

## 3962 Change

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

December 18, 2020

First Section of the Tokyo Stock Exchange

#### Highlights

• Triggered by the coronavirus pandemic, the advancement of DX (digital transformation) in Japan has gained momentum. Training and development of DX professionals and utilization of DX in the public sector has led to a rise in demand for our company's services as well.

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

- 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 DX-related consulting work 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.

- As the Hometown Tax Payment Program normalizes under the new policy, the company's 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 is endeavoring 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 next mid-term business plan will be announced around February. Centering around training and development of DX professionals, enhancement of value-adding in the Hometown Tax Payment Program, for-fee usage of the LoGo series, advancement of public fintech business, and the launch of regional renewable energy business, the company is aiming to achieve an operating profit of 10 billion yen. This goal is well within reach.

The company also 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 December 17, 2020): 7,940 yen

Market capitalization: 266.4 billion yen (33.55 million outstanding shares)

PBR: 34.4      ROE: 35.5%      PER: 85.9      Dividend yield: 0.0%

(Figures are in millions of yen)

Accounting Period	Sales	Operating Profit	Ordinary Profit	Current Profit	EPS	Dividend
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	11692	3626	3632	1547	49.1	0
Sept. 2021 (F'cast)	16000	5000	5000	3100	92.4	0
Sept. 2022 (F'cast)	19000	7000	7000	4400	131.1	0

(Based on results as of September 2020)

Total Assets: 16.386 billion yen

Net Assets: 8.733 billion yen

Ratio of Net Worth: 44.4%

BPS: 230.6 yen

(Note) ROE, PER, and Dividend Yield are estimates for the current accounting period. 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 values prior to the splits have been adjusted. The company plans to split its shares in a 2-for-1 split at the end of December 2020. Results up to the fiscal term ending September 2018 are non-consolidated, and those for subsequent terms are consolidated (in accordance with the former Japanese accounting standards). 1,984,000 new shares are scheduled to be issued in October 2020 for the complete acquisition of TRUSTBANK. The company plans to adopt IFRS beginning with fiscal term ending September 2021. (Forecasts given this time are based on the new Japanese accounting standards.)

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 all industries and enterprises 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 all 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**

Change was founded in 2003, and just passed its fourth year since its listing on the stock exchange in September 2016. During this period, the company achieved significant growth and its business is expanding in layers.

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 executive officers consist of 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 reported directly to Jimbo. 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, and Executive Officer Kizawa (responsible for Publitech Business Segment) was appointed to his current position in December 2020, 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 (consolidated)
<b>New-IT Transformation</b>				
Sales	1980	2447	2742	2984
Profit	—	790	786	602
<b>Investment Business</b>				
Sales	—	157	450	0
Profit	—	76	288	-20
<b>Publitech Business</b>				
Sales	—	—	3867	8713
Profit	—	—	875	4190
Adjustment	—	-352	-868	-1145
<b>Total</b>				
Sales	1980	2604	7054	11692
Operating profit	331	513	1081	3626

(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: (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 used directly 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 Investment Business is an IPO accelerator, making small investments in start-up companies selected through their affiliation with the company's mainstream business, and 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.

**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 help to reduce the burden on IT infrastructure.

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**A&I (Analytics & IoT)** restructures business operations and business models by utilizing IoT, and analyzes and applies 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 influencing the company's robust business performance are rapid growth observed in new areas, such as business automation projects utilizing AI and Robotic 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 by New-IT service line and image of profitability

	Sept. 2016 (Estimate)		Sept. 2017 (Estimate)		Sept. 2018 (Estimate)		Sept. 2019 (Estimate)	
	(%)		(%)		(%)		(%)	
<b>MSA (Mobile &amp; Sensing Application)</b> Assembling and operating systems to automatically capture data via mobile devices and sensors	30	○	25	○	20	○	20	◎
<b>ESI (Enterprise Security &amp; Infrastructure)</b> Renewing IT infrastructure through use of the Cloud and line to select and implement security tools	20	○	25	◎	25	◎	25	◎
<b>A&amp;I (Analytics &amp; IoT)</b> Operation and business models that apply IoT technology	10	○	15	○	20	◎	25	◎
<b>NLX (Next Learning eXperience)</b> Support for IT enterprises implementing New-IT and providing next-generation learning programs to develop professionals who will realize New-IT	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 AI chat bot was evaluated. 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 governments and private enterprises. In this day and age, however, there are not enough people to do the work. Therefore, the inclination to save human resources in work that can be automated and divert them 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

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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 launched 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. Account processing is handled in this way (Japanese standards) because it is the company's mainstream business. In future, contributions to profits from these types of investment activities are also expected to 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 utilizing 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 ten years, so the camaraderie among members of the management team is strong. Responsibilities are split up so that Chairman Jimbo oversees 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 who previously worked for the Sony Group and another for 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 as one of the company's External Directors at the annual

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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 realizing a sustainable Japan, and (1) DX and (2) Regional Revitalization are imperative for achieving this goal. The company is engaging with 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 8.2 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. In fact, 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 the unique flagship model**

