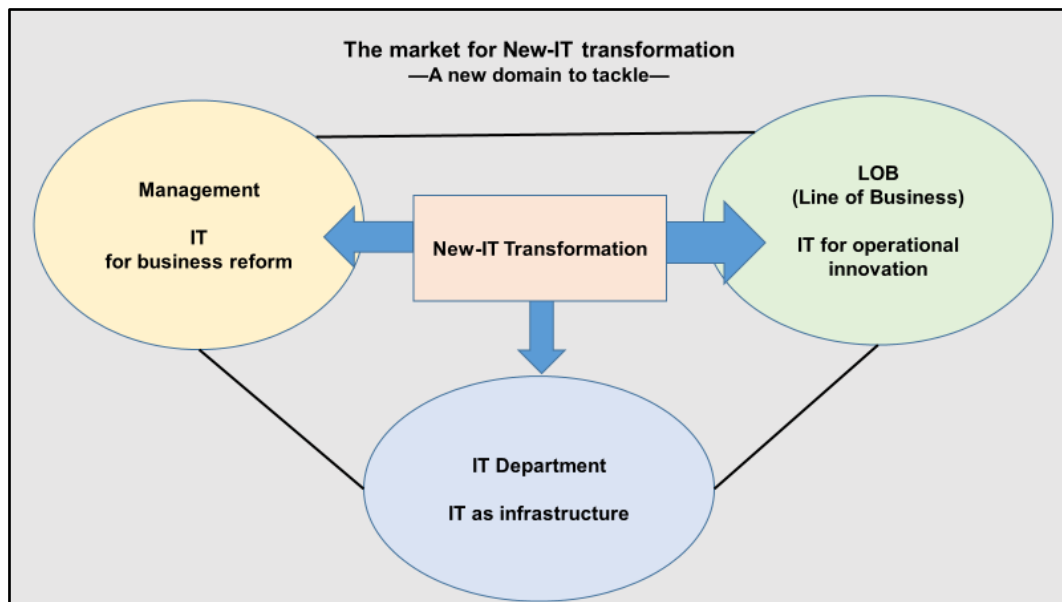
There are three areas where the company will engage in New-IT transformation. The first is IT for creating business models at the management level. The second is IT for work reforms at the Line-of-Business (LOB) level. And the third is IT as conventional infrastructure, managed by the IT department.

The market size of IT as infrastructure amounts to some 14 trillion yen, but this is likely to be replaced by New-IT. On the other end, the Line of Business is precisely where work is carried out, and IT will facilitate the development of new business in this field, such as manufacturing, sales, and marketing. IT will also be used to advance innovations in business models.

The company will get involved at the management level, with Line of Business as its main target. And when necessary, its strategy is to collaborate with major System Integrators (SI) to engage with businesses at the IT infrastructure level.

In that light, the company will not compete with major SI firms, but work together with them to develop new markets. In this sense, Change is their partner. The company will leverage technology

and expertise that the major companies do not possess to develop new markets and lead them towards such markets.



Long-term vision—Digitize & Digitalize Japan

Considering the mid-term three-year plan as a single phase, the total span of the company's long-term vision consists of 15 years. The concept is to "become the central player in creating a digital age for Japan."

This concept is called "**Digitize & Digitalize Japan.**" During this 15-year vision—comprising five three-year phases—the company aims to establish a leadership position in Japan's DX market.

During the first phase, the three-year mid-term plan, the company will aim to expand its current roster, which consists of three business segments (New-IT Transformation Business, Investment Business, Publitech Business).

The company will aim to achieve the following financial targets by the end of the fiscal term ending September 2022, three years from now: sales of 19 billion yen (2.7 times that of the term ending September 2019), an operating profit of 4.7 billion yen (4.3 times that of the term ending September 2019), and an employee count of 250 (2.0 times that of the term ending September 2019).

KPIs for Change's main business will be measured by "client count x sales per client" and "employee count x sales per employee." TRUSTBANK's KPI will be "transaction value x commission rate."

The New-IT Transformation Business will measure growth with an index of "client count x per client sales." Achievements of the term ending September 2019, which are a client count of 249 companies × 13.4 million yen (per client transaction value) will be increased to 360 companies × 18.4 million yen by the end of the fiscal term ending September 2021. During this period, the "employee count and sales per head count" will be increased from 123 employees × 27.2 million yen for the fiscal

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term ending September 2019 to 250 employees × 26.5 million yen by the end of the term ending September 2022.

Main points of the mid-term business plan

Concept	Digitize & Digitalize Japan (Phase 1)		
Long-term goal	Establish a leadership position in Japan's digital transformation (DX) market within 15 years, comprising five three-year phases		
Strategy	1. Client Acquisition Strategy	- Expansion of Flagship Model - Partnership with existing Sler - Short-term conquest of industry through M&As	
	2. Average Earnings per Client Strategy	- Increase in average earnings through cross-selling - Direct proposals delivered to various departments	
	3. Strengthening of Existing	- Service enhancement, high value-add - Increase in transaction value	
	4. Creation of New Business	- <i>Meibutsu Choice</i> - Community points	
KPI		(Term ending Sept. 2019)	(Term ending Sept. 2022)
	(1) Client count x Average earnings per client	249 clients x 13.4 million yen	→ 360 clients x 18.4 million yen
	(2) Employee count x Sales per employee	123 employees x 27.2 million yen	→ 250 employees x 26.5 million yen
	(3) Transaction value x Take rate	150 billion yen x 2% to 3%	→ 200 billion yen x 4% to 5%

Financial goals of mid-term three-year plan

	(million yen, %)				
	Sept. 2018 (non-consolidated)	Sept. 2019 (consolidated)	Sept. 2020 (plan) (consolidated)	Sept. 2021 (plan) (consolidated)	Sept. 2022 (plan) (consolidated)
Sales	2064	7054	9352	14639	18986
Operating profit	513 (19.7)	1081 (19.3)	1300 (13.9)	3400 (23.2)	4700 (24.8)
Ordinary profit	513	959	1281		
Current net profit	343	562			
Profit attributable to parent company	343	378	520		

(Note) Figures in brackets are the ratios of operating profit to sales

The market share of Furusato Choice dipped below 40% at one point due to the company's decision not to pursue last-minute surges in demand just before the new regulation went into effect, but has since recovered to above 40%. The company's take rate (commission fee) had remained at 2% to date, while the industry average ranges from 9% to 12%. The company later raised its take rate to 3%, but this will be further increased to 4% and then 5% commensurate with its high value add service.

The company will adopt the following strategies in order to achieve its mid-term plan: (1) acquire clients through the Flagship Model Strategy; (2) acquire clients through collaboration with existing SI firms; (3) acquire clients through M&A; (4) increase the sales amount per client through cross-selling; (5) boost the sales amount per client through direct proposals to various departments within clients; (6) enhance the added value per service and improve the take rate; and (7) shift transaction value from "things" to "experience."

