

## 3962 Change

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

June 16, 2021

First Section of the Tokyo Stock Exchange

#### Highlights

- Cumulative results for New-IT and Publitech from the first half of fiscal term 2021, ending September, ended positive, and the profit target for the full year has already been achieved by the close of the first half of the year. Significant investments in human resources and R&D will be made during the latter half of the term in advance of the new mid-term business plan scheduled to begin with the next fiscal term. Therefore, when seen from outside, it will appear that profits are suppressed.
  - The business is demonstrating stunning growth rate. Certain to exceed the goal of its first three-year plan (DJ1) which it set as part of its fifteen-year long-term plan, the company unveiled details of its next three-year plan (DJ2). When the company achieved operating profits of 500 million yen at the end of fiscal term ending September 2018, it set its goal for the fiscal term ending three years from then at 4.7 billion yen. And this time around, the company set its goal for fiscal term ending September 2024 at 16.0 billion yen.
  - 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 have led to a rise in demand for our company's services as well. The company's SDGs and ESG policies comprise enhancing Japan's productivity and contributing to regional revitalization.
  - What will the company focus on during DJ2? The company regards overlaps in the following areas as the sweet spot: (1) DX (utilization of digital technology), (2) local (regional sustainability), and (3) social (solving social challenges). The company will extend the benefits of DX to rural regions beyond greater Tokyo, and contribute to resolving regional issues. In particular, the company will address shortage in professionals necessary for advancement of DX.
- Regarding training and development of DX professionals, a new company, "Digital Growth Academia," opened its doors in April in a joint effort with KDDI. Contents of existing training and development program will be made available via KDDI's national network for corporate users, enhancing the speed of its expansion. The company expects expansion at breakneck speed.
- 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 application website is increasingly boosting its contribution to profits, and LoGo Chat and LoGo Form in the Publitech segment are about to enter a new phase of growth.
  - The company has its next acquisition target in its sights. The company's strategy to secure a client base, products, and resources are looking to materialize. The company continues to attract the right collection of talents, and it will continue to pay close attention as its enterprise value is poised for further growth.

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Corporate rating: A

Stock price (as of June 16, 2021): 2,994 yen

Market capitalization: 217.4 billion yen (72.615 million outstanding shares)

PBR: 7.42      ROE: 13.0%      PER: 57.2      Dividend Yield: 0.0%

(Figures are in millions of yen)

Accounting Period	Sales Revenue	Operating Profit	Profit Before Taxes	Current Profit	EPS	Dividend
2015.9	1400	134	137	82	2.0	0
2016.9	1550	186	175	118	2.7	0
2017.9	1980	331	325	229	4.5	0
2018.9	2604	513	513	343	6.5	0
2019.9	7054 ( 5992)	1081 (1027)	959 ( 957)	378 ( 476)	6.6 ( 7.9)	0
2020.9	11692 (10542)	3626 (4203)	3632 (4160)	1547 (2049)	24.6 (31.6)	0
Sept. 2021 (F'cast)	16500	6000	6000	3800	52.3	0
Sept. 2022 (F'cast)	19000	7000	7000	4500	62.0	0

(Based on results as of March 2021)

Total Assets: 37.294 billion yen

Net Assets: 29.306 billion yen

Ratio of Net Worth: 78.6%

BPS: 403.6 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; 2-for-1 at the end of August 2020; and 2-for-1 at the end of December 2020. EPS values prior to the splits have been adjusted. Results up to the fiscal term ending September 2018 are non-consolidated, and those for subsequent terms are consolidated (in accordance with the Japanese Accounting Standards). IFRS (International Accounting Standards) has been adopted beginning from the term ending September 2021 (figures in brackets are adjusted figures based on IFRS). Profit before taxes reported for and prior to term ending September 2020 are operating profit basis based on 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. Increase in productivity is imperative to enhance national wealth. In order to improve productivity among people and organizations, utilization of IT is required.

However, the rate of utilizing IT among 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. At the same time, it symbolizes the company's intentions to 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.

Of these, the company presently places its greatest attention on "regional revitalization x DX." In other words, it is focused on revitalizing rural regions through the use of DX.

### **Origins as a consulting firm**

Change was founded in 2003 and went public 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 (PM) and system engineers (SE). Its clients were big-name system-integration (SI) firms. These clients lacked the bandwidth within, so they outsourced their human resource development to external specialists. This business continues to do well to this day, 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 left Andersen Consulting and went independent, and while working as a consultant for mid-size enterprises, President Fukudome joined him. Then Vice President Itoh,

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Executive Officer Kaneda, and Executive Officer Ishihara joined in the planning to establish Change and founded today's company. After its foundation, all of its members left Andersen Consulting to join Change within a year, becoming its establishing members. Approximately two years later, Mr. Takahashi (currently acting as President of Digital Growth Academy) joined the company as Executive Officer.

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 who joined the company in April 2007 straight out of university, assumed his current position in December 2019, and Executive Officer Kizawa was appointed to his current position in December 2020, demonstrating the company's robust development of internal talent.

#### Earnings by Business Segment

	Sept. 2017	Sept. 2018	Sept. 2019	Sept. 2020	Sept. 2019	Sept. 2020
	Non-consolidated, Japanese Accounting Standard Basis	Non-consolidated, Japanese Accounting Standard Basis	Consolidated, Japanese Accounting Standard Basis	Consolidated, Japanese Accounting Standard Basis	IFRS	IFRS
<b>New-IT Transformation Business</b>						
Sales revenue	1980	2447	2742	2984	2299	2231
Profit		790	786	602	719	608
<b>Investment Business</b>						
Sales revenue	-	157	450	0	7	198
Profit		76	288	-20	-7	177
<b>Publitech Business</b>						
Sales revenue	-	-	3867	8713	3691	8116
Profit			875	4190	1170	4555
Adjustment		-352	-868	-1145	-855	-1138
<b>Total</b>						
Sales revenue	1980	2604	7054	11692	5992	10542
Profit before taxes	331	513	1081	3626	957	4203

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

Profit before taxes based on Japanese Accounting Standards are on operating profit basis.

IFRS is on International Accounting Standards basis.

#### 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**

There are three specific business segments. First is the "New-IT Transformation Business," aiming to advance digital transformation through services that utilize platform technology and a library of various cluster of algorithms, such as AI and vocal internet, mobility, IoT, big data, cloud, and security, and also training and development of digital professionals.

Second is the "Investment Business" through which the company will invest in IT firms that are demonstrating significant growth and are preparing to go public, and also aim to increase enterprise value through partnership with the company.

And third is the "Publitech Business" centered around TRUSTBANK, engaged in regional revitalization with "Furusato Choice," Japan's largest Hometown Tax payment platform, as its mainstay business, aiming to fulfill its mission to "reinvigorate the rural countryside and seniors through use of ICT," in order to fortify the company's services geared towards government offices as part of its New-IT Transformation Business.

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.

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

Coming from a consulting background, the management team inherently possess the skills for planning and proposals. They also possess the capability to develop application precedents. In 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? To this point, the company has mapped out its technology against different problems, constantly updating its content. This material has been launched as an internal library, a form of knowledge management. Its content has been assembled into a manual comprising text and video, accessible at any time.

### **Four unique characteristics—A business model for value creation**

New technology is constantly making an entry into New-IT. The company will absorb these technologies and utilize them to expand the 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.

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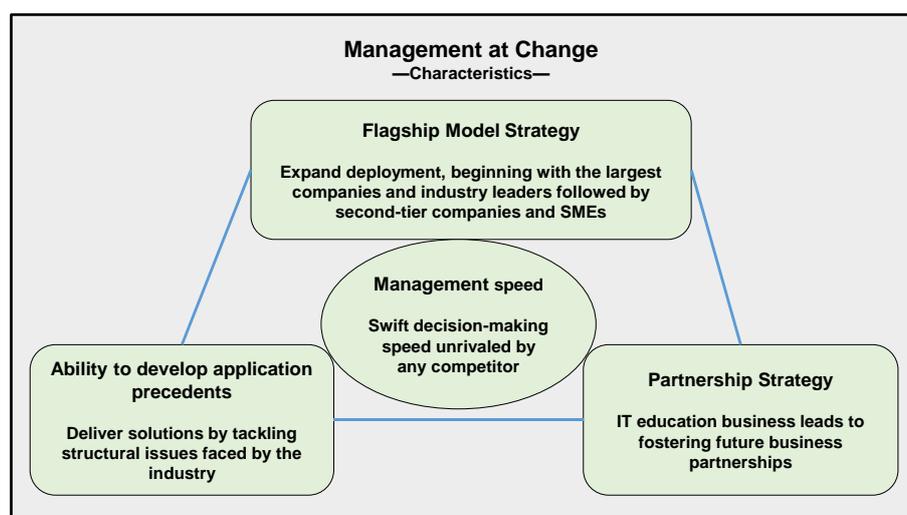
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Referring to the first point, "nimble management," the company can reach a decision in a single day whereas a large-scale enterprise would take three months from planning to execution. When dealing with the adoption of new technology, a large-scale 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 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.