### **Planning and proposal capability and knowledge management**

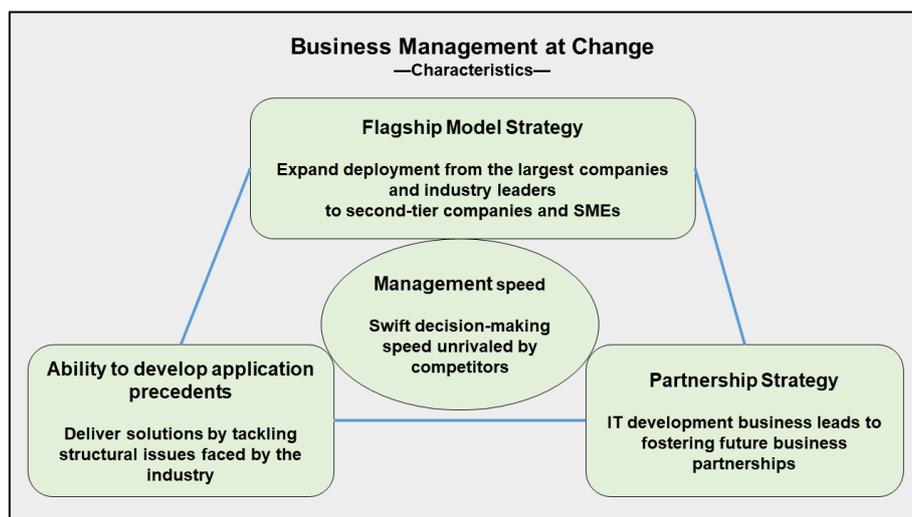
Coming from a consulting background, the management team inherently have the skills for planning and proposals. Therefore, the company possesses the capability to develop application precedents. In

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other words, the team is able to extract a 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? On 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 such 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) the flagship model strategy; (3) the partnership strategy; and (4) the capability to develop application precedents.

Referring to the first point, "nimble management," the company can reach a decision in a single day whereas 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 take a lot of time before finally tabling a proposal at a management meeting, and still decide not to take the risk to adopt it. At the company, however, the leadership itself reviews the details and moves forward with it if it feels the potential. The company supports large-scale enterprises with a slow decision-making speed, and generate the force to move things forward.

The second point, "the 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 to medium and small-sized enterprises. Our business will also expand horizontally to their partners and suppliers. This approach is called the "flagship model strategy."

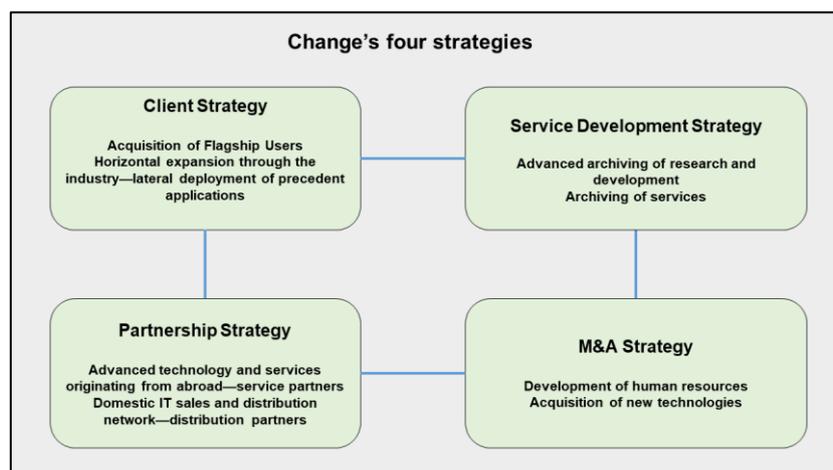
The third point, the "partnership strategy," refers to the company's approach to deliver training to existing SI firms and enlisting these companies to become distribution partners for introducing software. In other words, instead of competing with major firms, the company joins forces with them to approach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

Regarding the fourth point, the "capability to develop application precedents," the company tackles structural challenges faced by the industry head on, and creates precedent solutions that truly benefit

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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. This makes 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 forces driving the company's growth were: 1) development of its employees; and 2) adoption of technology.

The company can trace the roots of its business to consulting, so it emphasized operational reform. It adopted IT as a tool for realizing this objective, and has remained effective by constantly adopting new IT. As such, the company is expanding across the fields of mobile, security, big data (BD), and IoT.

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 cultivating 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.

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### **Approaching industry-leading companies first**

The company always approaches the industry's leading company first, with patience and persistence. Although the hurdle is high, taking this tack 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 would not have gained 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. 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 the power to execute within the organization. If the company forces itself to continue engaging this type of client, it will only be in vain, so it needs to disengage as quickly as possible. 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 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 implementing 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.

### **The "library" is the source of competitiveness**

The company possesses a system that enables it to internally share components of the solution to be delivered: expertise, 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.

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## **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 raising 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 what an employee would experience 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 security constraints. However, the 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 grasping 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. This is 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 through 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 business is opening up in the following areas:

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(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 is reflected in the consolidated results starting October 2020, and will be fully reflected in results from the fiscal period 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% (9 billion yen) of that was exchanged for Change's listed shares.

Minority shareholders (those who held shares since inception) of TRUSTBANK will receive 1,984,000 Change shares (after reflecting stock split executed in August). These 1,984,000 shares will be newly issued, which accounts for 6.3% of the total outstanding number of shares. A stock swap based on valuation of a single Change share at 9,000 yen (pre stock-split basis) was executed. Share dilution will occur to some degree, but this poses no issues from the perspective of a substantial increase in enterprise value.

