

## 3962 Change

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

September 9, 2021

First Section of the Tokyo Stock Exchange

#### Highlights

- At the extraordinary shareholders' meeting held in August, the company reduced its capital and capital reserves by 19.2 billion yen to create a structure that is prepared for a stock swap in the next M&A. The company raised 16.5 billion yen through a public offering in March, and also prepared a 19.5 billion-yen overdraft agreement with banks in June. The company will buy back 2 billion yen worth of its own stock by the end of September. Financing for external growth laid out in the mid-term plan is in place.
- According to third-quarter cumulative results for the term ending September 2021, performance of both New-IT and Publitech segments were strong and achieved their full-year profit targets. During the fourth quarter, the company will be making significant upfront investments in human resources and development to prepare for the new mid-term plan starting next fiscal year, so on the surface, profits will be restrained. This will give a boost to the company's potential growth in the next fiscal year.
- 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.
- The novel coronavirus shock has accelerated the promotion of digital transformation (DX) in Japan. Contributing to the improvement of Japan's productivity and regional development are the company's SDGs and ESGs. In DJ2, the sweet spot is in the overlapping areas of: (1) digital (use of digital technology); (2) local (regional sustainability); and (3) social (resolving social issues).
- The company will spread the benefits of digitization to regional areas outside the Tokyo metropolitan area and contribute to resolving regional issues. In particular, the company will address shortage in professionals necessary for advancement of DX. To train and develop DX professionals, a new company, "Digital Growth Academia," was launched in April as a joint venture with KDDI. Content for training and development of human resources will be placed on KDDI's nationwide corporate network, and its rate of expansion rate will be accelerated. It is making a strong start.
- In Publitech (New-IT in the public sector), Furusato Choice is steadily increasing its contribution to profits, and LoGo Chat and LoGo Form in the Publitech segment are also entering a new phase of growth. The next round of M&As is also in the company's sights. The company's strategy to secure a client base, products, and resources are looking to materialize. The company is attracting the right collection of talent and is expected to further increase its corporate value, so expectations for the second phase of its growth strategy are running high.

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## Contents

1. Feature: Evolution of New-IT's transformation to Publitech
2. Strength: Accelerated growth in the Publitech Segment centering around TRUSTBANK
3. Mid-term business plan: Immediate response to the coronavirus pandemic—aiming to secure a leading position in Japan's DX market
4. Near-term business performance: Uninterrupted pace of rapid growth
5. Corporate valuation: Focus on the next M&A

Corporate rating: A

Stock price (as of September 8, 2021): 2,441 yen

Market capitalization: 177.4 billion yen (72.679 million outstanding shares)

PBR: 5.63      ROE: 12.1%      PER: 44.9      Dividend Yield: 0.0%

(Figures are in millions of yen)

Accounting Period	Sales Revenue	Operating Profit	Profit Before Taxes	Current Profit	EPS	Dividend
Sept. 2015	1400	134	137	82	2.0	0
Sept. 2016	1550	186	175	118	2.7	0
Sept. 2017	1980	331	325	229	4.5	0
Sept. 2018	2604	513	513	343	6.5	0
Sept. 2019	7054 ( 5992)	1081 (1027)	959 ( 957)	378 ( 476)	6.6 ( 7.9)	0
Sept. 2020	11692 (10542)	3626 (4203)	3632 (4160)	1547 (2049)	24.6 (31.6)	0
Sept. 2021 (F'cast)	16000	6000	6000	3800	54.4	0
Sept. 2022 (F'cast)	19000	7500	7500	4800	66.0	0

(Based on results as of June 2021)

Total Assets: 39.273 billion yen      Net Assets: 31.523 billion yen      Ratio of Net Worth: 80.3%

BPS: 433.7 yen

(Note) ROE, PER, and Dividend Yield are estimates for the current accounting period. The following stock splits were executed: 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.

(Disclosure) Belle Investment Research of Japan Inc. holds 1,000 shares of the company's stock as a minority shareholder on a medium- to long-term basis in order to analyze details of the actual situation and procedures regarding the company's business transformation.

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. Individuals who trained here have taken positions in various firms, helping the company to foster 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 an 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 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.

#### 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.

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

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Payment Program. The company entered a new phase in the sense that it is looking to expand its growth areas 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.