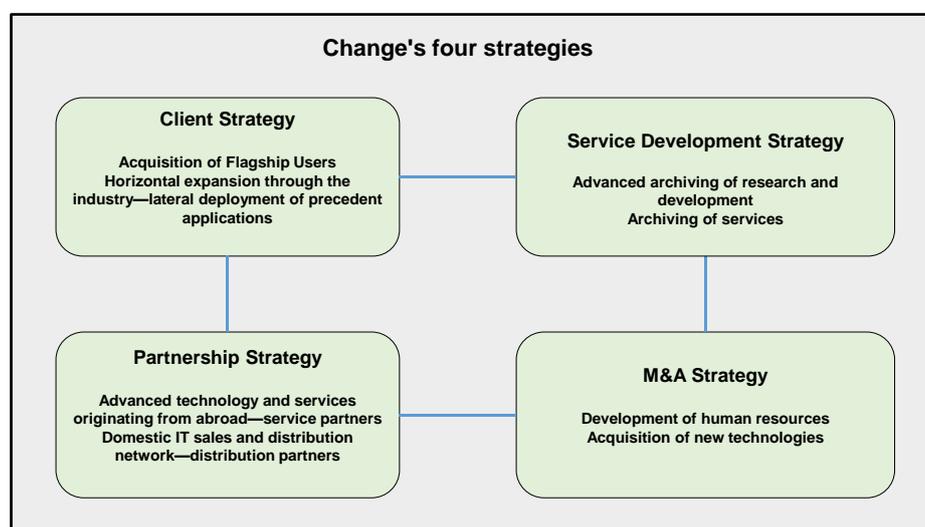
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## Human resource development and adoption of technology—Exploring IT partners on a global scale

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. When actualizing this reform, the company utilized IT as its tool. New technology has always been included in this IT, and results were achieved. As such, the company is expanding across the fields of mobile, security, big data (BD), and IoT.

The company's uniqueness lies in the fact that it cultivates IT partners on a global scale. New IT technology is founded earlier overseas. Adoption at the field level in Japan is almost three to five years behind. In particular, developments in the US move rapidly, so the company is endeavoring to embrace overseas technologies.



### Approaching industry-leading companies first

The company always makes its approach to industry-leading companies first. The company makes its approach to industry-leading companies in a patient and persistent manner. 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." These are customers from which the company is able to learn. They are very demanding and their requests are detailed. 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. The world has 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.

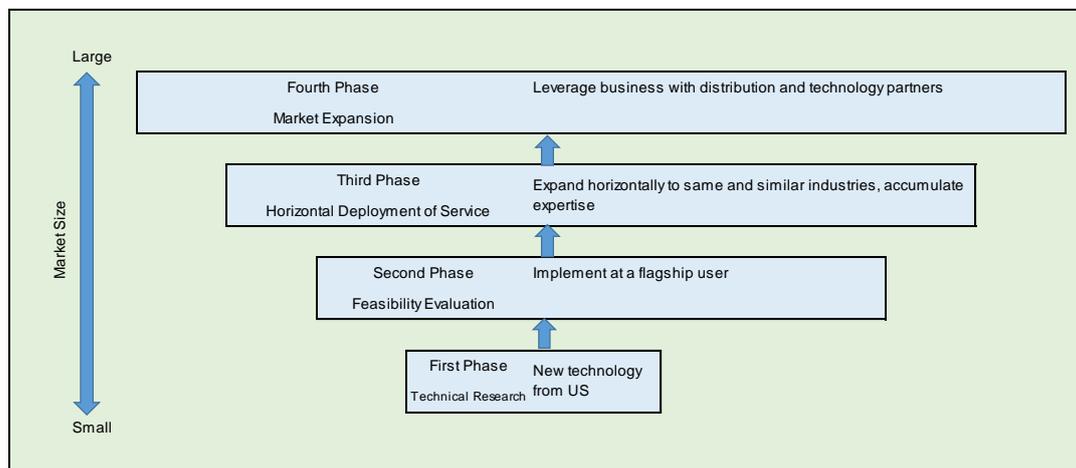
There are almost no other companies in the same industry that can do the same. That is, although there may exist similar firms in management consulting, IT consulting, mobile, security, or IoT, there is no competition that can construct actual application cases at the field level.

### 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.

### 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

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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 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 business.

### **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. Content will become the center of the project and large-scale buildings will not be needed. 2) Accidents and natural hazards that can occur during work are delivered as educational content in VR and applied to human resources training. Trainees will experience hazards similar to reality through VR, so the impact of the training will be significant.

### **Investment business 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

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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 to manufacturing businesses, and gains or losses from sales are accounted for in its operating profit. Account processing is handled in this way (Japanese Accounting 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 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 in non-operating revenues. Under IFRS (International Accounting Standards), everything would be appraised at market value and reflected against the profit-and-loss statement.

### **Teamwork and corporate governance—Full engagement with ESG**

The team has shared hardships for much of the past 10 years, so the camaraderie among members of the management team is strong. Responsibilities are split up so that Chairman Jimbo oversees 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, Broad Band 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 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. Going forward, the representation by independent outside directors shall also be reinforced.

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 in 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 terms of governance, we expect to see the company develop its corporate governance code in such as creating screening criteria for successors, instituting a performance-linked compensation program, and evaluating the effectiveness of the board of directors. 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.

### **Transition to IFRS (International Accounting Standards)**

The company's financial reporting for the term ending September 2020 follows Japanese Accounting Standards, but the same reports were published under IFRS standards (annual securities report) at the same time. Starting from the term ending September 2021, reporting has been 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 most significant impact 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 investment securities) will also be appraised at market value, so changes, such as losses, will be reflected on the profit-and-loss statement.

## **2. Strength: Accelerated growth in the Publitech Segment centering around TRUSTBANK**

### **Complete subsidiary acquisition of TRUSTBANK—Ascending towards the next stage**

Last year, the company fully acquired TRUSTBANK. The net profit is reflected in the consolidated results starting fiscal term ending September 2021. The company's stake had been 70%, but this has since increased to 100%. Its impact on 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 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.

When the company first acquired 60% of TRUSTBANK, it estimated the enterprise value of TRUSTBANK at 8 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, and 30% (9 billion yen's worth) of that was exchanged for Change's listed shares.

Minority shareholders (those who held shares since inception) of TRUSTBANK received 1,984,000

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Change shares (after reflecting the stock split executed in August 2020). 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 occurred 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 is No. 1 in total amount of Hometown Tax processed. It holds in excess of 40% share based on donation value. Thanks to the company's website, services related to the Hometown Tax Payment Program became available in an integrated fashion, increasing the number of choices and making it easier for users to make donations.

In addition to "Furusato Choice," TRUSTBANK operates the "Tanomoshi" site, which supports producers across the country, the "Localbiyori" site, which aids the search for one's hometown, "Area Japan," a medium that advertises the charm and challenges of Japan, and "Meibutsu Choice," a new style of online-shopping site that accommodates points issued by local municipalities.

Furusato Choice gathered information on return gifts onto one site and facilitated settlement of payment on the site. This one-stop Hometown Tax system is revolutionary. Currently, the site has more than 1,600 contracts with local governments, and the number of return gifts published on the site exceeds 200,000 items. TRUSTBANK aimed to reinvigorate the rural countryside and seniors through use of ICT, and constructed the largest Hometown Tax platform business in Japan.

Meanwhile, Change is engaged in the operational reform of local governments through application of New-IT, such as AI and RPA, and services aimed at the public sector have grown to serve as a business pillar for 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 the company's perspective, TRUSTBANK possesses a network comprising 1,600 local governments. 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

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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.

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 connection established through the Hometown Tax business with the local governments is a huge advantage. The biggest objective is to overhaul the services of the local governments through introduction of 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 1,600 local governments, and these local governments across the country are spending some 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

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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 payment options are available. New-IT will be utilized in such scenarios. It is a scenario that has high likelihood of realization.

### **Management of TRUSTBANK—Successful PMI of TRUSTBANK**

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 (PMI) 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.

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 of 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 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.

### **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% year-on-year). Specifically, there were 23,345 donations (+0.5% year-on-year) received. This decrease was due to the restraint and

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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 year-on-year), Oyama Town, Shizuoka Prefecture (similarly, 10.6 billion yen, 4.4 times year-on-year), Koya Town, Wakayama Prefecture (similarly, 8.5 billion yen, 4.6 times year-on-year), and Miyaki Town, Saga Prefecture (similarly, 13.9 billion yen, +30% year-on-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.

The program has been on track in accordance with the new policy since fiscal term 2020.

#### 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 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 term 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 settling public funds, and revenue from its transactions constitutes 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 ideas for the community currency. It will never replace the country's currency, the yen, but its convenience of use can be enhanced.