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 swap 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 lead 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

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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. TB aimed to reinvigorate 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 will 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 support this work are being developed separately. Although 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.

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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. To halt such behavior, the Ministry of Internal Affairs and Communications applied restrictions to the 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 this stranglehold 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 respective regions, 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**

In January 2020, TRUSTBANK underwent a structural reform. Ms. Tamayo 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 three other 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 regions independent and sustainable." The logic is to deliver people, goods, money, and information to local communities, and to recirculate them within communities means bringing the communities closer to a state in which they are 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 a 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 experienced significant growth in its Publitech business sector due to support offered to regional economies to deal with the 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,

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these training sessions have been taken online and the business is recovering. 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.

The coronavirus pandemic will bring 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.

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 in 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

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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 bricks-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 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 increasingly need 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**

Starting September 2020, 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

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to raise the digital literacy of all employees in a company by categorizing employees into four classes, from basic skills to real-life application. All employees have the opportunity to take a training program matched to their own capabilities. The training programs are separated into management level, enterprise field level, and IT-systems department level.

In addition, starting in November of the same year, the company commenced delivery of "Digiteli," a membership-only digital transformation assistance program. "Digiteli" is a name created by the company, and 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."

### **Provision of 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. As a way to cope with the novel coronavirus pandemic, the company has been providing e-learning content for training and development of digital professionals for free.

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**

There has been an upswing in the number of companies rushing 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.

The company's "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

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kitting of work terminals without involving human hands. By utilizing Jamf Pro, which provides integrated management of Apple devices, 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 2019, after which the company began offering the mobile app in January 2020. 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 this year. 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 their own, and even analyze the collected data.

### **Effectiveness of LoGo Chat and for-fee usage**

As of April, the company had contracts with 261 local governments and 157,000 licenses for LoGo Chat. As the coronavirus pandemic progressed, by October, these numbers had blossomed to 549 local governments and 274,000 licenses. Right now, instead of emphasizing increasing the number of contracts, the company is focusing on ways to 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 2020, 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.

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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 October, it had been adopted by 129 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 web-based forms on their 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 Japanese 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, a country 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

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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, Society 5.0 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, 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 develop its business with the aim of improving labor productivity. **Productivity Improvement = People × Technology = Human Resource Development × New IT.** Automation will compensate for labor shortages, 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.

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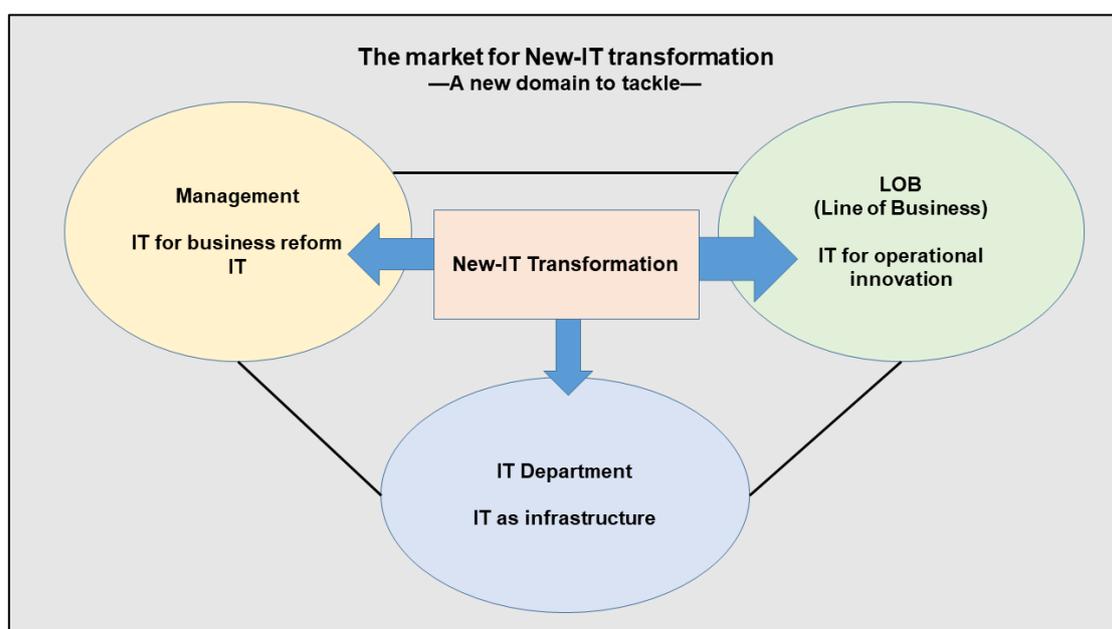
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### The market for New-IT transformation

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. To develop new markets and lead them towards such markets, the company will leverage technology and expertise that the major companies do not possess.