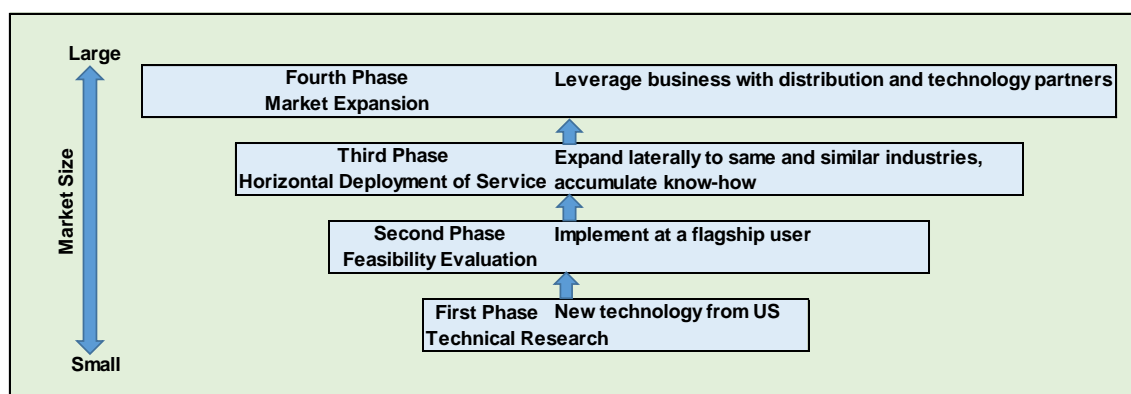
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Contents not yet included in the mid-term plan are: (1) digitization of local governments in the Publitech Segment; and (2) support for expanding sub-regional cooperation by utilizing community currencies. The company believes it is plausible for Furusato Choice to increase its current transaction value of 200 billion yen to 300 billion yen in the future.

Marketing strategy for new technology

At Change, the company considers the marketing phase of new technology to have four stages. 1) Stage 1 (Technology Research)—The technology will be researched in-house and application will be evaluated sequentially. 2) Stage 2 (Feasibility Study)—The technology will be implemented at a single Flagship User, and a pilot project will be carried out to determine the technology's feasibility. 3) Stage 3 (Horizontal Deployment of the Service)—Based on the preceding example, the service will be deployed horizontally within the same industry and similar industries to accumulate know-how. 4) Stage 4 (Market Expansion)—The business will be expanded with full force in conjunction with distribution and technical partners.

Phases of marketing new technology promoted by Change



Partnership strategy and implementation of IT technology

To implement IT technology, the company has adopted Gartner's technology appraisal method, adopting promising technologies that have not yet made landfall in Japan. US firms may advance into Asia, beginning with Singapore and Hong Kong, but their reach into Japan is not particularly swift. A language barrier exists in Japan and the speed of business is slow, so the company recognizes space for it to skillfully act as a broker.

In the company's partnership strategy, it intentionally endeavors to adopt new IT products and make efficient use of them. In fact, Hyper Converged Infrastructure, developed by the US's SimpliVity, is one of these promising products. This was incorporated into the library. Previously, a system could be constructed by merely connecting numerous IT devices, but in this new approach, the IT infrastructure is constructed through hyper convergence of various functions. It is already being put into practice in

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the US, but is yet to arrive in Japan. Systems with economical, fast, and highly scalable features will be leveraged in future business.

IPO acceleration program—Tie-up with beBit, Inc.

During the third quarter of the fiscal term ending September 2020, the company invested in beBit Inc., a UX design consulting firm. BeBit has demonstrated outstanding business results domestically and abroad in user experience (UX) consulting. In the accelerating digital transformation, the key for success is not only the products or services a company offers, but also its experience.

It has been offering similar consulting services in Japan, Shanghai, and Taiwan, and is now delivering full-scale platform services to major corporations in Japan. Financing of the current project will serve to lead the development of the industrial growth platform, but Change's President Fukudome and beBit's President Endo had known each other for twenty years, which led to the decision to form a partnership.

Investment business—IPO acceleration program

Investment	Investment period	Business	Aim	Post-investment
Phone Appli	Apr. 2017	Cloud web, telephone directory app	Pooled marketing	Sold to NTT Communications in Aug. 2018
GA technologies	Dec. 2017	AI real estate technology	AI synergy	Listed on Mothers in July 2018 Sold in Q2 of the term ending Sept. 2019
Headwaters	Apr. 2018	AI for robots	Pooled marketing	In possession
Voistart	Jul. 2018	AI speaker service for seniors	Regional revitalization business	In possession
AI CROSS	Jul. 2018	AI business chat	Promotion of Publitech	Listed on Mothers in Oct. 2019, in possession
Shikigaku	Sept. 2018	Organization management	Pooled marketing	Listed on Mothers in Q2 2019 Sold in Q4 2019
GAUSS	Jul. 2019	General-purpose engine for AI forecasting	Development of AI market for corporate clients	In possession
Aeronext	Aug. 2019	Drone architecture	Promotion of industrial drones	In possession
beBit	Jun. 2019	UX (user experience) Design	DX synergy	In possession

Change's business is in consulting services for New-IT transformation (so-called 'DX') catering to major corporations, but it was determined that forming a business partnership with beBit would enhance its superiority in terms of user experience. Should beBit go public in the future, capital gains may be expected, but the company's primary objective is the benefit its main business will gain from the partnership.

In the IPO Acceleration Program, the company will provide capital and new business opportunities to start-up companies about to go public, and provide support for new IT-related technical services. For the company's counterpart, much is to be gained through increases in business opportunities post-IPO. Change will also grow its client base in the New-IT field and benefit from capital gains in return for its services.

As the first case in this area, the company entered a business partnership with Phone Appli, Inc. Phone Appli possesses strength in the area of web-based directories, and this is where Change will

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invest and provide support to expanding Phone Appli's business. Phone Appli, which the company invested in as part of its IPO support program, holds the leading position in the domestic market for web-based directory applications, and focuses on development and sales of unified communication solutions. The company sold off this firm. Capital gains from sales of operating investment securities contributed to the company's business results during the fiscal term ending September 2018.

The second case was the company's investment in GA Technologies, whose business is in developing and operating renovation assistance apps that utilize real-estate-related AI, and development and operation of apps for investing in real estate. Targets of the IPO Acceleration Program specialize in enterprise IT. The company will be able to determine the target's growth prospective by leveraging its assessment capability, and sufficiently gauge the level of synergy is likely to be achieved. This company was also sold off in the second quarter of the fiscal term ending September 2019.

The company also invested in Headwaters Co., Ltd., which develops applications for humanoid robots. Headwaters aims to utilize AI speakers in robots that outwardly resemble humans. They are scheduled to go public soon.

As observed in the business partnership entered into with Headwaters, the following results may be observed through the IPO Acceleration Program: 1) various types of information related to start-up companies in the corporate network flow in; 2) from those leads, the company will examine compatibility with its business and ensure that it can provide the proper support for Headwaters; and 3) based on this outcome, the company will make an investment at a level of around 10% of the counterpart's capital. This investing and business development support will be the company's primary business. Change's Articles of Association have already been amended accordingly.