For example, there are municipalities where the acceptance rate of generic drugs remains low. Here, incentives through community currency may be delivered. 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 innovative approaches to applying fintech.

## Acquisition of Orb, Inc.

In February 2020, TRUSTBANK acquired Orb, Inc. Orb possesses high-level expertise in blockchain technology. Through application of 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.

### Cash flow

					(million yen)		
(Japanese Accounting Standards)	Sept. 2017	Sept. 2018	Sept. 2019	Sept. 2020	(IFRS)	Sept. 2019	Sept. 2020
Operating cash flow	326	245	-10	4434	Operating cash flow	138	4634
Profit after taxes	259	387	340	3354	Profit after taxes	362	3900
Depreciation	13	26	221	376	Depreciation and depreciation cost	346	572
Goodwill			301	374			
Accounts-receivable trade			399	-1392	Trade receivables	418	-14101
Accounts payable			-856	682	Trade payables	-566	1663
Operational investment securities	-	28	63	-202	Operational investment securities	359	-401
Investment cash flow	-110	-243	-3048	-269	Investment cash flow	-3048	-269
Property, plant and equipment	-11	-17	-192	-26	Property, plant and equipment	-46	-26
Intangible assets	-41	-11	-185	-254	Intangible assets	-185	-254
Acquisition of subsidiary shares			-2823	-36	Acquisition of subsidiary shares	-2823	-36
Financing cash flow	10	75	5787	-348	Financing cash flow	5638	-549
Long-term borrowings	3	61	2740	-392	Long-term borrowings	2740	-392
Issuance of shares	5	15	4256	45	Issuance of shares	4256	45
Balance of cash equivalent at end of term	978	1055	3784	7599	Balance of cash equivalent at end of term	3784	7599

### Robust financial structure—Capital raised through 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. In case of our company, that narrative was crystal clear.

On the balance sheet, borrowing was carried out immediately following an M&A, and the company's ratio of net worth declined to 13.9% by the end of the first quarter of fiscal term ending September 2019, but after the public stock offering, the same increased to 50.9%.

The public offering executed last May entailed issuing 1.6 million shares, amounting to 11.4% of

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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.

### Balance Sheet

(million yen, %)

(Japanese Accounting Standards)	Sept. 2017	Sept. 2018	Sept. 2019	Sept. 2020	(IFRS)	Sept. 2019	Sept. 2020
<b>Current assets</b>	1238	2103	5774	11327	<b>Current assets</b>	5742	11306
Cash equivalent	978	1055	3814	7629	Cash equivalent	3784	7599
Accounts receivable	230	478	1526	2920	Trade receivables, etc.	1609	2921
Operational investment securities	-	500	136	541	Operational investment securities	140	541
<b>Non-current assets</b>	190	165	5101	5045	<b>Non-current assets</b>	5701	5787
Property, plant and equipment	49	54	211	180	Property, plant and equipment	215	189
Intangible assets	45	27	4593	4617	Right-of use asset	299	85
Goodwill	-	-	3318	3117	Goodwill	3620	3759
Investments, others	96	83	296	248	Intangible assets	1275	1499
<b>Total assets</b>	1429	2268	10898	16386	<b>Total assets</b>	11444	17093
<b>Current liabilities</b>	282	493	1574	5046	<b>Current liabilities</b>	1797	5154
Accounts payable	52	90	242	120	Trade payables	829	2494
Short-term borrowings	38	45	392	380	Short-term borrowings	365	356
Accounts payable	34	55	154	924	Income tax payable	154	1424
<b>Non-current liabilities</b>	58	118	3055	2605	<b>Non-current liabilities</b>	3071	2532
Long-term borrowings	39	93	2611	2231	Corporate bonds Borrowings	2548	2286
<b>Net assets</b>	1088	1655	6267	8733	Asset share of parent company	5854	7959
<b>Interest-bearing liabilities</b>	77	139	3003	2761	<b>Interest-bearing liabilities</b>	2914	2642
Ratio of interest-bearing liabilities	5.4	6.1	27.6	16.8	Ratio of interest-bearing liabilities	25.5	15.5
Ratio of net worth	75.9	72.8	50.9	44.4	Ratio of net worth	51.2	46.6

Intended applications of the raised capital included: (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 repayment of debt (M&A).

The shares were sold to 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. Foreign stockholding ratio now tops 14%.

TRUSTBANK was acquired for 4.8 billion yen. The company borrowed 5 billion yen from Mizuho Bank. Thereafter, 4.2 billion yen was raised through a public stock offering. The amount of debt as of the end of September 2019 amounted to 3 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.

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

#### **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 4th 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, re-examination 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.

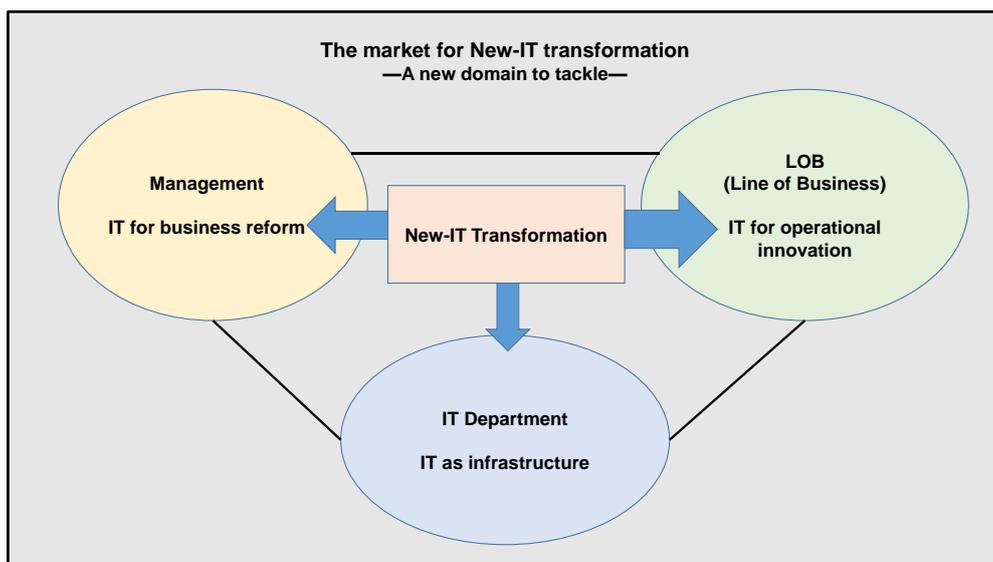
Labor shortages will be addressed by automation using AI and robots. Convenience will increase, not only in factories, but in offices, cities, and even in households. New types of supply chains will be developed by collecting, analyzing, and leveraging data that had never been put to use before. Also,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

#### **How will DX of the government progress?**

In May, six laws promoting digitization of public administration were passed by the Diet. In September, a new digital policy agency is scheduled to be established within the government. The new agency will lead the following initiatives: 1. unification of systems in use at central and local governments; 2. promotion of the My Number personal identification program; 3. simplification of administrative procedures; 4. standardization of rules for the protection of personal information; 5. acceleration of benefits by linking My Number to financial accounts; and 6. digitization of healthcare and education.

Possible challenges could impede progress despite the rhetoric of breaking down vertical divides within the government. Still, should a leading figure take the initiative, things will move easily in the field. President Fukudome emphasizes that Change's opportunity will be in how the public and private sectors can work together to create a new system. The field of Publitech will expand even further.



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

The government has successively announced the following new policies, which coincide with Change's mission: (1) Society 5.0; (2) action plan for work-style reform; (3) action plan for digital government; and (4) a cashless vision. 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 area of New-IT is active. Here, three areas are worthy of attention. First, the trend of digital transformation (DX) is gaining momentum in all industries. Second, investment in IT in the Line of Business (LOB) is expanding anew. Third, for work-style reform to succeed, new ways to apply IT to enhance productivity are becoming imperative. These are all directly tied to expansion of the company's business.

### The market for New-IT transformation

There are three areas where the company will engage in New-IT transformation. The first is IT for promoting change in 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

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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. The long-term vision is to create a digital age of Japan, with "Digitize & Digitalize Japan" as its theme. DJ stands for Digital Japan.

DJ1 refers to the 1st phase, DJ2 to the 2nd phase, continuing on to DJ5. For example, digitize refers to the act of terminating paper and converting every information into digital form in digitization of work processes. To digitize means to achieve digital transformation (DX) of the business model (value creation scheme) by leveraging digital information.

### **Exceeding the company's goal for the DJ1 three-year plan (terms ending Sept. 2019 to Sept. 2021)**

During the first phase, the three-year mid-term plan, the company aimed to expand its businesses, which consist of three business segments (New-IT Transformation Business, Investment Business, Publitech Business), aspiring to secure a leadership position in DX.