### 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 covers 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).

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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 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**

<b>Concept</b>	<b>Digitize &amp; Digitalize Japan (Phase 1)</b>		
<b>Long-term goal</b>	Establish a leadership position in Japan's digital transformation (DX) market within 15 years, comprising five three-year phases		
<b>Strategies</b>	<p>1. Client Acquisition Strategy - Expansion of the Flagship Model - Partnership with existing Slers - Short-term conquest of industry through M&amp;As</p> <p>2. Average Earnings per Client Strategy - Increase in average earnings through cross-selling - Direct proposals delivered to various departments</p> <p>3. Bolstering Existing Business - Service enhancement, high value-add - Increase in transaction value</p> <p>4. Creation of New Business - <i>Meibutsu Choice</i> - Community points</p>		
<b>KPIs</b>		(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%

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.

Financial goals of mid-term three-year plan

	2019.9	Sept. 2020 (plan)		Sept. 2021 (plan)		Sept. 2022 (plan)
	(Actual)	(Initial)	(Actual)	(Initial)	(Adjustment)	(Initial)
Sales (Previous Japanese accounting standards)	7054	9352	11692	14639	18631~19131	18986
(New Japanese standards)					15781~16281	
Operating profit	1081	1300	3626	3400	4700~5200	4700
Ordinary profit	959	1281	3632			
Profit attributable to parent company	378	520	1547			

### Direction of the next mid-term plan

The next mid-term plan (terms ending between September 2022 to September 2024) is due to be announced when first-quarter results of the term ending September 2021 are released in February. The planned operating profit for the current term is set for 4.7 to 5.2 billion yen, but the same for the term ending September 2024 targets an operating profit of 10 to 12 billion yen. This includes contribution from M&A activities.

The company has identified the following growth areas: (1) it will aim to attain a leadership position in the area of training and development of digital professionals; (2) fee-based subscription of LoGo series to be initiated in the Publitech Business; (3) it will form full-scale alliances to redefine logistics activities as part of supply chain management for Furusato Choice; and (4) it will launch a renewable energy business that will involve power generation and storage batteries. Tesla's storage batteries will be adopted.

The incremental increase of 5 billion yen in operating profit is based on the 6 billion yen comprising 2 billion yen from the people development business, 1 billion yen from LoGo business, 2 billion yen from Hometown Tax business, and 1 billion yen from renewable energy business.

In detail: (1) the company expects considerable contribution from training and development of DX professionals in the New-IT Segment. While there is a shortage of DX professionals all across Japan, there is a large number of individuals in a vast number of companies that have the potential to play a significant role in DX once they are trained to do so. The company will focus on this area.

(2) Fee-based subscription of LoGo series in the Publitech Business is poised to take off. The most important point is to take the de facto standard position in this area. Once LoGo series is recognized as the user-friendly, standard tool in the domain of local governments, fee-based subscriptions will become a reality. At present there is no competition, but the company is anticipating potential competitors, so expanding market share now will take priority.

(3) How the company should consider profitability of the Hometown Tax Business. Firstly, as part of its management policy, the company will focus on creating additional services to enhance the convenience of Furusato Choice. As an example, the company will aim to reduce the cost of shipping the return gifts by forming a partnership with Yamato Transport. Reduction in logistics cost for local governments and regional industry enterprises will be sought. As a consequence, the company expects the value of its added services to increase as well.

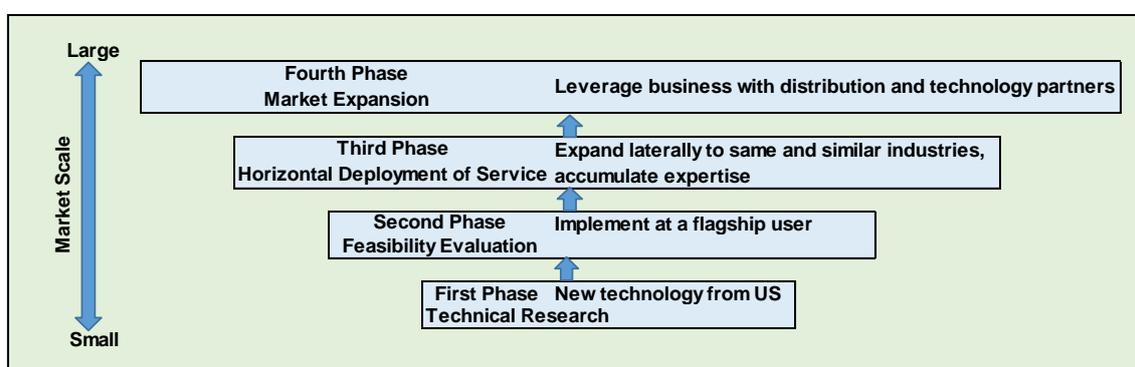
Second, the take rate will not be increased any time soon. The take rate of competitors stands at about 10%, whereas TRUSBANK's take rate is 5%. The company's advantage is evident, but this will be kept in reserve as an allowance.

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Third is the prospect of the market's future size. The significance of the Hometown Tax Payment Program lies in regional revitalization. Recognition of the program as making meaningful contributions to the cause will lead to favorable results. However, should attention focus once again on return gifts and should the market become distorted as a result, regulations will be tightened again. The company assumes sound and appropriate growth and does not expect rapid growth of the market.

(4) Regarding the Energy Business, the company will help to bring about the use of renewable energy in regional Japan. This will be a development project closely associated with local regions that cannot be replicated by major enterprises or start-ups. Furthermore, it will be set up so that electricity can be stored at locations that will reinforce regional infrastructure, such as hospitals. This area will require a certain degree of up-front investment.