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

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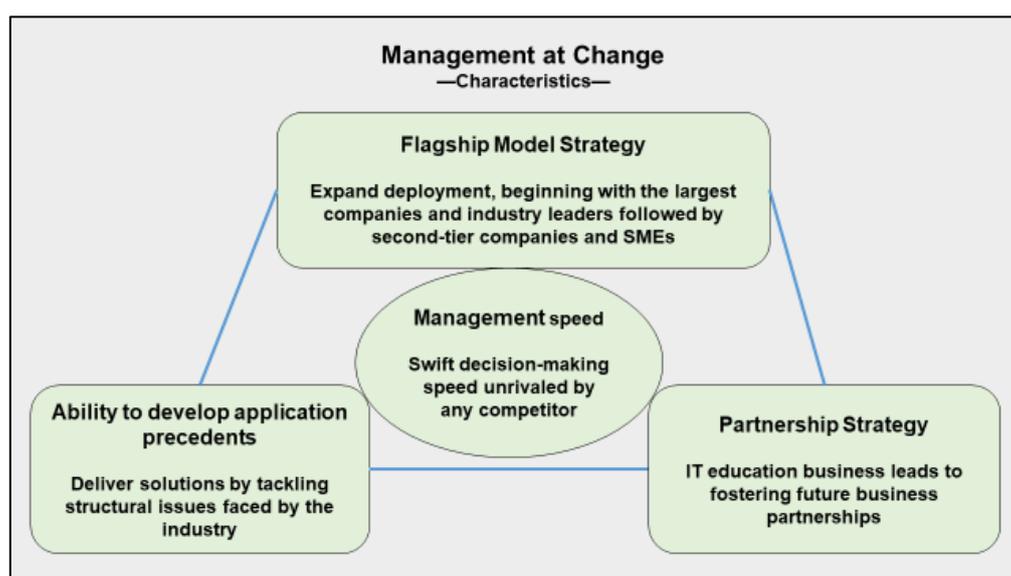
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with the adoption of new technology, a large-scale enterprise would take a lot of time before finally tabling a proposal at a management meeting, and still decide not to take the risk to adopt it. At the company, however, the leadership itself reviews 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.

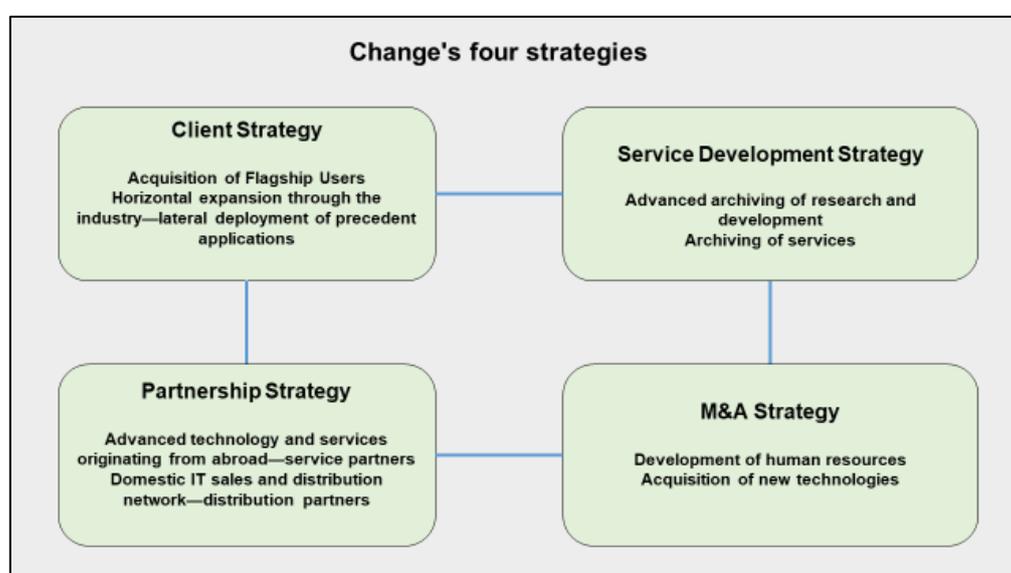
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## Human resource development and adoption of technology—Exploring IT partners on a global scale

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.

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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.