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

During the three years of DJ1, the company: 1) achieved and exceeded its target operating profit; 2) ascertained a successful formula for promoting digital transformation (DX); and 3) established a platform for DJ2 through the acquisition of TRUSTBANK. In a sense, the Change's operating base was bolstered and its business model was developed, but President Fukudome's self-evaluation is that the company still lacks the required speed in business development.

As an analyst, I consider the company to be developing its business at a sufficiently swift speed and making the right moves. Investors have recognized this and share prices have always reflected their expectations for the future of the company. The company intends to further increase its speed of business during DJ2, its 2nd phase.

### **Three business models**

Then, what kind of expansion does the company envision? There are three business models (BM) within Change. These are: (1) consulting model DX, (2) software as a service (SaaS) model DX, and (3) platform model DX.

Skills of individuals and teams determine the success of the consulting model, so it is suited to developing capability and demonstrating the competence of that developed capability. However, in terms of pace of business growth, it is rather gradual.

In the SaaS model, know-how acquired through consulting services is delivered via applications,

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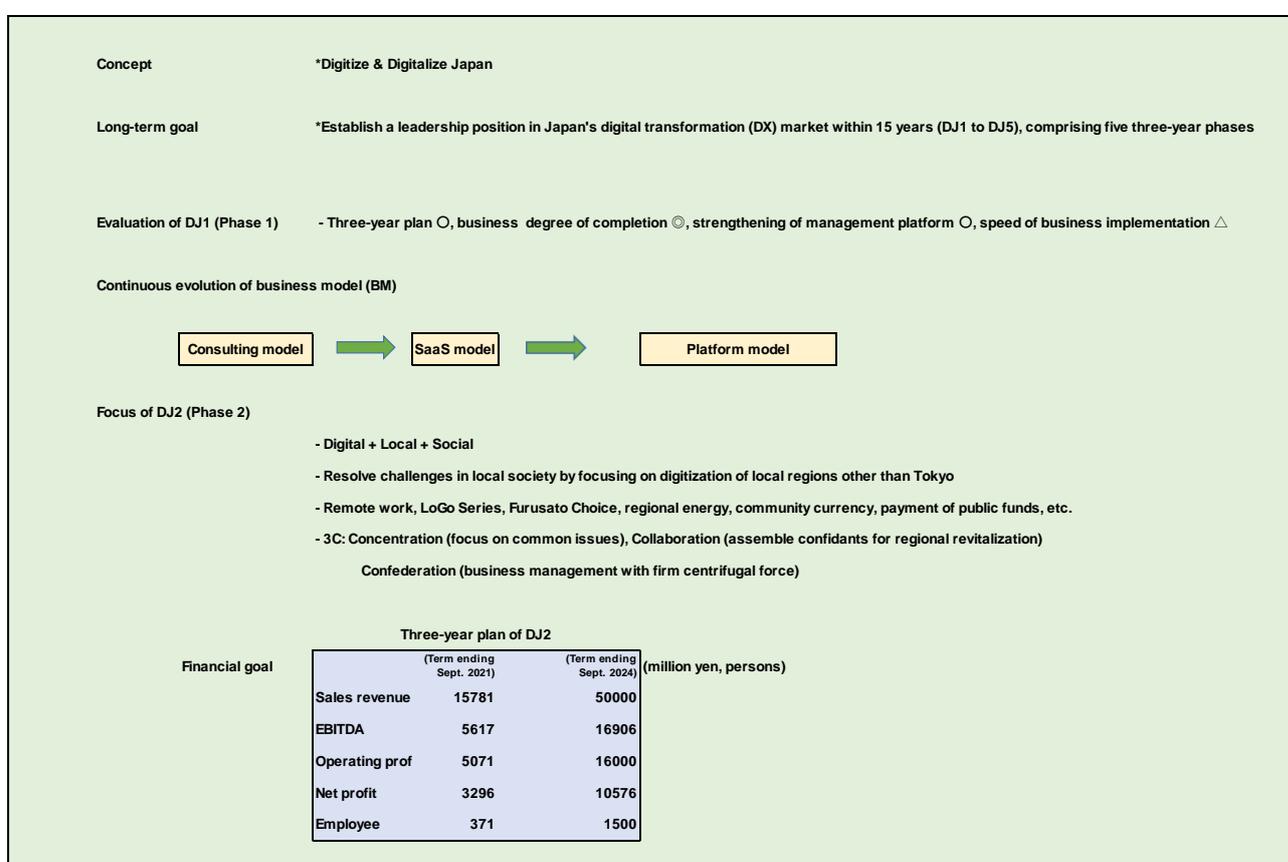
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aiming to standardize specific work processes. The company will aim to broadly spread its application in a differentiated range of use. The LoGo Series fits in this category. It is a subscription-type business.

The platform model aims to identify the optimum solution meeting each individual need by bringing together the providers and users of services in various forms, and matching these participants. The Hometown Tax Payment Program site is about to expand beyond its original service of bringing convenience to the process of offering a selection of return gifts to various aspects of regional revitalization.

The key to increasing the speed of development of these services hinges on how the company will be able to grow its resources. Merger and acquisition will be necessary to reinforce its workforce, organization, and structure.

#### Long-term vision and mid-term plan of second phase



#### DJ2—Mid-term plan of Phase 2

- What will the company focus on in DJ2? The company regards overlaps in the following areas as the sweet spot: (1) DX (utilization of digital technology), (2) local (regional sustainability), and (3) social (solving social challenges). The company will extend benefits of DX to local regions beyond greater Tokyo, and contribute to resolving regional issues. In particular, the company will address shortage in professionals necessary for the advancement of DX. In regional revitalization, as with local governments, partnerships with regional enterprises and banks will become critical.

The company has identified the following growth areas: 1) it will aim to attain a leadership position

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in the area of training and development of digital professionals; 2) it will launch the fee-based subscription of LoGo Series in its Publitech Business; 3) it will form full-scale alliances to redefine logistics business as part of supply chain management of Furusato Choice; and 4) it will launch a renewable energy business that will involve power generation and energy storage. Tesla's storage batteries will be adopted.

Fee-based subscription to LoGo Series in the Publitech Business Segment started in April. Once LoGo Series establishes itself as a useful tool among local governments, it will likely establish its positioning as the de facto standard in this field.

How should the company 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 return gifts by entering into a partnership with Yamato Transport. Reduction in logistics cost for local governments and regional 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 TRUSTBANK's take rate is 5%. The company's advantage is evident, but this will be kept in reserve as allowance. 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.

Regarding 4) 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.

#### **Vision of DJ3 and DJ4**

How does the company envision DJ3 and DJ4 unfolding? To this point, President Fukudome believes the company will become involved in infrastructure, such as transportation, education, and housing in DJ3, and in DJ4, medical care, welfare and nursing care, and nature and culture will become the main themes. The important point is that various needs exist, but the company's policy is to focus on finding the right fit for each, one by one, on its strategic map.

#### **Financial goal for fiscal term ending September 2024**

In regard to the company's mid-term plan, it is conducting simulations based on various strategies. The company is taking a conservative approach in revealing the most plausible scenario.

The company has set 50 billion yen as its sales target, with operating profits of 16 billion yen as part of its financial goal, for the term ending September 2024—three years from now. In addition, the employee count is expected to increase from the current figure of 371 to 1,500. The plan has taken mergers and acquisitions into consideration. For organic growth excluding any impact of mergers and acquisitions, the company aims to achieve 30 billion yen in sales and 10 billion yen in operating profits.

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Taking a look at individual segments, in the New-IT segment, the company will expand (1) training and development of digital professionals (600 million yen), and (2) IT services for enterprises (1.8 billion yen). In the Publitech segment, (3) Furusato Choice (8.8 billion yen), (4) IT services for local governments (1.0 billion yen), and (5) energy (1.0 billion yen). In addition to these initiatives, the company will execute mergers and acquisitions (5.0 billion yen). The figures in brackets are the expected contribution of operating profits from each segment.

1) In training and development of DX professionals, the challenge is transforming this into a subscription type business. 2) In DX services for enterprises, the questions is how this can be migrated to a SaaS model. 3) In Furusato Choice, the company needs to figure out how additional services can be added. Take rate of 5% will remain unchanged, but if an increase of 1.0% can be achieved, this will translate to incremental sales of 2.4 billion yen. 4) In SCM of Furusato Choice, turning this into a business will bring in additional sales in excess of 2 billion yen. A factoring service to support financing for local governments may become a business on its own. 5) LoGo Series should bring in income in excess of 3 billion yen through a subscription model. Energy may also deliver income exceeding 2 billion yen.

During DJ2, the company will invest all its resources in becoming an unrivaled presence by applying DX in regional revitalization, and by establishing this brand, it will press forward into DJ3.