### Phases of marketing new technology promoted by Change



### 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.

### 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, but the company has recognized a 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

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is built through hyper convergence of various functions. It is already being put into practice in 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.

Change's business is in consulting services for New-IT transformation (so-called "DX") catering to major corporations, but it was decided 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 is strong in the area of web-based directories, and this is where Change will 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. The company went public in an IPO in September.

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As observed in the business partnership entered into with Headwaters, the IPO Acceleration Program: 1) brings in various types of information related to start-up companies in the corporate network; 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 investment 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.

**Investment business—IPO acceleration program**

Investment	Investment period	Business	Aim	Post-investment
Phone Appli	Apr. 2017	Cloud web, telephone directory app	Pooled marketing	Aug. 2018
GA technologies	Dec. 2017	AI real estate technology	AI synergy	Sold to NTT Communications Listed on Mothers in Jul. 2018 Sold in Q2 of term ending Sept. 2019
Headwaters	Apr. 2018	AI for robots	Pooled marketing	Listed on Mothers in Sept. 2020, in possession
Voistart	Jul. 2018	AI speaker service for seniors	Regional revitalization business	Dissolved, transferred to NTT Data
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

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 the retail and eating-out businesses, 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 a percentage of the company to the value of 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

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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.

## **Latest trend — 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 as they wish through digital technology, 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**

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The company has led the industry in applying BOX through its services. This service is offered on a monthly-fee basis. 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, followed by "Joho Matomekun" second in January 2020, and third, "Tenken Susumukun."

"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, the company sees 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 for work, since they are already being used without permission, 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 inside 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, which 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 them. Microsoft realized that Change has expertise in worksite IT, recognized the need to

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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.

**- Provision of online work-style training to Panasonic**

In the area of training and development of human resources, the company delivered online work-style training to Panasonic's Industrial Solutions company. With 10,000 employees working for the client, the company's content and method was identified as the perfect solution for swiftly delivering training to a large number of people.

**- Provision of service to assess DX professionals**

The company also delivers services to assess DX professionals. Specifically, there are two types of DX professionals: (1) those that use digital technology to develop new business; and (2) those that utilize digital technology to improve the operational efficiency of existing business. It is important to determine the aptitude of each individual, and the company provides the means to accomplish this.

**- Provision of a DX platform to a consulting firm**

In coordination with Headwaters, the company developed and delivered a DX platform to Tokyo Marine & Nichido Risk Consulting Co., Ltd. Consulting businesses use various forms of data, but the data are highly distinct and development of an operating system for them was limited. The company developed and delivered a cloud-based platform to address this area and to enhance operational efficiency.

**- Support for regional banks in promoting DX**

The company will initiate full deployment of support towards regional banks to promote DX. TRUSTBANK possesses a network with regional banks situated across the country, developed through its Hometown Tax business. The company will extend this network to individual regional banks for crowd funding, EC, and D-to-C (direct to consumer) schemes. This will lead to the expansion of what was originally only peripheral business to the regional banks.

**- Partnership agreement signed with Cyber Reconnaissance on cyber security**

Cyber security is increasingly becoming a critical matter. The company entered into a partnership agreement with Cyber Reconnaissance of the US, and will begin delivery of services in Japan. Cyber Reconnaissance offers a unique platform that allows it to predict and rank future cyber attacks on enterprises through the use of its proprietary AI algorithm to analyze hacker activities. The company will utilize this technology in the area of cyber security.

**- Business partnership with Toyota Finance in the field of community currency**

TRUSTBANK entered into a business partnership with Toyota Finance. The agreement aims to implement community currency issued by local governments and improve operational efficiency by connecting TRUSTBANK's digital community currency platform service, "chiika," with Toyota Finance's regional franchisee network to bring about a cashless settlement scheme. In the future, "chiika" is expected to be connected to MaaS (Mobility as a Service).

**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

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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.

**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

### 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," 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.

### 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.

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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 was increased from 3% in 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 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 extent of preferential tax incentives. In this light, the company will examine expanding Furusato 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 the company 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.

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### Acquisition of Orb, Inc.

In February 2020, 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.

#### Balance sheet

	(million yen, %)			
	Sept. 2017	Sept. 2018	Sept. 2019	Sept. 2020
<b>Current assets</b>	1238	2103	5774	11327
Cash equivalent	978	1055	3814	7629
Accounts receivable	230	478	1526	2920
Operational investment securities	—	500	136	541
<b>Non-current assets</b>	190	165	5101	5045
Property, plant and equipment	49	54	211	180
Intangible assets	45	27	4593	4617
Goodwill	—	—	3318	3117
Investments, others	96	83	296	248
<b>Total assets</b>	1429	2268	10898	16386
<b>Current liabilities</b>	282	493	1574	5046
Accounts payable	52	90	242	120
Short-term borrowings	38	45	392	380
Accounts payable	34	55	154	924
<b>Non-current liabilities</b>	58	118	3055	2605
Long-term borrowings	39	93	2611	2231
<b>Net assets</b>	1088	1655	6267	8733
<b>Interest-bearing liabilities</b>	77	139	3003	2761
Ratio of interest-bearing liabilities	5.4	6.1	27.6	16.8
Ratio of net worth	75.9	72.8	50.9	44.4

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

On the balance sheet, 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 the end of September.