In addition, regarding the fifth case of the company's investment activity, it acquired shares in AI Cross (formerly AOS Mobile). AI Cross develops an AI-based business chat solution called "In Circle," and an SMS solution for smartphones, "AOSSMS," for enterprises. It also offers B-to-B mobile communication solutions. There is a shift to apply these tools to deliver solutions to local governments.

The sixth case, Shikigaku Co., Ltd., was listed on the TSE Mothers market in February. This is the company's second investment that has gone public. In association with Shikigaku, Change began offering data analysis services to visualize employee productivity.

The company holds its strength in large corporations, while Shikigaku has marketing reach extending into mid-scale corporations. In retail and eat-outing business, how can employers measure the productivity of each individual part-time worker? How can those measurements be leveraged in people management and evaluation processes?

Here, the company analyzes various data as part of big data to identify KPIs related to productivity. The company will oversee consulting services in this area. It will accumulate know-how in this field and Shikigaku will leverage its application in its own business. Shikigaku was sold off during the fourth quarter of the fiscal term ending September 2019.

In July of last year, the company invested in GAUSS. The deal entailed owning few percent of the company, worth a few tens of millions of yen. GAUSS's strength is in its unique AI algorithm (machine learning, deep learning), and develops forecasting systems using AI. Through Change's association with GAUSS, it aims to develop application precedents in the areas of forecasting, image recognition, natural-language processing, and speech analysis.

With the objective of achieving full-scale social use of industrial drones, the company is conducting numerous experimental studies of productivity enhancements using drones. What kind of technology is important in this field? The company will develop general infrastructure related to safety standards and maintenance criteria, and it aims to become a core figure in this field.

Change executed its eighth investment in Aeronext, Inc., with whom it formed a business partnership. With the aim of realizing applications for next-generation drones, the company will provide full support to Aeronext, which develops drone service platforms for "Drone as a Service (DaaS)" business.

Aeronext's unique technology to control center of gravity, "4D GRAVITY®," is revolutionary, and its wide range of applications extends to 360-degree VR filming, horizontal transport, pinpoint landing, and use of drones for making deliveries. Aeronext also has an office in Shenzhen, China. The company will support the use of these drones in ways that correspond to the nature of business, such as facility and equipment inspections, topography surveys, and inventory management.

In addition, the application of drones began in Hirado City, Nagasaki Prefecture as a solution to regional problems such as in the fields of fishery, tourism, and education. Monitoring of poaching by fishing vessels, tourism, start-up of new schools may be a start.

Development of know-how as business gains momentum - XR activities

XR is the collective name of technologies such as VR, augmented reality (AR), and mixed reality (MR). The company launched a service to attract visitors from abroad to tourist sites using XR technology. Up until then, the company had been involved in individual services on a project basis, but it has now commenced a service applying IT that enables general use by any community, enterprise, or government office. This is another example of the general application of an application precedent.

- Field of developmental learning for human resource development

Change leads in the field of developmental learning for data scientists, and the company is planning to introduce its own qualification program in this area to promote human resource development. In addition to the Change Data Scientist Basic (CDSB) qualification, the accreditation Change Data Scientist Advance (CDSA) has been created as a more advanced level of certification. It is through such qualification programs that the company aims to elevate the recognition of developmental learning.

In addition, the company began providing "RETOMO," a flat-rate learning program. Learning digital technology skills is not only crucial in IT system departments, but also in all kinds of fields. This is due to the digital transformation underway in the workplace. In light of this situation, the

company launched a flat-rate learning service through which subscribers can view as much content on digital technology as they wish, and learn online on their own.

RETOMO is the hybrid term of *rex* (from the dinosaur, *Tyrannosaurus rex*) to *mouse*, expressing the ambition to survive through extreme changes in the environment and eventually prosper.

- BOX Best Solution

The company has led the industry in applying BOX through its services. The company aligned the service for a wide application of use. BOX enables users to share business document files for collaboration over the Cloud. Cloud content management through using of BOX greatly increases productivity, but its rate of usage is still relatively low in Japanese enterprises. BOX provides fast centralized content control customized to each client.

In the rollout of the BOX Best Solution, "*Manyuaru Sagasukun*" was released first in November 2019, "*Joho Matomekun*" second in January 2020, and "*Tenken Susumukun*" is currently under preparation, to be published as its third release.

"*Manyuaru Sagasukun* for BOX" was the first release of the BOX Best Solution series, and it serves as a ledger management solution that quickly solves problems faced in the workplace. When a problem arises with any of the equipment at a worksite, one can find out who and where to contact, as well as where the manual is, etc. by scanning the QR code attached to the equipment with a special purpose app. This enables anyone to deal with the issue. Maintenance of information is synchronized with the Excel ledger stored in the BOX, so updating is also simple. The service will be made available on a monthly-fee basis.

"*Joho Matomekun*" automatically transcribes and informs the user of any failures to sort or transcribe e-mails, and compiles the information in an Excel registry file stored within a folder in the BOX. Everything can be managed by accessing this site. The service will also be offered on a monthly-fee basis.

- BYOD security diagnostic service

Taking a look around, we see that there are large numbers of people who use their personal digital assistants (smartphones, tablets, PCs) to carry out part of their work. Some organizations prohibit this act and issue devices exclusively for work, but it is cumbersome to segregate personal and work devices at home and at work. Yet it is crucial to maintain data security.

BYOD (Bring Your Own Device) attempts to make effective use of these personal devices, which are already being used without permission, for work by managing them appropriately. With the progress of Publitech in national and local government offices, security risks due to use of these devices will be diagnosed to determine necessary future steps.

- Development partnership agreement concluded with symphony communication services in the Fintech Arena

The company entered a partnership with Symphony Communication Services of the US. Symphony Communication Services offers "Symphony," a collaboration platform for the financial sector that has been adopted by more than 400 major financial organizations within and outside the US. Symphony has been adopted as a chat application for business use within financial organizations, which require

high levels of security and compliance. Change will propose chat bot-style communications to financial institutions in Japan, with Symphony serving as the platform. The system that allows conversations to take place while ensuring confidentiality of insider and critical information is certain to prove effective.

- Promoting productivity improvement by first-line workers

Change is in a cooperative partnership with Microsoft Japan. As opposed to "office workers," Microsoft addresses workers on the front line as "first-line workers" and is aiming to deliver various products to these first-line workers. Microsoft realized that Change has expertise in worksite IT, recognized the need to collaborate in satisfying the needs of first-line workers, and as a result, called on Change in order to tap into company's strength in consulting services.

Market scale of the Hometown Tax Payment Program

In fiscal 2019 (from April 2019 to March 2020), the total amount of donations collected through the Hometown Tax Payment Program reached 487.5 billion yen (-4.9% vs. the previous fiscal year). Specifically, there were 23,345 donations (+0.5% vs. the previous fiscal year) received. This decrease was due to the restraint and confusion concerning the program prior to policy reform (June 2019) of the Hometown Tax Payment Program.

Examples of local governments that were excluded from the program due to the rules that took effect in June 2019 include: Izumisano City, Osaka Prefecture (total tax collected in 2018, 28.7 billion yen, 2.7 times that of the previous year), Oyama Town, Shizuoka Prefecture (similarly, 10.6 billion yen, 4.4 times that of the previous year), Koya Town, Wakayama Prefecture (similarly, 8.5 billion yen, 4.6 times that of the previous year), and Miyaki Town, Saga Prefecture (similarly, 13.9 billion yen, +30% that of the previous year).