Goal and focus area of the three-year plan						
(100 million yen)						
	Sept. 2020 (Actual)	Sept. 2021 (Plan)	(Three-year plan of DJ2)			
			Sept. 2022	Sept. 2023	Sept. 2024	
					(No M&A)	(With M&A)
Sales revenue	105	157~162	182	230	300	500
Operating profit	42	50~55	65	83	110	160

<b>New-IT</b>	(1) Development of digital professionals (2) IT services catered towards enterprises
<b>Publitech Business</b>	(3) Furusato Choice (4) IT services catered towards local governments (5) Energy business
<b>M&amp;A</b>	- Customer platform acquisition model - Product acquisition model - Resource acquisition model

### Evolution of BM—Consulting model -> SaaS model -> Platform model

The company will promote the three C's towards the evolution of BM (consulting model -> SaaS model -> platform model). The three C's consist of: (1) concentration: focus on common issues; (2) collaboration: attracting partners; and (3) confederation: a united management system. The purpose of the joint venture with KDDI is in resolving resource challenges, and in order to gain momentum outside of Tokyo and beyond large-scale enterprises, the company will place emphasis on forging alliances.

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How the company intends to horizontally develop the platform of TRUSTBANK. It is not about making more money on Furusato Choice with what it is today. The company will match services against various needs based on this network.

In coordinating its BMs, the company will look into: (1) ways to link the business with SaaS, instead of relying solely on horizontal deployment of consulting services; (2) expanding the SaaS client base to amplify its impact; and (3) further enhancing added value, and differentiating itself through expanding SaaS to a platform-based model.

In promoting digital transformation within rural regions, local governments, mid-sized enterprises, and consumers, a new, regional pricing structure instead of Tokyo-centric pricing will need to be adopted. This will be innovative. Instead of transplanting a Tokyo-centric model to rural regions, the company will construct an original, region specific model. In terms of pricing, President Fukudome emphasizes that the company will challenge its competitors with a BM that offers pricing figures less two digits.

### **M&A constantly in its sights**

M&A will always be in the company's sights, but it needs to exercise proper caution. The company will question whether the M&A will truly lead to a next generation BM. A poor decision shall not be made in haste. The company will also ask itself whether the post-merger integration (PMI) can be managed properly. The management team is always paying attention to these points.

There are three criteria to gauge its M&A deals. Those that: (1) capture a client base, (2) acquire a product or products, and (3) secure resources. Reviewing the company's track record so far, an example of (1) is acquisition of the network of local governments through Furusato Choice, (2) is achievement of SaaS model product services, and (3) is the total number of consultants and engineers secured.

In a sense, excluding mergers and acquisitions, achievement of the goal established for the current mid-term plan is almost certain. There are not so many companies that describe M&A with such clarity in its mid-term plan as Change. The target set is 20 billion yen in sales, 5 billion yen in operating profits, and 10 times EBIDA ratio. An M&A in the scale of 50 billion yen, 20% stake hold, and 80% in borrowings serves as a base. There does not seem to be any specific deal, but the company appears to have a roster of candidates. Attention will be paid to the company's next move.

### **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, 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 from their homes since the end of March of last year, but as

the company had already completed the development of a system to accommodate this change, there were no issues faced at all in 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 segment; 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.

### **Tie-up with M3 Career on deployment of vaccines**

The company introduced a service to connect doctors to local governments for deployment of vaccines in collaboration with M3 Career. Beginning in April, the company collaborated with M3 Career Group to deliver support to local governments across the country related to vaccination against the coronavirus. Change delivered marketing support to M3 Career's "Complete Package for Employment of Doctors and Pharmacists for Vaccination" to promote the service to local governments.

This is a service offered by M3 Career Group, leveraging its specialized web site (m3.com) with which 90% of doctors (290,000) and 60% of pharmacists (190,000) are registered. TRUSTBANK has transactions with 90% of municipalities (1,600) across the country through the Hometown Tax payment program. The company will make use of the Hometown Tax payment application website and LoGo Series to match interested medical workers with local governments.

### **Conversion of 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 shifted its focus from retail, transportation and global manufacturing companies, whose businesses took a hit from the coronavirus pandemic to businesses related to the public sector, such as national and local governments. Services extended to public and private sectors have been reformulated to address needs, such as (1) digitization

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of services to train and develop professionals, and (2) telework support packages.

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

### **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 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 support 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.

### **Creative remote working**

On remote working, the company has begun offering the following service: 1) e-Learning to gain skills on achieving results while working remotely, and 2) e-Learning to enhance skills to manage online business meetings and conferences.

Arguments that remote working yields low productivity and that new clients cannot be developed, and therefore the best way to work is to gather at the office and conduct work in face-to-face meetings

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are only excuses that neglect creativity. There are many other ways to work and much room to improvise.

### **Start of "Digital Growth Academia"—Joint venture with KDDI**

In April, a new company, "Digital Growth Academia" opened its doors. A joint-venture company founded with KDDI, the company aims to train and develop DX professionals in private enterprises and local governments. In order to promote DX in local regions, Change spun off its training and development division from the rest of the business and formed an alliance with KDDI, which has offices in local regions, in order to accelerate the training and development of DX professionals. The response has been very positive, and the initiative is off to a strong start.

Of Change's non-consolidated sales of 3.248 billion yen posted for fiscal term ending September 2020, the Digital Professional Development Business contributed 2.62 million yen, which accounts for 8.1% of total sales. This business division was spun off and a joint venture with KDDI was launched in April this year. The joint venture raised 1.919 billion yen in capital, with Change funding 50.03% and KDDI funding the remaining 49.97%.

Change entered into the partnership to resolve the bottleneck in DX progress, namely a shortage of DX professionals. Support not only for large-scale enterprises in densely populated cities, but for small to medium-scale enterprises in rural regions are pressing matters. The company intends to leverage KDDI's corporate platform that extends across the country. The strategy is to deliver Change's know-how and products via KDDI's corporate platform.

The deal to enter into a joint venture with KDDI was discussed and concluded entirely online without meeting in person, even once, said President Fukudome.

The majority of the Digital Professional Development Business will be transferred to the joint venture. The company had worked with KDDI in the area of consulting business from before. Just because Change entered into a partnership with KDDI, it does not mean that the company will distance itself from Docomo or SoftBank. There is ample possibility for the company to enter into businesses with these entities in other areas.

"Digital Growth Academia (DGA)" began training and development of DX professionals in April, but since it was founded on the spin-off of Change's DX training division, its foundation is solid and demand for its services is on the rise. Coupled with the tie-up with KDDI, deployment of its business is accelerating. Its positive impact on overall business performance will be evident in the form of an increase in sales by the next term.

DGA will enable people and organizations to achieve dramatic growth by leveraging digital technology. Change's stake in DGA is 50.03%, so in terms of segment profit, DGA's overall sales and 50% of its bottom-line profit will be accounted for in the New-IT segment.

### **Launch of the LoGo Series, tailor-made for local governments**

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 a 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 offering, LoGo Form, was launched in March 2020. LoGo Form is a tool for developing online forms, specifically for use by local governments, that sits on a network dedicated to local

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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.

### **Rapid expansion of LoGo Series—Subscription-based service is initiated**

As of April last year, the company had contracts with 261 local governments and 157,000 licenses for LoGo Chat. As the coronavirus pandemic continued to spread, by this February, these figures have grown to 582 local governments and 295,000 licenses.

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.

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, its annual revenue should exceed one billion yen sooner or later as its account base continues to grow.

LoGo Series initiated its subscription-based services in April. Until now, the company made its services available free of charge to increase the number of opportunities for users to experience how easy it is to use. However, it is now subscription-based and monetization of its services has started.

Since the users are local governments, the transition to fee-based service is difficult unless its user fee is budgeted in April at the beginning of the new fiscal year. Through the first round of initiation this past April, 57.2% of local governments (333 bodies) signed up to use LoGo Chat, accounting for 48.8% of all user accounts (143,000 accounts). As for LoGo Form, 54.5% of local governments (110 bodies) signed up for the subscription-based service.

The adoption rate of LoGo Series will continue to grow, so the weight of subscription-based use will likely further increase by next April. The commencement of subscription-based business is considered as a success.

Local government bodies that have adopted LoGo Series have grown to 21.3% of all local governments nationally. This signifies the fact that LoGo Series has achieved a certain position within online platform business, and expectations for its future potential are high. In other words, LoGo Series is poised to capture an undisputable leadership position in this field.

The business model of LoGo Series is SaaS, and its revenue is determined by the number of licenses multiplied by unit price. Annual revenue from the perspective of ARPPU (Average Revenue Per Paying User) is currently estimated at 460 million yen. This revenue generated through subscriptions shall demonstrate significant growth in due course.

The number of personnel in general administrative positions in local governments is 900,000. This time around, 143,000 workers became subscription-based users, but there are another 150,000 users who are using the system free of charge. The company's aim is to have users experience the system first, then once the usage fee is budgeted for, have the users migrate to a subscription-based service. It

will increase usage rate through this pattern.

Change's LoGo Series is second to none of any comparable application in the setting of a budgeted local government. In other words, LoGo Series has been successful in capturing 100% of all subscription-based contracts.