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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).

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 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

	(million yen)			
	Sept. 2017	Sept. 2018	Sept. 2019	Sept. 2020
<b>Operating cash flow</b>	326	245	-10	4434
Profit after taxes	259	387	340	3354
Depreciation	13	26	221	376
Goodwill			301	374
Trade receivable			399	-1392
Accounts payable			-856	682
Deposits received, etc.			-519	
Operational investment securities	—	28	63	-202
<b>Investment cash flow</b>	-110	-243	-3048	-269
Property, plant and equipment	-11	-17	-192	-26
Intangible assets	-41	-11	-185	-254
Acquisition of subsidiary shares			-2823	-36
Investment securities	-45	-211	0	0
<b>Financing cash flow</b>	10	75	5787	-348
Long-term borrowings	3	61	2740	-392
Issuance of shares	5	15	4256	45
<b>Balance of cash equivalent at end of term</b>	978	1055	3784	7599

#### Transition to the International Financial Reporting Standards (IFRS)

The company's reporting for the term ending September 2020 follows Japanese accounting standards, but the same reports will be published under IFRS standards at the same time. Starting from the term ending September 2021, reporting will be prepared in accordance with IFRS. The following impacts are anticipated: 1) recognition of income gained through the Internet (gross profit of purchase and sales will be recognized as sales); 2) non-amortization of goodwill; and 3) proportional distribution of borrowing fees. The biggest effect will be the non-amortization of goodwill.

Goodwill will no longer be amortized, lifting operational profit. Investment Business will be appraised at market value (including unlisted securities). Securities owned for a short period (operating

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investment securities) will also be appraised based on market valuation, so changes, such as losses, will be reflected on the profit-and-loss statement.

## 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% (vs. 16.7% in the previous term).

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.

#### Earnings by business segment

	(million yen)			
	Sept. 2017 (non-consolidated)	Sept. 2018 (non-consolidated)	Sept. 2019 (consolidated)	Sept. 2020 (consolidated)
<b>New-IT Transformation</b>				
Sales	1980	2447	2742	2984
Profit	—	790	786	602
<b>Investment Business</b>				
Sales	—	157	450	0
Profit	—	76	288	-20
<b>Publitech Business</b>				
Sales	—	—	3867	8713
Profit	—	—	875	4190
Adjustment	—	-352	-868	-1145
<b>Total</b>				
Sales	1980	2604	7054	11692
Operating profit	331	513	1081	3626

(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.

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## **Change will transition to consolidated accounting from the term ending September 2019, with TRUSTBANK contributing ten 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 the current 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 robust growth, this growth was not sufficient to make up for the shortfall in the Publitech Business. There were plenty of inquiries about 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 gain s 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.

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Change in 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	2930	340

### 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.

Seasonal fluctuation in the Hometown Tax business is clearly evident on the balance sheet 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.

### Fiscal term ending September 2020 showed a significant increase in profits

The company reported exceptional expansion during the term ending September 2020 with sales of 11.692 billion yen (+65.8% vs. the previous term), operating profit of 3.626 billion yen (+235.2% vs. the previous term), ordinary profit of 3.632 billion yen (+278.5% vs. the previous term), and net profit of 1.547 billion yen (+309.5% vs. the previous term).

In the New-IT Segment, development activities of DX professionals were dramatically changed from before the coronavirus pandemic, and the company shifted from face-to-face to online sessions. During this period, the company swiftly transitioned to online programs based on the shift in strategy, but the impact of coronavirus shock was felt during the third quarter. The company pressed forward in a new direction in the fourth quarter. At the same time, implementation of remote working environments witnessed considerable growth.

In the Publitech Segment, the company saw recovery through adaptation to new policies surrounding the Hometown Tax Payment Program, and also saw development of services in the LoGo series, which promotes IT in public sector as a new field. The company proceeded to focus new investments in this area.

During this term, up-front investments to the sum of 510 million yen were made, mostly during the fourth quarter. Breakdown of the investments are: (1) marketing and advertisement spend to increase awareness of TRUSTBANK (+220 million yen); (2) development of new services (+150 million yen); (3) recruiting costs (+80 million yen); (4) complete acquisition of TRUSTBANK and costs to prepare for IFRS (+30 million yen); and (5) promotion of usage of Corporate-Version Hometown Tax (+30

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million yen). These investments pushed up total expenses during the current term, but they are likely to contribute positively to results of the succeeding terms.

### Response to the coronavirus shock

In response to the coronavirus shock, firstly, the company reshuffled its portfolio and transitioned to a remote-working structure. Second, through complete acquisition of TRUSTBANK and clear positioning of TRUSTBANK as the group's core business, the company initiated full fledged support of local governments. Third, the company prepared to transition to IFRS accounting and focused on strengthening IR activities abroad, and prepared for the next M&A deal.

In the New-IT Segment, DX became an urgent priority for the company's clients, so the company directed the business so that it could be completed remotely. The client portfolio was reshuffled to shift priority to the public sector, IT, and finance. There is an overwhelming shortage of digital professionals in Japan, so the company will lead the industry in training and development of highly skilled digital professionals, regarding this as a major growth area.