The value of return gifts was limited to less than 30% of the donated amount and to local produce, but during fiscal 2018, 111.2 billion yen's worth of donations did not satisfy this requirement. This amounted to 20% of the total donations collected, and it was concentrated in a certain number of local governments. In fiscal 2020, donations continue to be collected at a brisk pace under the new rules, so the total donated amount is expected to increase at double-digit rate, although collections during the period from October to December will prove critical.

Content of the donations—Incorporating social contributions

A significant amount of Hometown Tax donations was collected through the Furusato Choice website to aid disaster-stricken areas affected by the July torrential rains. The site also served to collect "delegated donations" by local governments other than those of the disaster-stricken areas. There are no return gifts sent in return for these donations. Of course, TRUSTBANK does not collect any commission on these payments, either. Such activities have taken firm root.

TRUSTBANK also provides a platform for collect coronavirus benefits. The COVID-19 Benefit Donation Action Committee (comprising the Public Resources Foundation, Yahoo, and TRUSTBANK) collected donations through the "COVID-19 Benefit Donation Collection Project,"

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and provides support to select enterprises, organizations, and individuals through these donations. These are entities in the fields of medicine, welfare, children's education, culture, art and sports, as well as small and medium-sized enterprises.

Donations collected through the Hometown Tax Payment Program

(100 million yen, 10,000 cases, 10,000 people)

	Amount of donations received	Donation count	Number of applicants
Mar. 2015	388	191	44
Mar. 2016	1652	726	130
Mar. 2017	2844	1271	227
Mar. 2018	3653	1730	296
Mar. 2019	5127	2322	395
Mar. 2020	4875	2333	406

(Note) Applicants are those applying for resident tax exemption

Perspectives on market size and impact on Change—Furusato Choice

In regard to fiscal 2019, the total amount of donations collected came in below 500 billion yen, but Furusato Choice had distanced itself from ambiguous local governments at an early stage.

For the next three fiscal terms, the total amount of collections per term is expected to exceed 500 billion yen, and should the average commission rate stand at 5% on total collections of 600 billion yen, with a 50% market share, this will result in 15 billion yen of revenue for the company.

The primary original purpose of the Hometown Tax Payment Program has been to lend support to local governments, plus a secondary effect, which is to induce a competitive environment for tax revenue. Excessive return gifts have been regulated, and should portal sites that manage the Hometown Tax Payment Program entice or lure users towards a direction contradictory to the original intent, additional regulations may be enacted to control such sites. As the industry's leading company, TRUSTBANK operates the site with this in mind, and regularly exchanges opinions with authorities.

The company's commission rate has risen from 3% of the first half of the fiscal term ending September 2020 (October to March) to 5% in the second half (April to September). The 3% is an average of various commission rates that have been in place, such as 8%, 5% and 1%, but in April, a uniform commission rate of 5% was implemented. There are local governments whose commission payment rates have gone up, and those that have gone down. The introduction of a 5% uniform commission rate has been accepted without any major issues.

Opportunity lies in the Hometown Tax Payment Program for enterprises

The national government is expected to expand the Hometown Tax Payment Program to private enterprises. While the amount of donations collected during fiscal 2018 reached only 3.4 billion yen, it is the government's intention to strengthen policies that promote regional revitalization by increasing the degree of preferential tax incentives. In this light, the company will examine expanding Furusato

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Choice to also serve as a platform for this Hometown Tax Payment Program for private enterprises. Furthermore, the Publitech Business Segment should be able to develop a business out of this by connecting local governments and private enterprises.

Expansion of the Publitech business—Development of Public Fintech

The Publitech Business is aiming to expand its business to peripheral businesses with the Hometown Tax Payment Program at its core. The company is exploring settlement services for local governments, having begun to provide a service for settlement of public funds, and the revenue from its transactions constitute 7% to 8% of the total revenue of the Publitech Business Segment. This is a service that was launched after acquiring TRUSTBANK. This could be considered as the beginning of public fintech. As part of the initiative, Orb, Inc. was acquired as a subsidiary.

There are many candidates for community currency, and although they may never reach a position to rival the national currency, their usefulness may increase.

For example, there are municipalities where the adoption rate of generic drugs remains low, but we may be able to incentivize their use through via community currencies. The municipalities will foot the cost for the incentive. Currency that can be used within the community, such as points, will be charged to smartphones as an incentive to use it.

In this manner, users will benefit from the incentive, and the municipalities will be able to reduce their medical expenditure through a higher rate of generic drug use. In other words, it helps to reduce the fiscal burden. The company plans to put similar ideas into action in succession, aiming to raise the efficiency of public services via the innovative approach of using fintech.

Acquisition of Orb, Inc.

In February this year, TRUSTBANK acquired Orb, Inc. Orb possesses high-level expertise in blockchain technology. Through applying its unique distributed ledger technology, "Orb DLT," Change will be able to strengthen its settlement solutions that activate communities.

Orb's business results for the fiscal term ending January 2019 comprised sales of 32 million yen, an operating profit of –194 million yen, net assets of 47 million yen, and total assets of 157 million yen. The company possessed impressive technology, but its business performance was not satisfactory. Orb's main stakeholders until then were venture capitalists, but TRUSTBANK invested 150 million yen, increasing its stake in the company to 71.76%. Change's investment in Orb DLT in the fintech industry lay down the groundwork towards its entry into the community currency service. The company will develop systems designed to make it possible to use premium shopping vouchers in various ways at the regional level.

Capital increased through a public offering

In May 2019, when the company executed a public stock offering, its stocks experienced a significant decline for a limited time. Even when dilution of shares was considered, its decline was prominent. A public offering is an effective way to increase capital for a growing company, and a

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narrative towards using those funds for growing the business is important. For Change, that scenario is clear.

Balance sheet

	(million yen, %)			
	Sept. 2017	Sept. 2018	Sept. 2019	Jun. 2020
Current assets	1238	2103	5774	9732
Cash equivalent	978	1055	3814	6796
Accounts receivable	230	478	1526	2426
Operational investment securities	—	500	136	365
Non-current assets	190	165	5101	5230
Property, plant and equipment	49	54	211	201
Intangible assets	45	27	4593	4764
Goodwill	—	—	3318	3214
Investments, others	96	83	296	264
Total assets	1429	2268	10898	14979
Current liabilities	282	493	1574	3613
Accounts payable - trade	52	90	242	109
Short-term borrowings	38	45	392	380
Accounts payable - other	34	55	154	1108
Non-current liabilities	58	118	3055	2989
Long-term borrowings	39	93	2611	2326
Net assets	1088	1655	6267	8375
Interest-bearing liabilities	77	139	3003	2856
Ratio of interest-bearing liabilities	5.4	6.1	27.6	19.1
Capital-to-asset ratio	75.9	72.8	50.9	46.8

On the B/S, money is borrowed immediately following an M&A, and the company's capital-to-asset ratio dipped to 13.9% at the end of the first quarter of the fiscal term ending September 2019, but through the last public offering, it improved to 50.9% by September.