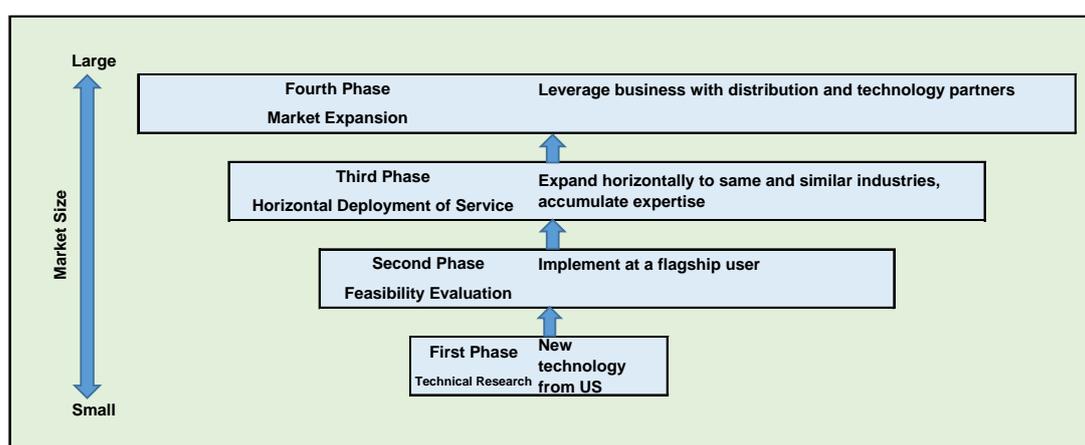
There are almost no other companies in the same industry that can do the same. That is, although there may exist similar firms in management consulting, IT consulting, mobile, security, or IoT, there is no competition that can construct actual application cases at the field level.

### 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

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Flagship User, and a pilot project will be carried out to determine the technology's feasibility. 3) Stage 3 (Horizontal Deployment of the Service)—Based on the preceding example, the service will be deployed horizontally within the same industry and similar industries to accumulate know-how. 4) Stage 4 (Market Expansion)—The business will be expanded with full force in conjunction with distribution and technical partners.

### **Partnership strategy and implementation of IT technology**

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

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

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.

### **Investment business launched as the New Business Creation Unit**

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

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, whose strengths lie in real estate-related technologies that use 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

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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 ever since the company was founded, 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 9.0 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.

### **Compliance with the Prime market**

The company was notified of its compliance with the Prime market on the Tokyo Stock Exchange in July, and will focus on improving its corporate governance and addressing ESG and sustainability issues. The company's policy is to work not only on form but also on substance.

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

The company's financial reporting for the term ending September 2020 follows Japanese

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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 gains and 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**

The company fully acquired TRUSTBANK in 2020. 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 increased to 70% through additional capital investment in August 2019, but it has now risen 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 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.

Such M&A through stock swaps will be used as an effective financial strategy in the future.

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## **TRUSTBANK will plan and manage "Furusato Choice"**

TRUSTBANK is No. 1 in total amount of Hometown Tax processed. Its share exceeds 30% in terms of 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.

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 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. 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

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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.

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, the municipal points system will be adopted in addition to Furusato Choice. It is essential that currency is circulated within the 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. 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

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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) "Local Currency Business," where funds are circulated through a given region; 2) Publitech Business (LoGo Chat), which elevates the added value of services offered to local residents by assisting with productivity improvements within the local government; 3) "Energy Business" (Enecho), which promotes local production and local consumption of energy; and 4) "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.

#### 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	396
Mar. 2020	4875	2333	413
Mar. 2021	6723	3488	552

(Source) Ministry of Internal Affairs and Communications

(Note) Applicants are those applying for resident tax exemption.

#### 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 confusion concerning the program prior to policy reform (June 2019) of the Hometown Tax Payment Program. 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 Hometown Tax Payment Program has been operating under a new system from fiscal 2020, and the donation market demonstrated a strong growth rate of 672.3 billion yen (+37.9% year-on-year).

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### **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 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.

This kind of disaster support through Furusato Choice is likely to be rated highly. In response to natural disasters such as torrential rains, significant amounts of donated money are collected by specifying the area and soliciting Hometown Tax payments. Donations can then be delivered swiftly to the disaster-stricken municipality, enabling donors to make a direct contribution. In the case of the Atami disaster, 226 million yen was raised. The Ministry of Internal Affairs and Communications has also recognized the significance of Furusato Choice's activities. This is a social donation in the absence of any expectation of return gifts.

### **The state of the Hometown Tax system—Take rate of Furusato Choice**

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. The company also 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.

### **Donated amount collected through the Hometown Tax Payment Program**

The total amount of donations collected through the Hometown Tax Payment Program reached 672.4 billion yen during fiscal 2020, of which Furusato Choice's share has declined from its previous level of 40%. The site maintains its positioning as the top well-known brand, but its share is declining. What to make of this.

As a matter of policy, the company does not run campaigns that encourage greater return gifts. The company has not abandoned its stance of directing tax payments to hometowns, which aligns with the original purpose and the way it should be. The company has no intention of getting involved in the

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same kind of advertising competition as its competitors.