LoGo Series has been developed together with personnel at local governments based on a thorough understanding of organizational needs. Herein lies its strength. The vendor develops the system, but the workers are not the users, but rather the creator itself. This is what drives the LoGo Series' success. The system has very effective for sharing information and templates among local governments.

LoGo Form can be applied to various uses, such as certification of coronavirus infections and vaccinations. By examining use of it, the company is able to grasp the needs of the local government in real time, and this knowledge is applied in developing the next wave of services.

With LoGo Chatbot, the company is complementing its services with automated tallying and safety verification functions when natural disasters strike. Going forward, LoGo Form will also be put to use for online settlements.

There are increasing cases in which multiple local governments are jointly adopting LoGo applications. Ways of using LoGo series are rapidly increasing. 1) "Osaka Municipalities Smart City Promotion Liaison Committee (GovTech Osaka)," established and operated by Osaka prefecture, is implementing LoGo Chat into the prefecture and 22 municipalities. Usage of the system has begun sequentially, starting in May. 2) GovTech Osaka will also introduce LoGo Form introduced into eight municipalities within the prefecture. The system will be brought online in June. 3) Twelve municipalities in Shiga Prefecture made the decision to introduce LoGo Chat. This will be a joint purchase, and usage started in May.

Introduction through joint procurement is expanding rapidly. These purchases are subject to volume discounts, but the accelerated rate of adoption is a noteworthy development.

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

TRUSTBANK and blockhive concluded a business partnership agreement in May last year. Combining TRUSTBANK's LoGo Form and digital ID application "xID," developed by blockhive, has enabled staff of local government offices to prepare administrative application forms swiftly and effortlessly, 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.

### **LoGo Form's anti-coronavirus package**

During the first quarter of the current fiscal term, the company began delivery of its "anti-coronavirus package," which enables residents, business operators, and local government workers to avoid the 3Cs through the use of LoGo Form. The package can be used to make various reservations and to complete application processes. These include appointments to pick-up a MyNumber card, file an application for the novel coronavirus testing subsidy or business continuation support subsidy, and to seek approval for remote working. LoGo Form has already been adopted by more than 190 local

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governments. Through TRUSTBANK's SaaS service, it aims to enhance efficiency by digitizing paper documents, also contributing to prevention of the spread of the coronavirus.

In promoting LoGo Series, a focused promotion of a new theme, such as prevention of the spread of the coronavirus and determination of methods to carry out vaccine inoculation, has a positive impact.

In reality, taking Hamamatsu City as an example, in the application system it issues certificates of coronavirus prevention measures applied by eat-out establishments, it required only two weeks for preparation with the application form completed in a few days. Within three days after taking the application system online, applications began pouring in, and by the end of the third month, 85% of all applications were completed online.

### **Partnership with Konica Minolta**

In January this year, Change entered into a partnership with Konica Minolta to adopt AI in the effort to standardize work processes for digital transformation of local governments. Konica Minolta has a proven track record of increasing operational visibility and improving operational processes, working with 50 local governments. Change has the capability to analyze details of operational processes using natural language AI. By combining these two capabilities, the company expects a significant increase in projects to improve operational processes at local governments from tens to hundreds of cases.

### **Capital tie-up and business partnership with Writeup**

In December last year, Change participated in capital funding of Writeup (securities code: 6580). Writeup delivers DX services to small and medium-sized enterprises across the country. Change recognized this DX platform for regional revitalization. Change took on a 2% stake in Writeup to strengthen its alliance with the company.

Writeup is listed on TSE Mothers market, but Change has a slight advantage when it comes to application of DX when small and medium-sized enterprises located in rural regions are applying for various subsidies and grants. By entering into a partnership with Writeup, the company aims to gain momentum in revitalizing medium-sized enterprises in rural regions.

### **Acquisition of beacapp**

In March, beacapp became a subsidiary of Change. Beacapp was acquired for just over 600 million yen. Beacapp is a leading venture company in beacon- (short-range wireless sensor location data transmitter) related solutions. Change acquired 71.3% of beacapp's stocks. Beacapp boasts a top-class track-record in Japan in the development of beacon-related applications, and enables users to easily obtain location data. This technology is deployed in the field and rural regions, and utilized as IoT sensors.

Beacapp currently focuses on beacon applications in office settings. Companies with free-address office layouts spread out over multiple floors, such as major real estate companies and trading houses, face various situations in which they need to ascertain their employees' locations. This will lead to the future need to utilize information on workers' locations in large-scale hospitals and expansive distribution centers.

### **TRUSTBANK's "Enecho" awarded at the New Energy Awards**

TRUSTBANK's "Enecho" was awarded the Agency for Natural Resources and Energy's Director-

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General's Prize at the New Energy Awards ceremony. Instead of selling electricity generated at residences, contributions are made to the region through donation of post-FIT electricity. A platform to exchange post-FIT electricity was developed, and donations made to a new electricity company funded by the local government is compensated with local specialties or through points.

Post-FIT refers to electricity that no longer qualifies for the feed-in tariff (FIT) program, in which electricity generated at residences is bought up by electricity companies, but only up to 10 years after the solar power generation unit was initially installed. Use of this electricity as a means to make donations for regional support is attracting attention. The capacity of post-FIT electricity will undergo rapid expansion in the next few years.

Enecho (Furusato Energy Choice) serves as a platform to address this issue, and it was recognized for the following reasons: 1) the donator can pick an area of his or her choosing, 2) donations are compensated in return, and 3) Furusato Choice is the leading platform in the industry.

### **Risk in the Hometown Tax Payment Program**

The risk in the Hometown Tax Payment Program lies in potential changes that may be applied to the program's policy. So far, there are no signs of upcoming revisions, but should an upper limit be applied after a review of the program, there is a possibility that the market could become smaller than its current size. Should the program be put to use for various purposes by a wide range of users and continue to make contributions to the rural region, there should not be any concern. However, should it favor specific regions or provide advantages to a certain affluent class, the program could become subject to criticism.

The Hometown Tax Payment Program serves as an entry point to Change, and it aims to promote digital transformation (DX) to a wider range for regional revitalization.

The profitability of Furusato Choice is influenced somewhat by how much advertising and marketing costs are spent in relation to competitors. Through the Hometown Tax Payment Program, Furusato Choice has contracts in place with more than 1,600 local governments. Rakuten has less than 1,000, and the next closest competitor has less than 700, so Change holds the leading position in this category. Competition is fierce. How the company differentiates its platform with added-value services will be critical to its continued success.

### **Leveraging the Hometown Tax payment business towards the next opportunity**

Softbank (Satofuru) and Rakuten are competitors in the Hometown Tax payment business, but the company's Furusato Choice has come out on top as the leading payment application so far. President Fukudome is not concerned about this competition for market share for the following reasons: 1) as the leading company, confidence gained from local governments is strong; 2) competitors' commission rates range between 9% to 10%, whereas Furusato Choice charges only 5%, leaving considerable room; 3) even if the company's site should lose a certain percentage of its share, it is not the company's objective to make money solely through the Hometown Tax payment program; and 4) deployment of other platform businesses, such as LoGo Series, among local governments is demonstrating strong performance.

The Hometown Tax payment program is a cash cow, and room left to grow its revenue is still large. Revenue gained through this part of the business will be reinvested in IT and DX to enhance the company's social and economic value. Deployment of DX in rural regions based on this policy will

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result in the company dominating its competitors.

### **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 was launched in August last year. The local government issues 5,000 negi (negi is the unit of the community currency) per child, which is equivalent to 5,000 yen. A negi card is issued to benefit families, and it can be used for payments at retail stores in the city that are taking part in the program. It is part of aid in response to the coronavirus pandemic. Compared to vouchers issued in paper format, the required cost to realize this system is reduced by 60%.

### **Experimentation in rural regions**

"Digitization of the Entire Village" will be initiated at Hidaka Village, Kochi Prefecture. The project entails requiring all 5,000 residents of the village to own and carry smartphones in order to deliver the following services: 1) disaster prevention, 2) health management, 3) community currency, and 4) a messaging service (LINE).

The village has a high concentration of senior citizens, and a third of the population does not possess a smartphone. Together with KDDI (au), Change collaborated with the village to determine whether seniors are really incapable of using smartphones, what could be done to enable them to do so, and if a truly useful service could be delivered. Through this experience, the company will develop the necessary know-how. If it succeeds, gains from the experience should be applicable at local governments across the country.

### **IPO acceleration program**

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 both domestically and abroad in user experience (UX) consulting. In accelerating progress of digital transformation, the key for success is not only in the products or services a company offers, but also its experience.

It has delivered similar consulting services in Japan, Shanghai, and Taiwan, and is now offering full-scale platform services to major enterprises 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 enterprises, 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.

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 last year.

As evident through the capital and business alliance with Headwaters, the Acceleration Program enables Change to: 1) obtain information on various venture companies through its network; 2) cherry pick a suitable partner by examining the compatibility of both sides' businesses and confirm that business support can be provided; and 3) make an investment worth approximately 10% of capital based on this study.