The public offering executed last May entailed issuing 1.6 million shares, amounting to 11.4% of the total outstanding number of shares. The stock was offered at 2,764 yen per share, and the amount of capital raised reached 4.26 billion yen. Net assets at the end of March stood at 2.3 billion yen, so it contributed to boosting the company's equity capital.

Intended applications of the raised capital include: (1) 500 million yen for human resources (labor cost); (2) one billion yen for developing new business (software, R&D); (3) one billion yen for business partnerships; and (4) 1.7 billion yen for repaying debt (M&A).

In addition to this, 450,000 shares were sold by four members of the management team. The purpose was to increase liquidity, but the release of shares by the management team was not looked upon favorably by individual investors.

The shares were sold to institutional investors, both domestic and abroad, but domestic transfers went mostly to individual investors and overseas transfers went to institutional investors. Worthy of note is the fact that more than 40% of overall capital is now owned by overseas investors. This means that the company's foreign stockholding ratio now exceeds 12%.

TRUSTBANK was acquired for 4.8 billion yen. The company borrowed 5.0 billion yen from Mizuho Bank. Thereafter, 4.2 billion yen was raised through a public stock offering. The amount of

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debt as at the end of September 2019 amounted to three billion yen, but with the current pace of repayments, approximately 400 million yen is returned every year. The company has no issues funding this payment with its internal profit.

Cash flow

	Sept. 2017	Sept. 2018	Sept. 2019	(million yen) Sept. 2020 (first half)
Operating cash flow	326	245	-10	3124
Profit after taxes	259	387	340	2526
Depreciation	13	26	221	144
Goodwill			301	181
Trade receivable			399	68
Accounts payable - other			-856	-16
Deposits received			-519	282
Operational investment securities	—	28	63	0
Investment cash flow	-110	-243	-3048	-117
Property, plant and equipment	-11	-17	-192	-10
Intangible assets	-41	-11	-185	-117
Acquisition of subsidiary shares			-2823	-36
Investment securities	-45	-211	0	0
Financing cash flow	10	75	5787	-170
Long-term borrowings	3	61	2740	-202
Issuance of shares	5	15	4256	32
Balance of cash equivalent at end of term	978	1055	3784	6621

Seasonal fluctuation in the Hometown Tax business is clearly evident in the B/S at the end of the first quarter (end of December). Accounts receivable at the end of December 2019 reached 4.836 billion yen (increase of 3.309 billion yen vs. end of September), and deposits on the debt side registered 1.995 billion yen (increase of 1.632 billion yen). By the end of the second quarter (end of March), there has been a significant degree of levelling out.

Transition to the International Financial Reporting Standards (IFRS)

The transition to IFRS began during the fiscal year ending September 2020, and Change expects to complete the transition to IFRS-based accounting during the next term. When IFRS is adopted: 1) goodwill is not amortized, so operating profit increases by the same amount; and 2) investment business is appraised using market valuation (also for unlisted stocks). Securities owned for a short period (operating investment securities) are also appraised based on market valuation, so changes, such as losses, will be reflected on the P/L Statement.

Annual amortization amounts to 460 million (for 10 years) for trademark rights of 950 million yen and goodwill of 3.62 billion yen, all incurred through the acquisition of TRUSTBANK. This will be reflected in operating profits.

While the company is also investing in start-up companies, the objective is the synergies gained through the main business, not simply expansion of business scale. This investment business will be appraised at market value under IFRS, so profits for the business segment will fluctuate every term due to appraised profit or loss. Headwaters Co., Ltd will be going public soon.

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5. Near-term business performance: Uninterrupted pace of rapid growth

Non-consolidated reporting until fiscal term ending September 2018—Record profits continue for seven consecutive terms

The company reported exceptional earnings for the term ending September 2018 with sales of 2.604 billion yen (+31.5% vs. the previous term), operating profit of 513 million yen (+55.0% vs. the previous term), ordinary profit of 513 million yen (+57.7% vs. the previous term), and net profit of 343 million yen (+49.5% vs. the previous term). These favorable outcomes are the result of significant growth arising from the application of speech recognition and AI as well as the development of digital professionals.

The ratio of costs to sales increased slightly to 61.1% (59.8% in the previous term), but the ratio of SGA expenses to sales improved significantly to 19.2% (23.5% in the previous term). Therefore, the ratio of operating profit to sales increased to 19.7% (16.7% in the previous term).

Business performance (Non-consolidated basis)

	(million yen, %)			
	Sept. 2015	Sept. 2016	Sept. 2017	Sept. 2018
Sales	1400	1550	1980	2604
Costs	880	944	1183	1591
Ratio of costs to sales	62.9	60.9	59.8	61.1
Gross profit	519	605	796	1013
Gross profit margin on sales	37.1	39.0	40.2	38.9
SGA expenses	384	418	465	499
Ratio of SGA expenses to sales	27.5	27.0	23.5	19.2
Operating profit	134	186	331	513
Ratio of operating profit to sales	9.6	12.0	16.7	19.7
Ordinary profit	137	175	325	513
Net profit	82	118	229	343

In the New-IT Transformation Business, the following projects exceeded the original plans: (1) advanced development program for AI professionals and data scientists; (2) projects involving the application of AI speakers; and (3) projects related to workstyle reform initiatives. In the Investment Business, the company benefitted from capital gains realized through the sale of Phone Appli during the fourth quarter. On the other hand, costs were incurred in preparing for listing on the TSE First Section, but these were absorbed without any issues.

Breaking down the above sales, AI-, IoT-, and New-IT-related projects and the licensing business comprised 70% of overall sales, with the remaining 30% coming from development programs for IT professionals.

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Earnings by business segment

	(million yen)		
	Sept. 2017 (non-consolidated)	Sept. 2018 (non-consolidated)	Sept. 2019 (consolidated)
New-IT Transformation			
Sales	1980	2447	2742
Profit	—	790	786
Investment Business			
Sales	—	157	450
Profit	—	76	228
Publitech Business			
Sales	—	—	3867
Profit	—	—	875
Adjustment	—	-352	-868
Total			
Sales	1980	2604	7054
Operating profit	331	513	1081

(Note) The profit figures indicate segment profits, while the adjustments applied are for the total company G&A expenses.

The result for term ending Sept. 2019 includes TRUSTBANK's earnings for 10 months

Change will transition to consolidated accounting from the term ending September 2019, with TRUSTBANK contributing 10 months' worth of business

Change reported earnings for the term ending September 2019 that included sales of 7.054 billion yen (2.604 billion yen in the previous term), operating profit of 1.081 billion yen (513 million yen in the previous term), ordinary profit of 959 million yen (513 million yen in the previous term), and net profit of 378 million yen (343 million yen in the previous term). The company began reporting its earnings based on consolidated accounting starting from this fiscal term. Compared to the non-consolidated statement for the preceding term, earnings grew significantly due to the consolidation of TRUSTBANK's earnings. Ten months' worth of TRUSTBANK's sales and operating profits were incorporated.