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. The company holds the leading position. Competition is fierce. How the company differentiates its platform with added-value services will be critical to its continued success.

For the current fiscal year, the company expects its total amount of donations to reach around 700 billion yen. In its position as the leading brand, the company will continue to aggressively roll out new activities. It will not, however, adopt conventional marketing methods in a competition for market share. The company's policy is to create a new paradigm in line with the original purpose of the Hometown Tax Payment Program.

### **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. Donations collected during fiscal 2020 reached 11 billion yen, which 3.3 times that of the previous year. The number of private enterprises making donations reached 1,640 companies. It is the government's intention to strengthen policies that promote regional revitalization by increasing the extent of preferential tax incentives. The company will expand Furusato Choice to also serve as a platform for private enterprises to donate through the Hometown Tax Payment Program. 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 to peripheral businesses with the Hometown Tax Payment Program at its core. The company has initiated a settlement service for local governments. 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. The aim is to raise the efficiency of public services by applying fintech, which is an innovative approach.

### **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.

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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

### Sound financial structure

On the balance sheet, borrowing was carried out immediately following the acquisition of TRUSTBANK, and the company's ratio of net worth declined to 13.9% by the end of the first quarter of the fiscal term ending September 2019. However, but after the ensuing public stock offering, the same increased to 50.9%. The public offering executed May 2020 entailed issuing 1.6 million shares, amounting to 11.4% of the total outstanding number of shares. The stock was offered at 2,764 yen per share, and the amount of capital raised reached 4.26 billion yen. Net assets at the end of March stood at 2.3 billion yen, so it contributed to boosting the company's equity capital.

Intended applications of the raised capital 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. Worth noting is the fact that more than 20% of overall capital is now owned by overseas investors.

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**Balance Sheet**

(million yen, %)

(Japanese Accounting Standards)	Sept. 2017	Sept. 2018	Sept. 2019	Sept. 2020	(IFRS)	Sept. 2019	Sept. 2020
Current assets	1238	2103	5774	11327	Current assets	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
Non-current assets	190	165	5101	5045	Non-current assets	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
Total assets	1429	2268	10898	16386	Total assets	11444	17093
Current liabilities	282	493	1574	5046	Current liabilities	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
Non-current liabilities	58	118	3055	2605	Non-current liabilities	3071	2532
Long-term borrowings	39	93	2611	2231	Corporate bonds Borrowings	2548	2286
Net assets	1088	1655	6267	8733	Asset share of parent company	5854	7959
Interest-bearing liabilities	77	139	3003	2761	Interest-bearing liabilities	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

#### 4. 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

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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. How can the public and private sectors work together to create a new system? This is where Change comes into play, President Fukudome emphasizes. 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.

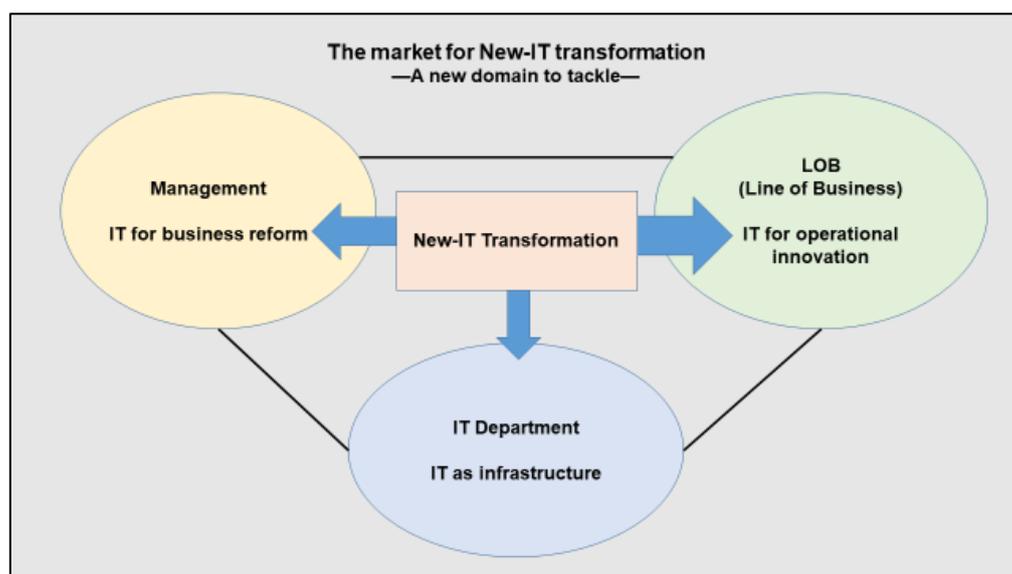
The company will get involved at the management level, with Line of Business as its main target.