In the Publitech Segment, several government crowd funding (GCF) projects were initiated. The Hometown Tax platform is being utilized in fostering a donation culture of mutual aid, such as medical support, regional industry support, and regional service support.

In regard to the LoGo series, as of the end of October, LoGo Chat had acquired 549 local governments and 274 thousand accounts, and Logo Form 129 local governments, demonstrating increasing momentum.

In the investment field, AICROSS and Headwaters listed on the TSE Mothers market in October 2019 and September 2020, respectively. In addition, new investment was made in beBit in June.

The IPO Acceleration Program is not incorporated in the company's business performance plans, but the company's policy is to consistently achieve positive results. However, the business of Voistart, which was established jointly with Mitsui Trading, was transferred to NTT Data and dissolved. This resulted in a loss of tens of millions of yen.

The company is proceeding to reduce the floorspace of its office. The company's business is mainly run remotely, so its excessive office space will be closed, and the company will shift towards utilization of co-working spaces.

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
	<b>Total</b>	<b>2035</b>	<b>439</b>	<b>1630</b>	<b>132</b>	<b>1663</b>	<b>269</b>	<b>1724</b>	<b>240</b>
Sept. 2020	NEW-IT	618	115	794	148	731	186	841	153
	Investment Business	0	-5	0	-5	0	-5	0	-5
	Publitech Business	3893	2735	879	126	1851	787	2090	542
	Adjustment		-275		-230		-291		-349
	<b>Total</b>	<b>4512</b>	<b>2570</b>	<b>1673</b>	<b>40</b>	<b>2577</b>	<b>676</b>	<b>2930</b>	<b>340</b>

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## **Difference in previous and current Japanese accounting standards - discrepancy in recognition of profits**

Once the company completes its transition to IFRS, major components, such as non-amortization of goodwill and allocation of borrowing fees (instead of a lump-sum appropriation) will have a positive impact on pre-tax profit. The company will adopt IFRS accounting standards beginning with the term ending September 2021, but estimates provided in this report will be based on current Japanese accounting standards. The company followed previous Japanese accounting standards until the previous term.

The difference in previous and current Japanese accounting standards can be observed in differences in how profits are recognized, and the recognition of profits under the current Japanese accounting standards is identical to that of IFRS. Simply put, whenever any kind of product or service is procured and sold, conventionally, both purchase and sales were accounted for in the profit-and-loss statement. However, whether the transaction is activity that actually generates income for the company is questioned. The recognition is that the remainder after subtracting procurement costs from sales, something close to net profit in a conventional sense, is the actual profit.

Sales reported as part of the company's plan this term would be equivalent to 16.2 billion yen (upper limit of the range) under the current accounting standards, but amounts to 19.1 billion yen under the previous accounting standards.

This difference of 2.9 billion yen derives from the difference in recognition of profits, and looking at separate segments, a gap close to 1 billion yen in software sales is observed in New-IT Segment, which distributes software licenses purchased from the US.

In the Publitech Segment, regarding the Furusato Choice business, TRUSTBANK pays related suppliers with fees once received for electronic settlements and certificates, so they are not accounted for as sales in accordance with the current accounting standards. The value of these payments is approximately two billion yen.

The prior term was disclosed under the same standards. It has little impact when observing the level of operating profit and its variance, so there is no impact from the perspective of determining actual profitability.

## **Business plans for term ending September 2021 - Goals of the three-year plan achieved a year in advance**

The company's business plan for the term ending September 2021 predicted sales ranging between 15.781 and 16.281 billion yen, operating profits between 4.7 and 5.2 billion yen, ordinary profit between 4.683 and 5.183 billion yen, and net profit between 2.928 and 3.255 billion yen. These figures are based on the current Japanese accounting standard.

In comparison to the preceding term, these are incremental increases in sales between 59.4% and 63.6%, operating profits between 29.6% and 43.3%, and net profits between 89.2 and 110.3%. Growth of net profits is the largest. Since TRUSTBANK was wholly acquired, its contribution, formerly equivalent to 70%, will account for 100% of the business.

Under IFRS, amortization of goodwill in the amount of 386 million yen will be added to operating profits, meaning that will have a positive impact.

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The term ending September 2021 has been recognized as the year to accomplish the following goals: (1) capitalize on the DX needs caused by the coronavirus pandemic; (2) grow existing business; and (3) prepare the basis of the next mid-term plan, including M&A activities. The company plans to hire 30 to 40 new people for the current term.

**Earnings projection by business segment**

	Sept. 2018		Sept. 2019		Sept. 2020		Sept. 2021 (Fcast)		Sept. 2022 (Fcast)	
	Sales	Profit	Sales	Profit	Sales	Profit	Sales	Profit	Sales	Profit
<b>New-IT Transformation Business</b>	2447	790	2742	786	2984	602	4000	1000	5000	1300
<b>Investment Business</b>	157	76	450	288	0	-20	200	100	200	100
<b>Publitech Business</b>	—	—	3867	875	8713	4190	11800	5400	13800	7400
<b>Total business expenses (G&amp;A expenses)</b>		-352		-868		-1145		-1500		-1800
<b>Total</b>	<b>2604</b>	<b>513</b>	<b>7054</b>	<b>1081</b>	<b>11692</b>	<b>3626</b>	<b>16000</b>	<b>5000</b>	<b>19000</b>	<b>7000</b>

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

**Effects of the Hometown Tax Payment Program**

The market of the Hometown Tax Payment Program is estimated to stand at around 500 billion yen, but it has the potential to reach upwards of 600 billion yen. The take rate during the first half of the term ending September 2020 was 3%, and second half 5%, but it will be 5% for the entire current term.