However, the original plans were not fully achieved, with the company having projected an operating profit of 1.448 billion yen with a net profit of 766 million yen, neither of which were reached. There are the three main reasons for the shortfall.

First, in TRUSTBANK's Hometown Tax business, there were organizations that took action to rake in tax donations before the new rules took effect in June. The company, respecting the program's original purpose, decided not to serve these organizations. As a result of this decision, revenue from the Hometown Tax business fell short by a few hundred million yen.

Second, human resources from the main organization were reassigned to TRUSTBANK to strengthen its Publitech Business, and additional human resources were provided to prepare for the development of the next stage of business. Business in this field requires two years to develop, so conventional business declined accordingly during its first year.

Third, the company estimated that shortfalls resulting from the transfer of human resources to the Publitech Business Segment would be more than covered by business in the main New-IT Segment. However, while the number of projects in high demand in the private sector continued to demonstrate

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robust growth, this growth was not sufficient to make up for the shortfall in the Publitech Business. There were plenty of inquiries regarding the company's services, but there were not enough resources available to take on those opportunities.

In response to the government's intention to restore the Hometown Tax Payment Program to a healthy state, the company was the first to develop a business that complies with the new rules (return gifts with a maximum value of 30% of the donation) without pursuing a last-minute surge in donations. Doing so required Change to sit on the sidelines and forgo potential clients, leading to a temporary loss of new business opportunities, but there is no need to regard this in a negative manner. This is a result of the company adapting to the direction towards which the business should direct itself.

The IPO Accelerator program mainly invested in eight companies, and it produced capital gains from the sales of all shares in GA Technologies during the second quarter and in Shikigaku during the fourth quarter. In the Investments Business, Shikigaku was listed on the TSE Mothers market in February while AI Cross was listed in October. In terms of new investments, the company invested in Gauss in July and in Aeronext in August.

Non-operating expenses include 125 million yen required to raise funds for M&A-related activities. Net profits for the term came in at 562 million yen, but a net profit of 184 million yen (40% of TRUSTBANK's profits) attributable to non-controlling shareholders of TRUSTBANK was deducted, and the resulting net profit attributable to shareholders of the parent company came to 378 million yen.

Transition of business performance by quarter

	(million yen)							
	1Q		2Q		3Q		4Q	
	Sales	Operating profit	Sales	Operating profit	Sales	Operating profit	Sales	Operating profit
Sept. 2017 (non-consolidated)	465	36	467	120	628	166	420	9
Sept. 2018 (non-consolidated)	392	25	767	176	702	165	743	147
Sept. 2019 (consolidated)	2035	439	1630	132	1664	270	1725	240
Sept. 2020 (consolidated)	4512	2570	1673	40	2577	676		

Seasonality of the Hometown Tax Payment Program

The Hometown Tax Payment Program peaks during the first quarter of every term (October to December), has its lowest intake during the second quarter (January to March), and then gradually recovers in the third (April to June) and fourth (July to September) quarters. The degree of fluctuation is large, but as users become increasingly familiar with the program, the company expects such seasonality to gradually level out.

Business plans for the current term ending September 2020

Change's three strategic policies were as follows. The first is reinforced development of digital professionals. A large number of enterprises are experiencing a shortage of digital professionals. As

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such, the company will expand its training and development program to address this need. Profitability will decline since the unit value is not high, but the company will first establish the market and then carry it into other digital application businesses. The digital professionals business will broaden during the current term, and DX business will be coupled with existing businesses beginning in the next term.

The second strategic policy is growth in the Publitech Business. Furusato Choice will prepare the groundwork for regrowth, and the LoGo Series, catering to local governments, will continue to be standardized.

Third-quarter earnings by business segment

(million yen)

	Sept. 2019	3Q	Sept. 2020	3Q
New-IT Transformation				
Sales	1994		2143	
Profit		583		449
Investment Business				
Sales	359		0	
Profit		230		-15
Publitech Business				
Sales	2980		6623	
Profit		603		3648
Adjustment	-4	-610	-4	-796
Total				
Sales	5329		8762	
Profit		807		3286

(Note) Adjustment applied to profit is total company expenses

The third is a new IT service to compete with Xaas. Using its core capability of developing Precedent Applications, the company will create new service models to replace conventional SI-type services, and its business will encompass everything from marketing to support maintenance.

The Investment Business is not currently a member of the company's roster of core businesses, and the company will never position its Investment Business at its core, unlike SoftBank. When entering partnerships with start-up companies in peripheral fields related to its businesses, the company will hold a stake in the start-up as part of the partnership. Of course, returns will be expected, but the company will not proceed to make investments with a specific investment scale as its objective. Therefore, the preceding business plan will not spell out any explicit investment goal.

Cumulative performance as of the end of the third quarter of the fiscal term ending September 2020 showed a significant increase in profits. The company released preliminary results for third-quarter earnings at the end of July, when earnings as of the end of June were finalized. The final results were released in mid-August. The results for fourth-quarter earnings will most likely be released early in a similar manner.

In the third quarter, profits from the Publitech Business grew due to a combination of: (1) growth in donations collected through Furusato Choice; and (2) a rise in the commission rate.

Earnings for the third quarter included sales of 8.762 billion yen (+64.4% vs. the same quarter last year) and operating profits of 3.286 billion yen (+306.8% vs. the same quarter last year). Ordinary

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profit and net profit showed significant growth to 3.296 billion yen (+377.5% vs. the same quarter last year) and 1.412 billion yen (+418.8% vs. the same quarter last year), respectively.

The New-IT Business was sound until mid-February, but it notably lost steam in March due to the impact of the coronavirus pandemic. Group training seminars for developing digital professionals were cancelled, and DX projects within enterprises were postponed, with delivery dates delayed.

On the other hand, online training seminars began gaining momentum in April, and now 90% of all seminars are held online. With respect to Furusato Choice, donations for local communities that are not driven by return gifts are increasing, and there is a rise in a culture of endowment, where the spirit of mutual assistance is prevailing.

Transition of segment earnings by quarter

		(million yen)							
		1Q		2Q		3Q		4Q	
		Sales	Operating profit	Sales	Operating profit	Sales	Operating profit	Sales	Operating profit
Sept. 2019	NEW-IT	425	83	687	210	880	289	748	202
	Investment Business	0	-2	354	233	5	-5	91	58
	Publitech Business	1610	535	556	-102	781	194	886	238
	Adjustment		-177		-223		-209		-258
	Total	2035	439	1630	132	1663	269	1724	240
Sept. 2020	NEW-IT	618	115	794	148	731	186		
	Investment Business	0	-5	0	-5	0	-5		
	Publitech Business	3893	2735	879	126	1851	787		
	Adjustment		-275		-230		-291		
	Total	4512	2570	1673	40	2577	676		

Full-term results are likely to show a further increase in earnings

The company revised its earnings forecast upwards for the full year, but sales are expected to come in at 11.000 billion yen (+55.9% vs. the previous term), with an operating profit of 3.400 billion yen (+214.3% vs. the previous term), ordinary profit of 3.405 billion yen (+254.7% vs. the previous term), and net profit of 1.421 billion yen (+276.6% vs. the previous term). In terms of the fourth quarter alone, the company is maintaining an extremely conservative outlook. This is the company's standard approach, to take a cautious outlook based on actual results.