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And when necessary, its strategy is to collaborate with major System Integrators (SI) to engage with businesses at the IT infrastructure level.

In that light, the company will not compete with major SI firms, but work together with them to develop new markets. In this sense, Change is their partner. To develop new markets and lead them towards such markets, the company will leverage technology and expertise that the major companies do not possess.



### Long-term vision—Digitize & Digitalize Japan

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

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

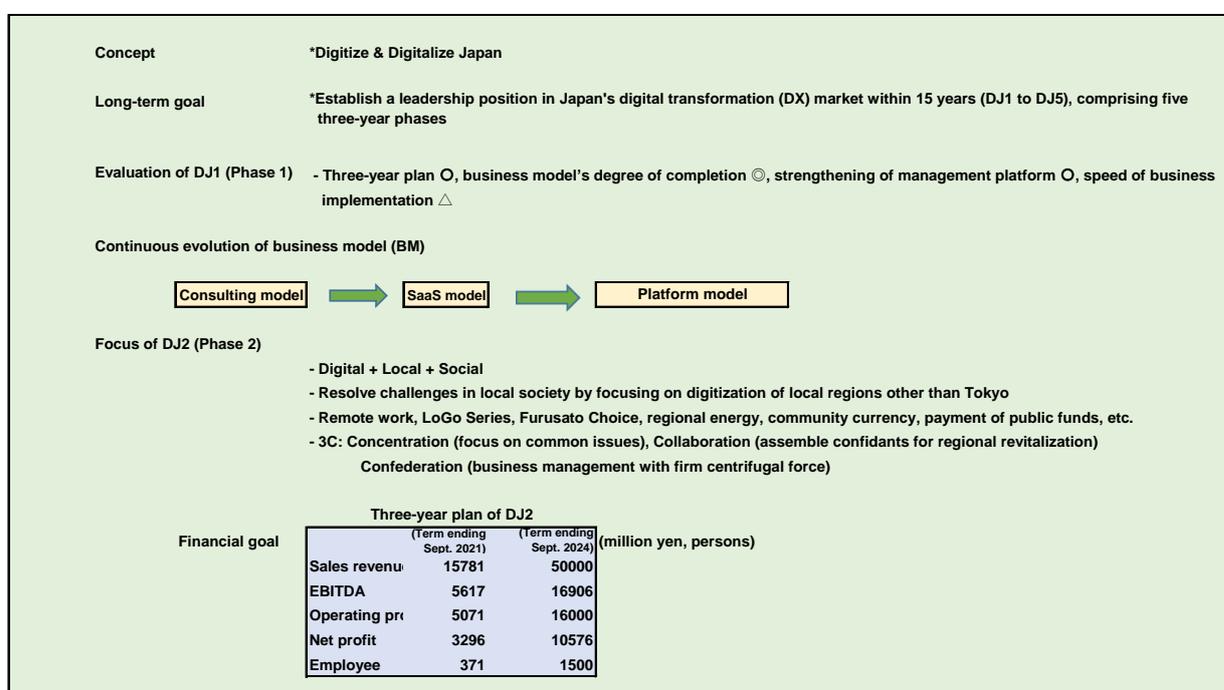
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operating profit of 4.7 billion yen (similarly 4.3 times), and an employee count of 250 (similarly 2.0 times).

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.

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

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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.

## **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 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. LoGo Series has established itself as a useful tool among local governments, and 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.

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## **Preparation towards DJ2**

New developments in preparation for the approaching DJ2 is beginning. President Fukudome emphasized the importance of collaborating with and recruiting partners to work with because the company is planning to launch various new businesses in DJ2. The company's policy will be to accelerate alliance-building in order to secure highly capable talent and expand its customer base.

### **1) Responding to demand in the private sector**

DGA (Digital Growth Academia, a joint venture with KDDI), a DX professional development program launched in April, is demonstrating a strong start during the April to June period.

Together with Mitsui Sumitomo Insurance, as part of the company's digital professional development initiative, the company launched digital literacy courses (seven subjects, including AI, IoT, cloud, mobility, cyber security, robotics, and agility) to raise the DX literacy of regular businesspeople, rather than developing DX professionals.

With Sumitomo Mitsui Banking Corporation, the company launched a DX support service for its clients. The company will consult, educate, and provide solutions to the management teams of its clients. The aim is to examine DX and develop a winning pattern through resolving problems.