The company will enhance its line-up of super city-oriented services in collaboration with Headwaters. Possible application of Headwaters' Edge AI and Digital Twin Tech could be, for example, central control of Edge Camera to supervise children in public facilities and recognition of congestion while removing private images.

#### Investment business—IPO acceleration program

Investment	Investment period	Business	Aim	Post-investment
<b>[Current possession]</b>				
Headwaters	Apr. 2018	AI for robots	Pooled marketing	Listed on Mothers in Sept. 2020, currently in possession
AI CROSS	Jul. 2018	AI business chat	Promotion of Publitech	Listed on Mothers in Oct. 2019, currently in possession
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
Writeup	Dec. 2020	DX service for small and medium size enterprises	DX for local small and medium size enterprises	Listed on Mothers, currently in possession
<b>[Exit completed]</b>				
Phone Appli	Apr. 2017	Cloud web, telephone directory app	Pooled marketing	Aug. 2018, sold to NTT Communications
GA technologies	Dec. 2017	AI real estate technology	AI synergy	Listed on Mothers in Jul. 2018, sold in 2Q of fiscal term ending Sept. 2019
Voistart	Jul. 2018	AI speaker service for seniors	Regional revitalization business	Dissolved, transferred to NTT Data
Shikigaku	Sep. 2018	Organization management	Pooled marketing	Listed on Mothers in 2Q of fiscal term ending Sept. 2019, sold in 4Q of same fiscal term

In addition, the company acquired shares of AI Cross (formerly known as 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.

In July 2019, 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 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.

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Change invested in Aeronext Inc., with whom it had 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, "4DGRAVITY®" is revolutionary, and its wide range of applications extends to 360-degree VR filming, horizontal transport, pinpoint landing, and use of drones for making deliveries. Aeronext also has an office in Shenzhen, China. The company will support the use of these drones in ways that correspond to the nature of business, such as facility and equipment inspections, topography surveys, and inventory management.

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

### **Development of know-how as business gains momentum**

#### **• XR activities**

XR is the collective name of technologies such as virtual reality (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.

#### **• 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 institutions within and outside the US. Symphony has been adopted as a chat application for business use within financial institutions, 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.

#### **• Provision of a DX platform to a consulting firm**

In partnership 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) businesses. 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**

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Cyber security is increasingly becoming a critical matter. The company entered into a partnership agreement with US company Cyber Reconnaissance, and began delivery of its 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 apply this technology for 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).

#### 4. 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% year-on-year), operating profit of 513 million yen (+55.0% year-on-year), ordinary profit of 513 million yen (+57.7% year-on-year), and net profit of 343 million yen (+49.5% year-on-year). 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.

Earnings by Business Segment

	Sept. 2017 Non-consolidated, Japanese Accounting Standard Basis	Sept. 2018 Non-consolidated, Japanese Accounting Standard Basis	Sept. 2019 Consolidated, Japanese Accounting Standard Basis	Sept. 2020 Consolidated, Japanese Accounting Standard Basis	Sept. 2019 IFRS	Sept. 2020 IFRS
<b>New-IT Transformation Business</b>						
Sales revenue	1980	2447	2742	2984	2299	2231
Profit		790	786	602	719	608
<b>Investment Business</b>						
Sales revenue	-	157	450	0	7	198
Profit		76	288	-20	-7	177
<b>Publitech Business</b>						
Sales revenue	-	-	3867	8713	3691	8116
Profit			875	4190	1170	4555
Adjustment		-352	-868	-1145	-855	-1138
<b>Total</b>						
Sales revenue	1980	2604	7054	11692	5992	10542
Profit before taxes	331	513	1081	3626	957	4203

(Note) The profit figures indicate segment profits, while the adjustments applied are for the total company G&A expenses.  
Profit before taxes based on Japanese Accounting Standards are on operating profit basis.  
IFRS is on International Accounting Standards basis.

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

The company reported its earnings result for the term ending September 2019 with sales of 7.054 billion yen (prior year's result, 2.604 billion yen), operating profit of 1.081 billion yen (similarly, 513 million yen), ordinary profit of 959 million yen (similarly, 513 million yen), and net profit of 378 million yen (similarly, 343 million yen). The company began reporting its earnings based on consolidated accounting starting from the current fiscal term. Compared to the non-consolidated statement from 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.

## **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% year-on-year), operating profit of 3.626 billion yen (+235.2% year-on-year), ordinary profit of 3.632 billion yen (+278.5% year-on-year), and net profit of 1.547 billion yen (+309.5% year-on-year).

In the New-IT Segment, activities to develop DX professionals were dramatically altered from before the coronavirus pandemic, and the company shifted from face-to-face to online sessions. During this period, the company quickly shifted its business to the web, based on its change in strategy. 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 spent 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 million yen).

## **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.

**Change in business performance by quarter**

(million yen)

	1Q		2Q		3Q		4Q	
	Sales	Operating profit						
[Japanese Accounting Standards]								
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
[IFRS]								
Sept. 2020 (consolidated)	4357	2659	1353	156				
Sept. 2021 (consolidated)	7799	4618	2463	701				

**Response to the coronavirus shock**

In response to the coronavirus pandemic, firstly, the company reshuffled its client portfolio and transitioned to a remote-working structure. Secondly, 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. Thirdly, the company prepared to transition to IFRS based 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.

**Introduction of IFRS**

CFO Yamada emphasizes that, through introduction of IFRS: 1) market valuation became stricter, 2) the cost basis to advance the business gained clarity, and 3) reserve funds, etc. became more rationalized. The elimination of amortization of goodwill and commencement of market valuation of the company's investment activities reveal their differences in a more stark manner to investors.

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. Financial reporting based on IFRS started with the term ending September 2021.

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 product or service is purchased 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

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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. Taking a look at separate segments, a gap close to 1 billion yen in software sales is observed in the New-IT Segment, which distributes software licenses purchased from the U.S.

In the Publitech Segment, regarding the Furusato Choice business, fees once received for electronic settlements and certificates by TRUSTBANK are paid to related counterparts, so they are not accounted for as sales in accordance with the current accounting standards. The value of these payments amounts to roughly 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.

### **Execution of equity financing to fuel further growth, centered around M&A**

In March, the company issued new shares in international markets. The newly issued shares, 5.3629 million in all, were offered mostly in Europe and Asia (and not inside of U.S. and Canada). The purpose of equity financing was to cultivate foreign investors. Total capital amounting to 16.5 billion yen was raised. The dilution ratio was 7.4%, the day count ratio was 4.01%, and actual issue price was set at 3,077.2 yen.

Proceeds of 16.384 billion yen will be allocated to the following activities to be executed by the end of the fiscal term ending September 2023: (1) 8.192 billion yen towards M&A, (2) 2.868 billion yen towards investments in personnel, (901 million yen allocated to Change and 1.967 billion yen to TRUSTBANK), (3) 4.096 billion yen towards IT development, and (4) 1.228 billion yen towards marketing activities. If no M&A deals are closed, then the funds allocated to M&A will be used to fund organic growth.

By utilizing the 8.1 billion yen in a significant manner, the company should be fully capable of leveraging the funds to close M&A deals worth 20 to 30 billion yen in total, equivalent to three to four times the original sum. Dilution should pose no problem whatsoever, considering the company's growth potential.

In overseas finance, the ratio of ownership by foreign investors rose from 11.5% to 21.1% by March's end. The shareholding ratio of the company's executives dropped from 49.1% to 43.2%. Through this change, the distribution and equity ratio increased from 68.8% to 72.3%.

The company was able to raise 8.2 billion yen earmarked for future M&A through this financing. There are three types of possible acquisition of management resources through M&A. 1) Acquisition of talent, such as IT engineers; 2) acquisition of customer bases, such as sales towards local governments, construction, and healthcare; and 3) acquisition of products of promising SaaS-type companies, such as beacapp. Of these, the company will place priority on 1) above, and include M&A of listed companies in its target.

The unique feature of this financing is the fact that the funds for M&A were raised in advance. The company possesses a clear vision and detailed mid-term plan, based on which it has established a solid strategy to achieve its goals. As for details of the M&A, no specific deals were revealed, but targets were clearly demonstrated. Foreign investors are considered to have agreed with this stance.

The fact that the company has taken the initiative in financing reserve funds for M&A is significant. The challenge will be to convince investors that the next M&A target possesses the right properties. It

is expected to take shape sooner rather than later.