Some projects will not be completed by September so, coupled with the impact of the coronavirus, delivery will be pushed out to the next term. TRUSTBANK's employee count has doubled over the past three months, and the company is expanding its business at a rapid pace. Even with these issues factored in, the company expects robust business for the fourth quarter, so earnings should exceed the planned figures.

Impact of completely acquiring the subsidiary

As the impact of fully acquiring TRUSTBANK as a subsidiary company, taking annual earnings for the term ending September 2020 as an example (in reality, the effect will be observed only

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beginning in the term ending September 2021), the company's EPS of 90.2 yen will increase to 124.4 yen (+37.8%) due to TRUSTBANK's profit corresponding to the remaining 30% equity. Share prices have already taken this into account, but the rise in EPS generally has a direct impact on share prices.

Earnings projection by business segment

(million yen)

	Sept. 2018		Sept. 2019		Sept. 2020 (Fcast)		Sept. 2021 (Fcast)		Sept. 2022 (F'cast)	
	Sales	Profit	Sales	Profit	Sales	Profit	Sales	Profit	Sales	Profit
New-IT Transformation Business	2447	790	2742	786	3000	700	4000	1000	5000	1500
Investment Business	157	76	450	288	0	-20	200	100	200	100
Publitech Business	—	—	3867	875	8500	4300	12800	7000	14800	8400
Total business expenses (General and administrative)		-352		-868		-1180		-1600		-2000
Total	2604	513	7054	1081	11500	3800	17000	6500	20000	8000

(Note) Profit is segment profit. — indicates no classification. Investment Business has been classified since Q3 of the term ending Sept. 2018. TRUSTBANK's earnings have been consolidated since Q2 of the term ending Sept. 2019.

Successful shift in strategy

The company's strategy has been shifted as follows: 1) conversion of services to digital and online have already been executed in the areas of human resource development and DX support services, and they are certain to have further effects in the coming term; and 2) in terms of readjusting the client portfolio, weight has been reallocated from transportation, retail, trade, and global manufacturing, which have taken a significant hit from the coronavirus pandemic, to the public sector, money market, and telecommunications. This switch was also made swiftly.

In terms of the Publitech Business Segment, the following should be noted. 1) The rise in the commission rate in the Hometown Tax business will contribute in full during the term ending September 2021, and the total donation intake is increasing at double-digit rates. This will have a significant impact. 2) The Publitech Business (excluding the Hometown Tax business), which includes services such as LoGo Chat and LoGo Form, is growing. LoGo Chat will begin charging for its services in April 2021, so this will likely thrive as a subscription-based business.

Mid-term progress—Achieved one year in advance

The company's mid-term goal has been for operating profits to reach 3.4 billion yen by the end of the term ending September 2021, but the company will likely exceed this by the end of the current term. The company believes that the operating-profit goal set through the mid-term corporate plan is achievable a year in advance due to the following factors: 1) Furusato Choice's commission rate of 5% will take effect for the entire year; 2) services catering to local governments will take off strongly; and 3) the human resource development business will give birth to a new value chain comprising DX projects with higher added value in the New-IT Business Segment.

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In addition to the expansion of Change alone, factors that underline this growth will contribute significantly to increasing the scale of TRUSTBANK's business. In the mid- to long-term future, TRUSTBANK is planning to expand its business by focusing on the following areas: 1) first phase—digitization of the Hometown Tax business; 2) second phase—digitization of administrative operations within local governments; and 3) third phase—digitization of entire local communities. Growth is certain, and the pace will be swift.

However, in the New-IT Business, which is part of Change's main business, the Flagship Model experienced a mild setback due to changes in the content of the client portfolio, but it will eventually return to its growth trajectory, as it looks able to widely deploy DX.

Financial goal of the mid-term business plan (Revised basis)

		(million yen)	
		Sales	Operating profit
Sept. 2015	(non-consolidated)	1400	134
Sept. 2016	(non-consolidated)	1550	186
Sept. 2017	(non-consolidated)	1980	331
Sept. 2018	(non-consolidated)	2604	513
Sept. 2019	(consolidated)	7054 (7,488)	1081 (1,448)
Sept. 2020 (plan)	(consolidated)	9352 (11,000)	1300 (2,349)
	(Revised plan)	10500	2619
Sept. 2021 (plan)	(consolidated)	14639 (15,500)	3400 (4,700)
Sept. 2022 (plan)	(consolidated)	18986	4700

(Note) Figures in brackets are from the original mid-term plan of the prior term; the revised plan is as of release in Q2.

Next mid-term plan to be examined in the coming term

Change's business is performing at a pace that means it is likely to accomplish its current mid-term plan one year ahead of schedule. As such, a revised target for the fiscal term ending September 2021 will be announced, but subsequent to that, during the term ending September 2021, the company intends to announce its next three-year plan for terms ending in years between 2022 and 2024.

M&A deals are always being evaluated, but those that were being looked at in March were suspended due to the coronavirus pandemic. Currently, M&A deals are being proactively pursued under a new policy.

Taking the next mid- to long-term plan into consideration, the criteria will be to target candidates with the potential to achieve 50 billion yen in sales and 20 billion yen in operating profits in the next five years. Based on this approach, the company's market capitalization of 500 billion yen will become a reality. Sales of 40 billion yen should be fully achievable through organic growth, so the nature of M&As executed during this period will be worth watching. A strategic move in innovation with the aim of securing a leading position in Japan's DX industry holds the key.

The current market size of the Hometown Tax Payment Program is 500 billion yen, but if the government succeeds in developing the program in a healthy manner, it may well reach one to two trillion yen in size. This depends on the management prowess of the company, which holds a leading position in the industry. The question is whether it truly contributes to regional revitalization. If it does,

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the market is likely to demonstrate considerable growth. Furthermore, if the market size reaches one trillion yen, this business alone could generate 15 to 20 billion yen in profits.

Earnings projection

	(million yen, %)					
	Sept. 2017	Sept. 2018	Sept. 2019	Sept. 2020 (F'cast)	Sept. 2021 (F'cast)	Sept. 2022 (F'cast)
Sales	1980	2604	7054	11500	17000	20000
Costs	1183	1591	2643	3600	4900	5500
Ratio of costs to sales	59.8	61.1	37.5	31.3	28.7	27.5
Gross profit	796	1013	4410	7900	12100	14500
Gross profit margin on sales	40.2	38.9	62.5	68.7	71.1	72.5
SGA expenses	465	499	3329	4100	5600	6500
Ratio of SGA expenses to sales	23.5	19.2	47.2	35.7	32.9	32.5
Operating profit	331	513	1081	3800	6500	8000
Ratio of operating profit to sales	16.7	19.7	15.3	33.0	38.2	40.0
Ordinary profit	325	513	959	3700	6500	8000
Net profit	229	343	378	1550	4000	5000

(Note) The company's statements are on a non-consolidated basis until the term ending September 2018, and on a consolidated (Japanese accounting standards) basis from the term ending September 2019, and are scheduled to migrate to International Financial Reporting Standards (IFRS) beginning from the term ending September 2021.