The collaboration with Chiba Bank signals the beginning of partnerships with regional banks. As a strategic collaborative partner, the company aims to promote DX in the region. The company will engage non-financial areas through the formula of "region × DX." The company will develop DX professionals so that regional banks can act as regional trading companies. Together, the company will also support the DX of local governments.

These are examples of the company's response to demand in the private sector in DJ2. Likewise, new developments can also be witnessed in public sector demand, namely Publitech for local governments.

### **2) Responding to demand in the public sector**

In July, the company released GAIA (beta version), an AI solution to support DX in local governments. Here, users can access desired information by entering keywords. The activities of the local government will show best practices in terms of prior projects, workflow, and examples of improvements. Through TRUSTBANK, the company plans to expand the business model nationwide.

The AI "GAIA" (Government AI Assistant) was developed by Change in collaboration with Digital Growth Academia and Konica Minolta. This will utilize AI to help local governments standardize the process of business improvement and standardize certain other processes. Local government staff can create their own solutions with simple inputs, aiming toward standardization.

## **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 11 billion yen in operating profits.

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 question 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	155	182	230	300	500
Operating profit	42	58	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

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### **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.

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.

### **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.

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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.

### **Preparations made at the August extraordinary shareholders' meeting**

An extraordinary shareholders' meeting was held in August. There were two items on the agenda. One was to amend the Articles of Incorporation to allow for virtual-only general meetings, which would allow shareholders to hold general meetings without specifying the location of the meeting. Although it seems that the resolution could have been obtained at the original shareholders' meeting in December, the main purpose of the meeting was to swiftly set up a structure in which all shareholders could participate, and also to prepare the company to operate in an environment affected by the coronavirus.

The other was to implement a reduction in the capital and capital reserve on the balance sheet. The company's capital and capital reserves increased due to the public offering conducted in March. Capital stock of 10.660 billion yen will be reduced to 1.0 billion yen and the capital reserve of 10.617 billion yen will be reduced to 1.0 billion yen. That reduced amount will be transferred to other capital surplus. This reduction of 19.277 billion yen may be allocated to surplus, possibly for distribution to shareholders.

In other words, the company will be able to use the funds to buy back its own shares and allow for the company to distribute those shares to the shareholders of the acquiring company in the event of a

large-scale M&A in the future. In this way, the issue of goodwill generation and taxable amortization of goodwill can be avoided, making the increase in corporate value more straightforward and favorable for shareholders. The two proposals were both approved as special resolutions.

### **Preparation of overdraft agreement**

In June, the company signed a special overdraft agreement of 19.5 billion yen with Sumitomo Mitsui Banking Corporation. This is to prepare a borrowing facility for future M&A so that the company can act quickly when the need arises.

In March, the company raised 16.5 billion yen through a public offering. With this as the basis, preparations to deal with future stock swaps were made at an extraordinary shareholders' meeting. Furthermore, the company took steps to raise bridging funds. As such, preparations for future large-scale M&A may be considered well underway.

### **Execution of share buybacks**

The company will buy back its own shares between August 16 and September 30. The company will purchase 622,800 shares (0.85% of the total outstanding shares) with a cap of 2.0 billion yen. This indicates the company's stance on the current stock price, meaning that they are investing because it is currently undervalued. In addition, treasury stock can be used as consideration in a stock swap, preparing the company for potential M&A.

This is a form of returning profits to shareholders as well as a capital policy to prepare for future M&A and alliances. Overall, the company is financially prepared to carry out a large-scale M&A of 20 billion yen.

### **Impact of the novel coronavirus**

In terms of the impact of the novel coronavirus, 1) The company experienced significant growth in its Publitech Business sector due to support offered to regional economies to deal with the pandemic. 2) Group training sessions were either cancelled or postponed, which resulted in a decline in performance of the education business aimed at digital professionals, but this was immediately migrated to online training and the deficit was recovered. 3) In addition, stark cutbacks in spending on DX investments were observed in transportation, retail and manufacturing, but here again, the company reviewed its client portfolio 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 coronavirus pandemic will bring on an irreversible structural change to society, people's daily lives, and businesses. Hence, the company pursued the course of: 1) emphasizing the stability of corporate finances, refraining from M&A activities and accumulating cash; 2) shifting to a structure to deliver services from remote locations; and 3) capturing the government and local government markets by re-evaluating its 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

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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.

### **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."

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,

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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.

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

In April, a new company, "Digital Growth Academia (DGA)" 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 262 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

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online forms, specifically for use by local governments, that sits on a network dedicated to local governments (LGWAN). It enables easy composition and compiling of questionnaires and application forms used by local governments.