### Earnings projection by business segment

(million yen)

	Sept. 2019		Sept. 2020		Sept. 2021 (Fcast)		Sept. 2022 (Fcast)	
	Sales revenue	Profit	Sales revenue	Profit	Sales revenue	Profit	Sales revenue	Profit
New-IT Transformation Business	2299	719	2231	608	3000	900	4000	1200
Investment Business	7	-7	198	177	200	180	200	180
Publitech Business	3691	1170	8116	4555	13300	6400	14800	7400
Total business expenses (G&A expenses)		-855		-1138		-1480		-1780
<b>Total</b>	<b>5992</b>	<b>957</b>	<b>10542</b>	<b>4203</b>	<b>16500</b>	<b>6000</b>	<b>19000</b>	<b>7000</b>

(Note) Profit is segment profit. IFRS-based

### Business plan for the term ending September 2021

The company's business plan for the term ending September 2021 (IFRS basis) forecasted sales ranging between 15.781 and 16.281 billion yen, operating profits between 5.071 and 5.571 billion yen, ordinary profits between 5.008 and 5.508 billion yen, and net profits between 3.296 and 3.623 billion yen.

In comparison to the preceding term, these are incremental increases in sales between 49.7% and 54.6%, operating profits between 20.7% and 32.6%, and net profits between 60.9% and 76.8%. Growth in 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 it will have a positive impact.

### Strong results reported for the second quarter

The company reported earnings for the second quarter of the fiscal term ending September 2021 (first half) with sales of 10.262 billion yen (+79.7% year on year), operating profits of 5.319 billion yen (+88.9% year on year), ordinary profits of 5.264 billion yen (+88.3% year on year), and net profits of 3.467 billion yen (+165.0% year on year).

Taking a look at separate business segments, New-IT generated profits of 354 million yen (+33.7% year on year), Publitech generated 5.394 billion yen (+77.5% year on year), both reporting robust performance.

This is from stable gains in digitalization projects for large-scale enterprises and activities related to training and development of digital professionals in the New-IT Transformation Business. In addition, the company founded a joint venture with KDDI to collectively perform training and development of digital professionals.

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Transition of segment earnings by quarter

		(million yen)							
		1Q		2Q		3Q		4Q	
		Sales revenue	Operating profit						
[Japanese Accounting Standards]									
Sept. 2019	NEW-IT	425	83	687	210	880	289	748	202
	Investment Business	0	-2	354	233	5	-5	91	58
	Publitech Business	1610	535	556	-102	781	194	886	238
	Adjustment		-177		-223		-209		-258
	Total	2035	439	1630	132	1663	269	1724	240
Sept. 2020	NEW-IT	618	115	794	148	731	186	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
	Total	4512	2570	1673	40	2577	676	2930	340
[IFRS]									
Sept. 2020	NEW-IT	496	91	604	173				
	Investment Business	26	20	-20	-24				
	Publitech Business	3835	2824	769	215				
	Adjustment		-276		-208				
	Total	4357	2659	1353	156				
Sept. 2021	NEW-IT	473	136	637	218				
	Investment Business	72	67	175	170				
	Publitech Business	7253	4771	1651	623				
	Adjustment		-357		-310				
	Total	7799	4618	2463	701				

In the Investment Business Segment, operating investment securities are appraised at market value under IFRS, so this had a positive impact on financial figures. The company also invested in Writeup.

In the Publitech Business Segment, an increase in fees for the use of the Hometown Tax payment platform, which took effect in April last year, contributed to the bottom line. In addition, the LoGo Series is growing at a brisk pace.

The market size of the Hometown Tax Payment Program is approximated at 500 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 full year this current term. In supply chain management of Furusato Choice, skilled personnel are being recruited from outside the company and a logistics team is being formed. Eleven million packages are handled, and estimating 150 yen per package for handling, this amounts to total potential income of 1.65 billion yen. These effects will eventually contribute to earnings.

Income from subscription fees for use of the LoGo Series is not included in this term's budget. It should take effect in full force starting in the term ending September 2022. There are some 900,000 ordinary administrative staff in local governments that could potentially become subscribers of the LoGo Series. The company aims to capture 50% of this pool. In addition, of the 1,788 local

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governments, the company aims to engage 1,000 of them.

### Earnings forecast

(million yen, %)

	Sept. 2019 [Japanese Accounting Standards]	Sept. 2020 [Japanese Accounting Standards]	Sept. 2019 [IFRS]	Sept. 2020 [IFRS]	Sept. 2021 (Fcast) [IFRS]	Sept. 2022 (Fcast) [IFRS]
Sales revenue	7054	11692	5984	10343	16500	19000
Sales cost	2643	3947	1936	2592	4500	5500
Ratio of costs to sales	37.5	33.8	32.4	25.1	27.3	28.9
Gross profit	4410	7745	4055	7950	12000	13500
Gross profit margin on sales	62.5	66.2	67.8	76.9	72.7	71.1
SGA expenses	3329	4118	3047	3757	6000	6500
SGA expenses on sales	47.2	35.2	50.9	36.3	36.4	34.2
Operating profit	1081	3626	1027	4203	6000	7000
Operating profit on sales	15.3	31.0	17.1	40.6	36.4	36.8
Profit before taxes	959	3632	957	4160	6000	7000
Net profit	378	1547	476	2049	3800	4500

(Note) Profit before taxes based on Japanese Accounting Standards are on operating profit basis.

### Future outlook

The company achieved most of its full-year profit plan (5.0 to 5.5 billion yen) during the first half. The seasonal nature of TRUSTBANK's Furusato Choice's contribution to profits originally led to a significant profit contribution in the first quarter (October to December), but coupled with this was the overall robust performance of all of the company's business segments.

The full-year business outlook has not been revised. This does not mean that the company will not be able to generate any profit during the second half, but since the next mid-term plan is scheduled to begin with the next term, the company plans to make significant upfront investments for that purpose. The company plans to make the following investments: 1) 500 million yen in human resources; and 2) 800 million yen to develop technical services for creating new products. A majority of the advance investments will be made in TRUSTBANK. The investments will be made to secure the necessary talent, enhance the Furusato Choice platform, expand LoGo Series, and in payment settlement systems and energy-related business.

## 5. Corporate valuation Focus on the next M&A

### Evolution of the business model and growth story

The company's business model is complex and has its own unique characteristics. It started as a

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consulting model, and the company aims to expand its platform while improving the SaaS model. There is a difference of opinions as to whether the share price is still considerably undervalued, judging from the company's growth potential, or whether it is already fully valued. This is where it gets interesting. President Fukudome envisions a grand growth story, quite similar to that of M3's President Tanimura. This deserves attention.

A new development is about to begin towards the next mid-term plan. In New-IT, development of business towards local banks should commence in cooperation with KDDI. TRUSTBANK's SaaS model business has met with a smooth start, but the company lacks the necessary talent to accelerate its growth. A large-scale M&A to secure the necessary talent is likely to take shape, sooner or later. How will the company make the most of the Furusato Choice platform? We should see developments related to this, also.

The company will adopt a two-pronged strategy in terms of DX and human resource development. While training and developing DX professionals for major financial institutions as a large-scale project, the company will also aim to expand the market base. For example, if you train 10,000 people at a cost of 30,000 yen per person, your annual sales would be 300 million yen, but if you can train 1,000,000 at a cost of 300 yen per person per month, you can expand your annual sales to 3.6 billion yen as recurring business.

### **Perspective of foreign investors**

Foreign investors hold three interests. First, what is the objective of the M&A? Second, how will the company make the most of the Furusato Choice platform? Third, will IT for local governments progress according to plans?

In response to these questions, we can evaluate accordingly: 1) M&A is always in consideration; 2) Furusato Choice is not a fight for market share, but rather a cash cow that focuses on investment returns, while using profits generated through the platform to invest in the next phase of growth; and 3) DX for local governments is expanding according to original plans.

### **Towards the next phase of growth**

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.

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.

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### **Business portfolio vector—Synergies with Publitech will be significant**

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

Acquisition of TRUSTBANK was a huge 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.

The company's ambition is to develop new business in addition to the Hometown Tax program, and increase the composition of profits from Publitech other than from New-IT Transformation & Hometown Tax Payment Program. 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.

Business will grow along faultlines. New fields will witness higher profit margins as horizontal expansion goes into full swing. The Investment Business Segment may also yield significant results, and an ROE of 30% is likely achievable.

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 financial results were released, a debrief for shareholders and investors was held on Zoom, starting at 19:00. President Fukudome's devotion to addressing basically all of the comments received from individual shareholders and investors is worthy of praise. He carefully responded to approximately 100 questions. This meeting for shareholders and individual investors showed how they should be held in the future, and it is assumed that the satisfaction level of those who posed questions was high.

Last year, the company split its shares in a 2-for-1 split at the end of August, and another in a 2-for-1 at the end of December. The TSE has launched a policy to enable investors to possess unit shares for smaller amount of investment capital. Based on this policy, 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 investments in areas of growth. 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. After a lapse of three years, the shareholder incentive program is due for review in the near future. 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 June 16), the PBR stands at 7.42, ROE at 13.0%, and PER at 57.2. The synergy achieved with TRUSTBANK has become evident, and expectations for growth have increased.

Change's new business model will continue to evolve further. 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, led by President Fukudome, and the company's future growth potential are worthy of attention.