Businesses in the Publitech Business, excluding the Hometown Tax business, comprise roughly 10% of today's overall sales, and the company's target is to grow to 5 billion yen with profitability of 30 to 40% within the next four to five years.

Future profitability—Striving towards an operating margin of 40%

According to the P/L Statement from the fiscal term ending September 2019, the cost ratio stood at 37.5%, the gross profit margin at 62.5%, the SGA expense ratio at 47.2%, and the operating profit ratio at 15.3%. In the next three years, the company's basic plan is to achieve a cost ratio of 30%, a gross profit margin of 70%, an SGA expense ratio of 30%, and an operating profit ratio of 40%. In fact, the company should be able to consistently achieve an operating profit ratio of 35% to 40%.

6. Corporate valuation: Focusing attention on the next M&A

Human resource development is progressing according to plan

President Fukudome suggests the following initiatives as the company's immediate strategic policies: 1) putting TRUSTBANK's PMI further on track; 2) enhancing Change's mainstream businesses' growth scenarios; and 3) developing the group's people and organization. The company is

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in the process of elevating TRUSTBANK's Publitech Business to a whole new level. The New-IT Business within Change itself is constantly evaluating opportunities to grow its business by incorporating external growth through M&A deals.

The company is also making significant investments in the third initiative of human resource development. Regarding the development of human resources for growth, the company has no particular issues with attracting the right set of talents. Due to the company's rising reputation as a growing company, there is an abundance of high-quality talent applying to work there. Furthermore, around 10 employees have been reassigned from Change to TRUSTBANK.

As of April, Change's employee count was 110, and TRUSTBANK's total of 200 workers comprised 100 full-time and 100 contract workers. In comparison to a year ago, the number of employees has doubled as the company has continued to vigorously expand its business.

Management talent, in addition to the original founding members, is also showing signs of growth. An employee who joined the company straight out of college in 2007 has been promoted to an executive officer position, and employees who joined from other companies have been reassigned to TRUSTBANK, taking up management positions.

A leading company in the hometown tax business

As a leader in the Hometown Tax field, the company has endeavored to build trust and confidence in its operations by cancelling contracts with organizations that offer excessive return gifts that contradict the program's original intent. Furthermore, it is focusing its efforts on projects aimed at providing aid to those affected by the pandemic and natural disasters, as well as Government Crowd-Funding (GCF) projects. The number of GCF projects has increased from 66 in 2016 to 111 in 2017, 226 in 2018, and 241 in 2019.

Progress of the mid-term plan—Synergies with Publitech are significant

The progress made in relation to the mid-term plan means that the operating profit goal will be achieved one year in advance, as profit from the Hometown Tax business rapidly increased after the acquisition of TRUSTBANK. This is the result of a successful post-merger integration, meaning that the acquisition has been a major success. Furthermore, the New-IT Transformation Business will return to its high growth trajectory. In the Publitech Business, excluding its Hometown Tax business, projects related to community currency have the potential to grow as public fintech. The next M&A deal is being eyed as an opportunity to enter new business areas.

The management team is working to lead the restructure of the SI industry through M&As, and it intends to devote time to developing new business models. As such, there are great expectations for the synergistic effect between the company and TRUSTBANK.

Orientation of the business portfolio

Currently, the profit ratio between the New-IT Transformation Business and the Publitech (Hometown Tax) Business is 1:6, but the company's target is to increase the ratio of profits from the

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New-IT Transformation and the Publitech business by growing businesses other than the Hometown Tax business. Examining changes in the constitution of profits from the business portfolio, the addition of TRUSTBANK's Furusato Choice will lead to the profit stream from this business growing at a steady pace. The question is how the company will develop the New-IT Business. In addition to this goal, the next target of the company's mid- to long-term plan will be 20 billion yen in operating profits.

An additional profit of 5 billion from new areas in Publitech is already in the company's sights, but in order for New-IT to target and achieve this level of profit, a large-scale M&A is preferred. President Fukudome is looking at potential deals with this in mind.

Earnings will grow in a layered fashion compared to before. In new fields, the growth rate of sales will accelerate as horizontal deployment picks up steam, and profitability should increase at the same time. There is a good possibility of significant returns from the Investment Business, and there is a good chance for the ROE rate to improve, returning to the 30s.

The company's investments are developing solid business models in the DX field, where it maintains an aggressive stance, and there is ample room for developing new markets. Its revenue base is stable, and there are good prospects for improved profitability. Therefore, the enterprise valuation affords an A rating. (Refer to page 2 for the enterprise valuation criteria.)

Stance of prioritizing shareholders—New IR

In the evening of the day when the third-quarter earnings results were released (August 12), a debrief for shareholders and investors was held on Zoom, starting at 19:00. It lasted two and a half hours, until 21:30. President Fukudome's devotion to addressing basically all of the comments received from individual shareholders and investors is worthy of appreciation. He carefully responded to approximately 100 questions. This is akin to taking part in fielding practice for 100 consecutive hits, and surely deserves high praise.

This meeting for shareholders and individual investors showed how they should be held in the future, and it is assumed that the satisfaction level of those who posed questions was high.

Thoughts on stock splits

The company split its shares in a 2-for-1 split at the end of August. The Tokyo Stock Exchange promotes the acquisition of unit quantities of shares so that investors can purchase affordable amounts. Based on this, 100 shares for 500,000 yen translates to 5,000 yen per share. From the company's perspective, if it can maintain share price levels consistently above 5,000 yen, it will consider executing stock splits in the future, also with the aim of boosting liquidity. Once a stock price between 10,000 to 15,000 yen is maintained for an extended period, it would be split in a 2-for-1 stock split.

Focusing attention on the pace of growth

Stock buy-backs are always in the company's sights. The company will maintain a no-dividend policy, and instead divert funds to investment in growth areas. It is constantly considering large M&A deals, and internal funds will be put to use with the priority on growth.

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On the other hand, shareholder incentives for individual investors are likely to continue to be enhanced. The shareholder incentive after stock splits will be structured so that 1,500 points are awarded to a shareholder who holds 400 shares, and the awarded points will be increased by 10% to 1,650 points for those who continue to hold the shares after the second year. Furthermore, the award points will increase in increments, up to 2,000 shares. Points may be carried over to the second year, and they may be exchanged for various gifts.

Since they are points, they cannot simply be converted into monetary value, but at a ratio of 1,500 points for 400 shares, it may be approximated at 3.75 yen per share. The validity of shareholder incentive points was extended from the end of March to the end of September in consideration of the coronavirus pandemic.

According to the current share price (as of September 15), the PBR stands at 35.8, ROE at 20.4% (38.6% in the next term base), and PER at 193.5 (similarly, 79.7 times). The synergy achieved with TRUSTBANK has become clear, and expectations for growth have increased.

Change's new business model will continue to evolve. Once an operating profit of 20 billion yen comes into view, a market valuation of 500 billion yen will become a reality. The management effectiveness of the current management team, which is led by President Fukudome, and the company's future growth potential are worthy of attention.