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

The LoGo Series is highly regarded by municipalities' leadership teams. As such, it is likely to come out on top among SaaS products for municipalities. LoGo Chat has 150,000 for-fee license subscriptions, catering to 339 local governments. There are 383 local governments that do not pay for the service, but from here on, these will be converted to for-fee licenses by next April.

The number of local governments who use LoGo Form for free has increased to 161 against 112 for-fee subscribers. Here again, a majority will be converted to for-fee subscribers beginning April of next year.

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

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 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. 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 proportion of local government bodies adopting the LoGo Series now exceeds 20% 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.

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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, has begun sequentially rolling out LoGo Chat into the prefecture and 22 municipalities since May. 2) GovTech Osaka has also sequentially introduced LoGo Form into eight municipalities within the prefecture since June. 3) Twelve municipalities within Shiga Prefecture have made the decision to adopt LoGo Chat, and sequential roll-out started in May in the form of a joint purchase.

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.

### **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, enabling 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.

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

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

### **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. So, what was stopping Change and KDDI (au) from collaborating with the village and enabling its residents to begin using smartphones? What can be done to enable them to use smartphones, thereby delivering service that is truly appreciated? 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**

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 Acceleration Program enables Change to: 1) obtain information on various venture companies

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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.

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. The company determined that entering into a partnership with beBit will give it an even greater advantage in the area of UX.

#### 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
L is B	Jun. 2021	Business chat, AI-FAQ	Strengthen LoGo Service	In possession
PORT	Jul. 2021	Specialized media, such as employment	DX of regional employment	Acquired after listing 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 July 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	Sept. 2018	Organization management	Pooled marketing	Listed on Mothers in 2Q of fiscal term ending Sept. 2019, sold in 4Q of same fiscal term

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

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.

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Change invested in Aeronext Inc., with whom it had formed a business partnership. With the aim of creating 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.

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.

In June, the company invested in "L is B," and in July, in "PORT." L is B provides DX support solutions, such as business chat (direct) and FAQ solutions powered by an AI engine (AI-FAQ robot). These tools will enrich services delivered through the LoGo Series. In cooperation with L is B, the company will accelerate the development of services for rural areas, including strengthening the services delivered through the LoGo Series.

In July, the company resolved to enter into a capital and business alliance with PORT. This will involve the company acquiring 2.3% of PORT's outstanding shares. In cooperation with PORT, whose strengths include online job hunting, the company will provide opportunities for people who want to find jobs in rural areas, such as those who want to make a U-turn to their hometowns, and contribute to regional revitalization. Shares of PORT were acquired after the company was listed on Mothers, and the company possesses specialized media in a variety of areas, including employment, credit card loans, and renovations. The Internet will be harnessed as part of DX to attract customers to companies located in rural areas and to secure workers.

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

### **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

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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.

### 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.

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).

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### 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	2341	784		
Sept. 2021 (consolidated)	7799	4618	2463	701	2612	492		

### 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.

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## Introduction of IFRS

Through the introduction of IFRS: 1) market valuation became stricter, 2) the cost basis for advancing 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 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.

### Earnings projection by business segment

(million yen)

	Sept. 2019		Sept. 2020		Sept. 2021 (F'cast)		Sept. 2022 (F'cast)	
	Sales revenue	Profit	Sales revenue	Profit	Sales revenue	Profit	Sales revenue	Profit
<b>New-IT Transformation Business</b>	2299	719	2231	608	3300	1000	4300	1300
<b>Investment Business</b>	7	-7	198	177	200	180	200	180
<b>Publitech Business</b>	3691	1170	8116	4555	12500	6520	14500	8100
<b>Total business expenses (G&amp;A expenses)</b>		-855		-1138		-1700		-2080
<b>Total</b>	<b>5992</b>	<b>957</b>	<b>10542</b>	<b>4203</b>	<b>16000</b>	<b>6000</b>	<b>19000</b>	<b>7500</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.

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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.

The company reported cumulative earnings for the third quarter of the fiscal term ending September 2021 with sales of 12.874 billion yen (+59.9% year on year), operating profits of 5.811 billion yen (+61.4% year on year), profits before taxes of 5.748 billion yen (+61.1% year on year), and net profits of 3.768 billion yen (+122.9% year on year).

The company's initial plan for operating profit for the current fiscal term was set at 4 billion yen, but this was revised upward in December to between 5.0 and 5.5 billion yen. Cumulative results as of the end of the third quarter came in at 5.8 billion yen, exceeding the full-year target, so the company revised the target to 5.8 billion yen. This would mean that operating profit for the fourth quarter is projected to come in at zero, but this demonstrates the company's intention to prioritize upfront investment. As a result, the operating profit for this fiscal term will exceed 5.8 billion yen.