In supply chain management of Furusato Choice, personnel are being hired from outside and a logistics team is being formed. Eleven million packages are handled, and estimating 150 yen per package as the handling fee, this amounts to income of 1.65 billion yen. These effects will eventually contribute to earnings.

**Fee-based subscription of the LoGo series - launch of subscription-type business**

Fee-based use of the LoGo series will be advanced in increments starting in April 2021. This is not yet budgeted for the current term. It will take effect in full force starting in the term ending September 2022.

The LoGo series will also cover publicity for the local governments through LoGo SNS and notices of taxes in arrears, and a system to settle public funds will become applicable.

There are some 900,000 ordinary administrative staff in local governments that could potentially become accounts of LoGo. The company seeks to gain 50% of this pool. In addition, of the 1,788 local governments, the company aims to engage 1,000 of these organizations.

**Future direction**

In the next three-year mid-term business plan, the company will aim to achieve operating profits of 10 billion yen, and the chances of realizing that goal is high. Business in the Publitech Segment,

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

**Earnings projection**

	(million yen, %)					
	Sept. 2017	Sept. 2018	Sept. 2019	Sept. 2020	Sept. 2021 (F'cast)	Sept. 2022 (F'cast)
<b>Sales</b>	1980	2604	7054	11692	16000	19000
<b>Costs</b>	1183	1591	2643	3947	5400	6000
<b>Ratio of costs to sales</b>	59.8	61.1	37.5	33.8	33.8	31.6
<b>Gross profit</b>	796	1013	4410	7745	10600	13000
<b>Gross profit margin on sales</b>	40.2	38.9	62.5	66.2	66.3	68.4
<b>SGA expenses</b>	465	499	3329	4118	5600	6000
<b>SGA expenses on sales</b>	23.5	19.2	47.2	35.2	35.0	31.6
<b>Operating profit</b>	331	513	1081	3626	5000	7000
<b>Operating profit on sales</b>	16.7	19.7	15.3	31.0	31.3	36.8
<b>Ordinary profit</b>	325	513	959	3632	5000	7000
<b>Net profit</b>	229	343	378	1547	3100	4400

(Note) Results up to the fiscal term ending September 2018 are non-consolidated, and those for subsequent terms are consolidated (in accordance with the previous Japanese accounting standards). Adoption of International Financial Reporting Standards (IFRS) is scheduled for term ending Sept. 2021. Current report is based on the new Japanese accounting standards.

The company will aim to achieve 50 billion yen in sales and 20 billion yen in operating profits within the next five years. Based on this approach, the company's market capitalization of 500 billion yen will become a reality. Organic growth will be sufficient to achieve sales of 40 billion yen, so attention will focus on the nature of investments made through M&A activity during this period. A strategic move in innovation with the aim to secure a leading position in Japan's DX industry holds the key.

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.

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 company's 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, 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.

According to the profit-and-loss statement from the fiscal term ending September 2020, the cost ratio stood at 33.8%, the gross profit margin at 66.2%, the SGA expense ratio at 35.2%, with the operating profit ratio at 31.0%. 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

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of 40%. In fact, the company should be able to consistently achieve an operating profit ratio of 35% to 40%.

## 6. Corporate valuation: Focus of attention on the next M&A

### Three priority challenges

President Fukudome cites three immediate issues as top priorities. (1) Training and development of DX professionals; (2) expanding the company's business into settlement of public funds following implementation of the LoGo Series in promotion of IT to local governments; and (3) enhancing the organizational capability of the overall group. Change is demonstrating rapid growth. To raise the level of its organizational system, the company will reinforce its development of management talent and its approach to managing the organization.

### M&A is consistently being reviewed

The company anticipates three M&A patterns. The first is acquisition of management resources to acquire talent and a client base. TRUSTBANK falls under this pattern. The second is development of management talent, whereby the capability to develop business is cultivated by appointing an individual to lead a start-up or hemorrhaging organization. The third is to conceive an advance precedent of DX. The company will implement its expertise in an acquired company and initiate a new business model to lead by example. President Fukudome emphasizes that even if the company executes an M&A, it does not plan on carrying out a deal that would significantly erode the profit plans of the existing business.

### Human resource development is progressing according to plan

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 ten employees have been reassigned from Change to TRUSTBANK.

Change's employee count is 110, and TRUSTBANK's total of 200 workers comprises 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 of 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 leader 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-

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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.

### **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 1:7, but the company's target is to increase the ratio of profits from the 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.

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 rate of ROE is likely to regain percentage levels in 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. The company maintained a similar stance for the fourth-quarter. 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. This meeting for shareholders and individual

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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.

The company split its shares in a 2-for-1 split at the end of August. Furthermore, a 2-for-1 split will be executed at the end of December. 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.

### **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.

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 800 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 4,000 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 800 shares, it may be approximated at 1.875 yen per share.

According to the current share price (as of December 17), the PBR stands at 34.4, ROE at 35.5%, and PER at 85.9. 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.