#### 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	618	183		
	Investment Business	26	20	-20	-24	15	10		
	Publitech Business	3835	2824	769	215	1712	881		
	Adjustment		-276		-208		-290		
	Total	4357	2659	1353	156	2341	784		
Sept. 2021	NEW-IT	473	136	637	218	999	409		
	Investment Business	72	67	175	170	-139	-145		
	Publitech Business	7253	4771	1651	623	1756	672		
	Adjustment		-357		-310		-444		
	Total	7799	4618	2463	701	2612	492		

This fiscal term, net income growth will be strong, and the significant increase in EPS is noteworthy. The company emphasizes this point most heavily.

The company had originally declared that it would make upfront investments during the second half of the year. Now that the company has achieved the first phase, DJ1, of the medium-term three-year

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plan, it will pour all its efforts into the second phase, DJ2, which will start in October 2021. In preparation, it is planning to invest 1.3 billion yen in the second half of this fiscal term, and it is already executing this plan.

Contents of the investment include human resources (labor costs), system development, and preparation for the next round of M&A (preliminary costs). 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. Some of the items will be recorded as expenses during the second half of the year, while others will be capitalized for system development software, which will have some positive impact on the period's profit.

The reason for the slight downward revision of the full-year sales plan from between 15.7 and 16.2 billion yen to 15.5 billion yen is that the company is shifting to human resource development by reducing product purchase and sales support for overseas products. This will lead to a decrease in sales but an increase in added value.

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 are progressing well. In addition, the company founded a joint venture with KDDI to collectively perform training and development of digital professionals.

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 take rate during the first half of the term ending September 2020 was 3%, and 5% in the second half, but it was 5% for the full year in this current term.

### Earnings forecast

	(million yen, %)					
	Sept. 2019 [Japanese Accounting Standards]	Sept. 2020 [Japanese Accounting Standards]	Sept. 2019 [IFRS]	Sept. 2020 [IFRS]	Sept. 2021 (F'cast) [IFRS]	Sept. 2022 (F'cast) [IFRS]
Sales revenue	7054	11692	5984	10343	16000	19000
Sales cost	2643	3947	1936	2592	4000	5000
Ratio of costs to sales	37.5	33.8	32.4	25.1	25.0	26.3
Gross profit	4410	7745	4055	7950	12000	14000
Gross profit margin on sales	62.5	66.2	67.8	76.9	75.0	73.7
SGA expenses	3329	4118	3047	3757	6000	6500
SGA expenses on sales	47.2	35.2	50.9	36.3	37.5	34.2
Operating profit	1081	3626	1027	4203	6000	7500
Operating profit on sales	15.3	31.0	17.1	40.6	37.5	39.5
Profit before taxes	959	3632	957	4160	6000	7500
Net profit	378	1547	476	2049	3800	4800

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.

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

### **Looking towards the term ending September 2022**

During the fiscal term ending September 2022: 1) in the new-IT sector, training and development of DX professionals will take further shape, and is likely to deliver high growth; and, 2) in Publitech, new services surrounding the Furusato Choice platform will begin to take shape. In addition to the LoGo Series, new businesses will take off.

## **6. 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 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.

### **Dialog with Investors**

In conversations with investors, long-term investors are taking a long, hard look at the future, but some short-term hedge fund managers and individual investors are of the opinion that: 1) the speed of growth may be slowing down; 2) Furusato Choice may be under threat; and 3) the launch of new businesses will take time.

In response to these concerns, the second mid-term plan (DJ2) will be launched smoothly, so there is no concern. The platform for the Hometown Tax Payment Program will be well protected. New businesses are taking off one after the other.

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Foreign investors hold three interests. 1) What is the objective of the M&A? 2) How will the company make the most of the Furusato Choice platform? 3) Will IT for local governments progress according to plan?

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 the following three immediate issues as top priorities. First is the launch of public DX, and the company will expand the range of SaaS services for municipalities, such as the LoGo Series. Second is DX to meet private-sector demand, and the company will significantly increase the training of DX personnel, including through collaboration with SMBC. Third is returning Furusato Choice to growth. The company will promote its own unique character and beat out the competition. In promoting municipal IT, the company will expand into settlement of public funds following the LoGo Series.

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.

### **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.

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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 September 8), the PBR stands at 5.63, ROE at 12.1%, and PER at 44.9. 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.

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